

Preparing Taxation Computations (Lesotho)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION
ADVANCED LEVEL
TUESDAY 15 JUNE 2004

QUESTION PAPER

Time allowed **3 hours**

ALL FOUR questions are compulsory and **MUST** be answered

Tax rates and allowances are on page 2

Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

The Association of Chartered Certified Accountants

The Lesotho Institute of Accountants

Paper T9(LSO) (OST)61



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

Tax rates and allowances

**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

**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%

**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%

**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 (a) Lenono Bale is a bachelor who has carried on a business of selling cattle, maize and timber (commercial farming) for some years. In October 2003, he purchased a plantation farm for M980,000. The income and expenses relating to his businesses for the year ended 31 March 2004 were as follows:

INCOME

	M
Sales – livestock	350,000
Sales – maize	400,000
Sales – timber	350,000
Sale of tractor purchased on 31 January 2004	25,000
Rentals for letting a portion of the farm to a neighbour	44,000
Grazing fees received	55,000
Interest received from Lesotho Bank's savings account (nominated account)	4,500

EXPENSES

Livestock purchased	250,000
Wages for farm labourers	175,000
Wages for plantation labourers	60,000
Maintenance of the plantation	32,000
Stumping and preparing of ground for the replanting of trees	33,000
Cost of erection of two houses for farm workers	18,000

Notes:

- Livestock on hand was

1 April 2003	M24,000
31 March 2004	M18,000
- The tractor sold on 31 January 2004 had been purchased on 1 September 2002 for M30,000. Other than this tractor, the businesses have the following assets:
 - a motor vehicle used solely for the transportation of labourers for general farming purposes purchased on 1 May 2002 for M90,000; and
 - a second tractor purchased solely for use on the plantation on 1 December 2003 for M70,000.

Lenono Bale uses the single asset method of depreciation.

Required:

Calculate the chargeable income of Lenono Bale for the year ended 31 March 2004 and the tax payable for the same year of assessment. Clearly identify any item which you have specifically excluded from your computation. (25 marks)

- (b) Thaba Mafisa receives the following income and benefits from his employment:

- A monthly salary of M40,000.
- Use of a house with a market value of M9,000 per month.
- Use of a car for both business and private purposes. The car cost M150,000 two years ago, when it was first provided to Thaba, and it is currently valued at M120,000.
- Thaba pays pension contributions of 8% of his salary and his employer contributes a further 18% of his salary to the scheme.

Required:

Calculate the fringe benefit tax payable by his employer in respect of the benefits provided to Thaba Mafisa (8 marks)

(33 marks)

- 2 (a) The following is the income statement of R&T (Pty) Limited which undertakes a steel manufacturing business for the year ended 31 March 2004:

Selling and administration expenses	M430,000	Gross profit	M873,000
Stock lost in fire (note 2)	90,000	Interest on loans	16,000
Bad debts	4,500		
Provision for doubtful debts	3,000		
Fire damage (note 3)	45,000		
Rent	120,000		
Foreign travelling expenses (note 4)	20,000		
Subscriptions (note 5)	8,000		
Royalty for the current year	4,000		
General expenses (note 6)	23,500		
Transfer to general reserves	40,000		
Depreciation	100,000		
Net profit	1,000		
	889,000		889,000

Additional information:

1. M5,000 interest was received from South Africa and this amount is not included in the income statement.
2. A claim was filed on account of the stock lost in the fire and M5,000 was reimbursed by the insurance company.
3. The fire damage occurred during the current year and the company is entitled to make an insurance claim of M45,000 against this damage.
4. M10,000 of the foreign travelling expenses was disallowed by the Commissioner of Income Tax.
5. The subscriptions comprise the membership fees as follows: M6,000 paid to the Lesotho Chamber of Commerce and M2,000 paid to the political parties of the directors.
6. General expenses comprise:

Repairs to private residence	M2,500
Repairs to plant and machinery	6,600
Stock taken for personal use	400
Income tax paid	11,500
Other allowable expenses	2,500
7. Depreciation allowances for the purposes of income tax amounted to M330,000.

Required:

Calculate the chargeable income/loss of the company for the year ended 31 March 2004. Your computation should commence with the net accounting profit and include all of the items specifically referred to in Notes 1 to 7, clearly indicating with a '0' any which you have treated as allowable deductions and made no adjustment. (14 marks)

- (b) Yarra (Pty) Limited had the following Lesotho sourced income for the year ended 31 March 2004:

Manufacturing income	M500,000
Non-manufacturing income	M950,000
Dividends received	M50,000

On 20 May 2004 the company paid a dividend of M600,000 to its shareholders, all of whom are Lesotho residents for tax purposes.

Required:

- (i) **Calculate Yarra (Pty) Limited's final tax liability for the year ended 31 March 2004 and state by when it must be paid.** (7 marks)
- (ii) **Calculate the instalments of tax payable by Yarra (Pty) Limited for the year ended 31 March 2005 and state on which dates these instalments will be payable.** (3 marks)

(24 marks)

3 A manufacturer acquired and brought into use the following assets during the year of assessment ended 31 March 1999:

Motor vehicle bought on 1 October 1998 costing	M24,000
Machine A bought on 1 November 1998 costing	M96,000
Machine B bought on 1 February 1999 costing	M90,000

The manufacturer also erected a new factory, which was commenced on 1 March 1997 and completed and brought into use on 1 January 1999, at a cost of M1,000,000.

The following information is also provided:

1. Machine A was destroyed by fire on 31 August 2000. M100,000 was received as compensation from the insurance company.
2. Machine B was scrapped on 31 October 1999, and realised M8,000.
3. Machine C was acquired on 1 December 2002 at a cost of M139,200.
4. The motor vehicle was scrapped on 31 January 2003 and realised M1,000.
5. Machine C was sold on 31 March 2004 and the proceeds from the sale amounted to M125,000.
6. The factory was sold on 31 March 2004 for M950,000.

The single asset method of depreciation is used.

Required:

Calculate the depreciation allowance for the years ended 31 March 1999, 2000, 2001, 2002, 2003 and 2004 respectively. All workings are to be shown.

(22 marks)

4 (a) Maria and Lillo are in partnership and share profits and losses equally. The partnership income for tax purposes for the year of assessment ended 31 March 2004 was as follows:

Net interest received	M4,500
Business income	M50,000
Gains on sale of property	M40,000

Required:

For the year of assessment ended 31 March 2004:

- (i) Calculate the partnership chargeable income** (4 marks)
- (ii) Calculate the partners' taxable income and tax payable** (7 marks)

(b) List the circumstances in which the Commissioner of Income Tax can cancel the value added tax registration of a vendor who is not required to apply for registration under s.17 of the Value Added Tax Act 2001.

(10 marks)

(21 marks)

End of Question Paper