

Certified Accounting Technician Examination  
Advanced Level

# Preparing Taxation Computations (Lesotho)

Tuesday 15 June 2010

**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A – ALL TEN questions are compulsory and MUST be attempted

Section B – ALL FOUR questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2 and 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)

## 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 M40,368	22%
Over M40,368	35%
Personal tax credit	M 5,000

### Third Schedule Resident Company Income Tax Rates

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.	10%
2. Other manufacturing income	10%
3. Other income	25%
4. Commercial farming income	15%

### Fourth Schedule

Tax rates for trustees, minors, fringe benefits and electing non-residents	35%
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### Fifth Schedule

#### Minimum Chargeable Income

The multiplication factors are

Air travel	100%
Electricity amount	100%
Principal – residence amount	5%
Schooling amount	100%
Secondary home amount	5%
Vehicle amount	25%

The amounts specified are

Air travel	M 2,500
Electricity amount	M 3,000
Principal – residence amount	M 150,000
Schooling amount	M 1,000
Secondary home amount	M 20,000
Vehicle amount	M 20,000

**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 & turbines; public utility plant	5%
5	Mining	100%

**Value added tax (VAT)**

Standard rate (All other taxable supplies and services)	14%
Supplies of electricity and telephone calls	5%
Basic foods and agricultural inputs	0%

**Section A – ALL TEN questions are compulsory and MUST be attempted**

Please use the inside cover of the Candidate Answer Booklet to indicate your chosen answer to each multiple choice question.

Each question within this section is worth 2 marks.

Choose only ONE answer to each question.

- 1 MCD paid a dividend of M 22,000 on 16 December 2009, the related ACT was M 7,333.

**When is the ACT payable to the Lesotho Revenue Authority?**

- A 23 December 2009
- B 16 December 2009
- C 31 March 2010
- D 30 June 2010

- 2 Mosa is a resident non-resident individual. She received a salary of M 80,000 and contributed 5% of her salary to the Corporate Bodies Pension Fund, a resident superannuation fund, per annum.

**How much is Mosa's chargeable income?**

- A M 4,000
- B M 0
- C M 76,000
- D M 80,000

- 3 **Which tax rates are applicable to the employment income of a diplomat?**

- A 25%
- B 0%
- C 35%
- D 25%, 35%

- 4 **Which of the statements is true about tax credit to a resident non-resident?**

- A A resident non-resident qualifies for full tax credit
- B A resident non-resident does not qualify for any tax credit in Lesotho
- C A resident non-resident qualifies for 50% of the Lesotho tax credit
- D The tax credit of a resident non-resident is apportioned according to the number of days he/she is present in Lesotho

- 5 **Which one of the following groups of supplies are all exempt from VAT?**

- A Insurance, purchases, telephone above M 5,000 and transportation of fare paying passengers
- B Insurance, purchases, public postal services and unimproved land
- C Education services, financial services, fuel and repairs of vehicles above three tonnes
- D Education services, financial services, medical and dental services

- 6 **Which of the following sets of groups are ONLY depreciated for tax purposes using the single asset method?**

- A Groups 1, 2, 3, and 4
- B Groups 1, 2 and 3
- C Group 4
- D Groups 1 and 4

- 7 M Breweries Ltd paid tuition fees of M 60,000 for its financial manager to study accounting at the Centre for Accounting Studies. The training was not approved by the Commissioner.

**How much is the allowable training expense?**

- A M 75,000
- B M 60,000
- C M 0
- D M 30,000

- 8 Sempe retired on the 28 February 2010 and received a lumpsum pension payment of M 120,000 from Lesotho Pension Scheme, a resident superannuation fund. He immediately reinvested 2/3 of the amount into Swaziland Pension Fund, a superannuation fund in Swaziland, even though he has not obtained the Commissioner's approval.

**How much income tax is payable on his pension payment?**

- A M 10,000
- B M 42,000
- C M 30,000
- D M 31,752

- 9 P Ltd, a resident company, had tax payable of M 48,900 for the year ended 31 March 2010. Instalments of M 20,000 paid during the year have already been utilised to settle its advance corporation tax (ACT) liability of M 15,000.

