

Examiner's report

F6 (CYP) Taxation
December 2014

The ACCA logo is a black square with the letters 'ACCA' in white, bold, sans-serif font.

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).

The majority of candidates attempted all five questions, and there was little evidence of time pressure. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

Candidates performed particularly well on questions 1(a), 1(c), 2(a), 2(b), 3(a), 3(b), 4(b), 5(a) and 5(b). The questions candidates found most challenging were questions 1(b), 4(a) and 5(c). This is mainly due to candidates' failure to sufficiently grasp core syllabus areas; a lack of technical knowledge and also a failure to read the question requirements carefully.

A number of common issues arose in candidate's answers:

- Failing to read the question requirement clearly and therefore providing irrelevant answers.
- Poor time management between questions, some candidates wrote far too much for some questions and this put them under time pressure to finish the remaining questions.
- Not learning lessons from earlier examiner's reports and hence making the same mistakes again.
- Providing more than the required number of points.
- Illegible handwriting and poor layout of answers.

Specific Comments

Question One

This 30-mark question tested candidates' ability to cope with various aspects of income tax and special defence contributions for a couple, including the computation of taxable income and the tax liabilities.

Part (a) (i) for eight marks required candidates to calculate Ioulia Chalouma's income tax payable and special defence contribution liability for the year 2013.

It was answered well by most candidates who displayed good understanding of how to calculate income tax payable and special defence contribution liability for an individual employee. The main problems encountered were that candidates did not apply the maximum limit on the annual insurable income of employees. Moreover, as noted in previous examiner's reports, candidates are often confused with the differences between allowable deductions and personal allowances. Both reduce taxable income, but personal allowances are subject to certain restrictions. It is recommended that candidates refer to the relevant technical article entitled "Personal Allowances" which can be found on the ACCA website. Personal allowances have been tested a number of times recently and many candidates' performance has been unsatisfactory. In addition, a significant minority of candidates incorrectly treated the benefits in kind as expenses. Finally some candidates deducted the PAYE from taxable income instead of deducting it from income tax liability.

Part (a) (ii) for two marks required candidates to state by when Ioulia must submit his income tax return (IR1) for the year 2013. A significant minority of candidates stated the due dates which are applicable to a self-employed individual, despite the fact that Ioulia is an employee.

Part (b) for four marks required an explanation of the tax treatment of the cancellation of a life insurance policy, and why it would have been beneficial for Mary to have postponed the cancellation of her life insurance policy. This was answered unsatisfactorily by many candidates, with a number of candidates not even attempting it.

Candidates were not able to provide an explanation of the tax consequences of the cancellation of a life insurance policy such as the recapturing of the personal allowance previously claimed. This point was also well covered in the relevant technical article entitled “Personal Allowances”.

Part (c) (i) for nine marks required candidates to calculate Mary Chalouma’s income tax payable and special defence contribution liability for the year 2013. This question was generally answered well by most candidates.

However, candidates’ performance on the first requirement, to calculate income tax payable, again was mixed. The main problem was that some candidates tried to adjust the gross profit instead of adjusting the net profit. A small minority of candidates treated the self-employed individual as an employee and they estimated some non-existing benefits in kind.

Part (c) (ii) for one mark required an explanation of the tax treatment of the pens given to customers as a gift. This requirement was answered well by the vast majority of the candidates.

Part (d) for four marks required an explanation of the function and operation of the PAYE (Pay As You Earn) system. It was answered well by most candidates who displayed good understanding of how the PAYE system must be operated by employers. However, a significant minority of candidates spent time writing about PAYE procedures in general, which was not relevant to the requirement set.

Question Two

This 25-mark question covered the topics of corporation tax and group loss relief.

Part (a) (i) for 12 marks required candidates to calculate Clever Shoes Ltd’s tax adjusted profit/(loss) for the year ended 31 December 2013. Satisfactory answers were prepared by many candidates, demonstrating sound knowledge of the various adjustments to be performed to calculate the taxable income of Clever Shoes Ltd. Candidates were particularly confident in calculating capital allowances and balancing adjustments correctly.

Part (a) (ii) for one mark required candidates to state by when Clever Shoes Ltd must submit its income tax return (IR4) for the year 2013. This question was answered well by most candidates.

Part (a) (iii) for one mark required candidates to state by when Clever Shoes Ltd must submit its final self-assessment payment for the year 2013. This question was also answered well by most candidates.

Part (a) (iv) for four marks required candidates to advise Clever Shoes Ltd of the interest and monetary charges which will be due if the tax return (IR4) is submitted five months late, on 31 August 2015, and the corporation tax liability is not paid until the same date. This question was purely theoretical, as no calculation was required and was knowledge based, and candidates performed satisfactorily. Where candidates did not perform well this was because they failed to read the question properly. Candidates must read the question carefully.

