

BICA JUNE 2022 – TAX COMPLIANCE EXAMS (SUGGESTED ANSWERS AND MARKING SCHEME)

Question 1

The ethical threats are as follows:

Self- interest: Tshoko is financially reliant on income from work for Nonofu and her other family members.

Familiarity: There is both a professional and a family relationship here.

Fundamental principles breached if Tshoko prepares an incorrect return.

Integrity: A chartered accountant should not prepare a return containing a false statement.

Objectivity: Tshoko should not let family ties influence her judgement.

Professional behaviour: Part of professional behaviour expected of a chartered accountant is compliance with the law, and deliberately assisting tax evasion would be illegal.

(1.5 marks per each valid point – maximum marks 7 marks)

Question 2 (a)

Computation of capital allowances and balancing adjustments fye 31 March 2022:

Balancing adjustment on disposal of motor car:

	P	
Cost – January 2019	175,000	1
Capital allowances granted: 2019 – 2021: P175,000 x 3 years x 25%	(131,250)	1

Income tax value b/f	43,750	1
Sales proceeds	(250,000)	1
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Balancing charge	(206,250)	4
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Balancing adjustment on disposal of the computer:

Income tax value b/f (fully written off)	0	1
Sales proceeds	(5,000)	1
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Balancing charge	(5,000)	2
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Total balancing charge

211,250

Computation of capital allowances (P'000):

Delivery vans P,3,500 x 25%	87,500	1
Motor vehicles (P2,900 + 650 – 580) x 25%	74,250	1
Computers – fully written off	0	1
Computer package P80 x 100%	80,000	1
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Total capital allowances	241,750	4
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Question 2 (b)

Computation of taxable income fye 31 March 2022:

	P'000	P'000	
Net profit per accounts		(290.50)	
Less: goods on sale or return		(220.00)	1
Interest from Botswana Savings Bank		(34.00)	1
Revaluation of non-current assets		(150.00)	1
Bad debts		0.00	
Decrease in general provision (P28 – P10)		(18.00)	1
Staff loans written off recovered		(35.00)	1

		(747.50)	
Add: Depreciation	444.00		1
Amortisation	66.00		1
Tax penalties for late submission of tax return	22.00		1
Bad debts:			
Staff loans written off	15.00		1
Supplier's loan written off	18.00		1
Legal and professional fees:			
Issue costs for preference shares	8.00		1
Legal fees for recovery of employee loans	4.00		1
Loss on disposal of non-current assets	40.00		1
	-----	617.00	

		(130.50)	
Add: balancing charge		. 211.25	1
Less: capital allowances		(241.75)	1
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Taxable income		(100.00)	15
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Question 2 (c)

Allowable loss:		
Taxable loss (as in 2(b))	(100.00)	1

Allowable loss carried forward	(100,000)	1

Tax liability	0	
Less: WHT deducted on rental income	15,000	1
WHT deducted on bank deposit interest (P50,000 x 10%)	5,000	1
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Tax refund	20,000	4
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(TOTAL: 30 MARKS)

Question 3 (a)

Computation of chargeable partnership taxable income fye 2021/22:

	P'000	
Net profit per accounts	1,040	1/2
Add: depreciation	205	1/2
Partners' salaries	375	1
Drawings - Tebogo	60	1
Less: capital allowances	(240)	1
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Taxable income	1,440	4
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Allocation of taxable income to the partners:

	Total P'000	Tebogo P'000	Thabo P'000	Tsheko P'000	
1/4/21 – 30/6/21 (3 months)					
Taxable income P1,440 x 3/12	360.0	180.0	180.0	-	0.67 x 3
1/7/21 – 31/3/22					
P1,440 x 9/12	1,080.0				
Salaries for 9 months	(375.0)	150.0	112.5	112.5	0.67 x 3

	705.0				
Share of residual income	(705.0)	352.5	235.0	117.5	0,67 x 3
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Taxable income	0	682.5	527.5	230.0	10
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Question 3 (b)

Computation of taxable employment income for Hannah fye 30 June 2022:

	P	
Salary	480,000	
Housing benefit P450,000 x 10%	45,000	1
Car allowance	24,000	1
Employer's contributions to approved pension	0	1
Amount reimbursed for medical	0	1
Family holiday package to Cape Town	85,000	
Amount reimbursed for school fees	60,000	1
Reimbursements for house utilities	28,000	1

	722,000	
Less: Donation to approved medical facility	(12,000)	1
employee's contribution	(48,000)	1
Annual subscription	(2,000)	1
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Taxable employment income	660,000	9
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Tax payable:		
First P156,000	13,050.00	
Next P504,000 x 25%	126,0000	

	139,050	1
Less: PAYE deducted at source	94,050.00)	1
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Tax payable	45,000.00	9
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(TOTAL: 19 MARKS)

Question 4 (a)

Computation of VAT payable for Mongwe Ltd for April 2022:

Output VAT	P'000	
Local std rated sales – P1,800 x 14%	252.0	1
Export sales – P400 x 0%	0.0	1
Exempt sales -	0.0	
Sale of company motor car - exempt	0.0	1
Interest income - exempt	0.0	1

