

Examiner's report

F6 Taxation (MWI)

June 2011



General Comments

The examination consisted of five compulsory questions (Question 1 was for 30 marks and question 2 for 25 marks, whilst questions 3 to 5 carried 15 marks each). The questions required both computational and descriptive type answers.

The majority of the candidates attempted all the five questions, although there were some candidates who attempted only parts of questions. This was particularly so for questions 3, 4 and 5.

Performance in this paper was not as good as had been anticipated. Although most candidates handled questions 1 and 2 very well, the performance in the other questions was not satisfactory and therefore affected the overall result. It was clear from the answers for question 3 that the majority of candidates were not conversant with certain provisions of VAT. Most candidates demonstrated that they had very little knowledge or had just memorised the principles and just applied them without due regard to what was requested of them to demonstrate knowledge of the subject. With regard to questions 4 and 5, it was apparent from the answers given that the majority of the candidates did not read and understand the instructions given and also the requirements of these questions

Workings were generally shown and there was an improvement in the layout of the answers, particularly for question one. Good presentation allows the markers to clearly follow what is trying to be achieved by the candidates. Candidates must give more thought to the layout and organisation of their answers.

Performance in this paper will improve once candidates carefully read the requirements of each question and not be seen to give memorised answers especially when it comes to questions on Value Added Tax. It is important to read and understand the question before attempting to ensure that the candidate gives the appropriate answers and therefore not waste time in giving information which is not relevant to the question. It was common for candidates to give explanations for adjustments to taxable income which was not a requirement, this was particularly so for questions one and two. Candidates were requested that answers should be to the nearest K1 and yet some candidates provided answers to the nearest K, 000.

For candidates to perform well in this paper it is important that they adopt the following approach:

- Read and understand what the question requires and follow the instructions
- Improve on presentation of answers, such that they are easier to understand. Tabular form of presentation would reduce the time candidates take to answer computational questions, particularly where comparative analysis is required or where more than one year computations are required
- Where answers need to be worked or calculated, all workings must be shown. Candidates should not just present the final answer but show a reasonable work trail of how they got to the final figure. Workings to answers, particularly where the figure is made up of two or more items, must be clearly shown.
- Be familiar with the recent amendments to the Customs and Excise Act, VAT and Income Tax Act, made up to 30 September cut-off date for examinable legislation, for the following June and December examination sessions.

If candidates stopped to read the question and understand what is being required of them there would be a very significant improvement in the quality of the answers. The poor performance by many candidates was once again a result of the candidates not carefully reading the question, which resulted in answers not directly answering what was asked.



Specific Comments

Question One

This question dealt with taxation of a company in the Tourism Industry. The company owned hotels, but in addition had a division involved in Tour Operations management. The question was for 30 marks and was divided into three parts. This question on the whole was well answered by a majority of the candidates. It showed that candidates understood in general what was being examined and the principles of taxation as it affected companies and also the calculation of capital allowances. However, most candidates did not calculate capital allowances for the division nor arrive at taxable income for the division

The specific comments for each part of this question are as follows:

Part (a), for 16 marks. This dealt with the computation of capital allowances. Generally this part of the question was well answered. Candidates correctly calculated investment allowances differentiating between new and unused items. On new items that qualify for 100% investment allowances, the correct treatment is that no annual allowances were claimable. Very few candidates treated the items qualifying for 100% investment allowances as also qualifying for annual allowances.

This part of the question was well answered and most candidates used the columnar form of presentation, thereby saving time and also making the marking process easier.

Part (b), for 12 marks, dealt with the computation of taxable profits. Generally this part was well answered. It should be noted however, there were some candidates that still explained in detail the reason why expenditures had been disallowed even though this had not been requested in the question.

Further, it was also observed that even though there was a division the income for this should have been aggregated with that of the company. Very few candidates actually correctly handled this aspect

Part (c), for 2 marks, This required the candidates to state, if the company had a tax loss, how these would be treated including the withholding or provisional tax that would have been paid. Generally this was well answered, but some candidates did not state how the withholding tax or the provisional tax paid would be dealt with. Also most candidates ignored the 'if' which had been stated in the answer. They therefore answered this part based on their results of the computation in part (c).

Question Two

This question dealt with the taxation of income of a freelance management consultant. The consultant also operated a produce business. He was married and the wife had both earned and unearned income. This question was for 25 marks and was divided into three parts. Overall, this question was well answered by a majority of the candidates. However, a few candidates treated the wife's unearned income such as rent and interest as income of the wife for tax purposes instead of allocating this to the husband. Some candidates wasted a lot time explaining why items had been allowed or disallowed, even though this had not been requested.

With regard to the part on the capital gain, most candidates did not treat the driveway as part of the cost of the house that had been sold.

The specific comments relating to each part are as follows:

Part (a), for 5 marks, required candidates to calculate the capital gain on the house that was sold, but the proceeds would be used to buy another property. This part was well answered; candidates correctly applied the conversion factors. However there were some candidates that did not take into account the cost of the drive way as part of the costs that were spent in 2010.



