
Answers

1 (a) Leg Foot chargeable income calculation for the year ended 31 March 2004

| | M | M | Marks |
|--|---------|---------|-------|
| Net profit as per accounts | | 292,275 | 1 |
| Add back disallowed expenses: | | | |
| Depreciation | 3,500 | | 1 |
| Travel expenses for employees to work | 18,600 | | 1 |
| Travel expenses for employees to visit customers | 0 | | 1/2 |
| Entertainment of customers (50%) | 3,000 | | 2 |
| Fine for falsified returns | 168,500 | | 1 |
| Cost of calendars and diaries | 0 | | 1/2 |
| Fine for parking ticket | 900 | | 1 |
| Replacement of floor tiles | 0 | | 1/2 |
| Painting of the office premises | 0 | | 1/2 |
| New air conditioner purchased | 3,108 | | 1 |
| Payment of court fees | 0 | | 1/2 |
| Audit and accountancy | 0 | | 1/2 |
| Tax consultants' fees | 0 | | 1/2 |
| Legal fees for undeveloped plot | 6,040 | | 1 |
| Provision for bad debts | 5,000 | | 1 |
| Bad debts written off | 0 | | 1/2 |
| Donations | 31,900 | 240,548 | 1 |
| | <hr/> | <hr/> | |
| Revised chargeable income | | 532,823 | |
| | | <hr/> | |
| Tax payable: | | | |
| M30,000 at 25% | 7,500 | | |
| M502,823 at 35% | 175,988 | | |
| | <hr/> | | |
| Total tax payable | 183,488 | | 1 |
| Less personal tax credit | (2,640) | | 1 |
| | <hr/> | | |
| Tax due | 180,848 | | |

Note: Interest received is taxable as worldwide income is taxed and these are not covered by any exemption clauses.

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 18

- (b) (i) The cost of commuting from home to work is an expense of a personal nature and thus disallowed; whereas the cost of visiting customers/clients is incurred in the generation of income/profits and constitutes a legitimate business expense. 2
- (ii) The cost of business entertaining is specifically disallowed to the extent of 50% of the cost incurred. No such similar provision relates to the provision of gifts in the form of calendars and diaries, which are considered to constitute a form of advertising expenditure. 2
- (iii) Replacement of the floor tiles constitutes a repair, in that it merely restores the floor to its original condition and thus is a revenue expense; whereas the purchase of a new asset, such as an air conditioner, constitutes a capital expense, which is disallowed but may attract depreciation allowances during its period of use. 3

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 7

- (c) Taxpayers should submit an annual return of income by no later than the last day of the third month following the end of the tax year, i.e. by 30 June annually.
- However, the obligation to file a return does not apply to individuals whose income:
- (i) is less than the amount of the personal tax credit of M2,640; or 2
- (ii) consists exclusively of employment income of less than M50,000 which is derived from a single employer or from a pension which has had tax withheld from it. 3

Failure to file a return, if obliged to do so, will result in a fine of up to M5,000 or a term of imprisonment not exceeding six months or both. In addition, additional tax in the form of penalty interest will be levied in respect of any unpaid/overdue tax liability.

3

 8

33

2 Lesotho Limited corporation tax payable calculation for the period ended 31 March 2004

| | | M | | | | |
|---|--------------------------|----------------------------|--------------------------|------------------------|--------------------------------|-----------|
| Net profit as per accounts | | 265,100 | 1 | | | |
| Less non-taxable income: | | | | | | |
| Income on behalf of Principal company | | (50,000) | 2 | | | |
| | | <u>215,100</u> | | | | |
| Add back disallowed expenses: | | | | | | |
| Capital assets expensed | 60,000 | | 2 | | | |
| Depreciation | 45,000 | | 1 | | | |
| Cash lost | 40,000 | | 1 | | | |
| Penalties and fines | 24,000 | | 1 | | | |
| Corporation tax | 23,400 | | 1 | | | |
| Reimbursable expenses | 35,000 | | 2 | | | |
| New brick wall | 60,000 | | 1 | | | |
| Depreciation misposted | 10,000 | | 1 | | | |
| Bad debts | 14,400 | 311,800 | 1 | | | |
| | | <u>526,900</u> | | | | |
| Less additional allowable expenses: | | | | | | |
| Depreciation allowance | | (116,150) | 1 | | | |
| Depreciation for stolen vehicle | | (7,500) | 1/2 | | | |
| Loss on stolen van | | (2,500) | 1/2 | | | |
| | | <u>400,750</u> | | | | |
| Revised taxable income | | | | | | |
| | | 400,750 | | | | |
| Corporation tax payable: 400,750 x 35% | | M140,262 | 1 | | | |
| | | <u></u> | | | | |
| Workings: | | | | | | |
| Stolen motor van | | | | | | |
| 1/7/2003 Cost | | 60,000 | | | | |
| Depreciation allowance (6 months at 25%) | | (7,500) | 2 | | | |
| | | <u>52,500</u> | | | | |
| Net book value | | (50,000) | | | | |
| Insurance proceeds | | <u>(2,500)</u> | | | | |
| Loss not covered by insurance proceeds | | | 1 | | | |
| | | <u></u> | | | | |
| Capital allowances computations: | | | | | | |
| | Office Equipment M | Furniture Fittings M | Office Buildings M | Motor Vehicles M | Depreciation Allowance M | |
| 1/7/03 Cost | 25,000 | 67,000 | 132,000 | 451,000 | | |
| Disposals | 0 | 0 | 0 | (60,000) | | 1 |
| Depreciation | (5,000) | (13,400) | (0) | (97,750) | (116,150) | 4 |
| | | <u>20,000</u> | <u>53,600</u> | <u>132,000</u> | <u>293,250</u> | |
| 31/3/2004 NBV | | | | | | <u>25</u> |

