ZIMBABWE

MINISTRY OF HIGHER AND TERTIARY EDUCATION, INNOVATION, SCIENCE AND TECHNOLOGY DEVELOPMENT

HIGHER EDUCATION EXAMINATIONS COUNCIL (HEXCO)

NATIONAL DIPLOMA

IN

ACCOUNTANCY

SUBJECT: Taxation **PAPER NO: 500/15/S11**

DURATION: 3 hours

NOVEMBER/DECEMBER 2023 EXAMINATION

REQUIREMENTS

INSTRUCTIONS TO CANDIDATE

1. Answer all questions.
2. Candidates may ring into the examination room unmarked copies of the Income Tax Act (Chapter 23:06) Finance Act (Chapter 23:04,) Capital Gains Act (Chapter 23:01,) Value Added Tax Act (Chapter 23:12) and Estate Duty Act 23:03.
3. Non programmable calculators maybe used.
4. The applicable year of assessment is 31 December of the previous year.

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QUESTION 1

Mr. Samson Mbanje is 60 years old and has been working for Zvapanopasi (Private) Limited company based in Masvingo. Mr Samson Mbanje worked for the company as a Financial Director and resigned with effect from 31 December 2020. During the year he received the following income and incurred the following expenses.

	$
Income	
Salary	960 000
Bonus	84 000
Entertainment allowance (Note 1)	48 000
Cash in lieu of leave	48 000
Income received for injury at work	120 000
Cash inheritance from late father	72 000
Director's fees from local company	36 000
Director's fees from foreign company	60 000
Representative allowance (Note 2)	24 000
Medical contribution by employer	84 000
Dividends: Telone Zimbabwe	12 000
Mimosa Mine Zimbabwe	24 000
Rental Income: Harare flat	12 000
Masvingo Flat	36 000
Interest from First capital bank	48 000
Expenses	
Subscription to Internal Auditors (Zimbabwe)	96 000
Contribution to Pension fund	48 000
Medical aid contribution (PSMAS)	64 000
Joining fees to internal Auditors	132 000
Wages for his housemaid	24 000

QUESTION 2

Chimombe (Private) Limited carries on livestock ranching in South Eastern lowveld in Chiredzi. The following details relate to its farming activities for the year ended 31 December 2020.

Purchases made during the year of assessment.

Beast	**Cost $**	**Suggested FSV($)**
1 Stud Bull	5 000	-
1 Stud Bull	5 000	-
1 Stud Bull	4 500	-
100 cows	77 000	4 000
50 heifers	60 000	3 500
50 tollies	55 000	3 000
100 Oxen	60 000	3 000
50 calves	50 000	1 500
	316 500	

Chimombe has elected to use the minimum purchase price value of $1 200 as value per bull in the valuation of bulls.

1. During the year 2020 the following took place
   - There were 60 births ?
   - 4 deaths (2 tollies died and 2 cows died)
   - 80 sales (30 tollies and 50 Oxen)
   - expenses of maintaining the herd amounted to $150 000
   - the sale of the livestock realised $750 000
2. The following movements in growth of livestock took place:
   - 10 heifers became cows
   - 40 tollies became oxen
   - 30 calves became heifers
   - 30 calves became tollies

Additional information:

1. The entertainment allowance was used 60% for the employer's business during the year.
2. 50% of the representative allowance was used for the employer's business.
3. Mr Samson Mbanje was provided with a company house in Rhodene suburb and paid $3000 per month while similar property in Rhodene was rented for $7000 per month. The house was fully furnished and the cost of furniture was $600 000.
4. The employer provided Mr Samson Mbanje with free use of a company vehicle from January 2020 with an engine capacity of 3100CC.
5. The company advanced him a soft loan amounting to $150 000. Interest charged was 4% while LOBOR was 7%.
6. Income and expenses accrued evenly during the year.

Required

Calculate Mr Samson Mbanje 's taxable income from employment for the year ended 31 December 2020. (20 marks)

3. Other Incomes

Sales of milk	$1 200 000
Sales of stock feeds	$1 100 000

4. During the year the following expenses were also incurred:

	$
Sinking of boreholes and wells	400 000
Farm wages	100 000
Spraying chemicals	200 000
Fencing of the farm	600 000
Stumping and clearing of land	150 000

5. The following assets were on the farm at the beginning of the year:

	$
Cattle byre	200 000
Staff housing	500 000
Farm hospital	600 000
Homestead	800 000
Land	90 000

Required:

a) Prepare a livestock reconciliation statement as at 31 December 2020. (12 marks)

b) Prepare the trading account for the year ended 31 December 2020. (8 marks)

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QUESTION 3

a) In relation to the Estate Duty Act and Trusts, you are required to give the meanings of the following terms:

i) Pre-death period

ii) Executor

iii) Ascetained beneficiary

iv) Usufruct

v) Intervivos trust

(10 marks)

b) Fine Arts (Pvt) Ltd is a Mutare based company that is registered for VAT as an operator under category B. The company has presented the following details for the month of September /October 2020.

