

FOUNDATIONS IN ACCOUNTANCY

Foundations in Taxation (Lesotho)

Pilot Paper

Time allowed:

Writing: 2 hours

This paper is divided into two sections:

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

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

Tax rates and allowances are on pages 2–3

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

Paper FTX(LSO)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

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 M 40,368	22%
Over M 40,368	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	10%

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	M2,500
Electricity amount	M3,000
Principal – residence amount	M150,000
Schooling amount	M1,000
Secondary home amount	M20,000
Vehicle amount	M20,000

**Sixth Schedule
Declining Balance Depreciation Rates**

Group	Asset 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 & 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 space provided on the inside of the Candidate Answer Booklet to indicate your chosen answer to each multiple choice question.

- 1** Mia is a non-resident individual. He works as an insurance agent. During the year ended 31 March 2011, he received M186,980 as commission. His agency related expenses for the year were M52,309.

How much tax is payable by Mia for the year ended 31 March 2011?

- A M33,668
- B M36,887
- C M0
- D M 46,745

(2 marks)

- 2** Mojalefa is a resident individual. He provides car washing services. During the year ended 31 March 2011, he received M136,480 as income, and his related expenses for the year were M50,200.

How much tax is payable by Mojalefa for the year ended 31 March 2011?

- A M21,570
- B M19,950
- C M0
- D M34,120

(3 marks)

- 3** K Ltd is a resident company. A VAT refund of M37,493 is due to K Ltd, arising from supplies made in February 2011. K Ltd's income tax liability for the year ended 31 March 2011 is M121,073.

How much tax is payable by K Ltd for the year ended 31 March 2011?

- A M121,073
- B M83,580
- C M37,493
- D M30,268

(2 marks)

- 4 Which of the following statements is FALSE about VAT?**

- A Where a taxpayer has applied for a VAT refund and the Commissioner is satisfied that value added tax has been overpaid, the Commissioner shall refund the overpaid tax.
- B Where the Commissioner is satisfied that value added tax has been overpaid, the Commissioner shall keep the amount overpaid for offset against future VAT liabilities. (1 mark)

- 5** Y (Pty) Ltd's return of income tax was amended by the Lesotho Revenue Authority, thereby increasing its tax liability.

Within what time should the tax amount assessed be paid to the Lesotho Revenue Authority?

- A 30 days after the amended assessment
- B 15 days after the amended assessment

(1 mark)

6 Peter is a resident liquidator. In January 2011, he paid M62,300 to Ruby, a resident member of Lesotho Textiles.

How much tax should Peter withhold from Ruby's payment?

- A M15,575
- B M3,115
- C M6,230
- D M0

(2 marks)

7 B Holdings is a resident company. It acquired plant through a finance lease. The finance lease commenced on 1 April 2009. The lease year end is 31 March. The company's year end is 31 October. Interest on the finance lease was M15,090 for 2009/10 and M8,290 for 2010/11.

How much finance lease interest is allowable as a deduction for B Holdings for the year ended 31 October 2011?

- A M11,124
- B M8,290
- C M15,090
- D M6,288

(3 marks)

8 Which of the following methods of valuing stock is permitted by the Income Tax Act?

- A LIFO
- B FIFO

(1 mark)

9 S Plc is using the cash basis of accounting. Its total sales for the year ended 30 June 2011 were M862,785. M312,348 of the sales were still outstanding at year end.

How much will be included as total sales in the computation of chargeable income for S Plc at the year-ended 30 June 2011?

- A M862,785
- B M550,437
- C M312,348
- D M1,175,133

(3 marks)

10 T Plc is using the accrual basis of accounting. Its total sales for the year ended 31 March 2011 were M500,800. M250,300 of the sales were still outstanding at the year end.

How much will be included as total sales in the computation of chargeable income for T Plc at year-ended 31 March 2011?

- A M250,300
- B M250,500
- C M500,800
- D M751,100

(2 marks)

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

- 1** Mora Morena is a resident individual. During the year ended 31 March 2011, he received the following gross employment income.

