

# Preparing Taxation Computations (Lesotho)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 12 DECEMBER 2006

## QUESTION PAPER

Time allowed **3 hours**

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

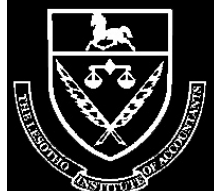
Tax rates and allowances are on page 2

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)

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

Second schedule  
(Section 9(1))

<b>Resident Individual Income Tax Rates</b>	
Chargeable Income	Rate of tax
First M33,075	25%
Over M33,075	35%
Personal tax credit	M2,911

Third schedule  
(Section 10)

<b>Resident Company Income Tax Rates</b>		Rate of tax
Nature of income		
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)

<b>Declining Balance Depreciation Rates</b>		
Group	Depreciation rate	Assets included
1	25%	Automobiles, Taxis, Light General 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 Mr Lira Mafura is a resident of Lesotho and employed by a local company. He also operates his own consultancy business and has asked you to assist him in the preparation of his annual return. You have been provided with his receipts and payments book together with some additional information for the year ended 31 March 2006 as follows:

Receipts	Additional information	M
Salary from a local company		80,000
Bonus received from a local company		30,000
Leave pay received from a local company		5,500
Consultancy fees – from the Lesotho Government	(1)	860,000
– from the World Bank		520,000
– from other donor agencies		90,000
– from Lesotho State Contractors		500,000
Dividends from a Lesotho manufacturing company		20,000
Interest from a savings account with Lesotho Bank nominated account		8,000
Bad debts recovered		3,000
<b>Payments</b>		
Income tax paid		10,000
Fuel, repairs and insurance		60,000
Office rent		72,000
Advertising		5,000
Office expenses (all tax allowable)		18,000
Purchase of a car		180,000
Staff salaries		120,000
Training courses for staff		40,000
Bank interest	(2)	25,600
Telephone, light and heat		14,800
Bad debts	(3)	32,000
Annuity paid to the wife of a late employee		16,000
Entertainment expenses		70,000
Membership fees	(4)	6,000
Depreciation		18,000

Additional information:

- (1) 10% withholding tax has been deducted from all the consultancy fees received with the exception of the fees from the World Bank.
- (2) M21,368 of the bank interest paid relates to a mortgage from Lesotho Bank on Mr Mafura’s house in Thetsane West.
- (3) Bad debts comprise:
- |                                |               |
|--------------------------------|---------------|
|                                | <b>M</b>      |
| Bad debts actually written off | 8,000         |
| Provision for specific debts   | 24,000        |
|                                | <u>32,000</u> |
- (4) Membership fees comprise: M2,000 for Maseru Golf Club, and M4,000 for Mr Mafura’s membership of the Lesotho Institute of Consultants.

**Required:**

- (a) Calculate Lira Mafura’s taxable income for the year ended 31 March 2006. Your solution should include all of the items listed, indicating as zero any excluded items and disallowed expenses. Ignore depreciation allowances. (25 marks)
- (b) Explain the treatment of the interest received on savings held in a nominated account. (6 marks)

**(31 marks)**

2 The following are the financial accounts of IOU Manufacturing Company Ltd for the year ended 31 March 2006:

	Note	M		M
Purchases of raw materials		72,000	Sales	580,000
Wages and salaries		340,000	Commission received	28,000
Freight		12,000	Rent received	120,000
Fire damage	(1)	4,380	Bank interest	5,400
Repairs	(2)	4,520		
Subscription	(3)	6,000		
Sundry expenses	(4)	3,400		
Stationery		5,000		
Travel and entertainment	(5)	4,500		
Rent	(6)	40,000		
Royalties	(7)	600		
Professional charges	(8)	8,000		
Transfer to capital reserve		20,000		
Depreciation of assets		16,000		
Net profit		197,000		
		733,400		733,400

Notes:

(1) The company is entitled to claim M3,000 from an insurance company in respect of the fire damage that occurred during the year.

(2) Repairs comprise:	<b>M</b>
Erection of fire escape	1,300
New doorway built	620
Machinery repairs	2,400
Painting of premises	200
	4,520

(3) Subscriptions comprise: Directors' membership of golf club M4,000, and M2,000 for the Association of Manufacturing Companies.

(4) Sundry expenses comprise:	<b>M</b>
Advertising	1,400
Donation to local football team	1,000
Trade journals	600
Miscellaneous expenses	400
(all tax allowable)	3,400

(5) Travel and entertainment expenses comprise:	<b>M</b>
Staff travelling on business	800
Motor expenses	1,500
Entertaining customers	2,200
	4,500

(6) Rent comprises:	<b>M</b>
Office premises	30,000
Directors' houses	10,000
	40,000

(7) The royalties relate to a patent used as part of the manufacturing process.

(8) Professional charges comprise:	M
Legal charges (debt collection)	5,000
Legal charges (contravention of safety regulations)	2,000
Corporation tax appeal	<u>1,000</u>
	<u>8,000</u>

**Required:**

**Compute the corporation tax payable by IOU Manufacturing Company Ltd for the year ended 31 March 2006. Start your answer with net profit as per accounts, and include all the expenses referred to in notes (2) to (8) indicating with a zero (0) any allowable items. Ignore depreciation allowances.**

**(21 marks)**

- 3** Mafeteng (Pty) Limited is a manufacturing company which commenced business on 1 April 2001, and prepares accounts to 31 March annually.

You are provided with the following information concerning transactions in the fixed assets of Mafeteng (Pty) Limited for the five years ended 31 March 2006.

1 April 2001	Acquired fixed assets as follows:	
	Industrial building costing	M190,000
	Equipment costing	M80,000
	Motor vehicles costing	M65,500

Year ended 31 March 2003   Added an extension to the industrial building at a cost of M42,000

1 April 2003   Purchased additional equipment for M56,000

1 October 2003   Purchased another motor vehicle for M16,000

1 July 2004   Purchased additional equipment for M12,000

All of the assets were disposed of on 31 March 2006, for the following proceeds:

Industrial building	M290,000
Equipment	M20,000
Motor vehicles	M49,000

The pooling method of depreciation is used.

**Required:**

**Compute the annual depreciation allowances for Mafeteng (Pty) Limited for each of the four years ended 31 March 2002, 2003, 2004 and 2005, and the gain/loss on disposal made in the year ended 31 March 2006, in respect of:**

- |                                     |           |
|-------------------------------------|-----------|
| <b>(a) the industrial building;</b> | (6 marks) |
| <b>(b) equipment; and</b>           | (8 marks) |
| <b>(c) motor vehicles.</b>          | (9 marks) |

**Clearly show all of your workings.**

**(23 marks)**

- 4 (a) State the general rule for determining whether or not an amount is an 'allowable deduction' for tax purposes. (3 marks)
- (b) List the deductions specifically disallowed according to the Income Tax Act 1993. (10 marks)
- (c) Explain the treatment of the following receipts for tax purposes:
- (i) Scholarships received by students; and (2 marks)
  - (ii) Maintenance and child support payments. (3 marks)
- (d) (i) State who must appoint a 'nominated person' for the purposes of value added tax (VAT), together with the reason for such an appointment. (5 marks)
- (ii) State by when the name of such a person must be notified to the Commissioner of VAT. (2 marks)
- (25 marks)**

End of Question Paper