



*"Investing in Africa's Future"*

**COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND  
GOVERNANCE**

**COURSE CODE AND TITLE: MAC 402 TAX LAW AND PRACTICE**

**END OF SECOND SEMESTER EXAMINATIONS CONVENTIONAL**

**APRIL/MAY 2017**

**LECTURER: MR. S CHUCHU**

**DURATION: 3 HRS**

---

***INSTRUCTIONS***

Answer **all** five (5) questions.

Start **each** question on a new page in your answer booklet.

The marks allocated to **each** question are shown at the end of the question.

**Show all your workings.**

Credit will be given for logical, systematic and neat presentations.



### Question 1

Aquarius Limited conducts its business in Gweru. For the year ended 31 December 2016, it produced the following statement of profit or loss and supporting information:

	\$	\$
Sales		740 000
Cost of sales		<u>(380 000)</u>
Gross profit		360 000
Interest from foreign account		7 600
Dividends from Zimbabwean company		<u>140 000</u>
		507 600
Less: Operating expenses		
Depreciation	(1 500)	
Salaries and wages	(70 000)	
Repairs and maintenance	(18 000)	
Administrative expenses	(1 700)	
Directors fees	(30 000)	
Value Added Tax paid	(40 000)	
Dividends paid	(76 000)	
Dividends distribution expenses	(6 000)	
Research into foreign transport market	(20 160)	
Donations	<u>(17 900)</u>	
		<u>(296 560)</u>
Profit before tax		<u>211 040</u>

#### Additional information:

- Repairs and maintenance include the following:

	\$
New parts purchased	5 00
Crack filling	3 600
Foundation underpinning	7 800

- Administrative expenses include an allowance for the transport manager who travelled to China to purchase new buses. The allowance was \$800.
- Donations were scholarships awarded to students to undertake a course in engineering at the National University of Science and Technology. The students were relatives of the managing director of the company and were awarded the scholarships as follows:

	\$
Cousin	9 000
Niece	8 900

- The company had an assessed loss carried forward of \$26 000 which is not included in the computation of profit before tax.
- The company has the following assets:



	Cost	ITV at 31/12/15
	\$	\$
Office buildings (purchased)	180 000	95 000
Warehouse (purchased)	30 000	7 500
Fleet of buses	1 300 000	980 000
Haulage trucks	1 800 000	100 000
Mercedes Benz E350	32 000	5 000
Nissan Hardbody (10 units)	188 000	144 000

The company elected to claim special initial allowance only for the fleet of buses and Mercedes Benz E350. Assume that the warehouse is classified as an industrial building.

**Required:**

Compute the company's tax liability for the year ended 31 December 2016. [20 marks]

**Question 2**

Rich Farm (Private) Limited acquired a farm on 1 June 13 for \$100 000. The following improvements were effected:

	\$
Tobacco barns (July 2013)	30 000
Farm sheds (December 2013)	10 000
Fencing (February 2013)	15 000
Office block (July 2013)	55 000
Staff houses (5 units) (September 2014)	60 000
Reservoir	8 000

The company has always claimed maximum capital allowances.

On 5 February 2016, the farm was sold for \$500 000. The whole amount was deposited into the company's bank account on 6 February 2016. The selling price was allocated as follows:

	\$
Land	120 000
Tobacco barns	50 000
Farm sheds	20 000
Fencing	25 000
Office block	120 000
Staff houses	100 000
Reservoir	15 000
Goodwill	50 000

Selling expenses amounted to \$20 000.



- (a) Compute the income tax payable by Rich Farm (Private) Limited for the year ended 31 December 2016. [4 marks]  
 (b) Compute the capital gains tax payable for the year ended 31 December 2016. [16 marks]

### Question 3

Robert and William run a consultancy business as partners sharing profits or losses in the ratio of 3:2, respectively. The following information was extracted from the first set of general purpose financial statements of the partnership for the year ended 31 December 2016:

	\$
Profit before tax	400 000
After taking the following income and expenses into account:	
<b>Income</b>	
Fees accrued	725 000
POSB interest	425
Debenture interest	960
Dividend from company incorporated in Zimbabwe	550
<b>Expenses</b>	
Partners' salaries:	
Robert	96 000
William	84 000
Insurance premiums:	
Loss of profit	4 000
Partnership joint life policy	8 000
Life policies for each partner's benefit	
Robert	3 000
William	3 600
Medical aid society contributions	
Robert	720
William	520
Staff	3 100
Annuity to widow of deceased employee	1 000
Interest on capital accounts:	
Robert	2 500
William	2 200
Depreciation	4 475

#### Additional information:

- At the beginning of the year, the partnership acquired and immediately put into use new technical equipment which cost \$40 000.
- Robert borrowed funds to purchase his share in the partnership business. Interest payable by him during the year amounted to \$3 200.



3. Robert contributed \$600 to the partnership pension fund and William, not being a member of the latter, contributed \$500 to a retirement annuity fund. These amounts have not been charged to profit or loss.
4. The deceased employee did not belong to the partnership pension fund.

**Required:**

Compute the minimum tax payable by the partners for the year ended 31 December 2016.  
[20 marks]

**Question 4**

In the context of deceased estates and trusts, discuss the following terms:

- |                     |           |
|---------------------|-----------|
| (a) Property        | [7 marks] |
| (b) Deemed property | [6 marks] |
| (c) Trustee         | [7 marks] |

**Question 5**

Sigma Limited is in the business of buying and selling plots. The company bought a plot for \$10 000 and sold it for \$40 000 in February 2014 on the following conditions of sale:

1. 25% deposit on signing the sale agreement
2. The balance to be paid over a period of three years at \$10 000 per annum, commencing in the year the deposit is paid.

In 2016, the buyer could not raise the annual installment. The buyer had, with the seller's permission, constructed a cottage at the plot. The buyer negotiated that he finds a buyer for both the plot and the cottage. The property was sold for \$60 000 and the first purchaser was paid \$6 000 for the cottage.

The second purchaser negotiated to pay for the plot under the terms of the original agreement which the seller accepted.

**Required:**

Compute the taxable income in the hands of the seller for each of the three years in question.  
[20 marks]

---

END OF PAPER