Output VAT	252.0	

Recoverable Input VAT:		
Salaries	0.0	1
Hotel charges	0.0	1
Rent of premises – P120,000 x 14%	16.8	1
Std rated purchases to make:		
Taxable supplies – P700,000 x 14%	98.0	1
Export supplies – P150,000 x 14%	21.0	1
Exempt supplies	0.0	1
Overheads – W1	25.5	1
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Input VAT	161.3	11
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VAT payable (252 – 161.3)	90.7	1
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		11

	Maximum marks	

Working 1:

VAT on overheads – P250,000 x 14% = P35,000

Partial exemption: Taxable supplies/total supplies

P35,000 x (1,800 + 400) / (1,800 + 400 + 600 + 220)

Recoverable input VAT P35,000 x 2,200 / 3,020 P25,496

Question 4 (b)

i) Computation of gain/loss on disposal of a hotel:

	P	P	
Sales proceeds		3,100,000	
Less:			
Allowable cost:			
Hotel cost (August 2010)	1,500,000		1/2
Extension (July 2018)	300,000		1/2
	-----	(1,800,000)	
Un-indexed gain		1,300,000	
Less: Indexation allowance:			
On Hotel:			
P1,500,000 x $\frac{(2188.0 - 1290.6)}{1290.6}$	1,043,700		1
On extension:			
P300,000 x $\frac{(2188.0 - 1860.3)}{1860.3}$	52,846		1
	-----	(1,096,546)	
Chargeable gain		203,454	

2) Disposal of shares in a private company:

	P	P	
Sales proceeds		63,000	1/2
Allowable cost: P30,000 x 9,000/10,000		(27,000)	1/2

Un-indexed gain		36,000	
Moveable allowance in lieu of indexation:			
25% x P36,000		(9,000)	1

Chargeable gain		27,000	

- 3** Disposal of shares in a company listed on the Botswana Stock Exchange (BSE)
 Disposal of shares listed BSE are exempted from capital gains tax. 1

Question 4 (b)**(ii) Computation of total taxable income for y/e 31 March 2022:**

	P	
Business taxable income	670,000	1/2
Rental income P45,600 / 95%	48,000	1
Chargeable gains (P203,454 + P27,000)	230,454	1
Balancing charge on disposal of hotel:		
On hotel:		
Initial allowance – P1,200,000 x 25%	300,000	1/2
A.A P1,200,000 x 2.5% x 11 years	330,000	1/2
On extension:		
I.A. P300,000 x 25%	75,000	1/2
A.A. P300,000 x 2.5% x 3 years	22,500	1/2

Balancing charge on disposal	727,500	
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Total taxable income	1,675,954	4
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Question 4 (b)**(iii) Computation of tax payable:**

	P	
Tax liability:		
P1,675,954 x 22%	368,710	1
Less: WHT on rent P48,000 x 5%	(2,400)	1
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Tax payable	366,310	2
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(TOTAL: 23 MARKS)

Question 5 (a)

Calculation of the chargeable capital transfer due as a result of the death of Thabo:

	P	
<i>Ebineng</i>		
Gift of matrimonial house – capital transfer	3,200,000	1
Less: allowable deduction (W1)	(74074)	1

	3,125,926	

<i>Goitseone</i>		
Flat in Gaborone	0	
Less mortgage loan balance	(250,000)	1

	0	

	0	1

Cash, household goods & personal belongings		
P695,000 x 50%	347,500	1
Less exemption	(347,500)	1

	0	

<i>Boipelo</i>		
Flat in Johannesburg –		
taxable as Boipelo is domiciled in Botswana,	1,120,000	1
Less: allowable deduction (W1)	(25,926)	1

	1,094,017	

<i>Mmusi</i>		
Cash, household goods & personal belongings		
P695,000 x 50%	347,500	1
Less exemption	(347,500)	1
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	0	10
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Working 1 – P100,000 allowable deduction

	P	
Ebineng – $3,200 \times 100,000 / 5,570 =$	745,074	
Boipelo - $1,120 \times 100,000 / 5,570 =$	25,926	
Total - 5,570	100,000	1

Question 5 (b)

Where in any tax year a loan is made by a participator, or by a relative or nominee of a participator, to a close company, either free of interest or at a rate of interest lower than the commercial rate generally prevailing the time the loan is made, and the Commissioner is of the opinion that the loan is not one between independent persons dealing at arm's length with each other, interest on the loan shall be deemed to have accrued to the participator for that tax year and any subsequent tax year in which the loan remains unpaid at such commercial rate as the Commissioner deems reasonable in the circumstances. 2

Any amount of interest which is deemed to have accrued to any person by virtue of this section shall not be deducted in ascertaining the chargeable income of the company for that tax year.

2

Ebineng shall be deemed to have received interest income of P8,000 ($P100,000 \times 8\%$), and the income shall be included in his taxable income for the tax year 2021/22. 2

The close company will not be allowed to deduct the deemed interest of P8,000. 1

Provision of an interest free loan to a close company by a participator is treated as . 1

Kitso as a participator and relative to Oratang shall be deemed to have received a dividend.

1

11

Maximum marks – 7 marks

(TOTAL: 17 MARKS)