



**National University of
Science and Technology**
Think in Other Terms



**FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
BACHELOR OF COMMERCE HONOURS DEGREE IN
FINANCE
PART II 2nd SEMESTER FINAL EXAMINATION – 03 JUNE 2011
TAXATION 1 [CFI 2204]
TIME ALLOWED: THREE (3) HOURS**

INSTRUCTIONS TO CANDIDATES

1. Attempt ALL Questions.
2. Start the answer to each full question on a fresh page of the answer sheet.
3. Questions may be written in any order, but must be legibly numbered.
4. Write legibly.

INFORMATION FOR CANDIDATES

The businesses in this question paper are intended to be fictitious

Question One carries a total of 40 marks while Questions Two to Four carry 20 marks each.

The paper contains FOUR (4) QUESTIONS.

Question One

David and Samuel practice as veterinary surgeons in Chinhoyi. Samuel joined the practice when he qualified in July 2006. David has practiced here for seven years. They submit the following profit and loss account in support of income tax returns for the tax year ended 31 December 2010.

For the purposes of the question, the following amounts are stipulated at:

- *Passenger motor vehicle cost for capital allowances purposes-\$10000*
- *Blind, disabled, elderly persons' credit- \$900 p.a*
- *Maximum annual deduction for contributions to approved pension fund-\$3600.*

	\$		\$
Insurance Premiums:		Fees Accrued	3934000
- Loss of profit	20000	Bad debts Recovered	84000
- Fire	9000	POSB interest	75000
- Partnership		CABS:	
Joint Life		- Dividends:PUPS	12000
policy	38000	- Interest: "C" Class	
- Life policies		shares	39000
for benefit of:		Debenture Interest	29000
Samuel- 16000		Dividends (Delta Corp Ltd)	10000
David - 10000	26000		
Medical aid			
contributions			
-David - 5200			
-Samuel - 3200			
-Staff - 11000	19400		
Staff Salaries	680000		
Annuity to widow of			
deceased employee	21000		
Interest on capital:			
- David - 48000			
- Samuel- 44000	92000		
Bad Debts	97000		
Trade Subscriptions	1000		
Legal expenses: debt			
collection	6000		
Attendance at approved			
post-graduate course	90000		
Depreciation	86000		
Net profit:			
David (60%)- 1798560			
Samuel(40%)- 1199040	2997600		
	4183000		4183000

Additional Information

1. Partners drawings were: David (\$900000) and Samuel (\$800000).
2. Bad debts recovered include an amount of \$6000 on account of a loan previously written off as bad and not allowed as a deduction for tax purposes.
3. PUPS Residents’ tax on interest \$2400 withheld. The debentures were in a farming company.
4. The gross dividend from Delta Corporation Ltd is \$12500 from which \$2500 resident shareholders tax has been deducted at source.
5. Bad debts are made up as follows:

	\$
Provisions for doubtful debts calculated at 5% of debtors	43000
Fees unpaid	26000
Loan to former manager now irrecoverable	<u>28000</u>
	<u>97000</u>
6. Attendance at post-graduate course:

	\$
David	30000
Samuel	60000

This included the cost of lectures including travel and hotel bills.

7. (a) Fixed assets in the hands of the partnership at the beginning of the year are as follows:

Description of Asset	Date Acquired	Original cost
Office furniture and equipment	Jan 2004	15000
Surgery equipment	Jan 2009	70000
Truck (single cab)	Jan 2007	70000

(b) During the year the truck was traded in for a second-hand land cruiser. A trade in value of \$40000 was given on the truck and the cost of the land cruiser was \$500000.

(c) A sterilizer (cost \$400 purchased in January 2009) was scrapped during the year 2010 and a new one purchased for \$10000.

(d) The partnership elects to claim SIA.

