

Preparing Taxation Computations (Lesotho)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 14 JUNE 2005

QUESTION PAPER

Time allowed **3 hours**

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

Tax rates and allowances are on page 3

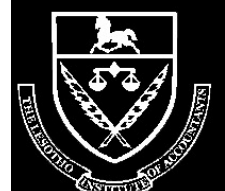
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This question paper must not be removed from the examination hall

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 FOUR questions are compulsory and MUST be attempted

1 Mrs Sophia Hankins is a resident individual who trades in her own name as a manufacturer of electrical appliances from her shop situated in Mafeteng, Lesotho. The following is her income statement for the year ended 31 March 2005:

	Notes	M
Income		
Gross profit		250,000
Dividends received from a local company		5,100
Bad debts recovered	1	10,000
Interest on savings	2	2,800
		267,900
Expenditure:		
Annuities paid	3	8,000
Bad debts	1	3,870
Penalty paid	4	1,000
Cost of trade mark	5	40,000
Donation to charity	6	6,500
Promotion and advertising		5,000
Installation costs	7	7,900
Insurance paid for the business		1,400
Licence fee		400
Staff salaries and wages		35,000
Shares purchased	8	47,000
Printing and stationery		3,250
Damages paid	9	1,390
Training expenses	10	15,000
Depreciation of machinery	11	22,500
Sundry deductible expenses		5,681
		213,891
Total expenditure		213,891
Net profit for the year		54,009

Notes:

1. The bad debts recovered were from former debtors. M570 of the bad debts written off relates to debts taken over by Mrs Hankins when she bought the business from Mr Knee Knolls and the balance of the debts are all in respect of present customers who have failed to pay their accounts.
2. Interest received was from an account held with the ABSA bank in Bloemfontein, South Africa.
3. The annuity was paid to the dependants of a deceased former employee.
4. The penalty paid was a result of the late lodging of income tax returns.
5. Mrs Hankins paid M40,000 to acquire a trademark for a ten (10) year period.
6. The donation was made to the National Paralympic Committee of Lesotho.
7. The installation costs were incurred in installing machines A and B. Installation costs for machine A amounted to M5,000 and for machine B M2,900.
8. The additional shares were purchased from a local company in anticipation of receiving higher dividends in the future.
9. The claim for damages arose when the business' driver was involved in an accident while making business deliveries. The damages were paid to the owner of the other vehicle.
10. Some employees were sent for approved training during the year of assessment.

11. Details of the machinery are as follows:

- (i) The total tax written down value at 1 April 2004 was M130,000.
- (ii) On 30 September 2004, a machine which had a tax written down value of M8,125 on 1 April 2004, was scrapped as valueless.
- (iii) Machine A, which was a new machine, was acquired to replace the abovementioned machine. It cost M42,000 and was brought into use on 1 January 2005.
- (iv) Machine B, which was also a new machine, was purchased for M26,000 and brought into use on 1 October 2004.

Required:

- (a) Calculate Mrs Sophia Hankins' chargeable income for the year ended 31 March 2005. Start your calculations with the net profit of M54,009 and show all your workings.** (21 marks)
 - (b) Calculate the tax payable by Mrs Sophia Hankins.** (2 marks)
 - (c) For each item of expenditure disallowed in your computation in part (a), give brief reasons for the disallowance.** (12 marks)
- (35 marks)**

- 2 (a) The Lebota Trading Company Limited commenced business on 1 April 1990. The company's financial results for the year ended 31 March 2005 are as follows:

	Note	M
Income:		
Gross trading profit		2,280,000
Rental income		8,000
Interest on Treasury bills		6,400
Dividends from a resident company		1,000
Royalties received	5	64,000
		<hr/>
Total income		2,359,400
Expenditure:		
Wages and salaries		178,400
Directors' remuneration		82,000
Rent, rates and insurance		49,200
Motor expenses		38,000
Bad debts	1	82,000
General administrative expenses	2	148,000
Legal and professional fees	3	16,000
Overdraft interest		6,000
Loan interest	4	5,500
Audit and accountancy		16,000
Depreciation of fixed assets	6	102,000
		<hr/>
Total expenditure		723,100
		<hr/>
Net profit		1,636,300
		<hr/>

The following information is also available:

1. The bad debts figure comprises the following:	M
Bad debts written off as irrecoverable	61,000
General provision for bad debts	8,000
Specific provision for bad debts	13,000
2. General administrative expenses include the following:	
Entertainment:	
Local customers	3,500
Overseas customers	14,200
Staff Christmas party	7,000
Meals provided to staff	16,800
Subscriptions:	
Chamber of Commerce	5,000
Trade journals	3,200
Subscriptions for the Chief Executive	1,000
Membership fee to health club	2,500
Gifts and donations:	
Brochures for the general public	4,800
Donations to a political party	10,000
Donation to a local church	2,000
Interest on underpaid tax	12,700
Repairs to buildings	6,500
Commission and fees to stockbroker	2,900
Penalty for the late filing of Value Added Tax return	8,500

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|--|----------|
| 3. Legal and professional fees comprise: | M |
| Company secretarial fees | 3,200 |
| Fees for raising loan finance | 4,100 |
| Legal fees for trade debts collection | 6,100 |
| Recruitment fees for new staff | 1,100 |
| Preparation of new staff service agreement | 1,500 |
4. The loan interest is payable to Lesotho Bank on a loan to buy trading stock.
5. The royalties are received from the Lincoln Garment factory in Lesotho.
6. The company calculates depreciation at the same rates as allowed under the Income Tax Act.

