

Examiner's report

P6 Advanced Taxation (MYS)

June 2010



General Comments

Some candidates produced an excellent paper achieving a good pass mark but, sad to say, the majority did not.

No question was answered particularly well, but questions 1 and 2, both compulsory, were often the ones where candidates achieved their best marks.

I urge students to take steps to develop their skills in answering discursive-type questions by studying past examination questions and answers. Too many candidates do not seem to study the questions requirements carefully so as to find out exactly what the real problem/issue is. In scenario-type questions like 1 and 2, candidates are required to apply their knowledge to the specific situation given in the question. It must be made personal to the company or person referred to in the question. Merely reciting the knowledge as it appears in the text book is not good enough at this professional level.

Section A of the paper has two compulsory questions which may attract 50-70 marks. This time, the two compulsory questions had 50 marks in total with 26 for question 1 and 24 for question 2. Consequently, Section B had three questions of 25 marks each, only two of which must be answered. Many questions are scenario-based. Those in Section A which were required to be answered by way of a report or letter provided for a total of 4 professional marks.

Candidates should appreciate that some of the marks available to them do not depend upon their technical knowledge or the way they apply it in the exam room. Professional marks depend upon learning and applying examination techniques. Marks are also available for things like using the correct rate of tax in a calculation. Candidates are expected to be familiar with and to use the tax rates and allowances given in the schedule at the front of the paper. This is given on the ACCA website before the date of the exam so there is no excuse for candidates who use the wrong rate in the exam room. These little non-technical things can make the difference between a pass and a fail.

Students who study past examination papers will realise that answers are often structured in such a way that the section or parts of an answer follow the headings and sequence of the requirements of a question. This is no coincidence. Candidates are encouraged to set out their answers in this way so that topics and sub-topics are dealt with in logical order and under appropriate headings. They will also notice that most topics are set out in no more than one or two short paragraphs. Candidates who try to do the same are more likely to gain available professional marks both for the format and effectiveness of an answer. An answer is not effective if it is long-winded, rambling and unnecessarily detailed.

The reasons for poor answers were mainly:

- (i) Inadequate fundamental knowledge
- (ii) Inadequate advanced knowledge
- (iii) Poor application of knowledge
- (iv) Difficulty in expressing reasoned conclusions in narrative form.
- (v) Lack of technique in putting together a complete and comprehensive answer to a question

Candidates should strive to improve their all-round knowledge. This means the coverage not only of topics which are specific to Paper P6MYS but also making sure that the fundamental basic knowledge acquired earlier is not lost while striving to acquire advanced knowledge at professional level. All sources of information and knowledge should be used, including the recommended text books, the student accountant magazine and the ACCA website which often contains helpful articles.

English language is important for candidates attempting this exam. A candidate who does not fully understand the question will not know exactly what the examiner requires and will be unable to apply his/her knowledge appropriately. There is also the problem of the candidate being unable to express him/herself clearly so as to convey the full meaning of his/her conclusions to the examiner. An answer to a technical question requires precision and if the answer is worded in such a way that the marker is uncertain as to what the candidate is trying to say, marks will be missed. Many Malaysian students would benefit from more reading, improving and practicing their written English and some from taking an English language course before attempting their professional examinations.

Specific Comments

Question One

This question, for 26 marks, was set in the context of a management buy-out of an existing business. It tested candidates' ability to identify a number of tax issues and to describe the consequences in the current scenario as well as to analyse and comment on certain given issues. Mostly, the approach to the question and the format of the answer was satisfactory but what often let candidates down was their lack of basic tax knowledge. It was noticeable also that candidates often failed to identify the main issue perceived by the examiner in part (b), which was to identify, analyse and describe the tax implications under each method.

Candidates often failed to identify and/or apply the relevant tax principles in order to determine the correct tax treatment of the opening stock and machinery and plant of the new company.

Question Two

This was a 24 mark question on the topic of tax incentives, specifically pioneer status and investment tax allowance (ITA). The answer was to be given by way of a draft report supported by a detailed computation. A total of 18 marks were available for the computations and many candidates were well able to provide the computations required, but the majority made mistakes of principle such as wrongly identifying the qualifying expenditure for capital allowances or ITA or both.

Advice was to be given, based on the computations, as to whether the company should opt for pioneer status or ITA. A good number of candidates identified the most appropriate incentive and recommended it as well as identifying the factors that led them to their conclusion. However, too many candidates produced lengthy explanations of the tax principles applicable to these two incentives, not having noticed that the question had stated the basis on which the report was to be prepared.

Two professional marks were available for this question but only some candidates earned them. The answer was often not well structured and/or addressed to the right person (the partner in charge of V. Smart & Partners).

Question Three

A scenario-based questions dealing with a number of related tax issues, this was attempted by many candidates although it was not the most popular optional question.

Parts (a) and (b), for 10 marks, were about stamp duty and most candidates who attempted the question got the right basic answer but few were able to deal with the further issue of the bank guarantee and penalty for underestimation correctly. There was usually an abject failure to produce the correct answer to part (c). Mr. Weng was deemed to be an employee of Weng (M) Sdn Bhd by virtue of the fact that he held an appointment or office with the company and not for any other reason. At part (d), there was often a failure to see the point due to "blinker thinking". Identifying "any further tax consequences" should not have been read as referring merely to stamp duty. Candidates also often failed to see the real issue at part (e) which was whether Mr. Weng was deemed to have borrowed money from the company and whether he would be charged to tax on a benefit in kind by receiving an interest free loan.

It is disappointing how many candidates are often unable to see the issue that they are required to deal.

Question Four

This question dealt in part with employee share options and incentives and in part with investment in a venture company. Many candidates attempted it although it was not the most popular optional question.

Candidates often seemed to have the requisite knowledge to deal with the part on share options but they often gave incomplete answers or derived the wrong conclusions from the facts given, thus failing to gain all of the marks that were available.

Some candidates correctly answered both the narrative and computational parts dealing with venture capital investment but the majority got the answers only partly right and thus failed to gain full marks.

Question Five

Without doubt this was the most popular optional question. It was about the tax issues facing a company needing to raise finance.

Part (a) required an explanation of the tax issues under each of four methods of raising finance for a company needing to raise finance for the acquisition of business assets. The most common failing was to treat the requirement in isolation as requiring a general diatribe on the consequences of raising finance without regard to the purpose, **the acquisition of business assets**. This led to a severe loss of available marks because, except in the case of hire-purchase, the explanations were too general.

In part (b), there was often a failure to see and deal with the point at issue. The point in (b)(i) was that, due to making loans and advances to a loss-making subsidiary, the company would suffer interest restriction in respect of any money that it borrowed and a more tax-effective method of raising finance should be chosen. This could only be done if the underlying problem had been identified first.