	M
Salary	120,600
Telephone allowance	6,660
Bonus	14,560
Severance pay	38,366

Mora Morena also owns a block of rental buildings. The following records relate to the rental business.

	Notes	M
Rental income		160,000
Interest from Post Bank	1	1,817
Expenses:		
Water and sewerage		2,260
Repairs and maintenance	2	28,917
Depreciation	3	8,820
Interest on loan		12,460
Wages and salaries	4	56,800
Ground Rent		14,400
Other allowable deductions		9,366

Notes

- 1 Interest from Post Bank is net of withholding tax.
- 2 Repairs and maintenance includes M4,033 in relation to building materials for Mora Morena's personal house.
- 3 Depreciation relates to the rental property.
- 4 Wages include donations to former employee of M18,000.

Required:

- (a) Calculate Mora Morena's chargeable income for the year ended 31 March 2011.** (12 marks)
- (b) Calculate the tax payable by Mora Morena for the year ended 31 March 2011.** (3 marks)

(15 marks)

- 2 ABC Limited is a resident company which is engaged in manufacturing. The following records were extracted from its profit and loss account for the year ended 31 December 2010.

	Notes	M
Sales	1	550,300
Other Income	2	33,850
Proceeds from disposal of assets	3	120,040
Expenses:		
Raw materials		301,220
Utilities		50,950
Rent		72,000
Salaries	4	69,400
Penalties		857
Entertainment		11,777

Notes

- 1 Sales exclude value added tax (VAT) of M48,689.
- 2 Other income relates to income from consultancy work carried out by the company's senior staff.
- 3 The disposal proceeds relate to the company's heavy duty truck, which was sold on 31 March 2010. The truck's adjusted cost base was M140,000 at 1 January 2009.
- 4 Salaries exclude income tax on salaries of M6,250 and employees' superannuation contributions totaling M2,988.
- 5 There were no stocks of raw materials at the end of the year.

Required:

- (a) Calculate ABC Limited's chargeable income for the year ended 31 December 2010. (12 marks)
- (b) Calculate the corporation tax payable by ABC Limited for the year ended 31 December 2010. (3 marks)

(15 marks)

- 3 Roti Enterprises is a partnership business of Liteboho, Limpho and Rotche, who are all Lesotho residents. Its partnership notional chargeable income for the year ended 31 March 2011 was as follows.

	M
Revenue	420,820
Interest from Central Bank of Lesotho	6,389
	<u>427,209</u>
Allowable deductions:	
Administration costs	238,650
Interest on capital – Liteboho	1,317
Limpho	3,080
Rotche	948
Salaries	
Liteboho	44,900
Limpho	28,100
Rotche	12,767
Staff	30,000
	<u>359,762</u>
Notional chargeable income	<u>67,447</u>

Notes

- 1 Profit sharing ratio was Liteboho 50%, Limpho 25% and Rotche 25%.

Required:

- (a) Calculate the chargeable income of Liteboho, Limpho and Rotche for the year ended 31 March 2011.

(9 marks)

- (b) State the rates that Liteboho, Limpho and Rotche will pay tax at for the year ended 31 March 2011.

Note: calculations are not required for part (b)

(1 mark)

(10 marks)

- 4 MRH Plc is a registered vendor. Its records for August 2011, which include value added tax (VAT), are as follows.

	M
Sales	520,000
Purchases – Raw materials	385,999
– Fuel	12,345
Repairs to equipment	83,670
Electricity	2,440
Water	4,260
Staff training	33,760

Required:

Calculate the value added tax (VAT) payable by MRH Plc for August 2011, and explain your treatment of electricity.

(10 marks)

- 5 Phaphama Holdings, a resident company, provided the following benefits to its Sales Director during the quarter ended 30 June 2011:

	M
Motor Car	307,400
Security guard	14,000
Medical aid	6,740

Required:

Calculate the fringe benefits tax payable by Phaphama Holdings on each of the benefits for the quarter ended 30 June 2011.

