

# Preparing Taxation Computations (Lesotho)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 13 DECEMBER 2005

## QUESTION PAPER

Time allowed **3 hours**

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

Tax rates and allowances are on page 3

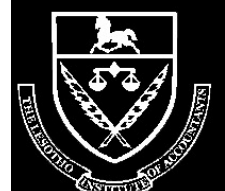
Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

The Association of Chartered Certified Accountants

The Lesotho Institute of Accountants

ACCA



Paper T9(LSO)  
(OST)61

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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.  |

All calculations to be made to the nearest M

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

1 Mr Ralph Motlatsi runs a canteen called 'Weat end' at a college of education. He submitted a return of income for the year ended 31 March 2005 showing losses of M1,234 together with his receipts and payments accounts as follows:

|                                  | Note | M      |
|----------------------------------|------|--------|
| Receipts:                        |      |        |
| Sale of food                     |      | 15,645 |
| Dividends from resident company  |      | 2,550  |
| Sale of old cooker and furniture |      | 211    |
|                                  |      | <hr/>  |
|                                  |      | 18,406 |
|                                  |      | <hr/>  |
| Payments:                        |      |        |
| Purchase of groceries            |      | 6,215  |
| Staff salaries                   |      | 4,272  |
| Electricity and water            |      | 613    |
| New cooker purchased             |      | 213    |
| Commission paid                  |      | 900    |
| Rent and rates                   | 1    | 2,200  |
| Uniform and cleaning material    |      | 319    |
| Sundries                         |      | 216    |
| Insurance                        | 2    | 430    |
| Legal experts                    |      | 316    |
| Household expenses (personal)    |      | 2,215  |
| Car running expenses             | 3    | 915    |
| Repairs and renewals             | 4    | 816    |
|                                  |      | <hr/>  |
|                                  |      | 19,640 |
|                                  |      | <hr/>  |
| Loss                             |      | 1,234  |
|                                  |      | <hr/>  |

Notes to the accounts:

- (1) Ralph and his family live in the flat above the business premises. Based on area the rent and rates should be apportioned as follows: 40% for the flat and 60% for the canteen. Ralph has not yet paid the rent for December 2004 amounting to M200.
- (2) Insurance includes premiums amounting to M140 in respect of Ralph's life policy.
- (3) It is estimated by Ralph that the personal use of the car is about 30% of the total mileage.
- (4) The analysis of repairs and renewals is as follows:

|                          | M     |
|--------------------------|-------|
| Painting and decorations | 216   |
| New furniture            | 418   |
| Repairs to toilets       | 182   |
|                          | <hr/> |
|                          | 816   |
|                          | <hr/> |

- (5) Depreciation allowances for the year amounted to M250.

**Required:**

- (a) Calculate the taxable profit/adjusted loss of the canteen for the year ended 31 March 2005. Start your answer with the loss figure of M1,234. (12 marks)
- (b) In the case of each item treated as disallowed or exempt in your computation in (a) above, give reasons for its exclusion. (10 marks)

(c) Advise Ralph on:

- (i) The value added tax (VAT) registration requirements, and (7 marks)
- (ii) The reasons which may compel the Commissioner General to de-register a vendor who is not required to apply for registration. (5 marks)

**(34 marks)**

- 2 High View Hotel Limited located in Maputsoe operates an approved hotel business. Its financial results for the year ended 31 March 2005 are as follows:

|                              | M      | M         |
|------------------------------|--------|-----------|
| Sales                        |        | 500,000   |
| Cost of sales                |        | (230,000) |
|                              |        | <hr/>     |
| Gross profit                 |        | 270,000   |
| Other income:                |        |           |
| Profit on disposal of assets |        | 100       |
| Interest on treasury bills   |        | 80,000    |
| Commission                   |        | 46,000    |
|                              |        | <hr/>     |
|                              |        | 396,100   |
| <i>Less expenses:</i>        |        |           |
| General expenses             | 84,600 |           |
| Repairs and renewals         | 17,000 |           |
| Depreciation                 | 35,000 |           |
| Rent                         | 36,000 |           |
| Telephone                    | 52,000 |           |
| Water and electricity        | 6,200  |           |
| Advertising                  | 18,700 |           |
| Business travel              | 4,600  |           |
| Donations                    | 2,100  |           |
| Entertainment                | 8,700  |           |
| Provision for obsolete stock | 13,700 |           |
| Bad debts                    | 15,600 |           |
|                              | <hr/>  | (294,200) |
|                              |        | <hr/>     |
| Net profit                   |        | 101,900   |
|                              |        | <hr/>     |

Notes to the accounts:

(1) The tax written down values of fixed assets brought forward from 2004 were as follows:

|                        |         |
|------------------------|---------|
| Furniture and fittings | M9,000  |
| Motor vehicles         | M17,500 |

(2) Additions of fixed assets during the year were as follows:

| Date             | Item                   | Cost<br>M |
|------------------|------------------------|-----------|
| 30 June 2004     | Furniture and fittings | 10,090    |
| 31 December 2004 | Motor vehicles         | 85,000    |

(3) Disposals of fixed assets for the year were as follows:

On 30 August 2004, a motor vehicle that had cost M17,000 on 1 April 2003 was sold for M4,000. On 30 September 2004, furniture and fittings that had cost M8,500 on 31 March 2000 were sold for M3,100.

