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GUTI UNIVERSITY

FACULTY OF LAW BUSINESS INTELLIGENCE AND
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DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL
MANAGEMENT

EXAMINATION PAPER

COURSE CODE : CAC 225
COURSE TITLE : ADVANCED TAXATION
DURATION : 3 Hours
LEVEL : 2.2
DATE : 08 APR 2025

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. Dick aged 56, is a livestock farmer in Matabeleland North Province. His farm has a livestock assessed carrying capacity of land (ACCL) of 2 000 herd. At the beginning of 2023, Mr. Dick's herd was 1 900 and he was forced to sell 90% of the herd due to an out-break of foot and mouth disease. He managed to realize \$427 500 from the sale. The costs of keeping all the 1 900 herd was \$22 000. During that year he elected to take advantage of the provision of 7th schedule paragraph 5: Relief from Enforced Sales.

At the beginning of 2024, he restocked his herd as the disease out-break had been put under control. The number of cattle purchased during the restocking exercise was 2 500 at a cost of \$750 000. All the cattle were purchased at the same price. However, there was drought towards the end of 2024 and Mr. Dick was forced to sell

Mr. Dick's livestock as at 1 January 2024 was as follows:

| | Quantity | Approved valuation (\$) | Livestock value (\$) |
|---------|-------------------|-------------------------|----------------------|
| Bulls | 100 | FSV 750 | 75 000 |
| Cows | 800 | FSV 500 | 400 000 |
| Oxen | 200 | FSV 400 | 80 000 |
| Heifers | 450 | FSV 450 | 202 500 |
| Tollies | 200 | FSV 320 | 64 000 |
| Calves | 150 | FSV 200 | 45 000 |
| | <hr/> 1 900 <hr/> | | <hr/> 866 500 <hr/> |

Livestock activities during the year ended 31 December 2024:

2 bulls were stolen.

200 cows and 300 heifers were sold due to drought.

100 cows and 300 heifers were sold to butcheries in Harare before the drought.

200 heifers and 100 tollies were regraded to cows and oxen respectively

50 calves were graded to heifers
and 30 to tollies 400 calves were
born during the year.

Fixed asset register as at 1 January 2024:

| | Year acquired/constructed | Cost | Net book value |
|-------------------------|----------------------------------|-------------|-----------------------|
| | | \$ | \$ |
| Security fence | 2014 | 50 000 | 50 000 |
| Farmhouse | 2009 | 100 000 | 100 000 |
| Staff housing (3 units) | 2015 | 120 000 | 120 000 |
| Tractor | 2013 | 48 000 | nil |
| Boreholes | 2015 | 15 000 | 15 000 |
| Deep tanks | 2013 | 32 000 | 30 400 |
| Commercial vehicle | 2005 | 15 000 | nil |
| Passenger vehicle | 2010 | 20 000 | 12 000 |
| 3 wells | 2010 | 17 000 | 17 000 |

Mr Dick's policy on fixed assets has always been to claim the maximum capital allowances possible in any given year.

The income and expenditure details from farming operations for the year ended 31 December 2024 were as follows:

| | Note | \$ |
|-----------------------|-------------|-----------|
| Income | | |
| Drought induced sales | | 150 000 |

| | | |
|--|---|---------|
| Normal sales | | 200 000 |
| Profit on sale of the commercial vehicle | 1 | 20 000 |
| Expenditure | | |
| Stock feed | | 100 000 |
| Direct livestock expenses | | 50 000 |
| Wages | | 30 000 |
| Livestock purchases | 2 | 486 000 |

Notes

1. The commercial vehicle was sold at the market value of \$20 000 during the year.
2. The livestock purchases during the year were as follows:

| Class | bulls | cows | oxen | heifers | tollies | calves |
|------------|--------|---------|--------|---------|---------|--------|
| Number | 60 | 410 | 40 | 900 | 200 | 100 |
| Value (\$) | 18 000 | 123 000 | 10 000 | 270 000 | 50 000 | 15 000 |

Required:

- (a) Explain and calculate the tax reliefs available to Mr. Dick for the year ended 31 December 2024.
- (b) (i) Calculate the livestock closing stock value as at 31 December 2024;

(ii) Calculate the minimum tax payable by Mr. Dick for the year ended 31 December 2024.