(6 marks)

- 6
- 1 Mpati owned a BMW motor vehicle model, while Thato owned a Volvo motor vehicle model. The adjusted cost base of the BMW was M309,500 while that of the Volvo was M278,900. The two parties agreed to swap the motor vehicles.
 - 2 Lipopo Ltd sold a truck to its associate, Bataung Garage, for M409,000. The adjusted cost base of the truck was M458,670 on the date of sale.

Required:

Calculate the gain, or allowable loss, on the disposal of each of the assets in (1) and (2).

(6 marks)

- 7 **State the rules for an individual to be treated as a Lesotho resident.**

(6 marks)

- 8 Mosa Enterprises made the following payments during the year ended 31 March 2010. No tax was withheld from the payments.

- 1 Payment to Lesotho Industries, a resident company, for wiring and installing electricity – M34,560
- 2 Payment to Rath Auditors, a non resident company, for provision of audit services – M52,000
- 3 Payment of a dividend from non-manufacturing income to XYZ Ltd, a non resident company – M101,300
- 4 Payment of insurance premiums to Metropolitan Lesotho, a resident insurance company – M40,080

Required:

Calculate the tax that should have been withheld by Mosa Enterprises from the payments in (1) to (4).

(6 marks)

- 9 **Required:**

(a) **Outline the requirements of a superannuation fund to be treated as a resident fund.** (4 marks)

(b) **State ANY ONE condition where contributions to a non-resident superannuation fund are allowed as a deduction.** (2 marks)

(6 marks)

End of Question Paper

Answers

Section A		Marks
1	D M46,745 (186,980 x 25%)	2
2	B	
	(136,480 – 50,200)	M 86,280
	First M40,368	8,881
	45,912 x 35%	16,069
	Tax credit	(5,000)
		<hr/> 19,950
3	B M83,580 (121,073 – 37,493)	2
4	B	1
5	A	1
6	C M6,230 (62,300 x 10%)	2
7	A M11,124 (15,090 x 5/12 + 8,290 x 7/12)	3
8	B	1
9	B M550,437 (862,785-312,348)	3
10	C M500,800	2
		<hr/> 20 <hr/>

Section B

Marks

1 Mora Morena

(a) Chargeable income of Mora Morena for the year ended 31 March 2011

	Employment Income M	Business Income M	
Salary	120,600		1
Telephone allowance	6,660		1
Bonus	14,560		1
Severance pay (38,366 – 1,500)	36,866		1½
Rental income		160,000	1
Interest from Post Bank		0	1
	<u>178,686</u>	<u>160,000</u>	
<i>Less: Allowable expenses</i>			
Water and sewerage		2,260	½
Repairs and maintenance (28,917-4,033)		24,884	1
Depreciation		0	½
Interest on loan		12,460	1
Wages and salaries (56,800-18,000)		38,800	1½
Ground Rent		14,400	½
Other allowable deductions		9,366	½
		<u>102,170</u>	
Chargeable income	<u>178,686</u>	<u>57,830</u>	<u>12</u>

(b) Tax payable

Chargeable income (178,686 + 57,830)	236,516	
First M40,368 @ 22%	8,881	1
M196,148 @ 35%	68,652	1
<i>Less: Tax credit</i>	(5,000)	1
	<u>72,533</u>	<u>3</u>
		<u>15</u>

2 ABC Limited

(a) Chargeable Income of ABC Limited for the year ended 31 December 2010

	Business Income		
	Manufacturing M	Non manufacturing M	
Sales	550,300		1
Other Income		33,850	1
Profit from disposal (working)		13,640	
	<u>550,300</u>		
<i>Less: Allowable expenses</i>			
Raw materials	301,220		1/2
Utilities	50,950		1/2
Rent	72,000		1/2
Salaries (69,400+6,250)	75,650		1
Penalties	0		1
Entertainment	5,889		1
Depreciation (5,600) wk1	5,600		1/2
	<u>511,309</u>		
Chargeable income	<u>38,991</u>	<u>47,940</u>	
Working:			
Depreciation			
1 January 2009	Adjusted cost base	140,000	1/2
31 December 2009	Depreciation	28,000	1
		<u>112,000</u>	
31 March 2010	Depreciation (112,000 x 20% x 3/12)	5,600	1 1/2
		<u>106,400</u>	
31 March 2010	Adjusted cost base	106,400	
	Proceeds	120,040	1
		<u>13,640</u>	1
			<u>12</u>

