

Examiner's report

F6 Taxation (CYP)

June 2013

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General Comments

The examination paper 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.

A number of common issues arose in candidates' answers:

- Failing to read the question requirement carefully and therefore providing irrelevant answers.
- Poor time management between questions: some candidates wrote far too much for some parts which put them under time pressure to finish the remaining questions.
- Illegible handwriting and poor layout of answers.

Specific Comments

Question One

This question tested the ability of candidates to prepare a capital statement for a businessman and his wife who had only income from rents. Most candidates submitted good answers to this part.

Many candidates did not treat the repayment of the joint loan correctly, nor did they recognise that Alexis's share in the loan of €100,000 was fully repaid and the rest of the deposit made by Alexis in the joint loan was an expense to be added in the capital statement.

Other common mistakes were:

- preparing two capital statements, one each for the husband and the wife;
- calculating the gross interest of the foreign deposit accounts using the special contribution for the defence rates instead of adding the tax deducted at source that was given in the question;
- calculating the capital gains tax on the sale of plot no. 5 although this was given in the question;
- deducting capital allowances to reach the undeclared income for the period.

Question Two

This question tested the candidate's ability to prepare a corporation tax computation, requiring them to make the necessary adjustments to the accounting net profit in order to reach the taxable income.

The majority of candidates did very well in this question, showing a sound understanding of how to interpret the notes in the question and turn them into the adjustments that needed to be made.

Most candidates treated the legal fees incurred to collect business trade debtors, in connection with fixed assets and investments, and for the valuation of a property and a mortgage correctly.

Some candidates treated 50% of the bonus paid to employees as a disallowed expense although this was fully allowable in the year ended 31 December 2011 (the new treatment is in force from 1 January 2012 onwards).

Question Three

This question tested candidates' knowledge of capital gain tax. The majority of candidates did very well in part (a) and found the other parts more challenging.

Part (a) required the calculation of the capital gains tax on the disposal of the office premises of a company and was very well answered, with candidates displaying good knowledge of the calculation of capital gains tax,



deducting interest, legal fees and transfer fees correctly without indexation. Some candidates added back capital allowances claimed in the calculation, although this practice has been abolished.

Part (b) asked candidates to calculate the balancing statement on the sale of the office premises. This was a straight forward question requiring a few calculations, which a few candidates produced outstanding answers to.

The main mistakes made were:

- including the market value of the land rather than using only the market value of the building;
- including in the balancing statement the movable office partitions and office furniture;
- calculating the amount of the wear and tear allowance although this was given in the question.

In the calculation for part (c), a few candidates recognised that the market value of the office premises should be used as this is the case when the shares of a company owning assets are sold.

In part (d), a small number of candidates are to be congratulated for recognising that the tax efficiency of selling shares instead of selling an asset of a company lays with the special contribution for the defence on the dividend paid to the shareholder, or deemed dividend when no actual dividend is distributed.

Candidates who answered that the tax efficiency concerns the exemption from tax of a gain of up to €17.086 did not realise that this exemption applies to both the sale shares and the sale of assets.

Question Four

Candidates found this question very challenging as they often to when a theoretical question on VAT is asked.

In part (a), some candidates wrote about irrelevant procedures or obligations of the taxpayer.

Candidates performed better in part (b) as they recognised when it was beneficial for a trader to register voluntarily. In (b)(iii) a few candidates did well to explain correctly that voluntary registration would benefit the trader who would be able to reclaim VAT on equipment purchased sooner than if VAT registration was delayed.

Question Five

Most candidates did very well in this question and displayed good knowledge of the tax treatment of trade goodwill: that the consideration in respect of the sale of trade goodwill is taxable after reducing it by any amount incurred for the purchasing of such trade goodwill.