



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

**DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL
MANAGEMENT**

EXAMINATION PAPER

COURSE CODE : CAC 215

COURSE TITLE : TAXATION

DURATION : 3 Hours

LEVEL : 2.1

DATE : 25 SEP 2024

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue
2. Use of silent, non-programmable calculators is allowed
3. Answer **ALL** questions
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets []

Question 1

Mr Chiramba commenced livestock farming in February 2014 and made the following purchases:

Animals	Cost (\$)	FSV (\$)
1 Stud bull	1,300	-
1 Stud bull	1,800	-
1 Stud bull	1,500	-
110 Cows	11,000	80
110 Oxen	6,600	75
50 Heifers	6,000	70
60 Tollies	5,400	65
70 Calves	2,100	45

During the year ended 31st December 2014, there were 60 births, 4 deaths (2 cows & 2 tollies) and 80 sales for \$160,000 (30 tollies & 50 oxen).

Promotions in categories were:

- a) 10 Heifers to cows
- b) 30 Tollies to oxen
- c) 30 Calves to heifers
- d) 30 Calves to Tollies

The cost of running the herd for the year was \$3,500.

Required

Prepare a Livestock Reconciliation & Trading Account for the year ended 31 December 2014 on the basis of Fixed Standard Values, except for bulls which are to be valued by reference to the minimum "Purchase Price Value" as requested by the taxpayer.

(20 marks)

QUESTION 2

Grik (Pvt) Ltd is a Zimbabwean company. Its abridged profit and loss account for the year ended 31 December 2021 is as follows:

	US\$	US\$	Notes
Gross Profit		702,000	
Operating expense			
Irrecoverable debts	12940		1

Legal and professional fees	30,510		2
Entertainment and gifts	24,570		3
Royalties' payable	50,000		4
Motor expenses (MD's car)	5,200		5
Car hire	13,300		6
Amortisation of lease premium	5,000		7
Depreciation	73,240		
Loss on disposal of equipment	2,820		
Profit on disposal of motor car	(440)		
Consultative fee	77,000		8
Other expenses	95,380	389,520	
		312,480	
Other operating income:			
Royalties receivable		100,000	9
Operating profit		412,480	
Profit on sale of freehold property		105,000	10
Profit on sale of shares		12000	11
Investment income:			
Zimbabwe dividends received	43,110		
Interest receivable	14,840	57,950	
		587,430	
Interest payable		7,440	
Profit before taxation		579,990	

Notes:

1. Irrecoverable and doubtful debts are as follows:
Trade debts written off

US\$
7250

Trade debts recovered	(100)
Increase in specific provision for doubtful debts	6290
Decrease in general provision for doubtful debts	(500)
	12,940
2. Legal and professional expenses are as follows:	
	US\$
Arranging lease of new business premises	2,500
Fine for breach of environmental legislation	8,000
Legal fees environment prosecution	2,700
Debt collection	17,310
	30,510
3. Entertainment and gifts comprise:	
	US\$
Entertaining local customers	3,270
Entertaining overseas customers	4,800
Staff entertainment	11,500
Donation to national scholarship fund	1,500
Company calendars for customers	3,500
	24,570
4. Patent royalties of US\$40,000 were paid during the year for trade purposes to a non-resident person. A further US\$10,000 was accrued at the end of the year	
5. The MD's car is used for both business and private journeys. The company pays all of the car's running costs. Private journeys accounted for 60% of the car's mileage during year	
6. During the year a car was hired wholly for use by the marketing manager	
7. On 01 January 2021 the company paid a US\$60,000 premium for a 12 year lease on a new business premises the premium is written off against income statement on straight line basis.	
8. During the year, the company commissioned JHK Wan networking, supplied by a UK based company and incurred the following expenses:	
a. Training of staff	US\$5,000
b. Technical and support	US\$56,000
c. Payment to its employees involved in the project	US\$7,500
d. Commissioning fee	US\$9,000
9. Royalties of US\$60,000 were received during the year for trade purposes. A further US\$40,000 was accrued at the end of the year	
10. In October 2021, the company sold a freehold property US\$400,000. This property had been acquired for US\$295,000 in July 2014. Its ITV on date of sale was US\$32,000.	
11. The amount shown for Zimbabwe dividends is the actual amount received during the year with no adjustments for tax credits.	
12. A bank deposit account was opened in July 2021 (not for trade purposes). No interest was received during the year, but an interest of US\$14,840 was received at the end of the year.	

