

Question 1

- a. Discuss with supporting calculations the income tax implications of the disposal of the farm by Takura on the 1st of October 2014.
- On disposal of the farm assets Takura has to calculate recoupment on the assets over which he had been claiming capital allowances: sect 8 2(1

	Cost(\$)	Sale price (\$)	ITV	Recoupment	Explanation	Marks
Land	120 000	220 000	0	0	No capital allowances on land, therefore zero recoupment	2
Farmhouse^	24 000	35 000	0	0	The house was occupied by Takura hence no capital allowances granted	2
Security Fence	6 000	6 500	0	0	7 th schedule expense, therefore no recoupment since no capital allowances previously claimed	2
Staff housing (5 units)	40 000	50 000	10 000	30 000	Recoupment limited to capital allowances previously granted	2
Deep tank	8 000	9 000	4 000	4 000	Recoupment limited to capital allowances previously granted	2
Dam	21 000	30 000	0	0	7 th schedule expense, therefore no recoupment since no capital allowances	2

					previously claimed	
Tobacco barn	20 000	28 000	15 000	5 000	Recoupment limited to capital allowances previously granted	2
Tractor	14 500	9 000	7 250	1 750		2
Delivery vehicle	9 500	6 200	7 125	0	Amount sold below ITV therefore no recoupment. No scrapping allowance granted since vehicle was not scrapped	2
Goodwill		<u>10 000</u>	0	0	Proceeds capital in nature	2
Total Recoupment				<u>40 750</u>		

- The amount received in respect of the disposal of the dairy cattle will be brought in gross income. Sect 8 2
 Presentation and communication 2 marks

Total 25 marks

- b. In respect of the income from farming operations calculate the taxable income and tax payable for the year ended 31 December 2015.

	\$	\$	Marks
Milk sales		30 000	½
Tobacco sales		100 000	½
Opening stock		(25 000)	1/2
Closing stock		28 000	½
Stock feed		(1 000)	1
Fertilisers		(7 000)	1
Tobacco seeds		(3 000)	1
Deeping chemicals and vaccines		(1 500)	1
Land clearing costs		(1 200)	1
Wages: Tobacco		(8 000)	1
Wages: dairy cattle		(2 500)	1
Donations		0	1
Temporary farm road		(800)	1
Stumping and clearing of land – 7 th schedule		(1 200)	1
Recoupment – see part a		40 750	1
Disposal of dairy cattle		<u>34 500</u>	1
		179 050	
Tax @ 25.75%		46 105	1
			15

