

Examiner's report

F6 Taxation (MWI)

December 2012

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General Comments

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

Almost all of candidates attempted all five questions, except a few candidates who only answered three or four questions. Some candidates attempted part of each question. 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.

Generally the performance was not as good as had been anticipated. This was mostly due to some candidates not recognising the need to first work out the opening tax written down values for 2012 before proceeding to working out the capital allowances for 2012. Most candidates performed very well in question 2, the candidates who realised the need to compute opening tax written down values in part (a) of question one also performed well in question 1. Question 3 was very poorly answered as most candidates failed to show their understanding of VAT and the circumstances that resulted in claiming of input tax. Most candidates do not show an understanding of VAT, it would appear candidates just memorise and show very little understanding of the subject matter. The performance in questions 4 and 5 was mixed with some very good answers whilst others presented answers that did not adequately address the questions requirements.

The questions candidates found most challenging were questions 1(a),(b), 3, 4(a and 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.
- Failing to present answers in a logical and clear manner, as was evidenced unnecessarily splitting an answer to a question and spreading it over several pages.
- Where an explanation was required candidates gave very brief answers to address the requirements of the question. Others gave long winded answers which were off the mark.
- 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.
- Workings that did not tie in to other sections of the answers.
- Not properly splitting and presenting answers as was required by the question.
- Illegible handwriting and poor layout of answers.

Specific Comments

Question One

This 30-mark question was based on Tapiko Limited a company that operated supermarkets in the major towns of Malawi. The question dealt with the taxation of income from such operations, and the taxation of income arising from these transactions. The question was in five parts. Generally this question was not well answered except for those who recognised the need to calculate opening tax written down values for 2012 as a basis for working out the capital allowances for 2012.



Part (a) for 13 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 part. However a majority of the candidates did not recognise the need to calculate the opening tax written down values for 2012 as the basis for the calculation of capital allowances for the year 2012.

Also some candidates calculated capital allowances on shop buildings which are not industrial building so capital allowances were not claimable.

Many candidates presented their answers in a columnar format and again this seemed to help them to produce clear and easy to follow answers. However this format was not used by a majority of the candidates when it came to calculating the tax written down values on opening balances

Part (b) for 2 marks required candidates to state how the income tax for the company would be computed and the rules for the operation of provisional tax. Generally most candidates failed to state that tax would be based on the higher of minimum tax based on turnover and profit at 30% of the taxable profits computed. Those that realised this requirement performed well overall.

Part (c) for 9 marks required candidates to calculate the taxable profits for Tapiko Limited for the year ended 30 June 2012. This involved candidates adjusting profits to arrive at profits that are chargeable to taxation. Generally this involved adding back to profits, expenses item that were not allowable for taxation and allowing other items such as capital allowances and removing income which was not taxable, for example, dividends. The common misstate by most candidates was on the allowable or disallowed portion of pension contribution made by the company. Each class of employees should have been considered separately in arriving at the allowable portion instead of just taking the total number of employees. However, most candidates performed well in this part.

Part (d) for 2 marks required candidates to work out the tax payable. This mainly involved the application of the principles mentioned in 2 (b) above. The error by most candidates was that they did not calculate the tax based on turnover and compare this to tax worked out based on profits and get the higher of the two.

Part (e) for 4 marks required candidates to work out the provisional tax that should have been paid and calculate the final tax payable. Most candidates correctly calculated the provisional tax which should 90% of the total liability. Since the tax based on turnover was higher the candidates should have based their calculation on the turnover tax.

Generally this part was well answered and tax credits were duly recognised particularly the withholding tax on rentals.

Question Two

This 25-mark question dealt with the taxation of individuals. In this particular case Peter Mangochi, who had retired and had started a construction business. In addition Peter was married and his wife had property income. The question was split in three parts.

Part (a) for 6 marks required candidates to calculate the tax paid by Peter on his employment income. Mostly this part was well answered. What was required was to consider his income for five months and calculate his tax on that income. Some candidates did not do well on this part of the question because they misread the question and grossed up the income for 12 months. Further some did not fully follow the instruction that where income was not taxed this should be included on the working but indicated with a Zero.

Part (b) for 17 marks required the candidates to calculate the total tax payable by Peter on all his income from the various sources for the year ended 30 June 2012. 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
- not grossing up directors fees
- not adjusting the income from the business to take into account disallowable and allowable items
- treating income from the business as employment income
- not clearly indicating the treatment of pension income, that this is not subject to further tax other than that deducted on the payment of pension income
- treating dividend as taxable income
- treating driveway expenses as tax deductible when it is expenditure of a capital nature
- not deducting withholding tax from tax payable by Peter.

Part (c) for 2 marks required candidates to state the consequences of Peter not paying provisional tax on his business profits. This was well answered by a majority of candidates, although most candidates just stated the penalties without referring to the actual amount that would have been payable by Peter based on the calculated tax

Question Three

This 15-mark question was based on the provision of the Value Added Tax (VAT). The question was testing the candidates understanding of VAT provisions.

