



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL MANAGEMENT

COURSE CODE : CAC215
COURSE TITLE : TAXATION
DURATION : 3 HOURS
LEVEL : 2.1
DATE : 14 JUN 2024
SPECIAL REQUIREMENTS :

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions
3. Begin each question on a new page.
4. The number of marks for each question or part question is shown in brackets []

QUESTION 1

Mr. Fish is a Chartered Accountant with several years working experience as a partner of KG Chartered Accountancy firm. He also sits on the boards of a number of reputable ZSE listed companies including the company he currently works for, KG Chartered Accountancy. Due to his extensive knowledge of financial accounting work, Mr. Fish is often subcontracted by KG to offer training services to government departments and other Accountancy firms.

During the year ended 31 December 2013, KG established an office in Bulawayo and Mr. Fish was transferred to work at the new office. He was offered a fully furnished company house for his accommodation. The company house is located just outside the city of Bulawayo. The household furniture was bought by KG at a total cost of \$35 000.

Mr. Fish's earnings and deductions from employment for the year ended 31 December 2013:

	Notes	\$
Salary from KG		80 000
Earnings from subcontracted work	(1)	95 000
Passage benefit	(2)	5 000
Director's fees for acting as a director of KG	(3)	40 000
Thirteenth cheque		7 000
Representation allowance		10 000
Conference allowance	(4)	15 000
Fuel allowance	(5)	12 000
Leave pay		6 700
Performance bonus		9 500
Rental paid to KG		(3 000)
Funeral policy contributions		(2 000)
Subscriptions paid by Mr. Fish to ICAZ and CIS		(4 000)

Pension contributions paid Mr. Fish		(8 000)
PAYE	(6)	(23 000)
Other earnings:		
Rental income from principal private residence		95 000
Contract fees	(7)	65 000

Notes

- (1) The amount is calculated based on 5% of the amount invoiced by Mr. Fish's employer whenever he is subcontracted to offer training to government departments and other Accountancy firms
- (2) The amount refers to the cost of Mr. Fish's relocation to Bulawayo. The amount was paid in full by his employer. His place of ordinary residence before his engagement with the mining company has always been Harare.
- (3) The amount was paid by KG for the year ended 31 December 2012.
- (4) The amount detailed below was paid by KG for his participation at a week- long business conference held in the resort town of Victoria Falls during the year:

	\$
Travelling expenses (amount incurred)	2 000
Spouse's shopping	5 000
Accommodation, meals and related direct expenses	8 000
	<hr/>
	15 000
	<hr/>

- (5) Fuel allowance for the year refers to the amount paid by KG to Mr. Fish to cover the fuel expenses for his company allocated vehicle, a Ford Ranger, engine capacity 3300cc. The total mileage for the year was 30 000km of which 20 000 km was directly related to the business of the employer.
- (6) The PAYE was wholly paid by KG on behalf of Mr. Fish as part of the agreed engagement terms, such that Mr. Fish received his full gross salary.

(7) The contract fees were paid by one of the two companies which engaged Mr. Fish as an independent contractor during the year. The other company paid Mr. Fish for his services by giving him 30 000 listed shares valued at US\$1.50 per share on 31 March 2013. On 5 August 2013, Mr. Fish disposed of 10 000 of the shares at a market value of US\$7 a share and used the proceeds to set up a business for his spouse.

Required:

a) Identify any two factors which determine an engagement is treated as employment and any two factors which indicate self-employment; (2 marks)

b) Explain the tax treatment of the following items:

(i) Earnings from subcontracted work (*note 1*); (2 marks)

(ii) Passage benefit (*note 2*); (2 marks)

(iii) Conference allowance (*note 4*); (2 marks)

(iv) PAYE (*note 6*); (2 marks)

c) (i) Calculate the value of the taxable benefits arising from Mr. Fish's usage of the company house; (2 marks)

(ii) Calculate the taxable income and tax arising from the share transactions detailed in note (7) above; (3 marks)

(iii) Calculate the taxable income and tax payable by Mr. Fish for the year ended 31 December 2013. (*Indicate any amounts not taxable or not deductible by the use of a zero.*) (12 marks)

[25marks]

QUESTION 2

Bhungaz (Pvt) Ltd was incorporated in 2012 and commenced business operations on 1 January 2013, specialising in the manufacturing and distribution of building material. On 30 June 2012, the company successfully applied for a two-year loan of \$720 000 with an interest rate of 15% p.a. from a leading local financial institution. The loan was used as follows:

	\$
Showroom construction at a designated growth point	100 000

Procurement of plant and machinery	250 000
Procurement of raw materials	300 000
Procurement of commercial vehicles	<u>70 000</u>
Total amount used during the year ended 31 December 2012	720 000
Amount applied towards 2013 consultancy fee	<u>30 000</u>
Total	<u>750 000</u>

The company's fixed assets register as at 31 December 2013 is as follows:

	Cost	Depreciation	Net book value
	\$	\$	\$
Head office building	150 000	3 750	146 250
Factory building	120 000	6 000	114 000
Furniture and fittings	65 000	6 500	58 500
4 Passenger vehicles	<u>80 000</u>	<u>16 000</u>	<u>64 000</u>
Total	<u>415 000</u>	<u>32 250</u>	<u>382 750</u>

Notes:

The fixed assets procured using the loan were not included in the fixed asset register and neither was the expenditure on raw material procurement recorded in the company's books. These assets in the register were first brought into use on 1 January 2013.

