

Preparing Taxation Computations (Lesotho)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 13 JUNE 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:

Tax rates and allowances

1.

**Second schedule
(Section 9(1))**

Resident Individual Income Tax Rates	
Chargeable Income	Rate of tax
First M31,500	25%
Over M31,500	35%
Personal tax credit	M2,772

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 (a) Mr Tom Mosala is a Lesotho resident who resides in Quthing. Mr Mosala has commercial properties from which he collects rental income. Some of the properties are located in Bloemfontein in the Republic of South Africa, whereas some are located in Maseru, Lesotho.

During the year ended 31 March 2006, Mr Mosala's rental records revealed the following:

	South African property R	Lesotho property M
Rental income	35,000	79,000
Expenses:		
Ground rent	1,200	1,500
Water and electricity	5,000	1,200
Cleaning and maintenance	1,000	3,500
Security	500	950
General repairs	7,000	19,000
Depreciation (allowable)	1,750	3,900
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Total expenses	16,450	30,050
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Net rental profit	18,550	48,950
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Additional information:

- (1) The exchange rate between the Lesotho Loti and South African Rand was M1 to R1 during the period.
- (2) No tax was deducted in South Africa from the property rental income paid to Mr Mosala.
- (3) Mr Mosala also earned net transport income of M12,500 from his minibus during the year to 31 March 2006.
- (4) Mr Mosala received net interest income of M5,000 from a savings account during the year to 31 March 2006. Withholding tax was deducted by Nedbank (Lesotho) and remitted to the Lesotho Revenue Authority.
- (5) During the same year, Mr Mosala received dividends amounting to M35,000 from shares he holds in a South African company operating in South Africa.
- (6) He is employed at a salary of M3,500 per month as a technician by a Lesotho company, Carmon Pharma Ltd. In addition to his salary in the year to 31 March 2006, he received a monthly cash allowance of M350 and the full use of a company car, which was purchased by the company in January 2005 at a cost of M240,000.

Required:

- (i) Explain the tax treatment of the interest received from Nedbank (Lesotho). (3 marks)
- (ii) Compute the amount of tax payable by Mr Mosala for the year ended 31 March 2006. (12 marks)
- (iii) State how the tax calculated in (ii) above will be paid. (5 marks)

(b) Moji and Maja are in partnership as equal partners, carrying on business as wholesalers. For the year ended 31 March 2006, the partnership made a net profit of M28,050 after charging the following:

- Annuities paid to the dependants of a former employee of M8,000
- Donations to the Maseru Golf Club of M3,200 and to a local school of M800
- Insurance premiums paid in respect of the following policies:

Loss of profits	M6,000
Fire (business premises)	M4,000
Moji's private home	M500
Maja's private home	M500
- Salaries and wages comprising:

Staff	M50,000
Moji	M7,000
Maja	M12,000
- Income tax paid on behalf of Moji of M5,000 and Maja of M8,000, of which M2,000 and M3,500 respectively, were payments on account in relation to the current year.

The partnership depreciates its fixed assets for accounting purposes using rates acceptable to the Lesotho Revenue.

Required:

Calculate the tax payable by Moji and Maja for the year ended 31 March 2006.

(11 marks)

(31 marks)

- 2 Lesotho Bank (Pty) Limited is a financial institution providing financial services to the general public. The bank has been in business for a long time and a summary of its financial results for the year ended 31 March 2006 is as follows:

	Notes	M
INCOME		
Interest income		5,600,000
Fees and charges		3,000,000
Other income		2,400,000
		<hr/>
Total income		11,000,000
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EXPENDITURE		
Interest expense		1,200,000
Staff expenses		2,700,000
Depreciation		550,000
Repairs and maintenance	2	900,000
Subscriptions	3	17,000
Legal fees	4	29,000
Audit fees		24,000
Entertainment expenses		19,000
Fraud and forgeries		75,000
Advertising and publicity	5	300,000
Lesotho Bank deposit insurance		50,000
Insurance of fixed assets		65,000
Specific loan loss provision		850,000
General loan loss provision		150,000
Cash shortages		25,000
Training expenses		95,000
Other tax allowable expenses		850,000
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Total expenses		7,899,000
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Net profit for the year		3,101,000
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Notes to the accounts:

1. The bank's assets had the following tax written down values as at 1 April 2005:

Group 1 Assets	M500,000
Group 2 Assets	M45,000
Group 3 Assets	M150,000
Group 4 Assets	M160,000

The following were additions to fixed assets in the financial year to 31 March 2005:

Group 1 Assets	M100,000
Group 2 Assets	M28,000
Group 3 Assets	M50,000

2. The bank has a policy of expensing capital assets, which individually cost less than M10,000 in the year of purchase. In line with this policy, the bank expensed furniture costing M24,000 during the year ended 31 March 2006. Of this amount, only M3,200 relates to furniture which individually cost less than M10,000. The expensed furniture cost was booked in the repairs and maintenance account.
3. Subscriptions include M2,000 which relates to the subscriptions of the senior managers of the bank to Maseru Golf Club. The balance relates to a subscription to the Lesotho Institute of Bankers.
4. Legal fees are comprised of M16,000 which were paid to the bank's lawyers for the disposal of properties of borrowers who failed to repay their loans, and a M13,000 provision for legal fees the bank expects to incur in the year to 31 March 2007 for an impending legal suit filed by a borrower against the bank in respect of outstanding loan balances.

5. Advertising expenses are analysed as follows:

TV and newspaper adverts	M100,000
Installation of billboards	M80,000
Renting billboard space	M120,000

Required:

Compute the corporation tax payable by Lesotho Bank (Pty) Limited for the year ended 31 March 2006. Start your computation with the net profit figure of M3,101,000 and give brief explanations for each of the adjustments made.

(26 marks)

3 (a) George Khabo is employed by Warm Electronics Ltd as its Chief Engineer. Warm Electronics is a Lesotho company located in Leribe, which deals mainly in electrical gadgets. For the year ended 31 March 2006 George's employment terms were:

- monthly salary of M5,000;
- monthly cash allowance of M350;
- medical aid fund premiums payable by his employer of M400 per month;
- full use of a company car, purchased new for his use at a cost of M200,000 on 1 April 2005;
- a company house, whose market rent is M900,000 per annum, for which he pays a monthly rental fee of M1,000 to his employer;
- a provident scheme, to which he contributes 5% of his salary and his employer contributes 12% of his salary.

Required:

Compute the fringe benefit tax payable by Warm Electronics Ltd in respect of George Khabo for the year ended 31 March 2006. (12 marks)

(b) (i) State the conditions that determine whether a lease is a 'finance lease'. (6 marks)

(ii) On 1 January 2005 XYZ Limited leased manufacturing equipment (a Group 2 asset) with a capital value of M420,000, under a five year finance lease. The annual lease payments, payable in advance were M102,000.

Required:

Calculate the depreciation allowances available to XYZ Limited on the leased asset for the years ended 31 March 2005 and 31 March 2006 respectively. (5 marks)

(23 marks)

- 4 (a) Clearly distinguish between cash-basis accounting and accrual-basis accounting. As part of your answer, explain the meaning of 'when payable'. (7 marks)
- (b) Explain the tax treatment of the following items in the accounts of a company:
- (i) Trade debts written off of M10,000, of which M4,000 related to debts taken over on the purchase of a sole trader business six months earlier. (3 marks)
 - (ii) Replacement of factory roof at a cost of M18,000. The roof had been damaged by fire and the company received M10,000 from its insurers, being the agreed cost of repairing the existing roof. (4 marks)
- (c) Explain the meaning of 'taxable supply' for the purposes of value added tax. As part of your answer define the term 'vendor'. (6 marks)
- (20 marks)**

End of Question Paper