

Examiner's report

F6 Taxation (MWI)

June 2012

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General Comments

The examination consisted of five compulsory questions, question 1 for 30 marks and question 2 for 25 marks, and three further questions of 15 marks each.

Almost all 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.

In general the performance was not as good as had been expected. Most candidates performed very well in question 1, and 2. Question 3 was very poorly answered, whilst the performance in questions 4 and 5 was mixed. Performance in the VAT question was poor, this could be due to lack of adequate preparation, hence the poor performance. It would also appear that some candidates just memorised the provisions but were not able to demonstrate their applicability. Generally the performance at this sitting was below expectations. This was particularly so, because despite most candidates scoring high marks on question 1 and 2, they did not do so well in the other questions.

The questions candidates found most challenging were questions 1(c),(d), 3, 4(b) and 5. This is mainly due to candidates not understanding core syllabus areas well enough; a lack of technical knowledge and also due to a failure to read question requirements carefully.

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

- Failing to read the question requirement carefully and therefore providing irrelevant answers which scored few, if any, marks.
- Poor time management between questions, some candidates wrote far too much for some questions and this put them under time pressure to finish remaining questions.
- Not learning lessons from earlier examiner's reports and hence making the same mistakes, especially in relation to presentation
- Providing more information than was required
- Providing workings that did not tie in to other sections of the answers.
- Illegible handwriting and poor layout of answers.

Specific Comments

Question One

This 30-mark question was based on Tanganda Limited, a company involved in the growing and processing of tea and coffee in addition to growing tobacco. The question dealt with the taxation of income arising from these transactions. The question was in four parts. Generally the question was well answered.

Part (a) for 15 marks required candidates to calculate the capital allowances that would be claimed by the company for that year of assessment.

Almost all candidates attempted this question and most candidates adequately answered the question. However, there were candidates who did not calculate investment allowances in accordance with the changes that had been made in June 2011. Some candidates still claimed 100% investment allowances on new and unused industrial buildings and plant and machinery and 40% on the used instead of 40% and 20% respectively as amended.

It was also noted that some candidates after calculating the capital allowances, proceeded to explain the method of calculation, which information was not requested for and earned no additional marks.

Many candidates presented their answers in a columnar format and again this seemed to help them to produce clear and easy to follow answers.

Part (b) for 10 marks required candidates to compute the profits that would be subject to taxation. Most candidates were able to perform this task ably. However most candidates did not adjust for the omission of the withholding tax deducted from the sale of tobacco.

What was expected of the candidates was first to adjust the profit before taxation by including the withholding tax that was deducted from tobacco sales and hence resulted in the understatement of revenue and profit. To the adjusted profit before taxation add the items that were not allowed as an expense for taxation purposes. Then items included in profits which were not taxable or were allowed for taxation would be deducted to arrive at the profits which would be subject to taxation.

A common mistake made by candidates was to deduct provisional tax paid as item which was not allowed for taxation. Provisional tax paid is deducted from the calculated tax to be paid

Part (c) for 3 marks required candidates to calculate the tax that would be payable by Tanganda Limited. This was attempted by a majority of the candidates, but the performance was mixed mainly due to the way they approached this part of the question. What was required was to calculate the tax based on the adjusted profits. After that tax would be calculated based on the turnover, taking into account the adjusted turnover which included the omitted turnover on tobacco sales.

The higher of the two amounts of tax would be taken and credits applied such as provision tax paid and withholding tax already deducted.

Most of the candidates did not calculate tax based on turnover, thereby not earning full marks in this part.

Part (d) for 2 marks and was divided in two parts (i) and (ii). The first part required candidates to state when the balance of tax, if any, would be payable. A majority of the candidates correctly answered this part. However the second part required candidates to state the interest that would be payable if the balance of the tax was not paid on the due date. Here the performance was poor, although not carrying many marks; the majority of the candidates gave the wrong answer or did not answer this part at all. This was mainly a reflection that candidates were not familiar with the provisions dealing with interest on unpaid balances.

Question Two

This 25-mark question dealt with the taxation of individuals. In this particular case Peter Kondwani who was a sales consultant for Mandebvu Travel Bureau. Peter was married to Lucia who was employed by a bank. The question was divided in three parts.

Part (a) for 6 marks required candidates to calculate the capital gain arising from transactions in property and how the gain would be included in the taxable income of Peter and his wife.

What was expected here was for the two properties to calculate the indexed value relating to each property by using the index factor applicable to the year when the property was bought. The value would then be compared to the sales proceeds to arrive at the gain or loss.

In this particular case one property resulted in a gain whilst the other property registered a loss. The proceeds of the property which resulted in a loss was going to be reinvested, however since it was loss this would not be carried forward to be offset in future gain from this property but would be netted off against the gain on the other property.

The calculation of the gain or loss was handled very well by a majority of the candidates. However, most candidates carried forward the loss to future years. It was evident that they did not understand the treatment of losses in such cases.

Part (b)(i) for 17 marks required the candidates to calculate the tax payable or refundable to Peter and Lucia Kondwani. This question was answered well by a majority of the candidates who attempted the question. Where candidates did not score full marks, this was because of making the following mistakes:

- not grossing up interest which had been stated net of withholding tax in the question
- treating rentals as earned income of the wife
- not accounting benefits for a 12 month period
- treating Lucia's directors' fee as unearned income
- not deducting withholding tax from tax payable from both Peter and Lucia
- poor presentation of answers that were difficult to follow
- answers not presented to the nearest K1 as per instruction

Part (c) for 2 marks required candidates to work out the effect of the transactions entered into affecting Peter and their effect on the overall tax paid by the employer. The approach here was supposed to be to identify the transaction entered into by the company that involved making payments to Peter. Once identified, candidates should work out the tax implications that are either reducing or increasing the tax payable by the employer. Then quantify the overall effect, i.e. tax reduced or increased by the calculated amount.

