

Preparing Taxation Computations (Lesotho)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 12 JUNE 2007

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

Paper T9(LSO)



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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 M33,075	25%
Over M33,075	35%
Personal tax credit	M2,911

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 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.

ALL FOUR questions are compulsory and MUST be attempted

1 Sam Khauoe carries on business as Khauoe Accountants and Auditors. The practice's summarised income statement for the year ended 31 March 2007 is as follows:

Income:	M
Accountancy fees	75,000
Audit fees	60,000
Commission on rental collections	20,500
Interest on bank deposit account (gross)	2,500
Consultancy fees	2,000
	<hr/>
	160,000
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Expenditure:	
Salaries	45,000
Rent, rates and taxes (note 1)	12,600
Depreciation	3,200
Repairs and maintenance	560
Entertainment of clients	3,450
Loan interest (note 2)	10,800
Other expenses (all tax deductible)	19,000
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	94,610
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Net profit	65,390
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Additional information:

- (1) The rent, rates and taxes amount includes Pay As You Earn (PAYE) tax paid of M4,500 following a Lesotho Revenue Authority audit, which showed some inadequacies in the firm's operation of the PAYE scheme.
- (2) Interest paid is for a Standard Lesotho Bank loan obtained on concessionary terms to construct an office block for the practice's own use, which is due to be completed in December 2009.
- (3) The tax written down values of fixed assets as at 1 April 2006 were:

– Furniture and equipment	M9,500
– Motor vehicles	M25,500
- (4) The following fixed assets were bought on 1 April 2006:

– Motor vehicle	M65,000
– Furniture and equipment	M17,090
- (5) The practice uses the single asset method of depreciation.
- (6) In addition to his income from Khauoe Accountants and Auditors, Sam Khauoe received the following income in the year ended 31 March 2007:

– Interest from a savings account with Lesotho Bank (nominated account)	M5,000
– Dividends from Lesotho companies	M15,000
- (7) During the year Sam Khauoe paid provisional tax of M4,500 in respect of his practice income and contributed M12,500 to his superannuation fund.

Required:

- (a) (i) **Compute Sam Khauoe's taxable income from Khauoe Accountants and Auditors for the year ended 31 March 2007. Your answer should list each of the income and expenditure items included in the practice's income statement indicating by the use of '0' those items which are non-taxable or non-deductible.** (14 marks)
- (ii) **Briefly explain the treatment of the items referred to in notes (1) and (2).** (4 marks)
- (b) **Compute Sam Khauoe's tax payable for the year ended 31 March 2007, clearly identifying the balance of tax outstanding.** (10 marks)
- (c) **State by when the balance of tax outstanding calculated in (b) must be paid, together with the consequences of late payment.** (3 marks)

(31 marks)

- 2 The following are the financial accounts of Serakoe (Pty) Ltd, a Lesotho trading company, for the year ended 31 March 2007.

Income	Note	M
Sales		800,000
Dividends from Lesotho companies		20,000
Commission received		148,000
Net interest on fixed deposit with Lesotho Bank		5,400
Bad debts recovered		51,200
		<u>1,024,600</u>
Expenditure		
Scholarship	(1)	80,000
Cost of sales		220,000
Salaries and wages		188,000
Training	(2)	45,000
Advertising		2,000
Electricity	(3)	48,000
Repairs	(4)	15,000
Subscriptions		11,800
Telephone and fax	(5)	122,000
Printing and stationery		3,000
Rent	(6)	60,000
Annuities paid to former employees		12,600
Transfer to reserves		120,000
Depreciation of assets		102,400
Penalties	(7)	14,000
Insurance premiums	(8)	27,000
Corporation tax paid		69,400
		<u>1,140,200</u>
Net loss		<u>115,600</u>

Notes to the accounts:

1. A scholarship for tuition of M48,000 and for living expenses of M32,000 was made available to an employee for full time instruction at a tertiary educational institution.
2. Training expenses of M45,000 were incurred in training a citizen of Lesotho employed by Serakoe (Pty) Ltd.
3. The electricity expense of M48,000 includes M12,000 relating to electricity paid on behalf of one of the company's directors.
4. Repairs comprise the following:

– Repairs to assets	M10,400
– Installation of equipment bought new	M2,000
– Transport of equipment bought new	M2,600
5. The telephone bills include M60,000 paid on behalf of the company's directors for their private telephone bills.
6. 25% of the rent paid for the year relates to the private homes of the company's directors.
7. The penalties were imposed by the Lesotho Revenue Authority for the delay in submitting returns.
8. The insurance premiums were all paid to non-resident insurers.

Required:

Calculate the taxable income and total corporation tax liability of Serakoe (Pty) Ltd for the year ended 31 March 2007. You should start your answer with the net loss of M115,600 and include reference to all of the expenses detailed in notes (1) to (8) indicating by the use of '0' any items for which no adjustment is required.

Ignore depreciation allowances.

(26 marks)

3 ABC Delight Limited is a company located in Lesotho, which has been trading for many years. The company's year-end is 31 March each year. During the year ended 31 March 2007, the following transactions relating to fixed assets occurred:

1. Purchased a new computer on 1 April 2006 costing M10,000.
2. Purchased a new office block for M200,000 on 1 April 2006, but did not bring the offices into use until 1 January 2007.
3. Sold a motor vehicle on 30 June 2006 for M71,000. The tax written down value of this vehicle on 1 April 2006 was M39,800.
4. Purchased furniture for M50,000 on 1 September 2006.
5. Sold furniture on 31 December 2006 for M5,000. The tax written down value of this furniture on 1 April 2006 was M20,000.
6. Purchased a new motor vehicle for the managing director's use on 1 January 2007 for M400,000.
7. Purchased new equipment for M60,000 on 31 March 2007.

The tax written down values of the company's assets as at 1 April 2006 were as follows:

Motor vehicles	M800,000
Furniture and fittings	M100,000
Equipment	M400,000

The company uses the single asset method of depreciation.

Required:

Calculate the total depreciation allowances (including any losses/profits on the disposal of assets) claimable by ABC Delight Limited for the year ended 31 March 2007 and the tax written down values to be carried forward at 31 March 2007.

Note: show all workings.

(20 marks)

4 (a) For the purposes of fringe benefits tax, in the case of each of the following, state the circumstances in which the benefit arises and explain how the value of the taxable benefit is calculated:

- domestic assistance fringe benefit; and
- debt waiver fringe benefit. (6 marks)

(b) For the purposes of income tax, explain the treatment of each of the following:

- (i) Farming income. (3 marks)
- (ii) A lump sum received from a resident superannuation fund by a Lesotho resident. (5 marks)
- (iii) The distributive share of income from a Lesotho resident partnership of a partner who is not a Lesotho resident. (5 marks)
- (iv) Property income payable to a non-resident. (4 marks)

(23 marks)

End of Question Paper