

Certified Accounting Technician Examination
Advanced Level

Preparing Taxation Computations (Lesotho)

Tuesday 10 June 2008

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%
Commercial farming income	15%
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 fringe benefits and electing non-residents	35%
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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, tugs 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 Teele Motaoana is a Lesotho resident individual taxpayer. He is employed as a quantity surveyor by Lesotho Holdings, a Lesotho resident company.

Between 1 July 2007 and 30 August 2007, Motaoana was engaged by Lesotho Holdings as a part-time employee. He was paid weekly and no tax was withheld from his salary. From 1 September 2007, Motaoana has been engaged on a full-time basis, and relevant taxes have been withheld and remitted to the Lesotho Revenue Authority. Lesotho Holdings' company policy is to provide benefits, such as a transport allowance, medical allowance and bonus, to its permanent full-time employees. The following payments were made to Motaoana by Lesotho Holdings in the year ended 31 March 2008:

	M
Salary (1 July to 31 August 2007)	42,000
Salary (1 September 2007 to 31 March 2008)	248,000
Transport allowance	98,000
Medical allowance	16,500
Bonus	14,200

On 1 June 2007, Motaoana was enrolled as a full-time student attending evening classes with Lerotholi Polytechnic to improve his skills in quantity surveying. Since he had just been engaged, Motaoana was not entitled to a training benefit as he had not completed one year of full-time employment, therefore he had to pay for his own education. During the year ended 31 March 2008, Motaoana paid the following costs towards his education:

	M
Fees (including examination fees)	4,880
Books	990
Subscription to Quantity Surveying Association	200
Subscriptions to a health club	230
Transport to and from the polytechnic	720
Materials for the preparation of science fair projects	127

Motaoana also made the following payments out of his employment income for the year ended 31 March 2008:

Contribution to Metropolitan pension fund (resident company)	57,000
Car insurance premium paid to a resident company	8,764
Motor vehicle repayment	30,000

Motaoana owns a dairy cow for the purpose of producing milk for sale. The following were the sales and costs incurred by him with respect to his dairy business in the year ended 31 March 2008:

	M
Sales of milk	2,850
Salary of herd boy	1,800
Feed	890
Insecticides and injections	435
Cost of transporting milk	226

Required:

- (a) Calculate the tax payable by Teele Motaoana in respect of his employment income and business income for the year of assessment ended 31 March 2008. (18 marks)
- (b) In terms of the Income Tax Act 1993 (as amended):
- (i) Define a contractor. (4 marks)
 - (ii) State the rate of withholding tax applicable to payments to resident and non-resident contractors, respectively. (2 marks)
- (c) (i) Define a resident non-resident. (2 marks)
- (ii) Briefly explain the basis on which a resident non-resident is charged to tax and identify **THREE** reliefs or exemptions for which such a taxpayer does not qualify. (6 marks)
- (32 marks)**

- 2 Community (Pty) Ltd (Community) is a Lesotho resident company engaged in both manufacturing and general trading operations. Community produces and sells curtains and bedding. It also owns a shop which buys and sells fabric and sewing accessories. Community's profit and loss account for the year ended 31 December 2007 is as follows:

Profit and loss account for the year ended 31 December 2007

Income	Notes			M
Sales – manufacturing				508,650
– non manufacturing				95,000
Interest from Nedbank	1			23,999
Dividends received				
– from a Lesotho resident company	2			45,000
– from a Botswana resident company	2			15,000
				<u>687,649</u>
		Manufacturing	Non-manufacturing	
		M	M	
Opening stock		120,000	5,000	125,000
Cost of production/purchases	3	380,609	66,346	446,955
Less: closing stock		(138,139)	(26,040)	(164,179)
Cost of sales		<u>(362,470)</u>	<u>45,306</u>	<u>407,776</u>
Gross profit				279,873
Discount received	4			8,000
Bad debts recovered	5			12,000
Operating income				<u>299,873</u>
Operating expenses	6			
Salaries				35,650
Rent				42,000
Sales and marketing				10,365
Legal charges				6,500
Depreciation	7			9,000
Motor vehicle running costs	8			29,220
Discount allowed				6,037
Provision for doubtful debts				8,632
Bank charges				3,741
Fines and penalties	9			1,200
Insurance	10			12,000
Repairs and maintenance				4,674
Audit fees	11			11,973
Staff training	12			7,000
				<u>187,992</u>
Net profit				<u>111,881</u>

Notes:

- (1) The interest from Nedbank, a Lesotho resident, is stated net of withholding tax.
- (2) Advance corporation tax (ACT) in respect of the dividends is as follows:
 - Lesotho company – M24,231
 - Botswana company – M3,200
- (3) The non-manufacturing purchases include stock amounting to M5,220 which was donated to an orphanage home on 23 September 2007 and delivered on that date.
- (4) The discount received relates to the non-manufacturing operation.
- (5) Bad debts recovered relate to the manufacturing operation and were in respect of debts which had been written off in the previous year.