13. Interest of US\$11,440 was paid during the year for trade purposes. No interest was accrued at the end of year, but US\$4,000 had accrued at the start of the year

Required:

- a. Compute Grik (Pvt) Ltd taxable income for the year (18 marks)
- b. Comment on any other taxes which Grik is liable to pay ZIMRA (4 marks)
- c. What conditions should be met before preproduction expenditure can be deducted? (3 marks)

QUESTION 3

Nhamo and Sibonile are partners in an Accountancy firm called N and S Accounting Services. Sibonile joined the firm in 2009 when she relocated to Zimbabwe from UK where she was practising as a Chartered Accountant. Nhamo has been in practice for seven years. The partners submitted the following profit and loss account in support of income returns for the tax year ended 31 December 2013.

	\$
<i>Income:</i>	
Fees accrued	398 500
Bad debts recovered	8 400
Bank interest	7 500
Debenture interest	2 900
Local dividends	<u>1 000</u>
	418 300

Less Expenses

Insurance premiums:

- loss of profit	2 000
- fire	900
- partnership joint life policy	3 800
- life policies for the benefit of :	
Nhamo	1 600

	Sibonile	1 000
Medical aid contributions:		
	Nhamo	520
	Sibonile	320
	Staff	1 100
Staff salaries		6 800
Annuity to widow of deceased employee		2 100
Interest on capital:	Nhamo	4 800
	Sibonile	4 400
Bad debts		9 700
Trade subscriptions		100
Legal expenses: debt collection		600
Attendance at approved course		9 000
Depreciation		<u>8 600</u>
		<u>57 340</u>
<i>Net Profit:</i>		
	Nhamo 60%	216 576
	Sibonile 40%	144 384

Notes:

- Partners drawings were Nhamo \$8 000 and Sibonile \$9 000.
- Bad debts recovered include an amount of \$600 on account of a loan previously written off as bad and not allowed as a deduction for tax purposes.
- Residents' tax on bank interest \$1 125 withheld. The debentures were in a farming company.
- The gross dividend is \$1 250 from which \$125 resident shareholders tax has been deducted at source.
- Bad debts are made up as follows:

	\$
Provisions for doubtful debts calculated at 5% of debtors	4 300
Fees unpaid	2 600
Loan to former manager now irrecoverable	<u>2 800</u>
	<u>9 700</u>

6. Attendance at a course:

	\$
Nhamo	3 000
Sibonile	6 000

This represented the cost of lectures including travelling 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 2006	15 000
Office building	Jan 2011	70 000
Truck (single cab)	Jun 2007	70 000

(b) During the year the truck was traded in for a second-hand land cruiser. A trade in value of \$4 000 was given on the truck and the cost of the land cruiser was \$50 000.

(c) The partnership elects to claim SIA.

8. Nhamo borrowed money to purchase his share in the partnership practice. Interest payable during the year amounted to \$1 200.

9. Nhamo and Sibonile paid \$3 000 and \$5 500 respectively to approved retirement annuity funds.

10. Nhamo travels extensively for the practice and provides his own transport. He rented a car for \$900 a month for six (6) months from 1 January 2013 and on 1 July 2013 purchased a Mazda sedan – vehicle for \$5 000. His running expenses for six months to 31 December 2013 were \$10 000. It has been established that his non-business travel has at all times been 10% of the total.

11. Nhamo 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	\$4 000
Interest on tax reserve certificates fully utilised in payment on tax	\$240
Rents from UK property	\$7 200

12. Sibonile is married with two children, and during the year her medical aid shortfalls were \$600.

Required:

Calculate the tax payable by Nhamo and Sibonile in respect of the tax year ended 31st December 2013.

[25 marks]

QUESTION 4

- a) Discuss the difference between a “Tax” and a “User fees”. (10 marks)
- b) Discuss any five principles of a good tax systems (10) marks
- c) What are sources of tax law in Zimbabwe (5) marks

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