[30 marks]

QUESTION 2

On the 23rd of November 2023, Solomon Trading, a VAT registered operator who is in the business of diamond exploitation decides to cease trading as a result of the new government policy compelling all diamond companies to merge into one company.

The company has the following goods on hand before cessation of trade:

- 2 x double cab Isuzu vehicles (total cost at purchase, was \$40000.00);
- tea urn for staff teas (cost \$150,00),
- 1x refrigerator used in the subsidized staff canteen (cost , \$1,200,00),
- 1 x 4 – plate stove for the canteen (cost \$500,00),
- a 5 tonne truck (purchased for \$25000. 00);
- mining rights to Sengwe Coal Mine (purchased for \$12000.00);
- 2 x Excavators (cost \$350 000.00);
- Computers and accessories (purchased for \$2500.00);

The open market value of the above goods was, \$30000.00; \$220,00; \$1100,00; \$550,00; \$ 15000.00; \$15000.00; \$230 000.00 and \$ 2000.00, respectively.

REQUIRED:

Discuss the VAT implications of the above transactions, citing relevant sections of the VAT Act. Calculate any VAT payable or refundable if any. [25 Marks]

QUESTION 3

Mr. Mari bought a house in Harare on 11 April 2009 at a cost of US\$100,000. He repainted the house in May 2009 at a cost of US\$7,000 and in September 2011 he constructed a brick wall surrounding the house for US\$12,000. He put a ceiling and a driveway in January 2012 at a cost of US\$2,500 and US\$2,100 respectively. In February 2014 his employer transferred him to Mutare. He advertised the Harare flat on 1 March 2014 and thus incurred US\$200 advertising costs. He managed to get a buyer on 11 March 2014 and sold the property for US\$190,000. Weivhu Real Estate, the estate agents who facilitated the sale, charged him 5% as agent's commission.

Required:

- a) What is the capital gains tax involved? **(5 marks)**
- b) If the property was sold under the following terms, what will be the capital gains tax for the years the instalments are paid? Payments were made in the following order:
- i) Year 1 US\$100 000.00
 - ii) Year 2 US\$55 000.00
 - iii) Year 3 US\$35 000.00
- (9 marks)**
- c) BW Limited has estimated its annual profit for 2020 to be \$152,800.00. Calculate the provisional tax which should have been paid by BW Limited for the year ended 31 December 2020, clearly indicating the due dates and the respective tax amounts. **(11 marks)**

Question 4

A company starts mining operations in year 1 which was not productive. The life of the mine is estimated at 6 years from year 2 when the mine begins to produce minerals. The following expenditure was incurred in year 1:

| | \$ |
|-------------------------|-------------------|
| Buildings | 90,000.00 |
| Plant | 35,000.00 |
| Shaft sinking | 20,000.00 |
| Goodwill written-off | 9,000.00 |
| Salaries and wages | 15,600.00 |
| Administration expenses | 10,000.00 |
| Mazda 626 sedan | <u>11,500.00</u> |
| | <u>191,100.00</u> |

In year 2 minerals are sold for \$610,000.00 and old plant equipment was disposed realizing \$11,200.00. The following expenditure was incurred in year 2:

| | \$ |
|----------------------|-----------|
| Machine | 12,000.00 |
| Goodwill written-off | 9,000.00 |
| Running expenses | 35,000.00 |
| Shaft sinking | 25,000.00 |
| Administration costs | 23,500.00 |
| Salaries and wages | 18,900.00 |

Required:

Calculate the taxable income for the company for year 2 when using the following methods to compute capital redemption allowance (CRA):

- i) Life of mine method
- ii) Mixed basis
- iii) New mine or current basis

(20 marks)

END OF EXAMINATION QUESTION PAPER

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