



Examiner's report

F6 Taxation (MYS) December 2011

General Comments

The examination consisted of five compulsory questions (Question 1 for 30 marks, Question 2 for 25 marks, question 3 for 20 marks, Question 4 for 15 marks and question 5 for 10 marks).

There was a marked improvement in language and the ability of candidates to answer questions and explain their answers. Most candidates attempted all five questions. The most well answered were questions 2(a) and 5.

The overall performance was good and students were well prepared for the entire paper. Candidate's difficulty with the computations was that they were not clear on the exact conditions for deductibility of certain expenses, or how to compute the limitations of deductibility and penalties. This was evident in the explanation section. Also candidates continued to use the unacceptable standard memorised phrases as "it is not in the production of income" or "it is not deductible" or "it is specifically deductible" to explain why an expense was deductible. There were instances where candidates were able to explain but had difficulty executing the computation.

To perform better, it is highly recommended that candidates study model explanations made available in suggested answers provided on the ACCA website.

Specific Comments

Question One

This 30 mark question was designed to test candidates understanding of the deductibility of certain expenses and the taxability of certain income.

The areas of difficulty were as follows:

Part (a)

Instructions to the question stated to begin with profit before tax and show treatment of items in the notes 1 to 9. Many candidates did not understand the instructions and listed all the expenses in the profit and loss account. This is wrong.

If a note shows a breakdown of a certain expenses into several categories, each of these must be shown, indicating NIL where no adjustment is required to score valuable marks. Candidates tended to show only those that had adjustments thereby not availing themselves of full marks.

Candidates had difficulty understanding what income was section 4(a) business income when evaluating the taxability and treatment of various incomes.

Candidates also overlooked the fact that marks are given for correct descriptions in the computations like "aggregate income" or "adjusted income" and failed to earn valuable marks.

Part (b)

This section required a brief explanation of the tax treatment of each of the items in note 1 to 9. Candidates should bear in mind that a statement does not constitute an explanation unless it makes clear the precise reason why a particular expense is either deductible or not-deductible.

Merely stating "it is only a paper transaction" is not a valid explanation when it should be "it has not been incurred".

In explaining, it is not sufficient to state merely that “the expense is deductible” or “allowable” or “not in the production of income” or “it is specifically deductible in the Act”. Marks for these have already been allocated in part (a).

Precise explanations demonstrating a clear understanding of why each item is specifically deductible and the conditions necessary for the claim to prevail are essential. Developing an ability to explain will also ensure better performance in the computations in part (a).

Candidates should carefully study suggested answers to ACCA’s past year questions to perform better.

Part (c) and (d)

These were questions set specifically to test knowledge of the conditions as stated in the public ruling (PR) and the P.U. Order(PU) documents without the need for any application of evaluation skills.

Candidates were divided essentially between those that either knew the PR & PU and those that did not. For bad debts, there were candidates that confused the conditions for deductibility set in these documents between those which apply to sales/service tax as different from those for income tax.

Question Two

Part (a)

This was a question to test the computation of partnership income.

Most candidates scored high marks in part (a) of this question. However, most of them, except a small minority, overlooked the fact that the contribution to the pension fund required an adjustment, since the contribution was 20% of the staff salaries and the deduction is allowed only up to 19%.

Part (b)

This was a computational question designed to test the taxability of multiple streams of income received by an individual who had a partnership business and the basis of claim for personal relief for children.

The question was generally well answered. Some areas of difficulty were as follows:

Candidates had difficulty deciding if the foreign income was taxable or not and if taxable the class of income under which it should be taxed.

The income from horse winnings set to test badges of trade had candidates guessing between taxability or not whilst for rental income/expenses some candidates had difficulty deciding on the class of income to apply and whether the expenses were deductible or not.

A careful study of public rulings, exemptions and generally applying well established principles on badges of trade is essential for clarity of thought.

For personal reliefs, knowledge of the precise conditions that facilitate a claim are required and valuable marks can be earned.

Question Three

This was a full computation question to test very basic capital allowance issues. The question was moderately well answered.

The main areas where candidates had difficulty were as follows:

In part (a) candidates appeared to struggle with the decision on whether foreign exchange loss and interest expenses qualified for capital allowances. Marks were allocated for stating the basis of the claim. Candidates who correctly made the claim, failed to state the basis “realised” or “revenue expense” and failed to earn easy marks.

In part (c) candidates seemed to have problems with the apportionment for qualifying building expenditure and the acquisition price.

In part (d) candidates were not certain of the year of assessment for which the claim could be made and the rate for the claim.

A cursory knowledge of capital allowances is insufficient for a fundamentals level tax exam. Candidates are encouraged to study and understand the basis of the claims in various conditions.

Question Four

The question was designed to test the application of withholding tax. The question was answered very well by some candidates.

Areas of difficulty other candidates had were as follows:

Part (a)

When asked about when royalty is deemed derived, candidates seem confused with employment income. Understanding that different types of income have different basis of taxation is vital. 3 marks were allocated for just knowing the difference.

Part (b)

It was key to know if withholding tax should be applied and why. Candidates who answered part (a) well generally had no difficulty with part (b). Candidates who had difficulty with part (a), found part (b) tricky and peppered their answers on “why” with “because it is deemed derived from Malaysia”

Candidates are reminded that the syllabus is designed based on both intellectual level 1 (knowledge & comprehension) and level 2 (application & analysis).

Part (c)

Candidates were asked about which instruments were not subject to withholding tax. Here again it was purely knowledge of specific exemptions. Candidates were divided between well prepared candidates who were precise in their answers and candidates who appear to have chosen selective learning

Question Five

The question was to test knowledge of when sales tax is due and a computation of the penalty when the payment is delayed.



Most candidates scored full marks. The candidates that had difficulty were able to score full marks for part (a) but had problems with the computation. For these candidates a conscious effort must be made to match knowledge with application.