



## CHARTERED ACCOUNTANTS ACADEMY (CAA) – ICAZ ITC BOARD COURSE

MOCK EXAMS:  
TAXATION – PAPER 2  
**[100 Marks]**

13:00 – 13:30	Reading time	30 minutes
13:30 – 16:00	Writing of Paper	150 minutes

### 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**

Kudu (Pvt) Limited (Kudu) is a company registered in Zimbabwe and has a 31 December year end. Kudu operates a car rental business as well as a car sale business. All amounts provided in the scenario are exclusive of VAT unless otherwise indicated.

**Car rental business**

Kudu established the car rental business in April of 2012 to take advantage of the general global optimism towards the growth of the Zimbabwean economy. Kudu's strategic drive in this business is to provide low cost rental cars to tourists as well as business delegates visiting Zimbabwe. An analysis of Kudu's results for the 2012 financial year indicated that a bulk of Kudu's car rental business was being driven by Zimbabwean returning residents who hire vehicles when they come for back for the holiday periods especially the December period. In light of this market development Kudu made a decision to acquire a fleet of off roader vehicles to cater for potential returning residents who would want vehicles to travel to their rural homes.

**Car Sale business**

Kudu's car sale business sales both brand new and second hand vehicles targeting mainly the Zimbabwean local market. The car sale business was set up in 2011 and has seen tremendous growth in the sale of second hand motor vehicles especially sales of vehicles that Kudu imports from Japan. However in 2014 business has been slowing down mainly due the liquidity crunch facing consumers in Zimbabwe coupled with companies which have been laying off employees.

Kudu is a VAT registered operator under category C.

Due to the increased scrutiny by the Zimbabwe Revenue Authority of companies in the car rental and car sale business, Kudu decided to hire you as a tax consultant to assist them in the tax return preparation for the 2014 year and also to provide them with some tax planning advice. In the initial planning meeting you had with Kudu's finance manager Mr Makamba, he indicated to you that Kudu would want to minimise their tax liabilities taking advantage of all the tax reliefs and incentives which may be available to them.

You were provided with the following income statement for the 2014 financial year and some accompanying notes.

	Notes	\$
<b>Sales:</b>		
Car rental business	1	1 200 000
Car sale business	2	<u>3 200 000</u>
		4 400 000
Less Cost of sales	3	<u>(2 680 000)</u>
		1 720 000
Other Income	4	<u>120 000</u>
		1 840 000
<b>Less Expenses:</b>		
Administration expenses	5	(450 000)
Selling and distribution expenses	6	(620 000)
Finance Costs	7	<u>(260 000)</u>
<b>Profit before tax</b>		510 000

#### Extract of the statement of financial position

Equity	Notes	\$
Share Capital		150 000
Share Premium		300 000
Retained Earnings		<u>710 000</u>
		1 160 000
<b>Long term liabilities</b>		
Loans		4 200 000
Deferred tax		<u>800 000</u>
		5 000 0000
<b>Short term liabilities</b>		
Short term portion of loan borrowings		900 000
Trade payables		<u>400 000</u>
		1 300 000
<b>Total equity and liabilities</b>		7 460 000

**Notes:****Note 1: Sales car rental business**

When customers make a booking they indicate the number of days they would want to use the vehicle for. A customer will only be able to collect the vehicle upon paying the amount due based on the number of days the customer would want to make use of the vehicle. Customer should have a valid driver's license before they are granted the right of use of the rental vehicle. Some customers request Kudu to have the vehicles fully fueled before they collect the vehicles. Kudu would then charge the cost of the fuel to the customer's account. Included in the total sales for the car rental business are the following amounts:

	\$
Invoices for bookings made	1 050 000
Fines charged to customers for damages to vehicles	100 000
Fuel sales	<u>50 000</u>
	<u>1 200 000</u>

**Note 2: Car sale Business**

Kudu sales most of their vehicles on cash, however during the 2013 year Kudu decided to sale some of their vehicles on an installment credit sale basis. Upon signing the credit sale agreement the customer would collect the vehicle and pay Kudu over a three year period. However during the 2014 financial year Kudu decided to stop selling vehicles on credit given the increased credit risk in the country. The sales breakdown for 2014 was as follows:

	\$
Cash sales of new vehicles	1 400 000
Cash sales of second hand motor vehicles	<u>1 800 000</u>
	<u>3 200 000</u>

In 2013 Kudu sold two brand new vehicles under the installment credit agreement. The vehicles had a cash price of \$28 000 each which was recognised by Kudu as revenue in 2013. Both vehicles were sold on 1 May 2013 and the customers will be paying Kudu installments of \$1 000 per month for 36 months commencing 31 May 2013. Ownership of the vehicles will pass to the customers upon the payment of the final installment to Kudu. Kudu had imported the vehicles in 2013 for a total landing cost of \$21 600 each.

**Note 3: Cost of sales**

Included in cost of sales are the following amounts:

	\$
Opening stock	1 100 000
Purchases: Imported vehicles	2 200 000
Depreciation	300 000
Less closing stock	<u>(920 000)</u>
	<u>2 680 000</u>

**Note 4: Other Income**

Other income is made up of the following amounts

	\$
Fair Value gain on shares	13 000
Finance Income: on vehicles sold under installment credit sales	5 000
Profit on disposal of vehicles: to employees	15 000
Profit on disposal of office building	80 000
Insurance proceeds	<u>7 000</u>
	<u>120 000</u>

Fair value gain on shares

This was a measurement gain as recognised in terms of IFRS 9

**Profit on disposal of motor vehicles to employees:**

In August of 2014 a decision was made to sale part of the fleet that was being used in the car rental business. An auction was held at Kudu's office premises where only Kudu's employees were allowed to participate in the auction. All the vehicles which were auctioned had originally been acquired second hand from Japan. Details of the vehicles auctioned off are as follows:

Description	Year of purchase	Cost	NBV	Sale Price	Profit on disposal
Mazda 323 sedan	2011	7 000	2 000	3 200	1 200
Toyota corolla sedan	2011	6 800	1 800	3 100	1 300
Toyota prado (SUV)	2011	45 000	18 000	29 000	11 000
Navara twin cab	2012	23 000	14 000	15 500	<u>1 500</u>
					15 000

**Disposal of office building:**

In February 2014 Kudu made a decision to acquire new office premises in the Newlands suburb of Harare. In order to fund the acquisition Kudu decided to sell the office building in Southerton which they had been using. The Southerton office building was acquired in 2012 for a purchase price of \$130 000 from a VAT registered operator and had been brought into use during the same year. The building was sold for \$210 000 to an unconnected person and part of the proceeds were used to acquire the new building in Newlands for an amount of \$150 000. The new building in Newlands was acquired from a VAT registered operator.

**Insurance proceeds:**

The insurance proceeds were received by Kudu in respect of a claim they made to their insurance company in respect of two of their rental vehicles which had been accident damaged. The total costs incurred in respect of the damages amounted to \$8 200 and Kudu received the repair services from a VAT registered operator. The \$8 200 incurred in respect of the repairs was expensed under selling and distribution expenses.

**Note 5: Administration expenses:**

Included in the total administration expenses are the following amounts amongst others:

	\$
Donation to Harare High Government school for the acquisition of books	12 000
Depreciation	13 000
Entertainment allowance: paid to marketing department employee	15 000
Staff lunches	4 500

**Note 6: Selling and distribution expenses:**

Included in the total administration expenses are the following amounts amongst others:

Travel costs to Zambia: to meet a potential customer	2 300
Advertising costs	14 000
Bad debts: loan to former employee	800

**Note 7: Finance costs**

The finance costs were incurred in respect of the long term borrowings as shown in the statement of financial position extract. The borrowings were used to fund the acquisition of motor vehicles for reselling in the car sale business.