Most candidates correctly stated that the gain would be deferred.

Part (b), for 13 marks, required candidates to compute the taxable income of Mr. and Mrs. Mazombwe for the year ended 30 June 2010.

This required that candidates should first work out the taxable income from the produce business. This involved adding disallowable costs such as drawings by the owner and then subtracting allowable costs such as export and transport tax allowance. The adjusted income would then be included in taxable income together with income from other sources.

Most candidates worked out the taxable income from the business as a separate source of income. However, there were some candidates that accounted for the drawings by Peter Mazombwe, first by adding this back in the adjusted income and then adding the salary again as part of the income tax computation.

There were candidates that did not treat the unearned income of Mrs. Mazombwe as income of the husband, Mr. Mazombwe.

In terms of presentation, the answers were well presented. However, some candidates ignored the instruction that answers should be to the nearest K1 and presented their answers to the nearest K'000.

However, on the whole most candidates performed fairly well in this part of the question.

Part (c), for 7 marks, dealt with the calculation of tax that would be payable or refundable by Mr. and Mrs. Mazombwe the year ended 30 June 2010. This part was generally well answered, although some candidates did not separate the income tax on Mr. Mazombwe from that payable by Mrs. Mazombwe. They aggregated the income and worked out the tax on the total income. This obviously resulted in higher tax liabilities as they both did not benefit from the lower tax bands.

Question Three

This question dealing with value added tax (VAT) was in three parts. The question was for a total of 15 marks. On the whole, this question was not well answered, although some candidates answered this question satisfactorily. However, this was an exception rather than a rule. Generally it appeared that most candidates are not very conversant with the provisions of VAT.

Part (a) was for 5 marks and was divided into two parts. Part (i) for 3 marks and part (ii) for 2 marks. Part (i) requested the candidates to state the occasions when VAT is chargeable. Part (ii) requested candidates to list any four transactions that are treated as a supply.

Both these parts were not very well answered, clearly showing that the candidates lacked knowledge in this area. It is recommended that candidates should read the relevant Act where these scenarios and transactions are clearly stated.

Part (b) was for 3 marks. This requested candidates to set out the three types of supply for VAT purposes. Again very few candidates stated these to be Exempt, Zero rated and supply at standard rate. As such did not therefore state how the input tax would be dealt with.

Part (c) was for 5 marks and required candidates to work out from the information given the VAT that would be payable or claimable.

The answers produced by most candidates, clearly showed that they did not understand how output tax is offset by input tax from taxable inputs

There was generally a lack of knowledge of the transactions that were taxable, exempt or zero-rated and how they are dealt with in the return.

It is important that candidates should familiarise themselves with the calculations of VAT and how returns are prepared and submitted.

Part (c) (ii) was for 2 marks and required candidates to state how any VAT credit would be dealt with, and the position should the company continue to be in a credit position. Most candidates answered this part well, although most did not mention that refunds can be claimed if the credit is available for three consecutive months.

Question Four

This question was for 15 marks and was divided into two parts. Generally this question was not well answered particularly part (a) (i). However part (b) was reasonably well answered.

Part (a) (i), for 8 marks, required candidates to work out fringe benefits tax for a quarter ending 31 March 2011 from the information given. This part was not well answered by a majority of the candidates. What was required was to first work the fringe benefits by employee group and by type and secondly summarise the benefits by nature for the quarter and calculate the fringe benefits tax.

Most candidates worked out the annual fringe benefit even though the question clearly indicated this should be for a quarter. The presentation of the answers in this part was very poor. Although most candidates understood the principles, it was very evident that they were not very clear of their application.

Part (a) (ii) was for 2 marks. This requested candidates to state other benefits that a company can provide its employees in addition to those that were listed. This part was answered satisfactorily by the majority of candidates.

Part (b) was for 5 marks and dealt with the provisions of withholding tax. The administrative procedures were adequately dealt with by some candidates. The majority did not cover issues with regard to exemption and when it would be applicable.

On the whole this part of the question was not well answered by a majority of the candidates.

Question Five

This was a tax planning question, which dealt with the mode of operating a business. The question was divided into two parts and it was for 15 marks.

Part (a) required candidates to calculate the tax that would be payable if the business was operated as a sole trader or as a limited liability company. This part was for 13 marks.

This part was not very well answered by the candidates, because they mixed the items that would be disallowed for taxation in between the sole trader and a limited company. Further some candidates also disallowed the private use of vehicle when it came to the company instead of this being restricted to the sole trader. Capital allowances for private use of motor vehicles were not adjusted for when it came to sole trader. This was not necessary for a limited company. Private use in the limited company is dealt with through payment of fringe benefits tax. Most candidates did not allow the expenditure on the dam as an allowable expenditure in both cases. The fringe benefit on the housing should have been applied in both cases, due this being agreed as a legitimate charge to the sole trader.

Part (b) this part was also not well answered as the advice was affected by the errors made in part (a) to the question.