This part was poorly answered as most candidates' concentrated only on fringe benefits on the car.

Question Three

This 15-mark question was based on the provisions of the Value Added Tax Act. The question was testing the candidates understanding of Value Added Tax provisions.

Part (a)(i) for 1 mark required candidates to state who was regarded as a taxable person for VAT purposes. Most candidates did not earn the mark because they failed to state who was regarded as a taxable person. Most candidates referring this as a person who sells goods, without mentioning that the goods the person deals with must be taxable and must reach turnover levels as prescribed by law.

Part (a)(ii) for 2 marks required candidates to state the circumstances in which a person becomes registered for VAT and periods for registration. Most candidates, partially answered this part well. But for those candidates that did not read the question properly and hence understand it they just guessed. This did not result in them earning any marks. Very few candidates mentioned that the Commissioner General can deny a person to be registered.

Part (b) for 4 marks required candidates to state the taxable point where goods are supplied on a sale or return basis. It was expected that candidates would know that a taxable point is that point when VAT can be charged on a supply of goods or service. What was required therefore was for candidates to define what that point was when it came to supplies on sale and return basis.

The performance was mixed with some poor and some good answers. Those candidates that did not properly read this part of the question gave answers which were applicable to other forms of supply and not specifically for on sale and return basis.

Such answers did not earn any marks for the irrelevant information that was given. The time used for such irrelevant answers could have been usefully used in answering other questions.

Part (c) this part of the question dealt with returns and payment of VAT. It was divided in three parts.

Part (c)(i) for 3 marks required candidates to calculate the penalties that were payable on late submission of VAT. This part was not generally well answered. Candidates were expected to deal with the late filing of VAT returns, what most candidates gave was the penalties for not accounting for Value Added Tax. The late filing has a fixed penalty and a penalty charged for each day the return remains unfiled. Most candidates failed to earn marks because they did not read the question properly and therefore obtain an understanding of what was required and ended up giving the wrong answers.

Part (c)(ii) for 2 marks required candidates to work out the extra VAT that would be payable resulting from the audit exercise. Although the information was given it was surprising to note that candidates failed to use the information to give the right answer. What was required was basically just to compare the totals of the amounts per return and that per the results of the audit. Then work out if there was any extra VAT payable. Most candidates just copied the information given without working out the total VAT payable. This was a waste of time as it did not earn any marks.

Part (c)(iii) for 3 marks required candidates to work out the interest that would be payable on the balance for February 2011 return up to January 2012. This again had very poor answers as most candidates demonstrated that they did not have sufficient knowledge on this subject. Most candidates thought they were supposed to work out penalties. Those that understood the question applied the wrong principles and also applicable interest rates. The interest is a fixed rate for the first month and there is an extra charge of 5% for each month the balance remains standing.

Most candidates guessed and it was apparent that they were not very familiar with the VAT provisions.

Question Four

This 15-mark question was in two parts. The first part dealt with San Semete Sports and Recreation Sports club and tested candidates' knowledge on the taxation of clubs activities. The second part dealt with testing candidates' knowledge on the taxation of Agriculture Cooperatives.

Part (a) for 12 marks required the candidates to calculate the income tax payable by San Semete Sports and Recreation Club and explain the difference in treatment of income and expenditure items. Candidates performed satisfactorily on this part of the question. Most candidates were able to calculate the tax to be payable by the club and also to adequately explain the treatment of the various items of income and expenditure for tax purposes. However, there were some candidates who tried to work out a profit and loss statement for tax purposes. There were also those candidates who correctly identified the income to be taxed but deducted expenditure which is not allowable. They were thus not able to earn full marks since the tax is based on income only not taking into account expenditure or profit on trading activities. The majority of the candidates who did not perform well in this part of the question were those that prepared trading income and calculated the tax based on the profits calculated.

Part (b) for 3 marks required candidates to state how the taxable income of an agricultural producers co-operative society, registered under the Laws of Malawi is taxable. This part of the question was not very well answered and the performance was not satisfactory. Most candidates based their answer on the premise of clubs operations. It was very clear that most of the candidates were not very familiar with the taxation of special trades and cases, even though this item is clearly highlighted in the syllabus.

The procedures for taxation of these co-operatives are well spelt out in the Taxation Act. However the candidates who did well in this part it was because they adequately spelt out the requirements and the procedures to be followed when determining the taxable income and how this information is communicated to the Commissioner General. Those candidates who used the provisions of Clubs, and these were in majority did not earn any marks.

Question Five

This 15-mark question was dealt with tax planning. It was based on Dziko Limited a trading company that was contemplating expansion of its shop network. This tested candidates' knowledge on tax planning issues by asking them to carry out an analysis of tax position of the alternatives available.

The performance in this question was average in that most candidates worked out the tax position of the current scenario. When it came to the expansion programme they considered the profit but yet in working out the taxable profits they only considered the increase in depreciation and capital allowances without adding to this the current charges for depreciation and capital allowances.

It is also a requirement that tax based on taxable profits should be compared to tax based on turnover and that only the higher of the two should be taken as the tax charge

In order to score well candidates needed to consider the following in their answer:

- Consideration of total depreciation and capital allowance charge for the expansion option
- Calculate tax based on turnover



- Compare tax based on turnover and that based on taxable profits
- Take the higher of the two for the two years and base that for the analysis
- Work out the profit after tax for each of the years
- Consider the after tax profit, return on shareholders' funds and margins in arriving at the advice.

There were a few candidates who considered the points listed above and these candidates performed very well.