**How much is P Ltd's tax payable?**

- A M 33,900
- B M 28,900
- C M 48,900
- D M 13,900

- 10 Mpho is a resident individual who works for LIPSA. LIPSA is a resident tax exempt organisation. LIPSA provides her with a house whose market rent is M 50,400 per annum. Mpho is already taxed at 35%.

**How much tax is payable by Mpho for the year ended 31 March 2010?**

- A M 27,138
- B M 0
- C M 17,640
- D M 11,088

**(20 marks)**

**Section B – ALL FOUR questions are compulsory and MUST be attempted**

- 1 (a) Balefe Football club is a resident amateur sporting association. Balefe has been approved as a tax exempt organisation by the Commissioner of Income Tax. During the year ended 31 March 2009, the following transactions took place.

<b>Income</b>	
Gate takings	168,000
Sales from sports shop	157,525
Donation	130,300
Prize won on Premier Soccer League	180,000
<b>Expenses</b>	
Players' allowances	90,000
Administration staff salaries (Note 1)	132,000
Communication costs – sports shop	9,567
Rent for sports shop	14,400
Gate payments to Stadium Board	34,000
Purchases – sporting equipment for the sports shop	88,657
– players' outfit	36,000
Premier Soccer League subscription	7,500
Transport (Note 2)	55,760
Players' refreshments	29,860
Players' medical costs	15,200

Notes

1. Half of the administration staff work full time at the sports shop.
2. M 15,600 of transport charges was in relation to fuel and maintenance of a coach's vehicle. The balance related to players' transport to and from matches.

**Required:**

- (i) **State the main types of tax exempt organisations and the requirements which must be met in order for their income to be exempt;** (6 marks)
- (ii) **Calculate the chargeable income or allowable loss of Balefe Football Club for the year ended 31 March 2010.** (6 marks)

(b) Mosala Mofo, a resident taxpayer, was an employee of Lesotho Workers Union, a resident tax exempt trade union. He retired on 28 February 2010. Mosala was already taxed at 35%. On retirement date, he received the following amounts from Lesotho Workers Union:

Gratuity	210,900
Severance pay	98,000
Leave pay	55,833
Pension (1)	108,400
Endowment policy receipts	300,000

1. Of the pension received, Mosala reinvested 2/3 to a non-resident fund within 90 days of its payment. The M 108,400 is a net amount that was immediately paid to him as lumpsum.
2. During the year ended 31 March 2010, Lesotho Workers Union paid the following to Mosala:
  - School fees of M 40,000 per annum for his children at a university.
  - Utilities of M 3,500 for the year.
  - His fees for distance learning M 28,200.

**Required:**

- (i) Calculate how much tax has been withheld by the Fund Manager on Mosala's pension lumpsum payment; (3 marks)
- (ii) Calculate Mosala's tax payable for the year ended 31 March 2010. (9 marks)

**(24 marks)**

2 Pulihali (Pty) Ltd is a resident company which is engaged in commercial farming. Its transactions for the year ended 28 February 2010 were as follows:

	Note	M
Trading income	1	1,809,260
Proceeds from sale of equipment	2	207,490
Other income	3	142,950
Purchases	4	138,443
Transport costs	5	96,000
Irrigation costs		202,666
Staff salaries	6	350,000
Depreciation	7	98,453
Market rent		68,000
Pension contributions	8	42,000
Medical expenses		80,000
Compulsory savings	9	44,000
Entertainment	10	58,000

Notes

- Trading income includes an advance payment by Fruits and Vegetable City for three months supply amounting to M 450,608. The fruits and vegetables will be supplied from April to June 2010.
- Proceeds were from sale of equipment on 28 November 2009. The adjusted cost base of the equipment on that date was M 189,400.

3. Other income

Interest from Post Bank in Lesotho	22,500
Dividends from Bafokeng Mining	78,000
Discount received from suppliers	9,350
Bad debts recovered	13,100
Repayment of staff loans	20,000
	142,950

No interest was charged on staff loans and no tax has been withheld on interest from Post Bank.