8. Samuel borrowed money to purchase his share in the partnership practice. Interest payable during the year amounted to \$12000.
9. David and Samuel paid \$30000 and \$55000 respectively to approved retirement annuity funds.
10. Samuel travels extensively for the practice and provides his own transport. He rented a car for \$9000 a month for six months from 1 January 2010 and on 1 July 2010 purchased

a car for \$250000. His running expenses for six months to 31 December 2010 were \$100000. It has been established that his non-business travel has at all times been 10% of the total.

11. Samuel is unmarried but has a disabled child aged 5. In addition to his income from the partnership, he had the following income:

	\$
Dividends from companies registered in Zimbabwe	40000
Interest on tax reserve certificates fully utilized in payment on tax	2400
Rents from UK property	72000

12. David is married with two children, and during the year his medical aid shortfalls were \$6000.

Required

Calculate the tax payable for David and Samuel respectively. [40 marks]

Question Two

Rare StonePvt Ltd is a nickel mining company, which has been working some claims in the Bindura area of Zimbabwe. The mine is controlled by three shareholders. The unredeemed capital expenditure balance on company books as at 1 January 2009 was \$350000.

During the tax year ended 31 December 2009 the company undertook the following activities:-

	\$	\$
Gross sale revenue of nickel		3500000
Shaft extensions and refurbishments	100000	
New mining equipment	500000	
Mine office buildings renovations	200000	
Administration expenses	900000	
Mercedes sedan bought for managing director	50000	
Construction of mine clinic	600000	
Construction of house for nurse in charge of clinic	120000	

During the year the company undertook some further exploration and registered six new claims at an average cost of \$4000 each. The company commenced working one of the claims near Mount Darwin and although this claim was still not producing by 31 December 2009, the company had incurred \$50000 on it. Due to the boom in the mining sector the company began to speculate in claims and by the end of the year they had sold three of the registered claims for a total of \$260000.

Some used mining equipment was sold for \$30000 to some indigenous miners. This equipment had cost \$25000 two years previously.

The estimated life of the nickel mine is said to be 9 years from 1 January 2009.

Required:

Compute the taxable income of the company for the year ended 31 December 2009, taking all opportunities in the Income Tax Act to minimize its taxable income for the year (assume that for 2009 the cost of the clinic and nursing home were allowed in full). [20 marks]

Question Three

Longhorn Ranches (Pvt) Limited was incorporated on the 1st of January 2009 to acquire in the Mberengwa district from that date the farm “Cowhaven” together with improvements thereon, for the sum of \$1810000. According to the agreement of sale, the terms of which are acceptable to the Commissioner of Taxes, the purchase price was made up as follows:

	\$
Land	970000
Fencing	101000
Farm House	200000 (erected on 01/05/2004)
Staff Housing	334000 (2 units of \$62000 each and 1 unit of \$210000 all erected on 01/06/2003)
Plant and Equipment	205000

During the year ended 31 December 2009 the company expanded and incurred the following capital expenditure:

	\$
Erection of fencing	600000
Sinking of boreholes	240000
Purchase of 2 new tractors on 31 October	4800000
Purchase of 2 cattle transportation lorries on 31 December	2400000
Addition to farm house	200000

Required

Calculate the maximum amount of deductions to which the company is entitled for the year ended 31 December 2009. [20 marks]

Question Four

- (a) Prior to the fixed date, Technicon Construction Limited had sand worth \$3000. The open market value of the sand was \$5000. It uses \$1000 worth of sand to build the director's house and the remainder to continue with its projects. Determine the adjustment that Technicon need to make for Value Added Tax (VAT) purposes. [5 marks]
- (b) Poschele limited purchased a wheel balancing machine for \$15000 in April 2009 and no input tax was claimed as the company was not registered for VAT. The company registered for VAT in August 2009 and the machine was applied wholly for the purpose of making taxable supplies. The open market value of the machine was now \$14000. Determine any adjustment Poschele will make for VAT purposes. [5 marks]
- (c) Briefly discuss the concept of "source" as applied to Zimbabwean income tax legislation. [10 marks]

Total [20 marks]

END OF EXAMINATION PAPER