# Examiner's report

## F6 Taxation (LSO)
## December 2011

ACCA

**General Comments**
This examination consisted of five compulsory questions. Question one carried 25 marks and question two carried 30 marks. The three further questions were for 15 marks each. Question one and two were fully computational. The last three questions consisted of both computational and narrative aspects with more weight on computations.

The overall performance for this sitting was very poor. This was due to failure of most candidates to carefully read and understand the questions. While some candidates seemed to score fair marks in the last three questions, their performance was pulled down by very low scores in the first two questions. Some parts of the questions were frequently omitted and in some cases only partially answered.. However there were still some candidates who appeared to be unprepared for this examination.

Candidates must give more thought to the layout and organisation of their answers. Workings were generally shown but at times were difficult to follow. Workings should always be labeled and shown separately from the body of the answers. Most candidates seemed to mix their workings with the main calculations thus presenting a very untidy layout.

**Specific Comments**

**Question One**
This 25-mark question was divided into three parts. The first two parts, which were narrative, focused on the basis of taxation, that is, residence and source of income rules respectively. Excellent answers were presented in these questions but very often some candidates seemed to provide incomplete answers.
The last part, which carried more marks, tested candidates' understanding of the principles involved in taxation for a partnership. This entailed calculation of notional income and tax payable by resident and resident-non-resident partners where the partnership has both Lesotho source and foreign source income. In general, the performance for this part was not satisfactory. Most candidates did well on the calculation of notional chargeable income. The most challenging part was on the calculation of the correct amount for allowable deductions of pension contribution. Higher marks could have been achieved had candidates recognised that the pension was supposed be calculated on Lesotho source commission according to the question. The operating loss brought forward was also allowed in the calculation of notional chargeable income in some of the answers. The loss brought forward is allowable at the individual partners' level.

A handful of candidates attained high marks on the calculation of tax payable by the partners. The common errors which were noted included the following:

Failure to show detailed workings regarding the distributive shares of partners.

Failure to deduct relevant allowances, namely, pension contribution and loss brought forward where appropriate. In most answers the resident partner was given a pension allowance of M3,000 instead of M1,500. The 100% of the loss brought forward was incorrectly allowed to the resident partner.

Incorrect tax rates on the calculation of the tax payable by the resident non- resident partner.

Omission of the foreign tax credit for the resident partner. At times where this was granted, it was the actual tax paid instead of the average tax, which was in most cases incorrectly granted as 100% to the resident partner. The tax credit, and allowable expenses, should be apportioned according to the agreed profit sharing ratio between the partners.

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**Question Two**
This 30 mark question focused on the calculation of corporation tax. The question was divided into four parts. However, the overall performance was extremely poor for most candidates. The first part tested candidates' knowledge regarding calculation of income tax installments. Candidates failed to pick up marks as expected on this part. Most of them seemed to misinterpret the question as indicated by their answers. While the question clearly indicated that the profit excludes foreign tax credit and withholding taxes, most candidates continued to deduct these amounts again from the profit. The due dates for installments were also wrong. The general observation was that candidates were conversant with this area of study but did not carefully read the requirement of the question. Instead of the due dates for the tax year ended September 2011, the due dates for September 2012 were apparent in most answers. Candidates should note that to get the full marks on this question they are expected to provide the day, month and year.

The second part of the question required candidates to calculate the claimable depreciation for the year. The requirement seemed to be straight forward to most candidates. However, they failed to gain as many marks as they could have because of failure to read the question. The following common errors were noted:

Most candidates seemed to claim full year depreciation even where assets were not in use for the whole year.

The cost of the assets disposed of was deducted from the total cost before an allowance could be calculated. In some cases the allowance for the said assets were ignored.

Some candidates used the wrong tax rates.

Some candidates used the pooling method to claim depreciation. This method is used where an election by a taxpayer has been made, otherwise a single asset method should be applicable.

Most candidates claimed depreciation for office equipment.

The depreciation for new plant purchased for research and development was frequently ignored.

Candidates should note that for the single asset method, deprecation allowance is calculated for each group of depreciable assets. Depreciation for assets acquired during the course of the year is calculated separately. It is also important to establish whether the asset has been in use for the entire year to get the correct claimable allowance.

The third and fourth part of this question required candidates to calculate chargeable income and tax payable respectively. Most candidates continued to present disappointing answers due to their failure to read and understand the question. The question clearly required candidates to start their calculations with the figure for the operating profit. Some started with the trading income, some started with the same operating profit, without giving thought of what the question required. Candidates were simply expected to adjust the operating profit for tax purposes. The understanding of the effect of non taxable income and disallowed expenses on the chargeable income was crucial on this part. The last part was frequently omitted by most candidates. Some did not recognise that the taxpayer had both manufacturing and non manufacturing income. Either 10% or 25% tax rates were used in a number of cases.

**Question Three**
This 15 mark question focused on value added tax (VAT). The question was divided into four parts. The performance was relatively satisfactory for most candidates. The first three parts were mostly narrative and focused basically on the registration aspects of the taxpayer. Though candidates provided incorrect supporting calculations, they seemed to appreciate that once the value of taxable supplies exceed M500, 000 for a period of

12 months, an obligation to register for VAT arises. A number of incorrect due dates for registration of a vendor were suggested. According to the figures given in the question, the due date should have been 14 December 2011, which was the period within 14 days of the end of the 12 months period where the taxable value of taxable supplies exceeded the threshold of M500, 000. The explanation regarding calculation of additional tax for failure to apply for registration also posed a problem to most candidates. Additional tax of 3% for failure to pay tax due was suggested as the answer in most cases. In this case the penalty is double the amount of the VAT payable for the period. Candidates were expected to explain in detail how the penalty is calculated.

The last part of this question was well attempted by most candidates, with the exception of those who calculated the tax payable on the gross profit. To get the correct input or output tax, candidates should always calculate VAT on each supply. On the same note, candidates should carefully read the question to know whether figures given include VAT or not.

**Question Four**
This 15 mark question focused on fringe benefits.. The question was divided into three parts. Although the overall performance was fair, candidates failed to score as high marks as they could have. There were still common errors which need some attention. These included the following:

Distinguishing between income or benefits that are excluded from the calculation of chargeable income, and exempt income. Most candidates seemed to confuse the two when answering the first part of the question.

Recognising the tax treatment between taxable and exempt fringe benefits. In the case of taxable fringe benefit, an employer is entitled to a deduction of the fringe benefit tax (FBT) as opposed to the cost of providing the benefit. On the other hand, the cost of providing an exempt fringe benefit is fully allowable to the employer.

An exempt fringe benefit is still part of fringe benefits and cannot be treated as part of employment income as most candidates suggested.

Candidates should learn to time apportion FBT payable where appropriate. Most candidates calculated FBT for the entire year yet it was clear from the question that the taxpayer received the benefits only for the five months period in the year of assessment.

Candidates could achieve higher marks if they could refrain from providing incomplete answers. Explanations and calculations should be provided as required by the question.

**Question Five**
This 15 mark question focused mainly on gains and losses arising on disposal of investment assets.. Notwithstanding the poor time management which was apparent in most answers, the overall performance was relatively fair. The question was divided in two parts. In the first part most candidates seemed to be conversant with the indexation rule which was to be applied to determine the correct adjusted cost base (ACB). However, a few candidates recognised that the capital loss should be set of against chargeable gain as opposed to business income. The chargeable income in this case comprised chargeable gain and business income. The second part dealt with non recognition of neither a gain nor a loss. For those candidates who attempted this question, this was the best answered part.