Required:

Calculate the taxable profit of and the corporation tax payable by the Lebota Trading Company Limited for the year ended 31 March 2005. (13 marks)

(b) Mr Seth Leuta received the following letter of employment from the Lebota Trading Company Limited:

Dear Mr Leuta

Following your interview with us, we are pleased to offer you a position within our firm at a salary of M75,000 per annum.

The firm provides lunch free of charge at the company's canteen to all staff.

You will be reimbursed if you incur expenses while engaged on business activities.

You will have the sole use of a Toyota Corolla that was acquired new on 1 January 2004 at a cost of M200,000. The car will be made available to you when you commence duty on 1 April 2004 and the adjusted cost base of the car will be M187,500.

You will be offered a loan, not exceeding M200,000 at a low interest rate, to assist you in buying property.

For the first two years of your employment, you may live rent-free in a flat owned by the company. The estimated market rent for these flats is M10,000 per annum. The company will also pay for your electricity and water bills.

Required:

Explain to Mr Leuta the tax position with regard to each of the items comprising his employment package (other than his cash salary). (12 marks)

(25 marks)

3 Liphiring Enterprises Limited has been trading for many years as a manufacturer of garments. The company's year-end is 31 March each year. During the year ended 31 March 2005, the following transactions relating to fixed assets were made:

1. Bought new office furniture and fittings on 1 April 2004 costing M40,000.
2. Bought a new motor vehicle for the sales manager on 1 May 2004 for M300,000 (private use of the vehicle is estimated to be 30%).
3. Bought five new computers on 1 July 2004 for M10,500 each.
4. Bought a new generator for the managing director's private residence on 1 January 2005 for M15,000.
5. Additions to the factory building were made on 31 March 2005 for M100,000.
6. Sold a motor vehicle with a tax written down value of M35,000 on 1 April 2004. The sale took place on 1 June 2004 for M24,000.
7. Sold an old printer on 30 September 2004 for M3,000. The tax written down value of the printer on 1 April 2004 was M3,600.
8. Sold two computers for M6,000 on 31 December 2004. The tax written down value of the computers on 1 April 2004 was M4,200.

The tax written down values of the company's assets as at 1 April 2004 were as follows:

Motor vehicles	M500,000
Furniture and fittings	M59,000
Equipment	M80,000
Industrial buildings	M2,000,000

Required:

Calculate the total capital allowances claimable by Liphiring Enterprises Limited for the year ended 31 March 2005 and the tax written down values to be carried forward at 31 March 2005. Show all workings.

(19 marks)

4 (a) Mrs Mary Leifo runs her own small business. The records submitted for income tax purposes reflected a chargeable income of M30,000 for the year ended 31 March 2005. The Commissioner of Income Tax was not satisfied and carried out an investigation into her activities for the year under review. The following were the findings of that investigation with regard to the year of assessment:

- (1) Mrs Leifo and her spouse, Mr John Leifo, spent M25,000 on school fees for their minor daughter. The investigations revealed that M5,000 of the amount so paid was actually for the after hours tutoring of their son who is 30 years old.
- (2) Mr John Leifo had the use of a motor vehicle that cost M200,000 which he used for personal use. Mrs Mary Leifo also had the use of a motor vehicle that cost M59,000 and was also used for private purposes.
- (3) Mr John Leifo owned a principal residence with an adjusted cost base of M500,000. The value of the residence for property rates purposes was M600,000. Mrs Mary Leifo and their daughter used a secondary residence in South Africa with an annual rental of M60,000 and an annual fair market rental of M56,000.
- (4) Electricity consumed in the principal residence for the year under review was M20,000 while it was M12,000 for the secondary residence.
- (5) Mrs Leifo, her spouse and their two children incurred a total of M120,000 in air travel to New York. The cost of the air tickets was the same as the minor daughter was above 12 years and was charged a full fare.

Mrs Mary Leifo had incurred other allowable expenses amounting to M10,000.

Required:

- (i) **Calculate the minimum chargeable income of Mrs Mary Leifo based on the information given above, giving a clear explanation for the non-inclusion of any of the items in your calculations.** (13 marks)
 - (ii) **Calculate the income tax payable by Mrs Mary Leifo for the year ended 31 March 2005.** (2 marks)
- (b) Mr Mahe Borotho filed his income tax return on 30 May 2004 showing a chargeable income of M43,000. The Commissioner of Income Tax was not satisfied with the returns submitted and she raised an additional assessment. Mr Borotho's accountant has requested you to advise on how to deal with the additional assessment. The accountant is of the opinion that the assessment is very excessive.

Required:

- (i) **Advise the accountant on the action that should be taken on receipt of this additional assessment.** (3 marks)
- (ii) **State the course of action available to the accountant and Mr Borotho if they are still not satisfied with the decision made.** (3 marks)

(21 marks)

End of Question Paper