
Answers

Section A

Marks

- 1 C** $(650,000 + 125,000 + 65,000 - 200,000) = 640,000$
- 2 C**
- 3 A** $(80,000 \times 3 + 120,000) = 360,000$
- 4 B** $(2,500,000 \times 30\%) / 4 = 187,500$
- 5 D** $(855,400 - 600,000) = 255,400 \times 1\% = 2,554$
- 6 C** $(540,000 \times 6 \cdot 25\%) \times 30\% = K10,125$
- 7 D** $(550,000 - (465,000 - 125,000)) \times 16 \cdot 5\% = 34,650$
- 8 A** $(345,000 + 75,000 + 245,000) = 665,000$
- 9 C**
- 10 B**
- 11 D** $(3,000,000 \times 30\%) - 650,000 = K250,000$
- 12 A** $(245,000 + 65,000) = 310,000 - 25,000 (300,000 / 12) = 285,000 \times 30\% = 86,250$
- 13 B** 20,000 plus K1,000 per day for 20 days = K40,000
- 14 D** $(45 \times 2 \cdot 3459) - 120 = 14 \cdot 434 \times 30\% = K4 \cdot 33$
- 15 B**

2 marks each

30

Section B
Marks
1 (a) VAT will be imposed on:

- | | |
|---|---|
| – every supply of goods and services in Malawi; | 1 |
| – every importation of goods; and | 1 |
| – the supply of any imported service | 1 |

other than exempt goods and services.

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(b) Calculation of VAT payable by AJ Bunda for the year ended 30 June 2014

Output VAT	K'000		K'000	
Sale of commercial property	80,000	16.50%	13,200	½
Sale of residential property – exempt			0	1
	<hr/>		<hr/>	
	80,000		13,200	
 Input VAT				
Materials	24,000	16.50%	3,960	1
Wages – out of scope of VAT			0	½
Electricity	3,000	16.50%	495	1
Water – exempt			0	½
Construction equipment hire	1,800	16.50%	297	1
Fuel for equipment – exempt			0	½
Security	46	16.50%	8	1
	<hr/>		<hr/>	
	28,846		4,760	

VAT payable 8,440

1/3 of the costs are exempt as they relate to an exempt supply.

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- 2 (a) **Tutorial note:** *The sale of shares to his son will be treated as not an arm's length transaction. The sale is below market price, therefore the price for the purposes of working out the capital gain will be adjusted to the actual market price.*

Capital gains tax liability for Abraham Bengo for the year ended 30 June 2014

		K	
Shares sold in Mazengo Limited			
240,000 shares sold at		960,000	½
Less cost	2		
Conversion factor	1.784		1
Adjusted cost	3.568	(856,320)	
Capital gain		103,680	
Sale of shares to son			
10,000 shares at K2.50 adjusted to K4		40,000	1
Less adjusted cost 10,000 x 3.568		(35,680)	1
Capital gain		4,320	
Insurance proceeds from fire		16,000,000	½
Cost	168,200		
Conversion factor	2.8655	(481,977)	1
		15,518,023	
IPO shares in BAC Limited			
150,000 shares at K6		900,000	½
Less cost at K2 per share		(300,000)	½
selling expenses		(450)	½
		599,550	
Capital gain liability			
Shares in Mazengo Limited		103,680	
Shares in Mazemgo Limited sold to son		4,320	
Cottage		15,518,023	
IPO shares		599,550	
IPO shares sold after 12 months		0	½
		16,225,573	
Tax at 30%		4,867,672	7

- (b) If Abraham sold all the shares in BAC Limited on 1 March 2014, there would be no capital gain as the shares in a listed company would have been held for more than 12 months.

If the insurance proceeds from the fire were to be reinvested in another property there would be no gain as the gain would be deferred. This is what is termed involuntary conversion of assets.

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3 Peter Bazele

- (a) The income of a farmer growing timber is determined as follows:

(i) The cost of planting timber is carried forward until the timber reaches maturity.	½
(ii) An amount calculated as 5% of the cost of planting the timber is added annually to the cost of planting the timber until the timber reaches maturity.	1 1
(iii) When the timber is sold, a proportionate amount of the total of (i) and (ii) is deducted from the sales proceeds.	1
(iv) In each year of assessment, the amount calculated under (iii) above is treated as taxable income in the hands of the farmer.	½
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(b) Calculation of the income of Peter Bazele for the year ended 30 June 2014

Year	Amount K	No of years	5%	Total K	
2007	325,000	7	16,250	113,750	½
2008	200,000	6	10,000	60,000	½
2009	150,000	5	7,500	37,500	½
2010	40,000	4	2,000	8,000	½
2011	100,000	3	5,000	15,000	½
2012	85,000	2	4,250	8,500	½
2013	100,000	1	5,000	5,000	½
	<u>1,000,000</u>			<u>247,750</u>	
Total cost				1,247,750	1
Sale of timber				1,500,000	½
Less cost for 100 hectares $100/200 \times 1,247,750$				<u>(623,875)</u>	1
Income of Peter Bazele from farming activities				<u>876,125</u>	6
					10