3 (a) More Limited – depreciation allowances for the year ended 31 March 2004

| | M | |
|--|----------|-----|
| Industrial buildings: | | |
| 1/4/2003 assets retained at 31/3/2004 (500,000 at 5%) | 25,000 | 1 |
| 1/6/2003 addition (540,000 at 5% × $\frac{10}{12}$) | 22,500 | 1 |
| | 47,500 | |
| Special tools and machinery: | | |
| 1/4/2003 assets retained at 31/3/2004 (775,000 at 25%) | 193,750 | 1 |
| 1/1/2004 additions (42,000 at 25% × $\frac{3}{12}$) | 2,625 | 1 |
| 31/12/2003 disposal: allowance for year | 4,688 | 1/2 |
| gain/loss – working 1 | 10,312 | 1/2 |
| | 211,375 | |
| Office equipment: | | |
| 1/4/2003 assets retained at 31/3/2004 (60,000 at 20%) | 12,000 | 1 |
| 31/3/2004 additions | 0 | |
| 31/3/2004 disposal: allowance for the year | 2,000 | 1/2 |
| gain/loss – working 2 | 0 | |
| | 14,000 | |
| Computers: | | |
| 1/4/2003 assets retained at 31/3/2004 (112,000 at 20%) | 22,400 | 1 |
| 31/3/2004 additions | 0 | |
| 30/9/2003 disposal: allowance for year | 800 | 1/2 |
| gain/loss – working 3 | (2,800) | 1/2 |
| | 20,400 | |
| Motor vehicles | | |
| 1/4/2003 assets retained at 31/3/2004 (1,120,000 at 20%) | 224,000 | 1 |
| 31/3/2004 additions | 0 | |
| 31/3/2004 disposal: allowance for year | 16,000 | 1/2 |
| gain/loss – working 4 | 4,000 | 1/2 |
| | 244,000 | |
| Total depreciation allowances | M537,275 | 1/2 |

Workings for (a)

| | | | |
|----|-----------------------------|----------|-----|
| 1. | Special tools and machinery | | |
| | 1/4/2003 Cost | 25,000 | |
| | Depreciation (6 months) | (4,688) | 1 |
| | Net book value | 20,312 | |
| | Proceeds | (10,000) | |
| | Loss on disposal | (10,312) | 1/2 |
| 2. | Office equipment | | |
| | 1/4/2003 Cost | 10,000 | |
| | Depreciation | (2,000) | 1 |
| | NBV | 8,000 | |
| | Proceeds | 8,000 | |
| | Gain /loss | 0 | 1/2 |

| | | Marks |
|----|------------------|--------------|
| 3. | Computers | |
| | 1/4/03 Cost | 8,000 |
| | Depreciation | (800) |
| | | 1 |
| | NBV | 7,200 |
| | Proceeds | (10,000) |
| | | 1/2 |
| | Gain on disposal | 2,800 |
| 4. | Motor vehicles | |
| | 1/4/03 Cost | 80,000 |
| | Depreciation | (16,000) |
| | | 1 |
| | NBV | 64,000 |
| | Proceeds | (60,000) |
| | | 1/2 |
| | Loss on disposal | (4,000) |
| | | 17 |

(b) More Limited – tax written down values carried forward at 31 March 2004.

| | Industrial buildings | Special tools & machinery | Office equipment | Computers | Motor vehicles | Total |
|--------------------------------------|----------------------|---------------------------|------------------|-----------|----------------|-----------|
| Cost at 31/3/04 | 1,040,000 | 817,000 | 72,000 | 142,000 | 1,240,000 | 2 1/2 |
| Depreciation allowances for the year | (47,500) | (196,375) | (12,000) | (22,400) | (224,000) | 5 |
| TWDV 31/3/04 | 992,500 | 620,625 | 60,000 | 119,600 | 1,016,000 | 2,808,725 |
| | | | | | | 8 |
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- 4 (a)**
- (i) These are supplies that are not subject to a value added tax charge. 2
 - (ii) Zero-rated supplies are taxable supplies that are subject to tax at a zero rate. 2
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- (b)** The particulars that are included on a VAT invoice are:
- (i) the words 'value added tax invoice' written in a prominent place; 1
 - (ii) the commercial name, address, place of business and taxpayer identification number of the vendor making the supply; 1
 - (iii) the commercial name, address, place of business and taxpayer identification number of the vendor to whom the supply is made. 1
 - (iv) the individualized invoice number and the date on which the value added tax invoice is used; 1
 - (v) a description of the goods or services supplied and the date on which the supply is made; 1
 - (vi) the quantity or volume of the goods or services supplied; and 1
 - (vii) either:
 - 1. where a taxable supply is made without a separate amount being identified as a payment of tax; a statement that the consideration for the supply includes a charge in respect of the tax and the rate at which the tax was charged; or 1
 - 2. in any other case, the total amount of the tax charged, the consideration for the supply, and the consideration inclusive of tax. 1
- 8

- (c) Gains arising on the disposal of assets are exempt to the extent that:
- (i) they accrue in respect of any asset for the period prior to 1 April 1993;
 - (ii) they relate to personal assets;
 - (iii) they relate to depreciable business assets, depreciated under the pooling method;
 - (iv) they arise on the involuntary conversion of an asset in circumstances where the proceeds are re-invested in an asset of like kind;
 - (v) they arise on the transfer of assets to a former spouse as part of a divorce settlement; or
 - (vi) they arise on the transfer of assets to a personal representative or to a beneficiary under a will.

Note: 1 mark each for any five items.

5

17