4. Purchases

Manure	33,000
Seeds	105,443
	138,443

5. Transport

Staff transport to and from the farm	22,000
Hire of tractors	64,000
Transport of children of farm staff to school	10,000
	96,000

- Salaries are for farm staff only. Salaries for head office staff not included in the records was M 120,000
- Depreciation includes M 17,500 depreciation for the farming land and the balance is depreciation allowance for vehicles, plant and equipment.
- The company contributes 13% pension to two schemes; head office staff are members of a non-resident scheme while farm staff are members of a resident Pension Scheme. Staff do not contribute to the pension schemes.
- Compulsory savings are monies deducted from staff salaries and paid to Lesotho Bank on their behalf. The staff salaries of M 350,000 are before deduction of the compulsory savings.



10. Entertainment relates to:	
Clients	28,000
Staff refreshments in a canteen at the farm	14,000
Transport, accommodation and meals for farm staff with outstanding performance during the year	12,000
Staff Christmas party	4,000
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	58,000
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**Required:**

- (a) Calculate tax payable by Pulihali (pty) Ltd for the year ended 28 February 2010, clearly identifying by the use of zero where expenses are not deductible or where items of income are not taxable. (15 marks)
- (b) (i) State who is regarded as the owner of leased property under a finance lease, for income tax purposes; (1 mark)
- (ii) Explain how the interest component of a finance lease payment will be calculated; (2 marks)
- (iii) State the tax treatment of the interest component of a finance lease, for the lessor and the lessee. (1 mark)

**(19 marks)**

**3 Required:**

**In each of the following cases calculate the taxable gain/allowable loss on disposal of assets and outline how the gain/loss will be treated in the tax computation of the seller.**

- (i) Noma Joma, resident businessman bought a car for his wife who uses it exclusively for family matters. The car cost M 288,000 on 1 June 2007 when acquired. On 1 April 2009, Noma sold the car for M 103,000, its adjusted cost base was M 171,000 on that date. (1 mark)
- (ii) Seporong (Pty) Ltd provided its managing director, Mr Lira Sello, with a vehicle for both business and private use. On 1 September 2006 when first provided, the car cost M 480,000. On 1 August 2009 the car was sold to Mr Lira for M 140,000. Seporong's year end is 31 March. (8 marks)
- (iii) Mohua Investments owns a block of flats. The flats were constructed for M 1,560,000 in August 2002. As a result of discontinuing its property business, on 1 February 2009, Mohua Investments sold the flats for M 558,000. The adjusted cost base of the flats on that date was M 620,000. There was no income on investments during the year. (4 marks)
- (iv) Lipuo Mohale sold a computer on 31 January 2009 to her associate, Mabatho Ben, for M 16,800. The adjusted cost base of the computer on that date was M 20,000. (3 marks)
- (v) Rik Tsie divorced his wife, Moliehi Tsie. On 1 June 2009, Moliehi received a house and shares in Loti Brick, a resident company as part of divorce settlement. The adjusted cost base of the house at the date of transfer was M 330,000 while the value of shares on that date was M 94,000. On 30 December 2009, Moliehi sold the house for M 450,000 and shares to a resident company at M 135,000. Consider the tax positions of both spouses. (6 marks)

**(22 marks)**

**4 Orange River Pavers Ltd is a registered vendor who is engaged in the manufacturing of steel products. During the month ended 30 November 2009, the following transactions took place. All amounts stated are value added tax (VAT) exclusive.**

- (i) Sales of M 1,456,000
- (ii) Sales of food from canteen to staff for M 6,000
- (iii) Purchased an unimproved land outside town to construct its second manufacturing workshop for M 120,000
- (iv) Paid water amounting to M 35,000
- (v) Paid insurance premium for assets and staff of M 39,800
- (vi) Purchased machinery spare parts of M 27,200
- (vii) Purchased raw materials M 642,750
- (viii) Paid for petrol for cars M 106,400. 15% of petrol relates to managers' personal vehicles, and 80% of the remaining balance relates to heavy duty vehicles
- (ix) Mileage claim of sales representatives M 17,650
- (x) Cost of maize meal for canteen M 9,900.

**Required:**

**Calculate output and input VAT for the month ended 30 November 2009, indicating by a zero where items are exempt or where VAT is non-claimable.**

**(15 marks)**

**End of Question Paper**