ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ACCOUNTING FINANCE AND HUMAN CAPITAL MANAGEMENT

MAIN EXAMINATION PAPER

COURSE TITLE	ADVANCED TAXATION
COURSE CODE	CAC 225
DURATION	3 Hours
LEVEL	2.2
DATE	14 APR 2023

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions.
3. Non-programmable calculators maybe used
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets [ ]
6. You may bring into the examination unmarked copies of:

   INCOME TAX ACT (CHAPTER 23:06)

   CAPITAL GAINS TAX (CHAPTER 23:01)

   FINANCE ACT (CHAPTER 23:04)

   VAT ACT (CHAPTER 23:12)

QUESTION ONE

Part A

i) State **ANY TWO** types of expenditure on which input VAT is prohibited as a deduction [2]

ii) Outline three statutory VAT registration requirements for companies [3]

iii) What is the due date for the remittance of VAT returns for Category A and C [3]

iv) Outline the features of a valid tax invoice [5]

Part B

FT (Private) Limited was incorporated on 1 February 2021 and specialises in the manufacturing of furniture for domestic and office use. FT's sales revenue has been steadily growing.

The following are the extracts from the sales and purchases ledger of FT for the months ended 31 December 2021:

Sales ledger (VAT exclusive)

	US$
February	13 500
March	14 200
April	14 800
May	15 300
June	16 200
July	17 500
August	14 500
September	18 600
October	28 900
November	29 400
December	80 000

Purchases ledger (VAT inclusive as appropriate)

Supplier	VAT registered number	US$
February	1000005	1 800
March	1000003	2 100
April	1000009	2 500
May	1000002	3 200
June	1002562	3 600
July	1003256	4 300
August	1002568	2 200
September	1006892	3 900
October	1006589	3 700
November	1008568	24 400
December	1007586	25 500

Other expenses from 1 November 2021 to 31 December 2021 (VAT inclusive as appropriate)

	US$
Motor vehicle expenses	2 400
Stationery	1 000
Payroll costs	3 100

Staff commission	4 250
Other office expenses	1 900
Acquisition of fiscalised electronic registers	1 200
Entertainment expenditure	2 000
Teas & refreshments	1 100
Toyota D4D Double Cab	25 000

Additional information

FT registered for VAT on 1 November 2021 under Category B and also complied with all the other ZIMRA registration requirements on the same date.

Required

i) Calculate the VAT payable by FT for the period in question, also state when the return is due. [12 Marks] **[Total 25 Marks]**

QUESTION 2

Rowai Watambura (RW) aged 65 years has been employed as a Finance Director for Omega Investments for a number of years. During his tenure of employment he acquired several properties in Zimbabwe from profit sharing proceeds from his employment. He also sits on a board of directors for several companies. As a chartered accountant he is a man of integrity and has always declared his incomes to Zimra. On 12 July 2022 on one of his business trips to Mutare he was involved in a serious accident that almost claimed his life. The doctors who assessed his condition declared that he was permanently disabled and was in the best interest of his health to resign from employment and rest to which he consented.

On 30 September he resigned from his employment and unfortunately on 30 November he died from the serious injuries sustained in the accident. The following financial information is presented to you as a consultant for expert advice

1. Salary $120000 per annum, as their long serving employee the company paid the salary up to 31 December 2022
2. Annual bonus $10500 (not voted for). It's the company policy that an employee who works for at least 8 months in a calendar year is entitled to bonus. This was paid on 8 December 2022
3. Gratuity on retirement due to ill heath $25890
4. RW received as part of his severance pay a Toyota D4D with engine capacity of 3300cc on 30 September which he was using during the tenure of his employment. The market value of the car was assessed to be $35600 and at the time of retirement it had a net book value of $12500.
5. RW received a loan from his employer on 1 August 2022 to meet his medical expenses. The loan amount was $21500 at 2% per annum. However his medical bill amounted to $17500 only. The loan remained unpaid at the end of the year though the interest was paid back in full.

6. On 15 December 2022 a foreign bank in which he had invested paid interest to his estate of $12650 (NRT $5000). The amount reflected in his bank account on 21 December 2022 as $12550 after bank charges of $100.
7. RW received director's fees of $11000 from Omega Investments on 1 November 2022 and a further $18620 on 2 December 2022 from Chitota Investments a company on which he sits on the board of directors.
8. Profit sharing from 2021 financial performance amounted to $22550. This has not been paid by year ended 31 December 2022 because the company had experienced serious cash flow challenges; however the company promised to pay by 10 January 2023. On 11 January 2023 the full amount was paid into RW bank account.
9. At the time of his death, RW bank account had a fat $45600 positive bank balance.