(4) The rent expenses comprise the following:

|                                  | M      |
|----------------------------------|--------|
| Office rent                      | 27,000 |
| House rent for Managing Director | 5,000  |
| Car rentals for business use     | 4,000  |

(5) Repairs and renewals includes M4,300 for erecting a new reception area. The remaining expense relates to cleaning the business premises and replacing broken windows and a door.

(6) Advertising includes M6,900 spent on installing a billboard on the Mafeteng road on 31 March 2005 to advertise the company's products. The remaining expense relates to media advertising.

(7) Bad debts comprise the following:

|                         | M             |
|-------------------------|---------------|
| Irrecoverable bad debts | 6,500         |
| Provision for bad debts | 9,100         |
|                         | <u>15,600</u> |

**Required:**

(a) Calculate the depreciation allowances available to High View Hotel Limited for the year ended 31 March 2005. (17 marks)

(b) Calculate the tax liability of High View Hotel Limited for the year ended 31 March 2005. Start your answer with the net profit figure of M101,900. (13 marks)

**(30 marks)**

**3** Mary Setutla works for Timber City Ltd in Mafetang and is in receipt of the following fringe benefits for the year ended 31 March 2005:

**(a)** On 1 July 2004 the employer provided her with a new car costing M150,000 which is available for both private and company use and towards which she makes a monthly contribution of M1,000.

**(b)** Mary lives in a house in Mafeteng Central for the entire year of assessment and her employer reimburses her the following expenses per month:

|             |        |
|-------------|--------|
| Rent        | M5,000 |
| Utilities   | 1,000  |
| Security    | 1,400  |
| Housekeeper | 350    |

**(c)** Mary's annual salary is M200,000. She is a member of the employer superannuation fund for which her employer contributes M44,000 on her behalf.

**(d)** The employer pays Mary's medical assurance at a cost of M5,000 per annum. This facility is not available to all employees.

**(e)** Mary is provided with lunch on a daily basis (5 days a week for 45 weeks) at Lanko's restaurant at a daily cost to her employer of M40.

**Requirement:**

**Calculate the total fringe benefit tax payable by her employer in respect of the benefits provided to Mary Setutla.**

**(16 marks)**



- 4 Kolo and Tsepo have been in partnership trading in the retail books at Morija for many years. They share profits and losses in the proportion of 2 : 3. They prepare their accounts to 31 March each year and their profit and loss account for the year ended 31 March 2005 is as follows:

|                                 | M       | M       |
|---------------------------------|---------|---------|
| Gross profit                    |         | 576,000 |
| Less expenses:                  |         |         |
| Rent                            | 56,000  |         |
| Sundry expenses                 | 16,000  |         |
| Staff salaries                  | 52,400  |         |
| Bank interest on overdraft      | 1,000   |         |
| Repairs                         | 7,800   |         |
| Legal and professional fees     | 7,000   |         |
| Travelling expenses             | 29,000  |         |
| Partners' salaries              | 28,000  |         |
| Depreciation:                   |         |         |
| Cars                            | 600     |         |
| Equipment                       | 100     |         |
| Interest on capital:            |         |         |
| Kolo                            | 600     |         |
| Tsepo                           | 400     |         |
| Donations to a local youth club | 4,600   |         |
|                                 | 203,500 |         |
| Net profit                      |         | 372,500 |

Notes to the accounts:

|   |          |
|---|----------|
| (1) Sundry expenses comprise the following:                                   | <b>M</b> |
| Electricity   | 4,000    |
| Trade magazine  | 600      |
| Staff training  | 6,000    |
| General allowable expenses  | 4,000    |
| Subscription to a political party   | 1,400    |
|   | 16,000   |
| (2) Repairs includes M6,000 for the cost of a partition in the general office |          |
| (3) Legal and professional fees comprise:                                     | <b>M</b> |
| Debt collection expenses  | 2,500    |
| Alteration to the partnership deed  | 1,115    |
| Professional accountancy  | 3,385    |
|   | 7,000    |
| (4) Travelling expenses comprise:   | <b>M</b> |
| Travel between home and work (staff)  | 14,737   |
| Car expenses  | 14,263   |
|   | 29,000   |
| (5) Partners' salaries:   | <b>M</b> |
| Kolo  | 17,000   |
| Tsepo   | 11,000   |
|   | 28,000   |

|   |     |
|---|-----|
| (6) Capital allowances have been agreed as follows: | M   |
| Cars (before taking into account private use)       | 750 |
| Equipment   | 90  |

Private use for the cars was agreed with the Commissioner General at 54%

**Required:**

- (a) **Compute the adjusted partnership profit for the year ended 31 March 2005. Start your answer with the net profit figure of M372,500.** (10 marks)
  - (b) **Show the division of the profits between the partners and calculate their tax payable for the year ended 31 March 2005.** (10 marks)
- (20 marks)**

**End of Question Paper**