

# Examiner's report

## F6 Taxation (ZWE)

December 2010

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### General Comments

The examination consisted of five compulsory questions. Questions 1 and 2 accounted for 55 marks while the other three questions were allocated a total of 45 marks. The examination was mostly made up of computational questions, 74% in total and 26% attributable to the narrative component.

The performance of candidates at this sitting was below expectation. Most candidates displayed a general lack of seriousness as evidenced by common and costly mistakes which could have been avoided. The following are some examples of the mistakes picked up from a number of answers:

- Incorrect question number labelling for instance question 1(a)(ii) labelled but the stated answer being for question 1(a)(iii).
- Calculation errors – SIA of 50% on \$15000 computed as \$7000
- General incorrect tax rates (Corporate, individual and CGT)
- Tax credits treated as allowable deductions and vice versa
- QPDs for VAT and CGT remittance dates

A number of the answers lacked the expected detail which showed that thorough prior examination preparation was not to the required standard. An unusual number of answer cancellation was also noted which all pointed to inadequate examination preparation. The cut-off dates specified in the Syllabus and Study Guide were evidently not taken into account by most candidates which also contributed to the overall poor performance by most candidates at this sitting.

Time management was also a cause for concern as the amount of time to be spent on a question should always be determined by the allocated marks. A good number of candidates' answers showed a mismatch in this regard. The candidates who attempted questions 1 and 2 first achieved good marks and the quality of answers presented was also of a good and acceptable standard. It was also observed that the candidates who attempted questions 1 and 2 first did not have problems with time management.

It is very important for candidates to read through and understand the requirements of the question before rushing to answer. Some candidates lost valuable time by providing either information or calculation that was not required by the question. This was noted particularly in question 2.

### Specific Comments

#### Question One

The narrative parts of question 1a(i) and a(ii) required candidates to state the tax treatment of the quarterly performance bonuses and the taxation of business related income.

Most candidates achieved good marks in both narrative parts of the question although the common mistakes noted referred to the incorrect tax rates and remittance dates.

For the computational parts of the question, the performance by most candidates was average. However, candidates could have picked up better marks had they avoided the following errors:

- Disregarding provisional tax computation
- Incorrect exemption amounts, allowable deductions and tax credits
- Incorrect computation of certain taxable benefits
- Incorrect treatment of prior deducted PAYE

On the whole the performance by most candidates on this question was to an acceptable standard.

### Question Two

The question on corporate tax consisted of both narrative and computational components. The narrative parts were poorly attempted and were also the most avoided parts of the whole question. Most candidates incorrectly classified the capital expenditure on the construction of the new premises according to the applicable capital allowance such as SIA or wear and tear. The question, however, required the classification of the capital expenditure into either the commercial building or the industrial building.

The computational parts of the question, 2(b) and (c) were fairly attempted although some candidates did not achieve high marks due to the following errors:

- Incorrect capital allowance rates (SIA and wear and tear)
- Incorrect amounts
- Incorrect treatment of allowable deductions
- General incorrect computation of the taxable income

It was also observed that some candidates calculated the tax payable and QPDs in 2 (c) which was not a requirement for this particular question.

### Question Three

This question on capital gains tax required candidates to calculate the recoupment on the disposal of the assets in part (a) and the computation of the capital gain and tax payable in part (b).

Almost all the candidates performed very poorly on this question and a few did not attempt the question at all. Candidates did not pick up marks in part (a) as the recoupment calculation was not restricted to the allowances previously granted. In cases where the candidates calculated the potential recoupment, the comparison was then made incorrectly between the lower of the difference between the selling price and the income tax value. Some candidates also failed to achieve good marks when they restricted the recoupment calculation to immovable assets only.

In part (b), the majority of the candidates totally disregarded the date of the deemed disposal of the immovable assets as stated in the question as the date was the key in the determination of the computation of the CGT. On the assets that were demolished, quite a number of candidates considered the full cost of the assets as an allowable deduction instead of restricting the amount to the percentages provided in the question.

Some candidates failed to use their time efficiently by providing unnecessary calculations like the capital gains withholding tax which was not a requirement.

Other errors included:

- Incorrect CGT rate
- Computation of CGT on movable assets
- Incorrect calculation of the inflation allowances.
- Incorrect recoupment calculation and treatment
- Incorrect CGT remittance date

### Question Four

Although the question focused mainly on value added tax (VAT), it also required candidates to compute the available allowances to the lessee in respect of the lease agreement.

Most candidates performed very well on this question although some did not gain as many marks in part (a) as they did not calculate all the allowances claimable by the lessee.

Very high marks were recorded in part (b) of the question with minor errors notably as follows:

- Incorrect dates for the submission of VAT returns and VAT remittance
- Input tax calculated on zero rated supplies
- Input tax calculated on depreciation and staff related costs

### **Question Five**

The question focused on the elderly tax payer involved in farming business and required candidates to articulate the exemptions and allowances attributable to such tax payers by virtue of their age and the nature of their income.

This question was the best answered of all the examination questions and very high marks were recorded on this particular question.

The only errors noted were mostly due to lack of due care and attention as incorrect amounts were sometimes picked up, for instance depreciation is stated as \$16 000 in the question but the amount picked up was \$13000 which actually refers to another expenditure item. As a consequence of such avoidable mistakes, incorrect tax computations were made.