

Examiner's report

F6 TAXATION (ROM)

December 2011

The ACCA logo consists of the letters 'ACCA' in a white, bold, sans-serif font, centered within a solid black square.

General Comments

The examination consisted of five compulsory questions, question 1 for 30 marks, question 2 for 25 marks and three further questions of 15 marks each, with an approximate 2:1 split requirement for computation and narrative respectively.

Most candidates attempted all five questions. The best answered was question 1, followed by question 2 then question 3. Question 5 part (d) was most frequently omitted.

Good answers were presented by many for all five questions. Overall, candidates performed well and a large number of candidates are to be congratulated for having prepared for the examination. Candidates who performed well carefully read the content and requirements of questions and so were able to answer the narrative elements to questions and give reasons or examples when asked to do so.

At this sitting improvement was evident in candidates' abilities to organise their answers. Workings were generally shown although they were difficult to follow at times. Candidates are reminded that each answer should be started on a new page, with workings numbered, so that it is clear to which question part they relate. Candidates are advised to give careful thought to the layout and organisation of their answers during the examination, and to make effective use of the tax rates and allowances provided at the beginning of the paper.

Specific Comments

Question One

Question 1 was a 30 mark question on the subject of personal income tax.

In part (a), many candidates identified correctly the deadline for filing the final tax return for 2010. However, very few of them knew that an estimated declaration was necessary for 2011 due to the fact that, in 2010, the activity covered only three months of a tax year.

Part (b) was the best answered and almost all candidates gained full marks.

In part (c), candidates were rewarded for stating either the amounts which should not be recorded as a revenue/expense in any tax year, or the amounts which should not be recorded as a revenue/expense in the 2011 tax year but could be recorded as a revenue/expense in other tax years.

Part (d) was well answered by many candidates who demonstrated good knowledge of:

- cash-basis accounting;
- computing the limits of deductibility for interest and protocol expenses; and
- tax depreciation.

However, it was surprising that, still, many candidates confused the limit of deductibility of social expenses for self-employed income tax (2%) with the limit of non-taxable gifts for employment income tax (150 lei). Another frequent mistake was computing the social contributions for the employee for 6 months and not for 5 months, as it should have been.

In part (e), there were many good answers, although many students did not tax the entire amount of gift vouchers to personal income tax, but only 150 lei.

Part (f) was the element of question 1 that candidates found most difficult. Many candidates knew that the tax should be paid quarterly, but few of them made cumulative calculations and fewer still knew that it is the taxpayer's obligation to declare and pay the tax due.

Question Two

Question 2 was on corporate income tax and was well answered.

Part (a) required the computation of the corporate income tax for 2011.

The most common mistakes were:

- confusing the limit of deductibility of social expenses for corporate income tax (2%) with the limit of non-taxable gifts for employment income tax (150 lei);
- not taxing the revaluation reserve;
- not computing the right amount of deductible expenses with provisions;
- not computing the debt-to-equity ratio.

Part (b) tested the alternative systems of taxation for interest income received by Romanian individuals and foreign companies. Some candidates gave correct answers, however, many candidates confused the tax treatment of interest income with that of interest expenses.

A few candidates are to be congratulated for giving sufficiently detailed answers to the narrative part (c). For example, "revenue from dividends" is too brief an answer but "revenue from dividends received from Romanian companies" concisely makes the point required.

Question Three

This question was on the subject of value added tax (VAT)

In part (a), many candidates presented good answers on the application of VAT to rental activities, the invoicing of electricity applying the commissioner structure, and the intra-EU supply. The most common mistake was in respect of the VAT treatment of the re-invoicing of transport services, with very few candidates correctly identifying this as being ancillary to the intra-EU supply.

Part (b) proved to be more challenging than part (a). Few candidates gave correct answers as regards the calculation and deductibility of VAT for the import of goods, the credit note received for the import, and for the intra-EU acquisition. It was surprising to see that some candidates computed the VAT as if the amounts given included VAT when the text of the question clearly specified that all values were exclusive of VAT. Candidates are reminded of the need to read the text of questions carefully.

In part (c), candidates were rewarded for reading the requirement carefully. Candidates were asked "for each transaction" to state if it should be reported in the December 2011 VAT return or, if not, to state why. Some candidates gave very general answers and neglected to give an answer for each transaction. Other candidates just stated that a transaction should be reported in a VAT return but did not mention specifically whether it should be reported in the December 2011 return.

Question Four

This question focused on personal income tax and specifically income from rents and the sale of immovable property.

Part (a) proved to be the most difficult for almost all candidates. The main difficulties were:

- computing the rent revenue for all qualifying apartments and all months in a tax year;
- computing pre-payments and final tax for each year;
- knowing that, for 2010, the standard tax treatment was the lump-sum system and for 2011, the real-system.

The rules for the tax treatment of rent income have been examined before, so candidates should have learned the theory to be applied in this question.

Part (b) proved to be much more straightforward and almost all candidates gave a correct answer.

Question Five

This question required mixed knowledge of VAT, corporate income tax and tax procedures.

Part (a) required explanations of the VAT obligations associated with a number of transactions, and was answered well by very few candidates. Many candidates knew that the temporary transport of cranes into Romania would not generate VAT obligations. However, very few candidates knew that bringing cement into Romania should be treated as an intra-EU acquisition requiring VAT registration in Romania. As regards the invoicing of construction works, some candidates identified the place of supply as Romania but few presented a correct answer as regards the VAT obligations.

Part (b) required candidates to compute VAT and state deadlines for payment. Most candidates computed the VAT for construction work, but very few recognised the intra-EU acquisition of cement as having the place of supply in Romania and computed the relevant VAT. As regards deadlines, a number of candidates did not know that VAT for construction works becomes chargeable when the worksheet is accepted and not when the invoice is issued.

Part (c) was well answered by many candidates and the most common mistake was the failure to compute the number of days of delay correctly.

In part (d), a few candidates demonstrated their knowledge of the permanent establishment rules.