Bhungaz's statement of comprehensive income for the year ended 31 December 2013 is as follows:

	Note	\$	\$
Turnover			4 834 500
Cost of sales			<u>(796 338)</u>
Gross profit			4 038 162
<i>Add other operating income:</i>			
Bank interest		15 000	
Sales commission		40 000	

VAT refund		<u>11 000</u>	<u>66 000</u>
			4 104 162

Less operating expenses:

Staff welfare	(1)	661 200	
Repairs and maintenance		45 000	
Insurance		22 000	
Depreciation		32 250	
Advertising and marketing	(2)	203 800	
Printing and stationery		7 120	
Utility costs	(3)	32 700	
Motor vehicle expenses	(4)	78 600	
Industrial research and development	(5)	33 300	
Operating licence	(6)	25 000	
Interest	(7)	183 750	
General	(8)	<u>57 900</u>	<u>(1 382 620)</u>
Net profit before tax			2 721 542
Corporate tax paid			<u>(244 625)</u>
Net profit for the year			<u>2 476 917</u>

Notes

1 Staff welfare:

		\$
Salaries and wages		480 000
Consultancy fee		30 000
Staff training		12 000
NSSA and pension contributions		112 850
Penalty for late PAYE		5 000

Staff end of year party	7 350
Initial payroll software licence	<u>14 000</u>
	<u>661 200</u>

The consultancy fee was paid to a South African company, which seconded an expatriate who was engaged from 2 January 2013 to 31 May 2013. The expatriate was tasked with training the company's employees on the use of a computerised concrete mixer acquired from the South African Company. The consultancy fee was funded from the loan balance.

<i>2 Advertising and marketing:</i>	\$
Advertising and promotion of the electrical equipment in foreign markets	85 000
Local market research, advertising and trade fares	79 000
Space rental at the Bindura Exhibition showground	26 000
Electrical magazine launch	10 000
Marketing director's family and friends entertainment	<u>3 800</u>
	<u>203 800</u>

<i>3 Utility costs:</i>	\$
Electricity and water charges	7 460
Water reconnection	11 600
Installation of the solar panels for the growth point show room	<u>13 640</u>
	<u>32 700</u>

<i>4 Motor vehicle expenses:</i>	\$
Fuel and vehicle servicing	33 000
Insurance and licences	15 600
Vehicle tracking equipment	<u>30 000</u>
	<u>78 600</u>

5 The total amount was contributed to a research institution towards the research on use of prefab material for building.

6 The total amount was paid to the Municipality of Bindura as the initial operating licence for the factory.

7 Interests:	\$
2% loan establishment fee	15 000
2011 interest paid	56 250
2012 interest paid	<u>112 500</u>
	<u>183 75</u>

8 General:	\$
Legal fees for the Bindura show ground lease agreement	6 000
Architect's fees for the factory building plan	10 000
Staff teas and refreshments	28 600
Office cleaning	10 300
Donation to a political party	<u>3 000</u>
	<u>57 900</u>

Required:

(a) Explain how the following should be treated for tax purposes:

1. Expenses incurred during the year ended 31 December 2012, prior to the commencement of trade (3 marks)
2. The consultancy fee detailed in note 1; (3 marks)
3. The interest paid detailed in note 7. (6 marks)

(b) Calculate the maximum capital allowances claimable by Bhungaz (Private) Limited for the year ended 31 December 2013. (11 marks)

(c) Calculate the taxable income and the tax payable by Bhungaz (Private) Limited for the year ended 31 December 2013. (12 marks)

[35marks]

QUESTION 3

Part A

Korokoza Mining (Pvt.) Ltd situated 20kms Northwest of Bindura, incurred the following capital expenditure, year 1 and 2 being pre-production. Production stage was reached in the current year i.e. year 3.

YEAR 1 & 2	\$
Plant and Machinery	40 000
Shaft Sinking	10 000
Mine Building	30 000
Salaries and wages	<u>50 000</u>
	<u>130 000</u>

CURRENT YEAR

Salaries and wages	60 000
Passenger Motor Vehicle	16 000
Lease premiums	<u>10 000</u>
	<u>86 000</u>

Life of mine is 3 years from the end of year 3.

Required:

Calculate Capital Redemption Allowance based on:

- i.* Life of mine method *(3 marks)*
- ii.* New mine method *(3 marks)*
- iii.* Mixed mine method **(3 marks)**

Part B

Explain any three tax planning techniques which can be used by miners to reduce their tax liability. **(6 marks)**

[Total: 15 marks]

QUESTION 4

According to your understanding of the Tax system in Zimbabwe briefly differentiate the following

- a) Tax avoidance **(5 marks)**
- b) Tax evasion **(5 marks)**

c). Briefly write notes on QPDs (Quarterly Payment Dates) giving relevant examples.

(9 marks)

d) Differentiate between Final Deduction System (FDS) and Pay As You Earn (PAYE).

(6 marks) [25marks]

END OF EXAMINATION QUESTION PAPER

0/2 (PM)