



## ZIMBABWE EZEKIEL GUTI UNIVERSITY

### FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

#### DEPARTMENT OF ACCOUNTING AND FINANCE

#### EXAMINATION PAPER

COURSE CODE : CAC 206  
COURSE TITLE : TAX LAW AND PRACTICE  
DURATION : 3 Hours  
LEVEL : 2.2  
DATE : *printed*

#### 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

Murongwa Mining Corporation is a diamond mining company operating a mine in the Chiadzwa area of Mutare. In support of its return it submitted the following information for the year ended 31 December 2020

	USD	USD
<b>Income</b>		
Operating income	300 000	
Profit on disposal	200	300 200
<b>Operating expenditure</b>		
Shaft sinking	2 000	
Development costs	500	
Boreholes, trenches and pits	1 500	
Purchase of mining claims	110 000	
Salaries and wages	20 000	
Crushing and milling	8 000	
Administration costs	15 000	
Depreciation of fixed property	900	
Goodwill written off	7 500	
General expenses	10 000	(175 400)
Net Operating Income		124 800

Additional Information:

i) The machinery disposed of was purchased in 2008 for US\$500.

ii) Included in administration costs are:

- Penalty for late payment of tax \$1 000
- Company formation expenses written off \$6 000

iii) Included in general expenses are:

-Water reconnection fees US\$500

-Tax consultation fees US\$2 000

-Preparation of financial statements and audit fees US\$5 000

iv) During the year the following expenditure was also incurred:

	USD
Office buildings constructed	55 000
Mercedes Benz S500 purchased	20 000
Mine Equipment	10 000
Prospecting and exploratory works	<u>5 000</u>
	90 000

v) The balance of capital expenditure from last year was US\$45 000

vi) The estimated life of the mine at the end of 2020 was 8 years.

**Required:**

**(a) Calculate the company's tax liability by granting Capital Redemption Allowance in terms of paragraph 4 (2) of the 5th Schedule to the Income Tax Act for the assessment year ended 31 December 2020. (20 marks]**

**(b) Miners enjoy better tax incentives than other general taxpayers. Explain [5 marks]**

## **QUESTION TWO**

Furnns (Private) Limited constructed a factory for \$60,000 on its premises in June 2017. An election for Special Initial Allowance, at 25% of cost, was made for the year ended 31 December 2017. In February 2019, the factory was completely destroyed by fire following an electrical fault. At this stage, the factory was comprehensively insured for \$130 000. The company was able to claim the full amount from its insurer in June 2019. Insurance proceeds were used to acquire a replacement factory for \$100,000.

**REQUIRED**

- a) Calculate the capital gains tax payable, if any, by Prim Shoes (Private) Limited for the ended 31 December 2019. [20 marks]
- b) Calculate the income tax implications for the year ended 31 December 2019 [5 marks]

**QUESTION THREE**

(a) In the following circumstances, explain whether input tax is claimable or not:

1. Meals provided to staff, clients and business associates. [2 marks]
2. Modifications and installation costs after delivery of non- commercial motor vehicle. [2 marks]
3. Goods acquired partly for making taxable supplies. [2 marks]
4. Sales of finished goods. [2 marks]
5. The company issued a debit note [2 marks]

(b) Pullers Manufacturing ceased to be a VAT registered operator on the 31<sup>st</sup> of January 2018 because their turnover was less than the registration threshold of \$60,000 p.a. On the same date, Pullers Manufacturing deregistered for VAT it had the following:

Value	Cost (Inc VAT) \$	Open Market \$
Plant and Equipment	150 000	125 000
Delivery Vehicle (note 1)	50 000	60 000
Toyota Yaris 1500cc (note 1)	6 000	7 500
Furniture(note 2)	3 000	2 500
Trading stock (raw material)	4 500	4 000
Trading stock(finished goods)	8 000	8 500
Debtors (note 3)	7 000	-

Note 1: The delivery vehicle was used solely for delivering its produce whilst the Toyota Yaris was used by the sales manager as his company vehicle.

Note 2: The furniture was used solely for business.

Note 3: The company was of the opinion that 25% of the debtors amount will not be recoverable and consequently wrote it off on 25 January 2018. The company did not charge any interest on outstanding accounts.

**REQUIRED:**

- i) Advise the company of the VAT implications of the cessation of trade [5 marks]

- ii) Calculate VAT payable (refundable) for Pullers Manufacturing for the month of January 2018 [10 marks]

**Note: Indicate by the use of zero (0) any amounts on which VAT is not chargeable.**

**QUESTION FOUR**

- a) Mufaro and Audrey are partners who run a tax consultancy firm in Gweru. They prepare their books up to 31 August of each year. Profits and losses are shared equally. The income tax value of their assets as at 1 September 2019 was \$200m. The original cost of these assets (all movable and always used 100% for trade) was \$350m. On 30 August 2020, they admitted Julian into the partnership. The new partnership took over the assets at an agreed value of \$420m. Mufaro and Audrey's trading for the year ended 31 August 2020 registered a net profit of \$800m. Both Audrey and Mufaro received salaries of \$300m. The two partnerships have always sought to minimize their tax liabilities.

**REQUIRED**

- i) Calculate the tax liability of Mufaro and Audrey for the year ending 31 December 2020 (10 marks)
- ii) Advise the new partnership of the elections they can make, considering the change in the partnership, in order for them to minimize their tax liability. (5 marks)
- b) "Low rate of corporate taxation attracts more Foreign Direct Investment." Discuss [10marks]

\*\*\*\*\*END OF EXAMINATION QUESTION PAPER\*\*\*\*\*