4 James Ndala**(a) Provisional tax payments**

$$K1,450,000 \times 30\% = 435,000/4 = 108,750$$

	K	Due date	
First quarter to 30 June	108,750	25 July	1
Second quarter to 30 September	108,750	25 October	1
Third quarter to 31 December	108,750	25 January	1
	<u>326,250</u>		<u>3</u>

(b) The final amount of tax

	K	K	
Tax for the year			
Tax adjusted profit		2,650,500	
Tax at 30%		795,150	½
Less amount due in final quarter (90%)	715,635		1
Less provisional tax payments	<u>(326,250)</u>		½
Amount due in quarter to 31 March	389,385		
Total payments			
Tax as calculated		795,150	½
Less provisional taxes		(715,635)	½
withholding tax		<u>(45,000)</u>	½
Balance of tax due on filing		34,515	
Due date 25 September 2015.			½
			<u>4</u>

(c) Penalties for late payment

Tax paid by 31 October 2015, that is one month late.		1
Tax paid	34,515	
3/4% Interest	259	1
		<u>2</u>

(d) PAYE and withholding taxes are payable monthly on the 14th day following the end of the month.

FBT is payable quarterly 14 days from the end of quarter.		½
		<u>1</u>
		10

5 (a)	Interest received by an individual is taxable in the hands of that individual.	
	However, for bank interest the first K10,000 is exempt from being taxed in the hands of that individual.	1
	It should be noted that withholding tax is deducted from interest receivable on the excess over K10,000.	1
		<u>2</u>

(b) Taxable income of George Manganya for the year ended 30 June 2014

Gratuity

		K	
Salary to 30 June 2012		2,400,000	
Salary to 30 June 2013		3,000,000	
Salary to 30 June 2014		3,500,000	
Total salary		<u>8,900,000</u>	½
Gratuity 15%		1,335,000	½
	K	K	
Salary		3,500,000	½
Gratuity		1,335,000	½
Housing allowance		350,000	½
Profits from lodge	650,000		½
Less capital allowances	<u>(125,000)</u>	525,000	½
Director's fee		165,000	½
Interest (net)	65,000		½
Withholding tax x 20/80	<u>16,250</u>		1
	81,250		
Less exempt	<u>(10,000)</u>	71,250	1
Rental	345,000		½
Less city rates	<u>(75,000)</u>	270,000	½
		<u>6,216,250</u>	

Tax payable by George Manganya

First K240,000 at 0%		0	½
Next K60,000 at 15%		9,000	½
Excess over K300,000 at 30%			
(6,216,250 – 300,000) = 5,916,250		<u>1,774,875</u>	½
		1,783,875	
Less:			
Withholding tax interest	(16,250)		1
Withholding tax director's fee (10%)	(16,500)		1
PAYE	<u>(1,474,500)</u>	<u>(1,507,250)</u>	1
Tax payable		<u><u>276,625</u></u>	

Wife's salary is earned income taxable on her.		1
		<u>13</u>
		<u>15</u>

6 Juwayeyi Limited

Computation of tax liability for the year ended 30 September 2014

	K	K	
Profit before taxation		2,556,800	½
Add items not allowed for taxation			
Depreciation	650,000		1
Fertiliser	275,000		1
Adjustment of stocks to NRV (working 2)	398,000		½
Valuation of land	235,000		1
Donation to political party	55,000		1
Fringe benefits	115,000	1,728,000	1
		<u>4,284,800</u>	
Less items allowable for taxation			
Adjustment to cost for stock (working 1)	210,000		½
Dividend received	450,000		1
Capital gain	345,000		1
Capital allowances	304,750	(1,309,750)	½
Adjusted profits for taxation		2,975,050	
Losses brought forward from 2013		(865,000)	1
Taxable profits		<u>2,110,050</u>	
Tax at 30%		633,015	1

Capital allowances

	TWDV K	Rate	Annual allowance K	
Factory building	865,000	5%	43,250	½
Plant and machinery	700,000	10%	70,000	½
Motor lorries	895,000	20%	179,000	½
Office equipment and furniture	125,000	10%	12,500	½
			<u>304,750</u>	

Workings:

1. Adjustment of stock to cost

	K	
As at 30 September 2014		
Tea	575,000	
Coffee	75,000	
	<u>650,000</u>	½
Less as at 30 September 2013		
Tea	(375,000)	
Coffee	(65,000)	
Adjustment	<u>210,000</u>	½

2. Adjustment to NRV

	K	
As at 30 September 2014		
Tea	865,000	
Coffee	85,000	
	<u>950,000</u>	½
Less as at 30 September 2013		
Tea	(475,000)	
Coffee	(77,000)	
	<u>398,000</u>	½

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