**Note 8: Disposal of warehouse**

In October 2014 Kudu decided to dispose a bonded warehouse that they had been using to store their stock of motor vehicles. The decision was made to unlock liquidity by selling the warehouse and leasing it back from the new owners. In November 2014 a buyer was found and the warehouse was sold for an amount of \$140 000 which was paid to Kudu during the same month. Kudu had originally acquired the warehouse in 2011 for an amount of \$80 000 from a registered VAT operator. In 2012 the warehouse was gutted by fire and was completely destroyed. Kudu received an amount of \$120 000 in June 2012 from their insurers in respect of the destroyed warehouse. In that same year Kudu constructed a replacement warehouse on the same premises as the destroyed warehouse for a total cost of \$110 000 and the new warehouse was brought into use during the same year.

**Additional information**

You were also provided the following in respect of assets held by Kudu as at 31 December 2014. The assets exclude any assets that are discussed in the notes above:

Description	Year of purchase	Cost
Mazda Atenza sedans X10	2012	80 000
Toyota corolla sedans X5	2011	25 000
Isuzu KB double cabs X5	2014	125 000
Office furniture	2011	15 000
Computer equipment	2012	10 000

The motor vehicles above exclude any vehicle held for resale in the car sale business.

The finance manager also informed you that Kudu has always claimed the maximum possible capital allowances in any given tax year. From the Kudu's returns on the Quarterly Payment Dates you were able to ascertain that a total of \$145 000 was paid to ZIMRA during the 2014 year.

**APPENDIX****1. Annual Tax rates****Individuals****Employment income - 1 January 2014 to 31 December 2014**

<b>Segment of Income per annum</b>	<b>Amount</b>	<b>Rate within segment (%)</b>	<b>Tax</b>	<b>Cumulative Tax</b>
1 – 3 000	3 000	0%	0	0
3 001 – 12 000	9 000	20%	1 800	1 800
12 001 – 24 000	12 000	25%	3 000	4 800
24 001 – 60 000	36 000	30%	10 800	15 600
60 001 – 90 000	30 000	35%	10 500	26 100
90 001 – 120 000	30 000	40%	12 000	38 100
120 001 – 240 000	120 000	45%	54 000	92 100
240 001 and above		50%		

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

**2. Companies**

- Basic income tax rate - 25%.
- Manufacturing company exporting at least 50% of output - 20%.
- Mining companies – 25%.
- Special mining lease companies – 15%.
- The AIDS Levy of 3% applies on income tax chargeable to some companies.



**3. Allowable pension deductions**

Maximum annual (12 months) deduction for contributions to approved pension funds in relation to a member of a pension or RAF - \$5 400.

**4. Bonus exemption - \$1 000****5. Retrenchment Package**

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

**6. 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.

**7. Deemed monthly motoring benefits**

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

**8. Capital Allowances**

Deemed costs to be used for capital allowance purposes

Asset	Deemed Cost
Passenger Motor Vehicle	\$10 000
Staff House (actual cost not to exceed \$25 000)	\$10 000
School, clinic, hospital, nursing home	\$10 000

**9. Capital Allowances: Mining**

Deemed costs to be used for capital redemption purposes

Asset	Deemed Cost
Passenger Motor Vehicle	\$10 000
Staff House re: school, clinic, hospital, nursing home	\$50 000
School, clinic, hospital, nursing home	\$50 000

**10. 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%

**11. Capital gains tax**

- On all listed marketable securities – exempt.
- On unlisted securities and acquired after 1/2/09 - 20%.
- On other immovable property acquired after 1/2/09 - 20%.
- On unlisted securities and acquired before 1/2/09 - 5%.
- On other immovable property acquired before 1/2/09 - 5%

**12. Capital Gains Withholding Tax on sale proceeds**

- On immovable property acquired on or after 1/2/09 - 15%.
- On immovable property acquired before 1/2/09 - 5%.
- On all marketable securities (listed) - 1%.
- On marketable securities acquired before 1/2/09(unlisted) - 5%.
- On marketable securities acquired on or after 1/2/09(unlisted) – 5%.

**13. 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 2014 is assumed at 1%.

\*\*\*\*\*THE END\*\*\*\*\*

