

Certified Accounting Technician Examination
Advanced Level

Preparing Taxation Computations (Lesotho)

Tuesday 11 December 2007

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FOUR questions are compulsory and MUST be attempted.

Tax rates and allowances are on page 3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet 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)

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The question paper begins on page 3.**

SUPPLEMENTARY INSTRUCTIONS:

1. Calculations and workings need only be made to the nearest M.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

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

**Second schedule
Resident individual income tax rates**

| Chargeable income | Rate of tax |
|---------------------|-------------|
| First M35,060 | 25% |
| Over M35,060 | 35% |
| Personal tax credit | M3,500 |

**Third schedule
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. | 10% |
| 2. Other manufacturing income | 10% |
| 3. Other income | 25% |

Fourth schedule

| | |
|--|-----|
| Tax rates for trustees, minors, fringe benefits and electing non-residents | 35% |
|--|-----|

**Sixth schedule
Declining balance depreciation rates**

| Group | Assets included | Depreciation rate |
|-------|---|-------------------|
| 1 | Automobiles; taxis; light general purpose trucks; tractors for use over-the-road; special tools and devices. | 25% |
| 2 | 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. | 20% |
| 3 | Any depreciable asset not included in another group. | 10% |
| 4 | Railroad cars and locomotives and railroad equipment, vessels, barges, and similar water transportation equipment; industrial buildings; engines and turbines; public utility plant. | 5% |
| 5 | Mining. | 100% |

ALL FOUR questions are compulsory and MUST be attempted

- 1 Lipuo Molatelle is a resident individual taxpayer. She is a full-time employee of the Lesotho Highlands Development Authority (LHDA) at Katse Dam. She also receives a pension from the Lesotho National Life Assurance Company (LNLAC) and operates an engineering private business, although she does not work in this business.

During the year ended 31 March 2007, her records show the following transactions.

| | Notes | M |
|---|-------|---------|
| Pension income (LNLAC) | | 160,000 |
| Employment income (LHDA) | 1 | 210,000 |
| Business income | 2 | 170,000 |
| Other income | 3 | 22,000 |
| Total income | | 562,000 |
| Expenses | | |
| Motor running costs | 4 | 38,458 |
| Staff welfare and refreshments | | 4,200 |
| Wages and salaries | | 66,000 |
| Office – general costs (all deductible) | | 12,500 |
| Interest paid | 5 | 6,950 |
| Repairs and maintenance | | 3,500 |
| Depreciation | 6 | 20,000 |
| Accounting fees | | 8,200 |
| Provision for outstanding expenses | 7 | 35,000 |
| Insurance premium paid to LNLAC | 8 | 15,600 |
| Withholding tax at 5% from Government payment (withholding tax certificate) | | 5,600 |
| Tax deducted from employment income (P16 from LHDA) | | 66,494 |
| Tax deducted from pension income (P16 from LNLAC) | | 40,000 |
| Total expenses | | 322,502 |

Notes

- (1) The employment income stated is Ms Molatelle's basic gross per annum from which the LHDA has withheld tax on the gross amount.
- In addition to this employment income, Ms Molatelle received:
- a cash allowance of M90,000 which has not been taxed on her or on her employer;
 - reimbursement of M15,000 for employment related costs; and
 - the use of a motor car which had cost the LHDA M350,000 when first provided to her in June 2005.
- (2) Business income includes net interest of M10,000 from a bank account held with Standard Lesotho Bank. This account has been nominated in terms of s.27 of the Income Tax Act 1993 (as amended).
- (3) Other income includes the sale proceeds from Ms Molatelle's personal fridge of M3,000. The balance is the gross rent received from some residential flats that she owns.
- (4) The motor car running costs relate to the car that has been provided to Ms Molatelle by the LHDA for both business and private use. These costs are all paid for by the LHDA. Ms Molatelle is not required to reimburse the LHDA for the private use of the car.
- (5) Interest paid is in relation to an education loan with Longman Lesotho for a chief engineer who is a full-time employee of Ms Molatelle's engineering business. The loan is for furthering his approved engineering studies at the University of Cape Town on a full-time basis. The principal loan will be repaid by the employee, while the business pays the interest on his behalf. The amount included in the records is the interest paid for the year ended 31 March 2007.
- (6) Depreciation for the following assets has been included in the records:
- Furniture and engineering equipment which cost M80,000 on 1 April 2005.
 - Depreciation of M7,200 for the residential flats rented out (see (3) above). Construction of the flats was completed on 1 April 2006 at a cost of M145,000.

| | |
|---|----------|
| (7) Provision for outstanding expenses comprises: | M |
| December 2006 electricity paid | 3,200 |
| Stationery paid | 7,040 |
| Provision for doubtful debts | 745 |
| Provision for unpaid expenses | 6,550 |
| Rent paid | 17,465 |
| | <hr/> |
| | 35,000 |
| | <hr/> |

| | |
|--|----------|
| (8) Insurance premiums paid comprise: | M |
| Staff work compensation policy | 4,000 |
| Professional indemnity for engineering staff | 10,000 |
| Ms Molatelle's life assurance policy | 1,600 |
| | <hr/> |
| | 15,600 |
| | <hr/> |

Required:

- (a) Calculate Lipuo Molatelle's chargeable income for the year ended 31 March 2007. Your computation should list all of the items (income and expenses) referred to in the question, indicating with a '0' those items which are not taxable/allowable. (20 marks)
- (b) (i) Calculate the total tax liability and the net tax payable (after adjusting for taxes already paid) by Lipuo Molatelle for the year ended 31 March 2007. (5 marks)
- (ii) State how and when the balance (net amount) due, if any, must be paid. (2 marks)
- (c) Calculate the fringe benefit tax payable by the LHDA in respect of Lipuo Molatelle for the year ended 31 March 2007. (3 marks)
- (d) State how a gain or loss on the disposal of a personal asset is treated. (2 marks)

(32 marks)

- 2 Naledi Bus Service is a transport business owned by Mr Morojele, who is a resident individual taxpayer. He commenced business on 1 November 2002. The following is a list of acquisitions and disposals relating to the business.