(b) Corporation tax payable by ABC Limited for the year ended 31 December 2010

Manufacturing income 38,991 x 10%	3,899	1 1/2
Other income business 47,940 x 25%	37,260	1 1/2
		<u>3</u>
		<u>15</u>

3 Lieboho, Limpho and Rotche

(a) Partners' chargeable income

	Liteboho M	Limpho M	Rotche M	
Share of profit	33,724	16,862	16,861	3
Interest on capital	1,317	3,080	948	3
Salary	44,900	28,100	12,767	3
Chargeable income	<u>79,941</u>	<u>48,042</u>	<u>30,576</u>	<u>9</u>

(b) Liteboho, Limpho and Rotche will pay tax at 22% and 35% on their chargeable income.

1
10

4 MRH Plc

MRH Plc's value added tax (VAT) payable for August 2011

	M	
Output VAT		
Sales (520,000 x 14/114)	63,860	1½
Input VAT		
Purchases – raw materials (385,999 x 14/114)	47,404	1½
– Fuel (12,345 x 14/114)	1,516	1½
Repairs to equipment (83,670 x 14/114)	10,275	1½
Electricity	0	½
Water	Exempt	1
Staff training	0	1
	<hr/>	
	59,195	
VAT payable	4,665	½

Note
Electricity is not claimable because it is below the threshold, it will only be claimable if it exceeds M5,000. 1

10

5 Phaphama Holdings

Phaphama Holdings' fringe benefit tax for the quarter ending 30 June 2011

	M	
Motor Car		
Taxable value 307,400 x 15% x 1/4	11,528	1½
Taxable amount 11,528/0.65	17,735	1
Fringe benefit 17,735 x 35%	6,207	½
Security		
This is an exempt fringe benefit		1
Medical aid		
Taxable value	6,740	½
Taxable amount (6,740/0.65)	10,369	1
Fringe benefit tax (10,369 x 35%)	3,629	½

6

6 1 There is neither a gain nor a loss on disposal of assets by asset swap.
The asset is deemed to be acquired at its adjusted cost base. 2

2 Lipopo Ltd	M	
Adjusted cost base	458,670	1
Proceeds	409,000	1
	<hr/>	
Loss on disposal	49,670	

The loss on disposal of an asset to an associate is not allowable.
The proceeds are deemed to be equal to the adjusted cost base. 2

6

7 Residence

An individual is a resident of Lesotho if he/she:

- has a normal place of abode in Lesotho and was present in Lesotho for the whole or part of the year of assessment; 1½
 - was present in Lesotho for more than 182 days in any consecutive periods of 12 months which includes all or part of the year of assessment; and 1½
 - is an official of the Lesotho Government posted overseas during the year of assessment; or 1½
 - is otherwise a resident of Lesotho 1½
-
- 6**

8 Withholding tax

Calculation of withholding taxes

Lesotho Industries (34,560 x 5%)	1,728	1½
Rath Textiles (52,000 x 10%)	5,200	1½
XYZ Ltd (101,300 x 25%)	25,325	1½
Metropolitan Lesotho	0	1½
		<hr style="width: 100%;"/> 6

9 Superannuation fund

- (a)** A superannuation fund is a resident fund if it:
- is operated in Lesotho for the principal purpose of providing superannuation benefits to resident individuals; and 2
 - has its management and control in Lesotho. 2
-
- 4**
- (b)** Contributions to a non-resident superannuation fund on behalf of residents of Lesotho are allowable as deductions if:
- The trustee or fund manager has given a written statement to the Commissioner that she will withhold tax at a rate specified by the Commissioner and remit it to the Commissioner upon payment of superannuation proceeds to the person for whom the contributions were made or to the person's dependents.
 - The fund complies with the conditions prescribed in the Income Tax Regulations 1994 (as amended)
- 2 marks each, only ONE condition required 2
-
- 6**