	$
Invoices issued (credit sales)	114 500
Cash sales	572 500
Purchase of materials	343 500
Purchase of new printers	229 000
Fuel expenses	114 500
Motor vehicle repairs	57 250

Assume that all the figures above are VAT inclusive.

Required:

Prepare a VAT Return for the month of September/October 2020.

(10 marks)

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QUESTION 4

Macdonald (Pvt) Ltd purchased an industrial building on 1 September 2017 for $300 000 and the transfer duty of $12 500 was incurred when the property was purchased. The properly was sold on 1 June 2020 for $800 000. The following expenses were also incurred in selling the property.

	$
Advertising expenses	60 000
Estate valuation expenses	40 000

The following additions were also made to the building before its disposal.

	$
Durawall: May 2018	50 000
Electric gate: October 2019	30 000
Tree planting: November 2020	20 000

The company had $40 000 capital loss from previous assessments. The income tax value of the building at the time of sale was $200 000.

Required:
Calculate the capital gains/capital loss of Macdonald (Pvt) Ltd for the year ended 31 December 2020. (20 marks)

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QUESTION 5

Shorai and Shamiso are in partnership for the past four years sharing profits and losses in the ratio 2 : 4 respectively. Their income and expenditure for the 2020 tax year were as follows:

				$
Gross profit				400 000
Rental income				40 000
Foreign interest				30 000
Dividends: Ok Mart				10 000
				480 000
Less: Expenses				
Depreciation of assets				20 000
Medical aid:	Employees			12 000
	Partners:	Shorai	2 000	
		Shamiso	4 000	6 000
Insurance:	Assets			4 200
	Life of Shamiso			3 000
Donation to destitute homeless persons funds				52 000
Loss on sale of generator				1 000
Pension contributions:	Employees			15 000
	Partners:	Shorai	5 600	
		Shamiso	5 400	11 000
Shorai's attendance of trade mission connected to the partnership's business				3 200
Salary and wages:	Employees			20 000
VAT				3 800
Net profit				328 800

Additional Information

a) The partnership owned the following assets as at 1 January 2019.

Assets	Original Cost	Date purchased	ITV (1.1.19)
	$		$
Machinery	20 000	May 2016	5 000
Equipment	10 000	August 2017	5 000
Delivery trucks	42 000	February 2015	-
Merc Benz	14 000	October 2018	7 500
Computers	4 000	January 2015	2 400

b) During the year, the partnership acquired a Ford Ranger Single cab for $17 000, the car was used 30% for private purposes.

c) The generator was sold for $3000, it was fully depreciated for tax purposes.

Required:

i) Calculate the partnership's minimum taxable income for the tax year ended 31 December 2019. (15 marks)

ii) Calculate the partner's taxable income for the year ended 31 December 2019. (5 marks)

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ANNEXURE

TAX RATES

PAYE TABLE

Brand of Taxable Income	Taxable %	Amount in Bracket	Tax $	Cumulative Taxability
$	$	$	$	$
Up to 3600	0	3 600	0	0
3601 to 18 000	20	14 400	2 880	2 880
18001 to 36 000	25	18 000	4 500	7 380
36001 to 60 000	30	24 000	7 200	14 580
60 001 to 120 000	35	60 000	21 000	35 580
120 0001 to 180 000	40	60 000	24 000	59 580
180 0001 to 240 000	45	60 000	27 000	86 580
240 0001	50			

Pension Fund Contribution:

Pension contribution	$43 200
Retirement Annuity Fund	$43 200
Combined contribution	$43 200
Bonus threshold	$ 5 000

Annual Motoring Benefits:

Engine capacity	**Deemed month**	
	Month	**Annum**
	$	**$**
Up to 1500 CC	4 500	54 000
1501 to 2000CC	6 000	72 000
2001 to 3000CC	9 000	108 000
3001 to Above	1 200	144 000

Corporate Tax rate	25%
Aids Levy	3%
VAT rate	15%

NB: The tax rates given in this question paper are for examination purposes only

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