



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

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**FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING**

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**DEPARTMENT OF ACCOUNTING AND FINANCE**

**EXAMINATION PAPER**

**COURSE CODE** : CAC 206  
**COURSE TITLE** : TAX LAW AND PRACTICE  
**SPECIAL REQUIREMENTS** : THE FINANCE ACT,  
INCOME TAX ACT, CAPITAL GAINS ACT, VAT  
ACT  
**DURATION** : 3 Hours  
**LEVEL** : 2.2  
**DATE** :

07 JUL 2022

**INSTRUCTIONS TO CANDIDATES:**

1. Answer ALL FOUR questions .
2. Each question carries 25 Marks.
3. Start each question on a new page of your answer sheet

## QUESTION 1

CEE and KAYEE are legal practitioners operating in Harare. Their profit sharing ratio is 3:2 respectively. The partnership's business activities for the year ended 31 December 2020 were as follows.

Revenue		55 680
Cost of Revenue		(36 900)
Gross profit		18 780
Rental income from a joint owned property in USA		600
Interest received from a commercial bank		58
Bad debt recovered		750
		20 188
Less expense		
Salaries -staff	4 000	
-CEE	3 000	
-KAYEE	3 500	
Depreciation	790	
Advertising	300	
Bad debts	80	
Dividends declared	2 000	
Joint life policy	100	
Subscriptions to Law Society of Zimbabwe:		
- CEE	150	
- KAYEE	150	
Rent, rates and electricity	110	
General expenses	230	
Subscriptions to Golf Club-CEE	100	
- KAYEE	130	
Medical aid contributions- CEE	360	
- KAYEE	300	
Pension contributions- CEE	240	
- KAYEE	180	(15 720)
Net revenue		4 468

### **Additional Information:**

i. Part of the general expenses of \$US150 was a penalty paid to ZIMRA for late remittance of Value Added Tax.

ii. Drawings made by the partners: CEE US\$1900;

KAYEE US\$2300

iii. Fixed assets at hand as at 1 January 2020 were as follows:

	Cost	ITV
Office furniture	600	150

Office Equipment	1 500	150
2 Nissan Hard body Twin cabs for partners (2700cc)	20 000	4 000

**Required:**

a) Compute the joint partnership's taxable income for the year ended 31 December 2020.

[18

marks]

b) Compute the minimum tax payable by each partner for the year ended 31 December

[7marks]

[TOTAL 25

marks]

**QUESTION TWO**

(a) Muchabaiwa Ltd recorded the following losses on disposal of its marketable securities and immovable property as detailed below:

	Date	Amount
		US\$
Marketable securities	2011	80
Gweru factory	2013	5,000

**Required:**

Explain whether or not Muchabaiwa Ltd's capital losses can be carried forward and set off against capital gains arising in the year ended 31 December 2018. [5 marks]

(b) On 1 May 2018, MUCHABAIWA LTD lost its property in Harare as a result of the countrywide expansion of the highway road network by the local authority. Compensation was made to MUCHABAIWA LTD at market value for the loss of revenue, redundant equipment and demolition of the immovable property. Details of the affected property, plant and equipment are as follows:

	Date acquired/ constructed	Cost US\$	ITV US\$	Market value US\$
Land	2010	100,000	100,000	200,000
Factory building	2014	150,000	0	300,000
Plant and equipment	2015	120,000	30,000	180,000
Concrete wall	2016	80,000	40,000	110,000
		450,000	170,000	790,000

**Required:**

Calculate the capital gains tax payable by Muchabaiwa Ltd as a result of the compensation paid on the loss of its Harare property on 1 May 2018.

Note: You are expected to make use of all available reliefs to minimise the company's tax liability.

marks]

[20

[TOTAL 25

marks]

**QUESTION THREE**

JENNINGS Limited is a category C value added tax (VAT) registered operator. The following information refers to JENNINGS's trading operations for the month of May 2016. All figures are stated inclusive of VAT, where applicable.

(1) Turnover

	US\$
Supply of standard rated goods	30 000
Supply of zero rated goods	10 000
Defective goods returned	(8 000 )
<hr/>	
	32 000

10% of the defective goods returned are zero rated.

(2) Purchases (all standard rated)

	US\$
Domestic goods to make taxable supplies	18 000
Goods returned for poor quality	(4 000 )
<hr/>	
	14 000

Domestic goods valued at US\$6 000 were procured from non-VAT registered traders.

(3) Non-current assets purchased

	US\$
Passenger motor vehicle, engine capacity, 3 300cc	20 000
Furniture and fittings	12 000
Computer equipment	3 000
	<hr/>
	35 000

The passenger motor vehicle was allocated to the Human Resources manager.

