ZIMBABWE

MINISTRY OF HIGHER AND TERTIARY EDUCATION

HIGHER EDUCATION EXAMINATIONS COUNCIL
(HEXCO)

NATIONAL DIPLOMA

IN

ACCOUNTANCY

SUBJECT: Taxation

PAPER NO: 500/S11

OCTOBER/NOVEMBER 2012 EXAMINATION

REQUIREMENTS

Candidates may bring into the examination unmarked copies of the Income Tax Act Chapter 23:06; Capital Gains Act Chapter 23:01; VAT Act Chapter 23:12 and Finance Act (as Amended).

INSTRUCTIONS TO CANDIDATE

1. Answer all questions.
2. Begin the answer to each question on a fresh page.

This paper consists of 6 pages.

PAPER NO: 500/S11 – TAXATION

QUESTION 1

Mr Rwafa retired from employment with a firm of Accountants on 30 December 2010 at the age of 50. He is married to a blind wife. His daughter Sarah was injured in a car accident in 1994 and is now disabled. Sarah is now an adult but lives with her parents. During the year ended 31 December 2011, Mr Rwafa received the following income

	$
Salary	50 000
Bonus	12 000
Annuity from Old Mutual	4 000
Lump sum payment pension commutation	7 000
Gratuity	30 000
Retirement gift from employer	2 000
Cash in lieu of leave	1 500

The following deductions were made:

PAYE	13 000
Pension contributions	5 500
Medical contributions	180
Purchase of a wheelchair for Sarah	15 800

Notes:

1. In January 1991, Mr Rwafa purchased an annuity from Old Mutual paying a lump sum of $35 000 (not allowed as a deduction) for a 10 year annuity of $4 000 per year.

2. On retirement he received a commutation of his pension and his amount is equal to one – third of his pension.

3. Mr Rwafa had an interest loan from his employer. The loan amounted to $5 000 and was received on the 1st of January 2010. Mr Rwafa had the use of a motor vehicle with an engine capacity of 3100cc.

Required:

Calculate the taxable income of Mr Rwafa and tax payable for the year ended 31 December 2010 assuming he made the necessary elections to minimise his tax. (25 marks)

QUESTION 2

Explain the following terms:

a) Income tax
b) Excise duty
c) Stamp duty
d) Capital gains
e) Corporation tax
f) Direct taxes
g) Indirect taxes
h) Gross income
i) Regressive tax
j) Progressive tax

(20 marks)

QUESTION 3

Mr Washaya is a farmer specialising in cattle ranching. During the tax year ended 31 December 2010, he submitted his accounts to ZIMRA showing the following information.

Purchases	FSV
2 bulls @ $1 000	-
100 cows @ $ 250	$400
50 heifers @ $ 200	$350
50 tollies @ $ 180	$300
100 oxen @ $ 320	$300
50 calves @ $ 100	$200

Additional Information

1. 80 births were recorded during the year and deaths amounted to 10 calves

2. Sales were as follows: 50 oxen, 50 cows and 20 tollies and were as a result of drought. The area was declared by the government to be drought stricken. The sale realised $60 000.

3. During the year, 70 calves were promoted: 30 to tollies and the 40 to heifers.

4. The farmer incurred the following expenses in maintaining the herd during the year.

Wages	$6 000
Dip chemicals	$4 000

5. During the year, the farmer incurred the following capital expenditure:

Boreholes	$ 4 000
Reservoir	$ 6 000
Irrigation	$15 000
Tarred road	$15 000
Temporary road	$ 4 000
Irrigation equipment	$ 8 000

6. Mr Washaya's income statement for the year ended 31 December 2010 showed a net loss of $10 000. The following expenses had been debited before arriving at the net loss.

	$
Bank charges	500
Depreciation	8 000
Interest	4 000
Electricity and water	18 000
Subscription (trade)	1 200
Repairs and maintenance	3 000
Sundry expenses	1 000
Salaries	60 000
Professional advice	2 000
Dip tank	7 000

7. Income included in the income statement include:

Sale of crops	$35 000
Dividends from Zimbabwe Company	$ 2 500
P.O.S.B interest	$ 200

Required:

a) Prepare the livestock reconciliation statement for the year ended 31 December 2010.

b) Calculate the taxable income for Mr Washaya for the year ended 31 December 2010.

(20 marks)

QUESTION 4

Ellen Ranganai a widow aged 50, decided to dispose of her principal private residence situated in Nkulumane, Bulawayo and a Holiday resort, situated in Victoria Falls and permanently relocate to Botswana, her country of origin.

Ellen Ranganai's immovable assets were disposed of through a local real estate company on January 2010 as follows:

PRINCIPAL PRIVATE RESIDENCE

The Nkulumane property was acquired in 2005 at a cost of US $45 000. The improvements to the property were effected two years later as below:

	Date	Cost US$
Security wall	2006	5 000
Swimming pool	2007	5 000
Out buildings	2007	15 000

The property was sold for a total price of US$100 000. The real estate company retained 10% of the selling price as sales commission for the service rendered.

VICTORIA FALLS HOLIDAY RESORT LODGE

The Holiday resort lodge was acquired in 2004 at a cost of US$30 000. The extension to the lodge was effected in 2005 at a total cost of US$25 000. The property was sold for $85 000 and 10% of the selling price was deducted by the real estate company as the commission. The cottage had been classified as a commercial building for tax purposes and tear allowances have been claimed yearly since acquisition of the building.

ANCILLARY EXPENSES

	US$
Legal charges	500
Transfer fees	200
Property Advertisement	50
	750

Required:

a) Calculate the Capital gain / loss and tax payable by Ellen Ranganai in connection with the disposal of her two properties.

b) State by when the Capital gains tax should be submitted to ZIMRA and outline the possible consequences of non-compliance.

(20 marks)

QUESTION 5

In the distribution of a standard rated product, a mark up of 25% is added at each stage ie manufacturer, wholesaler and retailer. The producer of the raw material sells to the manufacturer at $10 000 excluding VAT.

Calculate the VAT payable at each stage until the product is sold to the final consumer. (15 marks)

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