Part (b) (i) for four marks tested candidate’s basic knowledge on group loss relief. Many candidates did not perform well on this part. Besides the 75% ownership, candidates seemed not to be aware of the new provisions that define a tax group in the case of the incorporation of a wholly owned subsidiary within the tax year. Moreover, some saw the word “losses” and then proceeded to provide a general answer about losses, including information relating to the procedure of carrying forward tax losses, even though the requirement related to group loss relief specifically. Again, candidates are advised that they must read the question carefully.

Part (b) (ii) for three marks required candidates to advise Dancing Boots Ltd as to the maximum amount of group relief which can potentially be claimed by each of its three subsidiary companies in respect of its trading loss for the year ended 31 December 2013. Candidates performed satisfactorily on this part of the question.

Question Three



This was a 20-mark question and tested candidates' ability to calculate the chargeable capital gains resulting from the disposal of jointly owned properties.

Part (a) for one mark required from candidates to state the tax treatment of the gift made by George to Petroula on 1 January 2010 and was attempted satisfactorily.

Part (b) (i) for two marks tested the conditions which must be met in order the principal dwelling house exemptions to apply. This question was related to the scenario and was knowledge based, and candidates performed satisfactorily. Where candidates did not perform well this was because they failed to read the question properly. Part (b)(ii) for nine marks required a calculation of the chargeable gain of George and Petroula in respect of the sale of the house and it was well attempted by the majority of candidates. Candidates displayed a good understanding of calculating capital gains tax, although some candidates did not allocate the capital gains tax payable to the two individual taxpayers. Moreover some candidates claimed the whole principal dwelling house exemption for both George and Petroula. In fact the principal dwelling house exemption was not available at all for Petroula, and George was entitled only to half, as the principal dwelling house exemption must be restricted to the percentage of ownership. Again these mistakes were largely due to candidates' failure to read the question requirement properly.

Part (c) (i) for two marks required a description of the tax treatment of the interest paid in respect with the studio flat. Many candidates performed unsatisfactorily on this part of the question.

Part (c) (ii) for 6 marks required a calculation of the chargeable gain of George and Petroula in respect of the sale of the studio flat and it was generally well attempted. However, again some candidates did not allocate the capital gains tax payable to the two individual taxpayers.

Question Four

This 15-mark question was based on Alpha Ltd and tested candidates' knowledge of value added tax (VAT).

Part (a) for five marks required candidates to state the meaning of value added tax (VAT) 'exports' and 'imports', and explain their VAT treatment. Candidates performed unsatisfactorily on this part of the question, with a number of candidates not even attempting it. A number of candidates wasted time by describing the intra-community trade of goods. This was not part of the requirement. Moreover, some candidates explained the VAT registration rules. Again this was not part of the requirement. Candidates are reminded that they must answer the question asked.

Part (b) (i) for eight marks required candidates to compute Alpha Ltd's VAT for the three-month period ended 31 December 2013, and its due date. Candidates performed well on this practical part. Most candidates structured their answers very well, by stating separately VAT input and VAT output and this helped to generate a sufficient number of points. It was pleasing to see that many candidates answered this part well. Where candidates did not perform as well, this was mainly due to a failure to distinguish between VAT output and VAT input.

Part (b) (ii) for two marks required an explanation of the treatment of the acquisition of the saloon car. This question was answered well by most candidates. However, some candidates did not explain the VAT treatment but instead explained the treatment of the saloon car expenses for income tax purposes. In addition some candidates confused the VAT paid on the acquisition with the VAT paid on the saloon car expenses.

Question Five

This 10-mark question was based on Smart Ltd and tested candidates' knowledge of the features of the temporary and self-assessment systems for corporation tax.

Part (a) for two marks required candidates to explain the benefits of revising a temporary tax assessment. Candidates performed well on this question. Many were able to perform well by identifying points such as the imposition of a 10% additional tax due to the fact that the temporary assessment declared was lower than the income finally determined by more than 25%, and the opportunity to avoid this penalty by revising upwards the temporary assessment.

Part (b) for two marks required a calculation of the corporation tax payable by Smart Ltd if the company did not revise its temporary assessment. Again, many candidates were able to perform well as the taxable income was given in the question.

Part (c) for six marks required candidates to determine the maximum tax saving which the company could have achieved if it had revised its temporary assessment on 20 December 2013. Candidates' performance was unsatisfactory on this question part.

Some candidates confused this requirement with that of requirement (b), which required a calculation of the corporation tax payable by Smart Ltd if the company did not revise its temporary assessment, and so provided the same calculation from 5(b) again. Candidates are reminded to look carefully at the verb at the beginning of the question requirement, as this should help them to understand the level of detail required for their answers.

Most candidates were able to gain some credit by explaining that, in order to avoid the additional tax, the temporary tax assessment needs to be revised upwards to an amount equal to 75% of its chargeable income. However, many candidates were then unable to take their answer any further..