Preparing Taxation Computations

(Lesotho)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 14 DECEMBER 2004

QUESTION PAPER

Time allowed **3 hours**

ALL FOUR questions are compulsory and MUST be answered

Tax rates and allowances are on page 3

Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

Paper T9(LSO)

The Association of Chartered Certified Accountants

The Lesotho Institute of Accountants

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The question paper begins on page 3.

The following tax rates and allowances are to be used when answering the questions:

Tax rates and allowances

1.

Second schedule
(Section 9(1))
Resident Individual Income Tax Rates

Chargeable Income	Rate of tax
First M30,000	25%
Over M30,000	35%
Personal tax credit	M2,640

2.

Third schedule
(Section 10)
Resident Company Income Tax Rates

Nature of income	Rate of tax
1. Manufacturing income derived from a manufacturing activity of an industrial, scientific or educational nature which promotes industrial, scientific, educational or other development within Lesotho.	15%
2. Other manufacturing income	15%
3. Other income	35%

3.

Fourth schedule
(Sections 9(2), 11, 109 and 116)
Tax rates for Trustees, Minors, Fringe benefits and Electing non-residents

The applicable rate is 35%

4.

Sixth schedule
(Section 41)
Declining Balance Depreciation Rates

Group	Depreciation rate	Assets included
1	25%	Automobiles, Taxis, Light Purpose Trucks, Tractors for use over-the-road, Special Tools and Devices.
2	20%	Office Furniture, Fixtures and Equipment, Computers and Peripheral Equipment and Data Handling Equipment, Buses, Heavy General Purpose Trucks, Trailers and Trailer Mounted Containers, Construction Equipment.
3	10%	Any depreciable asset not included in another group.
4	5%	Railroad Cars, Locomotives and Railroad Equipment, Vessels, Barges, Tugs and similar Water Transportation Equipment, Industrial Buildings, Engines and Turbines, Public Utility Plant.

ALL FOUR questions are compulsory and MUST be attempted

1 Leg Foot has been in business in Mafeteng for several years, selling merchandise to both retailers and final consumers. Set out below is the information relating to his business for the year ended 31 March 2004.

Income statement for the year ended 31 March 2004

	M		M
General expenses	325,000	Trading profit	840,000
Repairs and renewals	6,200	Bank interest from Stanbic	
Legal and consultancy fees	34,500	in Botswana	3,000
Bad debts	6,500	Interest from Central Bank	
Donations	31,900	of Lesotho treasury bills	6,000
Salaries and wages	120,000	Rent received	12,800
Motor vehicle expenses	16,800		
Depreciation	3,500		
Rent for office premises	17,200		
Cost of stolen stock	3,100		
Telephone	1,655		
Water and electricity	1,020		
Bank interest paid	2,150		
Net profit	292,275		
	861,800		861,800

Additional information:

1. General expenses comprise:

Travelling expenses for employees from home to work	M18,600
Travelling expenses of employees to visit customers on sale promotions	M87,300
Entertaining customers	M6,000
Fine for filing falsified returns to the Lesotho Revenue Authority	M168,500
Cost of calendars and diaries given to customers	M43,700
Fine paid for parking at loading zone	M900

2. Repairs and renewals comprise:

Replacing floor tiles in the office premises	M2,070
Painting of the office premises	M1,022
New air conditioner for the offices	M3,108

3. Legal and consultancy fees comprise:

Payment of court fees to recover business debts	M6,800
Audit and accountancy	M18,500
Tax consultants' fees	M3,160
Payment to lawyer in a case of an undeveloped plot of land on which he intends to build his future residence	M6,040

4. Bad debts comprise:

Provision for bad debts	M5,000
Bad debts actually written off	M1,500

5. Donations comprise:

Donation to the Lesotho Athletics Association	M5,000
Subscription to the Lesotho Rotary Club for Leg Foot	M16,000
Donation to Queen 2 Hospital	M1,400
Donation to friend's wedding	M9,500

Required:

(a) Calculate the income tax payable by Leg Foot for the year ended 31 March 2004. Your computation should include all of the items listed in the additional information notes 1 to 5, indicating '0' for any items for which no adjustment is required. Ignore depreciation allowances. (18 marks)

(b) Explain and contrast your treatment of the following expenses of Leg Foot's business:

(i) Travelling expenses of employees from home to work and to visit customers on sale promotions.

(ii) Entertaining of customers and gifts given to customers in the form of calendars and diaries.

(iii) Replacement of the office floor tiles and the purchase of a new air conditioner. (7 marks)

(c) Explain the obligations of an individual taxpayer to submit a return of income together with the consequences if that obligation is not satisfied. Your answer should include details of those individuals who are not obliged to file a return. (8 marks)

(33 marks)

2 Lesotho Limited is a newly set up trading company that has operated for a period of nine (9) months in the current year, from 1 July 2003 to 31 March 2004.