- (6) The operating expenses were all incurred in proportion to the sales made, except for depreciation.
- (7) Depreciation has been calculated using the rates given in the Sixth Schedule, and is applicable 95% to manufacturing and 5% to non-manufacturing activities.
- (8) Motor vehicle running costs include maintenance of M1,200 in respect of the personal car of the company's managing director. The managing director was, per arrangement, going to reimburse the company but has not yet done so.
- (9) Fines and penalties relate to a ticket issued by the South African police for exceeding the speed limit.
- (10) Insurance comprises premiums for the company's assets and staff personal accident insurance cover. The premiums were all paid to a South African insurance company.
- (11) The audit fees are a provision for the year ended 31 December 2007.
- (12) Staff training relates to a tuition fee for the company's sales manager who is pursuing an accounting course. The training course is not an approved one.

Required:

(a) Calculate the tax payable by Community (Pty) Ltd for the year ended 31 December 2007. (27 marks)

(b) In relation to the Income Tax Amendment Act 1993 (the Act), explain the difference between the terms 'exempt' and 'excluded'. (3 marks)

(30 marks)

3 Karabo Sefate is a Lesotho resident individual who is engaged in general trading. The following information pertains to her general sole trading business:

- (1) On 30 April 2005, she bought special tools for her business for M17,500.
- (2) On 1 September 2005, she bought office furniture, namely, two desks, costing M4,500 each.
- (3) On 1 February 2006, she bought a motor vehicle, a Toyota Verso model, for M120,000.
- (4) On 30 June 2006, she sold one of the desks bought on 1 September 2005 for M2,542.
- (5) On 1 October 2006, she bought a computer for M13,750.
- (6) On 31 January 2007, the special tools bought on 30 April 2005 were lost and never found. Since the tools were not insured, no insurance proceeds were received.
- (7) On 31 May 2007, the Toyota Verso was stolen and on 30 June 2007, she received insurance compensation of M105,000.
- (8) On 31 July 2007, she bought a new motor vehicle, an Isuzu 4x4 model, for M150,000 in replacement for the stolen Toyota Verso.

Karabo uses the single asset method of depreciation.

Required:

(a) Calculate the depreciation allowances for Karabo Sefate's sole trading business for each of the assessment years 2005/06, 2006/07 and 2007/08. (16 marks)

(b) Calculate the gains or losses (if any) on the disposal of assets for Karabo Sefate's sole trading business for the assessment years 2005/06, 2006/07 and 2007/08. (5 marks)

(c) State what Karabo Sefate would have to do if she wished to change to the pooling method of depreciation and the potential disadvantage of doing so. (3 marks)

(24 marks)

- 4 Mpho, Moshe, More and Mosi are all Lesotho resident individuals. They are partners in a business which trades as Kobefo Technologies, selling computers and providing information technology support. Mosi is employed full-time in the partnership. The other three partners are employed elsewhere and for 2007/08, their marginal tax rate was 35%. The partnership profit sharing ratio is 20%, 40%, 10% and 30%, respectively, for Mpho, Moshe, More and Mosi.

Kobefo Technologies commenced business on 1 April 2007. On the same date, the partnership registered for all taxes, including value added tax (VAT).

The information below relates to Kobefo Technologies for the year ended 31 March 2008:

	Note	M
Purchases	1	68,571
Salaries	2	36,000
General operating expenses	3	28,200
Depreciation	4	3,980
Closing stock	5	21,000
Opening stock		Nil

Additional information:

- (i) Kobefo Technologies maintained a gross profit margin on computer sales of 30% throughout the year ended 31 March 2008.
- (ii) VAT paid in the year ended 31 March 2008 was M16,250, net of input VAT on the purchases. All the sales and purchases are taxable at 14%.

Notes:

- (1) Purchases are stated inclusive of VAT.
- (2) Included in salaries is Mosi's salary of M16,000.
- (3) General operating expenses are all tax deductible.
- (4) Depreciation is equal to the deductible allowance for tax purposes.
- (5) Closing stock is stated exclusive of VAT and is valued at selling price.

Required:

- (a) Calculate Kobefo Technologies' output VAT for the year ended 31 March 2008. (3 marks)
- (b) Calculate the notional chargeable income for Kobefo Technologies for the year ended 31 March 2008. (5 marks)
- (c) Calculate the tax payable by each of the partners on their income from Kobefo Technologies for the assessment year ended 31 March 2008. (6 marks)

(14 marks)

End of Question Paper