Required

Discuss the treatment of each of the above transaction in determining the taxable income of RW, clearing indicating tax credits if available and distinguishing between pre and post income. **[25 Marks]**

QUESTION THREE

Jubika (Pvt) ltd acquired a piece of land with the intention of developing commercial stands for resale. The land was subdivided into 50 stands.

Cost of land	US$ 240 000
Survey fees	US$ 71 500
Road and sewerage reticulation	US$ 19 500

30 Stands were sold on 30 November 2020 for US$15 000 each and 20 stands were sold in February 2021 for US$30 000 each on the following conditions of sale:

a) A deposit of 50% on signing the agreement.
b) The balance is payable with effect from the month of sale @ US $15 000/month, until full payment is made.
c) Interest @ 25% on all overdue accounts.
d) Ownership to be transferred upon full payment of the purchase price.

Administration expenses were as follows:
Year ended 31 December 2020 US$36 000
Year ended 31 December 2021 US$48 000
Year Ended 31 December 2022 US$50 000

Required

Compute the tax liability for each of the three years in question **[25 Marks].**

QUESTION FOUR

Mukomana Murimi is a commercial farmer who was allocated a farm by the government in the year 2000 during the fast track land reform programme in Bindura District. He produced the following books of accounts for the year ended 31 December 2022.

Sales	250 000
Less cost of sales	80 000
Gross Profit	**170 000**
Interest received from loan	10 000
Bad debts recovered	6 500
Profit on disposal of tractor	12 500
	199 000
Operating expenses	
Depreciation	1 200
Administration Expenses	1 550
Salaries and wages	2 500
Herdsmen's wages	900
Livestock feed	3 000
Livestock vaccines	1 000
Insurance	1 500
General Expenses	4 500
Net profit	**183 850**

Additional information:

Insurance is on:

Stock and fixed assets	900
Life insurance for farm owner	500
Provision for shortfall on stock	100

General expenses including the following:

Donation to National Scholarship Fund	1 000
Donation to independence celebrations	500
Exhibition fees at the Harare Agricultural Show	1 000

Donations to the Zimbabwe Farmers Union for annual farmers convention 1 000

During the year the following costs were incurred:

Farm tractor	50 000
Furniture and equipment	25 000
Dip Tank	26 000
Dam construction	30 000
Fencing	7 500

His livestock is valued as follows as at 1 January 2022:

1 stud bull 210

□□20 Oxen 3 000

□□50 cows 7 500

□□16 heifers 1 800

□□15 tollies 1 500

□□40 calves 2 000

All his livestock is valued at fixed standard value with the exception of the stud bull which is valued at purchase price value.

□□Part of the sales of US$62 250 were forced sales due to drought. The following were sold: 10 oxen, 10 cows, 5 heifers, and 13 calves. Other sales were normal sales of 10 oxen, 30 cows, 6 heifers and 6 tollies.
□□Part of the cost of sales were purchases of livestock for restocking after conditions improved. The purchased stock was made up of 35 cows and 25 heifers for a subsidized cost of $5 000.
The assessed carrying capacity of land was certified by AREX as 100 livestock.
□□The assessed loss as at 31 December 2021 was $13 600

Required:
Compute Mr. Mukomana Murimi's minimum tax payable or assessed loss, granting all possible deductions he is entitled to, for the year ended 31 December 2022 **[25 marks]**

END OF EXAMINATION QUESTION PAPER

APPENDICE TO TAXATION PAPER

1. **Individual Tax Table**

From To	Amount in Bracket	Tax Rate (%)	Tax ($)	Cumulative Tax ($)
0 to 3 000	3 000	0%	0	0
3 001 to 12 000	9 000	20%	1 800	1 800
12 001 to 24 000	12 000	25%	3 000	4 800
24 001 to 60 000	36 000	30%	10 800	15 600
60 001 to 90 000	30 000	35%	10 500	26 100
90 001 to 120 000	30 000	40%	12 000	38 100
120 001 to 240 000	120 000	45%	54 000	92 100
240 001 and above	-	50%	-	-

2. **Corporate Tax** **24%**

3. **AIDS Levy** **3%**

4. **Motoring benefit:**

Engine capacity	**Monthly benefit**
Up to 1 500cc	US$300.00
1 5001cc to 2 000cc	US$400.00

2 001cc to 3 000cc	US$600.00
3 001cc and above	US$800.00

NB: These RATES are for Examination purpose only.

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