The following income statement was extracted from the books of Lesotho Limited for the period ended 31 March 2004:

	Notes	M
Income		
Investment income	3	200,000
Business income from operations	2	900,000
Royalties received		150,000
Profit from the sale of scrap material		13,000
Total income		1,263,000
Expenditure		
Capital assets expensed	4	60,000
Depreciation		45,000
Bad debts		16,000
Insurance costs		35,000
Cash lost	5	40,000
Salaries and wages		150,000
Management fees		12,000
Penalties and fines		24,000
Interest expense (all allowable)		112,000
Corporation tax paid		23,400
Rent and rates		93,000
Stock destroyed by fire	5	99,000
Marketing expenses		87,000
Repairs and maintenance	6	134,500
Contribution to retirement fund		32,000
Reimbursable expenses	7	35,000
Total expenses		997,900
Net profit for the year		265,100

The following additional information is provided:

1. The cost of fixed assets purchased on 30 June 2003 was as follows:

Office Equipment	M25,000
Furniture and Fittings	M67,000
Office Buildings	M132,000
Motor Vehicles	M451,000

2. The business income erroneously includes M50,000 that was received on behalf of Lesotho Principal for onward transfer to South Africa.
3. The company has invested in properties in South Africa, and this income relates to the rents received from that property.
4. The capital assets expensed relate to a motor vehicle which was stolen on 31 December 2003 and the full purchase cost of which was expensed through this account. The motor vehicle was covered by an insurance policy and the insurance company has agreed to meet the claim in the sum of M50,000.
5. The company has an insurance policy covering such cash loss. Preliminary investigations have indicated that the Lesotho Insurance Company will make good this loss. The company also has a fire policy and in the case of the destroyed stock, the police report and the insurance company reports have confirmed that the occurrence was outside the items covered by the fire policy.
6. Repairs and maintenance includes M60,000 relating to the building of a new boundary brick wall around the company business premises and a depreciation expense of M10,000 which was erroneously posted to this account.
7. Reimbursable expenses were expenses, which the company paid to consultants, but were subsequently reimbursed by the Malawian consulting firm that was carrying out the consultancy for Lesotho Limited. The reimbursement was not included in Lesotho Limited's income.

8. The Lesotho Revenue Authority has allowed only 10% of the bad debts as tax deductible.

Required:

Compute the corporation tax payable by Lesotho Limited for the year ended 31 March 2004.

(25 marks)

3 More Limited is involved in a business of manufacturing in Leribe. Given below is the fixed assets note from the company's balance sheeet for the year ended 31 March 2004:

	Industrial Building 4% M	Special tools & machinery 10% M	Office Equipment $12^1/_2$% M	Computers 40% M	Motor vehicles 25% M
1 April 2003 Cost	500,000	800,000	70,000	120,000	1,200,000
Additions	540,000	42,000	12,000	30,000	120,000
Disposals at cost	(0)	(25,000)	(10,000)	(8,000)	(80,000)
31 March 2004 Cost	1,040,000	817,000	72,000	142,000	1,240,000
Depreciation	41,600	81,700	9,000	56,800	310,000
31 March 2004 net book value	998,400	725,300	63,000	85,200	930,000

Notes and explanations:

1. The additions to buildings are an extension to the existing manufacturing premises. The additions were made on 1 June 2003.
2. Special tools and machinery relates to manufacturing plant. The disposal relates to the machines bought on 1 April 2003 and disposed of on 31 December 2003. The proceeds were M10,000. The additions were made on 1 January 2004.
3. The disposals of office equipment relate to some equipment bought on 1 April 2003 and disposed of on 31 March 2004. The proceeds amounted to M8,000. The additions were made on 31 March 2004.
4. The disposal of computers relates to a computer bought on 1 April 2003 and sold for M10,000 on 30 September 2003. The additions were made on 31 March 2004.
5. All the motor vehicles bought on 1 April 2003 are buses used to transport workers. The disposal relates to a bus bought on 1 April 2003 and sold for M60,000 on 31 March 2004. The additions to motor vehicles relate to a car purchased on 31 March 2004 for use by the new managing director.

Required:

(a) Calculate the depreciation allowances that can be claimed by More Limited for the year ended 31 March 2004. Submit all workings. (17 marks)

(b) Show the tax written down values (TWDV) to be carried forward as at 31 March 2004. (8 marks)

(25 marks)

4 (a) **Briefly explain the following with regard to value added tax (VAT):**

(i) **exempt supplies; and**

(ii) **zero-rated supplies.** (4 marks)

(b) **List the particulars to be included on a value added tax (VAT) invoice.** (8 marks)

(c) **List FIVE circumstances in which gains arising on the disposal of an asset will constitute exempt gains.** (5 marks)

(17 marks)

End of Question Paper