Part (a) was for 8 marks required candidates to explain how each of the given transactions would be treated for purposes of VAT. This section was not well answered; it clearly showed that a majority of the candidates were not very conversant with the provisions of VAT. Most candidates failed to earn marks because they did not give reasons why an item would not be taxable and why an input tax would not be claimed. To earn maximum marks candidates were expected to explain why an item would not be taxable. For example purchase of stationery from a non registered supplier, candidates needed to state that VAT would not be chargeable by the supplier because he was not registered; consequently there would be no input tax claimable by Maziko Limited. It was also noted that candidates did not follow the instructions. This part only needed an explanation and not calculation of the amount of tax payable. Most candidates calculated the tax which did not earn them any extra marks.

Part (b) was for 7marks and required candidates to calculate the VAT payable or any excess that would be carried over to the next accounting period. Most candidates attempted to work out the tax. However, some candidates seemed not to be sure which items were output tax and those that formed input tax. What was required was for candidates first to work out the output tax and from this deduct the input tax claimable. The total input tax would be deducted from the output tax. Most candidates just listed the amounts from the item list and it was not clear from the presentation of the answers if they understood what they were trying to achieve. The performance therefore in this part was not impressive. Once again the candidates did not follow the instructions given in the question paper.

Question Four

This 15-mark question was in three parts. The question essentially dealt with how the transactions entered into by John Phiri would be dealt with for capital gains purposes. John Phiri was a farmer in Mangochi.

Part (a) for 2 marks required candidates to state how capital gains and losses are dealt with in arriving at taxable income. This part was adequately answered and most candidates clearly explained the treatment of gains arising from assets on which capital allowances are claimed and how the treatment differs from those on which capital allowances are not claimed. Most candidates were able to get full marks for this part.

Some candidates, when it came to losses on assets on which capital allowances were not claimed, indicated that these are carried forward without the possibility of them being offset against the gains on similar class of assets in the year the loss is incurred.

Part (b) for 4 marks required candidates to explain how the items listed from 1 to 5 would be dealt with to arrive at a capital gain or loss. This was a descriptive part of the question and did not require candidates to work out the gain or loss, but to explain whether the resulting gain or loss would be included in taxable income. Except for the candidates who did not follow the instructions, most candidates answered this part of the question very well. It is important that candidates follow the instructions given in a question. Giving answers that are not requested does not result in candidates earning any extra marks.

Part (c) was for 9 marks and required candidates to calculate the capital gain or loss resulting from the transactions listed. On the whole this part of the question was well answered. It was clear from the answers, that most candidates were aware of the provisions of capital gains and used the indices provided in the question correctly.

However it was noted that although the transfer of the property to a spouse was correctly treated as non taxable, candidates still proceeded to work out the gain which was a waste of time.

Further, there were candidates who seemed not to be aware that for the particular year of assessment, the exemption of listed shares held for more than 12 months had been removed. As such the gain was taxable and the basis period for such shares would be taken as the value at 30 June 2011, to which the indices would be applied.

In working out a gain or loss on assets on which capital allowances have been claimed. The tax written down value is the basis and no indices are applied, as was the case with some candidates.

However, as stated before most candidates demonstrated adequate knowledge of capital gains and losses.

Question Five

This 15-mark question dealt with tax planning. It involved employment scenarios available to Francis Gonthi, whether he should continue in his present employment or accept an offer from a prospective employer. The question was divided in two parts. The first part dealt with the calculation of tax payable, net earnings and benefits under each employer. The second part dealt with the fringe benefits tax payable by each employer.

Generally the performance in this question was mixed, with some candidates giving fairly good answers. For those who did not do well, this was essentially because they did not read the question and adequately follow the instructions.

Part (a) was for 12 marks and required candidates to calculate the tax payable, net earnings and benefits under each employer and then advise Francis Gonthi accordingly.

What was required of the candidates was first to work out the earnings from each employer from the cash earnings offered by each, work out the tax payable and the net pay. From the net pay, work out other outgoings such as pension deductions to arrive at the disposable income. To the disposable income add the benefits payable by the employer and then arrive at disposable income including benefits. This would then be used as a basis of the comparison as to which is the most attractive basis to Francis.

Generally most candidates worked out the net pay. That is total remuneration minus PAYE. Most candidates did not however, deduct the employees' pension from the net earnings to arrive at the disposable income. Further, most candidates did not work out the benefits as requested. This was only done in part (b) when working out the fringe benefits tax to be paid by the company.

To get maximum marks the candidates should have under each option:

- worked out the total emoluments
- calculate PAYE
- worked out net pay
- under each option deduct the pension contributions from the net pay
- arrive at net disposable income

- add benefits in kind (value of those benefits)
- arrive at total benefits and add such benefits to disposable income
- arrive at disposal income including benefits
- compare the total above under each option and provide advice to Francis.

Part (b) was for 3 marks and required candidates to work out the fringe benefits tax that would be payable by each employer. This part was generally well answered and was different from the value of the benefits worked out above in part (a). Part (a) dealt with the value of benefits provided to the employee, whilst this part was on the tax on benefits.