

**CHARTERED ACCOUNTANTS ACADEMY (CAA)**

**IN COLLABORATION WITH UNIVERSITY OF THE WITWATERSRAND**

**PART-TIME CTA PROGRAMME – PART 1**

**END OF YEAR EXAMS**

**Taxation IV - Paper 2 (Afternoon)**

**[100 Marks]**

**Date Friday 28 October, 2016**

**Time Allowances**

Question	Marks	Minutes	Booklet
Reading time		30	
1	67	100	Orange
2	33	50	Orange
<b>Total</b>	<b>100</b>	<b>180</b>	

**INSTRUCTIONS**

- 1) Enter your student number on the front of the answer book.
- 2) Your name must not appear anywhere.
- 3) Use of non-programmable calculators is permissible.
- 4) Any calculations must be shown in your answer book.
- 5) Working papers must be handed in with the scripts.
- 6) **Answers Must Be Written In Ink Not Pencil**

**This is a limited open book examination (use of SAICA handbooks and relevant act is permissible)**

**Question 1**

**67 Marks**

Kunta Kante (Pvt) Ltd (KK) is a Zimbabwean company incorporated in the year 1994. KK is a Category C-VAT registered operator. The company specialises in logistics and transportation of passengers locally and internationally. KK is headquartered in Harare. Since incorporation the sole shareholder, N’Golo, has seen the company grow bigger and bigger due to his business acumen. KK has a 100% owned subsidiary named Mupunga (Pvt) Ltd (MP). MP specialises in the transportation of passengers along the Harare-Masvingo route. KK acquired the shares in MP in December 2014 as a strategic move, as N’Golo had realised that that stretch of the road was ruled by MP.

Antonio is the Chief Operations Officer at KK, and the acting Chief Finance Officer. The CFO is currently on ‘administrative leave’ (refer to note 3), pending an investigation into allegations that he has been embezzling company funds. The board, however, believes that the accusations are false as they were raised by a disgruntled female employee who is believed to have had her romantic overtures turned down by the CFO. Despite this, N’Golo – who is the CEO, and Chairman of the board – went ahead and decided to hire a renowned forensic accountant, Eva Camera. Antonio is in the process of finalising the various tax issues for the 31 December 2015 year-end and due to his limited accounting and taxation knowledge has asked for your advice as a recent CAA CTA graduate.

KK profit before tax for the year ended 31 December 2015 is \$34,650,000. **ALL** amounts are exclusive of VAT unless otherwise stated. In arriving at the profit before tax, the following were included:

1. KK sold its Masvingo garage and 8 buses to MP and recorded a profit on disposal of \$150,000 for the land, loss on disposal of \$35,000 for the building, and a profit on disposal of \$16,000 on the buses. The garage and the buses were initially bought on 01 January 2013. The land cost \$50,000, the building \$80,000 and the buses cost \$240,000. At the acquisition date, the building was estimated to have a useful life of 10 years with \$5,000 residual value, and the buses 5 years with a residual value of \$60,000. The property was disposed at the beginning of 2015. It has always been KK’s policy to calculate depreciation on a straight method for all its assets, where applicable.
2. During the year KK made the following donations:
  - a. \$54,000 to the 21<sup>st</sup> February movement;
  - b. \$150,000 to Jairos Jiri;
  - c. \$120,000 to SOS Children’s home;
  - d. \$8,500 for Chief Harare’s eldest daughter’s wedding; and
  - e. \$14,000 to the University of Zimbabwe’s motor mechanics department for lecturers’ bonuses.

3. During September 2015 the CFO was accused of embezzling KK funds by a female employee in the finance department. As part of the CEO's promise to weed out any fraudsters and follow up on all leads or reports, he engaged Eva C and her team of forensic accountants to dig into the matter. The CFO was put on administrative leave effective 1 October 2015 and will only come back once the investigation is complete. While on administrative leave he still receives his salary of \$12,000 a month, a housing allowance of \$1,000 a month, and free use of a Mazda BT-50 which has a 2,500cc engine capacity. The CFO has been enjoying these benefits the whole year. Eva C and her team have invoiced KK \$44,000 for the services rendered to date. The investigation is still ongoing at year end.
4. At the beginning of the year, KK purchased 15-second hand Toyota Raums sedan vehicles for use by its managers at a cost of \$3,000 each. The cars have been used by managers since 1 January. The vehicles have an estimated useful life of 3 years with no residual value. During the year repairs and servicing cost KK \$4,000 in total for this set of vehicles.
5. On 01 January 2015, KK also purchased 10, 18-tonne trucks for \$70,000 each. The trucks required new tyres, which cost \$3,000 in total. KK also bought trailers for the trucks as they came with none, each truck required to be fitted with a trailer which cost \$8,000. The trucks have a useful life of 10 years with a residual value of \$3,000.
6. KK purchases spare parts from Museyamwa on a credit basis. In November 2015 KK purchased spare parts which cost \$20,000 on credit from one of their long standing suppliers. They paid \$10,000 on 15 November 2015 when the spares parts were delivered and the balance was payable as follows:
  - i. \$5,000 is payable in December 2015 and
  - ii. \$5,000 January 2016.
7. Given the efficiency of the traffic police, KK's drivers have been raking in traffic fines and vehicles have been impounded at times. Total fines for the year amounted to \$112,000.
8. ZINARA licence renewal fees were paid for all vehicles and offices at a cost of \$11,350.
9. Repairs and maintenance were performed on KK assets at a cost of \$55,000 – this excludes the vehicles in **note 4** – included in that cost are the following:
  - a. 2 of KK's garages had tin roofs at the beginning of the year. These were seen to be bad in terms of temperature amplification and were thus removed, and tiles were put in their place. The total cost of this exercise was \$15,000.