Acquisitions

| | | M |
|-------------------|------------------------|----------|
| 1 January 2003 | Man bus (note 1) | 320,000 |
| 15 February 2003 | Office furniture | 22,000 |
| 28 February 2003 | 3 x taxis | 328,000 |
| 15 November 2003 | Computer | 17,000 |
| 31 March 2004 | 2 x minibuses | 180,000 |
| 15 June 2004 | Tow truck (heavy duty) | 639,000 |
| 28 September 2004 | Constructed a workshop | 213,890 |
| 15 August 2005 | Volvo bus | 195,000 |

Disposals

| | | |
|------------------|--------------------|---------|
| 1 March 2004 | 1 x taxi | 80,000 |
| 31 December 2004 | 1 x minibus | 96,150 |
| 31 October 2006 | 2 x taxis (note 2) | 120,000 |

Notes:

1. The Man bus acquired on 1 January 2003, was involved in an accident on 23 May 2006 and was declared a write off (beyond repair). Mr Morojele sold the scrap to a garage for M76,890.
2. On 28 October 2006, Mr Morojele decided to discontinue the taxi part of the business, and the sale of the two remaining taxis on 31 October gave effect to this decision.

Mr Morojele has elected to use the pooling method of depreciation.

Required:

- (a) Calculate the depreciation allowances for Naledi Bus Service for each of the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07. (25 marks)
- (b) Explain the treatment of a gain/loss on disposal under the pooling method. (2 marks)
- (c) State the groups of assets that are specifically excluded from the use of the pooling method of depreciation. (1 mark)

(28 marks)

3 Mr Fusi Ralimpe, a resident taxpayer, is employed by Sunshine Motors, a resident employer, as a sales manager. During the year ended 31 March 2007, he received the following benefits from his employer, in addition to his basic salary of M120,000.

- (1) A motor vehicle was provided for both personal and business use. However, Mr Ralimpe is only allowed to use the vehicle from Monday to Friday; he is not allowed to use the vehicle over the weekends. Mr Ralimpe pays M500 per month to Sunshine Motors towards his personal use of the car. The vehicle's adjusted cost base on 31 March 2006 was M142,000. The vehicle was first provided to Mr Ralimpe on 1 April 2005.
- (2) Sunshine Motors pays rent of M8,200 per month for a town house at Lower Thetsane for Mr Ralimpe. Mr Ralimpe reimburses the company 20% of the rental amount.
- (3) Mr Ralimpe is reimbursed the following amounts per month in respect of the costs of running the town house property:

| | M |
|--------------------|-------|
| Water | 400 |
| Electricity | 700 |
| Telephone | 1,200 |
| Security guard | 1,748 |
| Domestic assistant | 600 |

- (4) Sunshine Motors contributes M1,595 per month towards Mr Ralimpe's medical aid. This represents 60% of the total contribution payable to the medical aid provider. All employees of Sunshine Motors receive this 60% medical aid subsidy.
- (5) Sunshine Motors waived repayment of a loan of M8,500 by Mr Ralimpe, which had been made to him by the company for his mother's funeral preparations. The loan was made in December 2005 at no interest.

Required:

- (a) **Calculate the total fringe benefit tax payable by Sunshine Motors in respect of Mr Ralimpe for the year ended 31 March 2007.** (21 marks)
- (b) **State by when the fringe benefit tax due on 31 March 2007 is payable.** (1 mark)
- (c) **Explain the tax treatment of a cash transport allowance of M800 per month paid by an employer to an employee.** (2 marks)

(24 marks)

4 The following transactions relate to Tanki, a resident taxpayer.

- (1) Tanki transferred his Zeltel shares worth M120,000 to his wife Mosa as part of their divorce settlement. The cost of the shares when acquired was M90,000. Immediately after the transfer Mosa sold the shares for M150,000.
- (2) Tanki received M50,000 as proceeds for his stolen car from the Alliance Insurance Company (Alliance). The adjusted cost base of the car on the date of the theft was M35,650. Tanki used the proceeds from Alliance to acquire a second-hand car for M40,000.
- (3) Tanki's sister, Refiloe did not like her van any more, so she asked Tanki to swap vehicles. Since Tanki liked Refiloe's car he agreed to swap it for his car. The market value of Refiloe's van was M75,600, while that of Tanki's car was M40,000. The adjusted cost base for the van at the date of the swap was M60,000, and for the car was M40,000.
- (4) Tanki joined the MNM Partnership and he contributed three laptops into the partnership business. The market value of the three laptops was M30,000 on the date of contribution. Immediately after the contribution Tanki held a 60% interest in the MNM Partnership. The adjusted cost base of the computers was M20,630 on the date of contribution.

Required:

Explain how each of the transactions (1) to (4) above will be treated for tax purposes, clearly identifying the cost base(s) applicable and calculating the gain/loss on disposal (if any) resulting.

(16 marks)

End of Question Paper