(4) Other expenses

	US\$
Salaries and wages	10 000
Medical aid contributions	2 000
Office building rent	6 000
Depreciation	3 500
Stationery	1 800
Repairs and maintenance	2 500
Interest on overdraft	1 500
	<hr/>
	27 300

The office building rent was paid to the owner, Mr Moyo, who is not registered for VAT.

**Required:**

(a) Calculate the non-deductible input value added tax (VAT) for JENNINGS Limited for the month of May 2016. [5 marks]

(b) Calculate the VAT payable by or refundable to JENNINGS Limited for the month of May 2016. Note: You should indicate by the use of a zero (0) any amounts on which VAT is not chargeable or not reclaimable. [20 marks]

[TOTAL MARKS] 25

#### QUESTION FOUR

LuluRock (Pvt) Ltd is a mining company operating in the Great Dyke belt of Zimbabwe. The company mainly mines platinum although it also used to mine chrome. The chrome ore industry has been facing a growing number of challenges since the global financial crisis of 2008 that saw the plummeting of prices of chrome ore and ferrochrome. There has been a downward trend since then coupled with rising production costs. Most chrome ore is now mined from the “difficult- to-mine, labor-intensive” thin seams of the Great Dyke because the large podiform-type chrome ore deposits have been largely depleted. This significantly increases prospecting costs.

LuluRock is owned by 4 directors who hold an equal equity stake in the company. Three of the directors are Chinese and based in China whilst the one is Zimbabwean and locally based. In order capitalize the business to fund its long term strategy to gradually exit the chrome arena and focus on the platinum mining, LuluRock borrowed from a Malaysian venture capitalist in a mezzanine debt arrangement an amount of \$75 million.

The net profit before tax for the year ended 31 December 2015, reflected an amount \$450,000 after the following adjustments were effected:

<b>INCOME</b>	<b>note</b>	
Profit on disposal : Insurance	1	35,000
Profit/(loss) on Disposals		
Trailers	2	7,100
Excavators	2	(80,000)
Mining Claims	2	5,000
<b>EXPENSES</b>		

Depreciation		4,132,000
Shaft sinking		1,420,000
Development Expenditure		7,235,000
Boreholes		233,000
Prospecting expenditure		3,622,000
Interest Expenses	3	3,780,000
Administration Expenses	4	5,783,000

**Capital Expenditures incurred in the year**

**2015 were as follows:**

Construction of mining buildings		350,000
Construction of staff houses	5	1,250,000
House for the Zimbabwean Director		40,000

**Other information:**

1. Insurance Proceeds

Two vehicles were destroyed by a veld fire and LuluRock received compensation as follows:

- Toyota Hilux Double cab \$35,000
- Isuzu Single cab bakkie \$20,000

- The Toyota was bought in December of 2013 for \$46,000 and the Isuzu in January of 2014 for \$30,000.

2. Disposals

ASSET(S)	COST	PURCHASE DATE	SELLING PRICE	PROFIT ON DISPOSAL
Trailers x 2	150,000	June 2009	7,100	7,100
Excavators	1,200,000	Jan - 2012	400,000	(80,000)
Mining claim	500,000	Jan - 2010	255,000	5,000

3. Interest Expenses

The interest was payable to the Malaysian venture capitalist. The average debt to equity ratio of LuluRock during the year ended 31 December 2015 was 9:2

4. Administration Expenses

Included in the administration expenses were the following:

(a) Calculate the non-deductible input value added tax (VAT) for JENNINGS Limited for the month of May 2016. [5 marks]

(b) Calculate the VAT payable by or refundable to JENNINGS Limited for the month of May 2016. Note: You should indicate by the use of a zero (0) any amounts on which VAT is not chargeable or not reclaimable. [20 marks]

[TOTAL 25 MARKS]

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EXPENSES		

- Entrance fees for mine engineers into their Engineering association \$5,000
- Allowances to directors for client networking \$4,800
- Rentals - new offices which were being refurbished for 2017 occupation \$9,600
- Lease rentals for Twin cab \$10,100

#### 5. Staff Housing

LuluRock developed dwellings for its platinum mine operations during the year 2015. It has two major cluster development sites. The one site has 30 identical housing units constructed for a total of \$660,000. The second site has 15 identical units constructed by the balance.

For the purpose of determining the Capital Redemption Allowances (CRA), the company has made an election to use New Mines basis.

Required:

Calculate the taxable income and income tax liability of LuluRock (Pvt) Ltd for the year of assessment ended 31 December 2015. Please provide reasons where amounts do not need to be adjusted

marks]

[25

**[TOTAL 25 MARKS]**

**END OF EXAMINATION QUESTION PAPER**