- b.** \$40,000 was incurred in rebuilding a section of KK's head office which was burnt down due to arson and indemnity was denied by the insurance company. KK has no hopes of recovering these costs from any party as the manager who started the fire fled to a non-extradition country before it was discovered he was the guilty party.
- 10.** Excluding the CFO costs, KK paid \$500,000 in the way of salaries and wages and \$25,000 in housing allowances for its managers.
- 11.** KK transports a lot of goods – ranging from basic commodities to motor vehicles – along the Durban – Brazzaville route. During the current year a total of \$1,095,000 accrued to KK in the form of transport fees from goods transported from Durban to Brazzaville. Of this revenue, 2.5% is paid to the drivers as commission. The international drivers were also awarded allowances totaling \$45,000 for traveling the route.
- 12.** \$1,200 was incurred for food and beverages for the board meetings held during the year. \$13,500 was used during a trip to Leopard Rock with 2 executives from BeBackward, a Taiwanese car exporter in a bid to secure their business as their sole transporter from any African port to Zimbabwe.
- 13.** Lunch allowances totalling \$65,000 were awarded to employees during the year. KK also gives employees with the free use of vehicles fuel coupons. Coupons given to employees during the year amounted to \$79,000.
- 14.** During the year KK wrote off an amount of \$72,000 as bad debts. The amounts written off related to:
  - i.** \$15,000 loan to the arsonist manager who fled.
  - ii.** \$57,000 in relation to local debtors, half of which were for the transportation of passengers and the other half for goods, these amounts have been owed since 2014 September. One of the companies for which KK transported passengers managed to pay \$3,500, this was not accounted for by the KK accountants.
- 15.** Insurance premiums were paid during the year as follows:
  - a.** \$1,500 for the key man policy on N'Golo.
  - b.** \$14,500 in relation to vehicles.
  - c.** \$23,000 for buildings.
- 16.** KK sold their Mutare office building at the end of the year to an unconnected party. The land and building had been purchased from an unconnected party in 2010 at a

cost of \$100,000 (60% for the land). Depreciation for the year was \$6,250. KK received consideration of \$230,000 with 30% being for the land. In 2011 KK added a storey to the office building at a cost of \$25,000 and erected a durawall at a cost of \$2,500 in the following year.

Excluding the assets mentioned above, KK's asset register had the following balances at 31 December 2014:

<b>Asset</b>	<b>Cost (\$)</b>	<b>Date of Purchase/Construction</b>	<b>Residual value (\$)</b>	<b>Useful life (years)*</b>
Harare office building	120,000	1 January 2010	40,000	30
Gweru office building	80,000	1 January 2012	10,000	40
Garages – constructed <sup>1</sup>	500,000	1 January 2013	15,000	15
Haulage trucks <sup>1</sup>	1,500,000	31 December 2010	80,000	10
Delivery vans <sup>1</sup>	350,000	1 January 2011	25,000	10

\*Depreciation for the current year was correctly calculated for all assets and is included in the profit before tax.

<sup>1</sup>assume that all assets in each class presented in the asset register were purchased or constructed on the same date.

**Question 2****33 Marks**

Eva Camera is a 54-year-old forensic accountant who works for JM Accountants. She has been working at JM for the past 25 years and has now made the JM forensic department well renowned due to her technical abilities and her high ethical standards. Many have tried to bribe her in the past but have met walls of resistance at each attempt.

Eva has requested for your assistance with her tax affairs. During the 2015 year of assessment she made the following transactions:

1. She receives a monthly salary of \$8,500.
2. JM have a policy of giving a commission of 8.5% of invoices in cases where the individual employee brought business in. During 2015 Eva secured business which had invoices totalling \$135,000.
3. As part of her employment contract, she receives a housing allowance of \$800 per month.
4. On 1 July JM granted her a loan of \$45,000 to assist her in purchasing a new flat, to help her supplement her income.
5. Eva's medical aid contributions amount to \$185 per month, of this amount JM pays 40%.
6. In April 2015 Eva's appendix burst and she had to have an appendicitis. She stayed in the hospital for 3 days. Due to problems with her medical aid, she had to foot the entire bill of \$1,320. She is currently in the process of making a claim for reimbursement with her medical aid.
7. On 1 October 2015, she exercised share options which were granted to her as way of retaining her services on 30 September 2012. She was granted 15,000 share options with a strike price of \$4.50. At grant date, the fair value of the shares was \$5, and the consumer price index was 89.5. At exercise date, the fair value was \$7, and the consumer price index was 102.
8. Eva has one child, Emma who is 8-years-old. Emma was born with a condition that meant she would never be able to walk in her entire lifetime. Eva bought her a new wheelchair for \$850 in May 2015.
9. JM has a subsidiary, Little J, of which Eva is a non-executive director. She received director's fees of \$1,200 during 2015.
10. Eva and JM contribute 50% each to her pension fund, the fund requires a monthly contribution of \$125.
11. In November 2015 Eva sold the house she had been living in Greendale and purchased a new one in Glen Lorne. The Greendale house cost her \$350,000 (20% for the land) in 2010, and it sold for \$560,000. In 2012 she had built a swimming pool at the Greendale property for \$2,000. The Glen Lorne house cost her \$480,000 (35% for the land).

- 12.** As a bonus for her level of commitment and the business, she brings in JM awarded Eva and her daughter a trip to Zanzibar in December 2015. The trip cost the company \$8,500, and Eva used \$3,125 while there.

**Annual Tax Rates****Individuals**

Employment Income – 1 January to 31 December 2015

Segment of Income per annum	Amount	Rate within segment (%)	Tax	Cumulative Tax
Up to 3 600	3 600	0%		0
3 601 – 18 000	14 400	20%	2 880	2 880
18 001 – 36 000	18 000	25%	4 500	7 380
36 001 – 60 000	24 000	30%	7 200	14 580
60 001 – 120 000	60 000	35%	21 000	35 580
120 001 – 180 000	60 000	40%	24 000	59 580
180 001 – 240 000	60 000	45%	27 000	86 580
240 001 and above		50%		

- Income from trade or investments – 25 %
- The AIDS Levy of 3% applies on Income tax chargeable after tax credits.

**1. Companies**

- Basic Income Tax Rate – 25%\*
- Manufacturing company exporting at least:
 

30% of output (by quantity or volume)	–	20%
41% of output (by quantity or volume)	-	17.5%
51% of output (by quantity or volume)	-	15%
- Mining companies – 25% \*
- Special mining lease companies – 15%\*
- \*Plus 3% AIDS levy

**2. Allowable pension deductions**

	US\$
In relation to employers: in respect of each member	5 400
In relation to employees: by each member of a pension fund	5 400
In relation to each contributor to a retirement annuity fund or funds	2 700
National Social Security contributions (on a maximum monthly gross salary of US\$700)	3.5% of gross salary

*Aggregate maximum contributions to all the above per employee per year US\$5 400*

**3. Bonus exemption - \$1 000**

**4. Retrenchment package**

The first \$10 000 or one third of the approved retrenchment package whichever is greater, subject to a maximum exemption of \$20 000

**5. Credits**

- Credit for taxpayers over 55 years of age - \$900\*
- Credit for blind or disabled persons - \$900

\*The amounts relate to 12 months and should be reduced proportionately, if the period of assessment is less than 12 months.

**6. Deemed monthly motoring benefit**

Engine capacity	Benefit (\$)
0 – 1 500 cc	300
1 501 – 2 000 cc	400
2 001 – 3 000 cc	600
3 001 – and above	800

**7. Capital allowances**

Maximum deemed costs to be used in determining capital allowances

Asset	Deemed cost (\$)
Passenger Motor Vehicle	10 000
School, clinic, hospital, nursing home	10 000

**8. Capital Allowances: Mining**

Maximum deemed costs to be used in determining the capital redemption allowance.

Asset	Deemed cost (\$)
Passenger motor vehicle	10 000
Staff housing , occupied by shareholder	10 000
School, clinic, hospital, nursing home	50 000

**9. Rates of capital allowances**

- Special Initial Allowance(SIA) – 25%
- Accelerated Wear and Tear – 25%
- Wear and Tear on:
  - Industrial buildings – 5%
  - Farm Buildings – 5%
  - Commercial buildings – 2.5%
  - Motor Vehicles – 20%
  - Movable assets (general rate) – 10%

**10. Capital Gains Tax**

- On all listed marketable securities – exempt
- On unlisted marketable securities and acquired after 01/02/2009 – 20%
- On other immovable property acquired after 01/02/2009 – 20%
- On unlisted marketable securities acquired before 01/02/2009 – 5% (on gross proceeds)
- On other immovable property acquired before 01/02/2009 – 5% (on gross proceeds)

**11. Capital Gains withholding tax on sales proceeds**

- On other immovable property acquired after 01/02/2009 – 15%
- On immovable property acquired before 01/02/2009 – 5%
- On all listed marketable securities – 1%
- On unlisted marketable securities acquired before 01/02/2009 – 5%
- On unlisted marketable securities and acquired after 01/02/2009 – 5%

**12. Loans**

The deemed benefit per annum is calculated at the rate of LIBOR plus 5% of the amount of the loan. The LIBOR rate for 2015 is assumed at 1% unless stated otherwise in the scenario/required.

..... **End** .....