

# Examiner's report

F6 Taxation (RUS)

December 2013

The ACCA logo consists of the letters 'ACCA' in a white, bold, sans-serif font, centered within a solid black square.

## General Comments

The examination consisted of five compulsory questions. Section A contained question 1 for 30 marks and question 2 for 25 marks. Section B comprised three further questions of 15 marks each.

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 technical knowledge or poor exam technique, as opposed to time pressure.

Questions 1 and 2 were performed well with some very satisfactory answers. Question 3 appeared to be the most challenging question for candidates. Whilst some candidates were well-prepared for this question, other candidates either skipped this question or failed to pay sufficient attention to the information in the scenario and the question requirements. Part (a) was the more straightforward part of the question. However, there appeared to be a general lack of technical knowledge of VAT issues amongst candidates.

Candidates performed well on question 4, in both parts (a) and (b) of this question.

Question 5 part (a) was answered well by many candidates whereas part (b) was ignored or answered poorly due to lack of attention to the question requirements.

In general, questions 1, 2, 4 and 5 (a) were the most popular questions amongst candidates and these questions were generally answered fairly well. Some highly satisfactory answers were presented by well-prepared candidates to both question 1 and 2, and parts of questions 4 and 5 were also answered well.

The overall performance of candidates was satisfactory.

Workings were generally shown but sometimes these proved difficult to follow. In addition, many candidates forgot to tick the question number box on the top of the answer booklet to indicate which question they were answering or even ticked the incorrect number for the answer written on the page. It is very important for candidates to do this correctly, especially when the answers and workings are not provided in the order in which they appear in the script.

Each question should be started on a new page with a clear indication of the question number which is being attempted by the candidate. Furthermore, candidates must give more thought to the layout and organisation of their answers. For example, some candidates tried to show simultaneously on one page answers for both parts (a) and (b) of question 1 and for parts (a) and (b) of question 4.

## Specific Comments

### Question One

This 30-mark question tested candidates' ability to cope with the various aspects of the core subjects of both profits tax and VAT, taking into account the calculation of direct and indirect expenses for a services company, including social insurance contributions, depreciation, voluntary insurance for employees, advertising expenses, bad debt expenses, interest expense, the impact of exchange rates on forex and VAT.

Overall the question was well-answered with many strong answers. Candidates demonstrated good appreciation of the practical aspects of the scenario described in the question, especially in the calculation of the direct expenses related to depreciation, materials, salaries and social insurance contributions. In terms of the indirect



expenses, candidates scored well for voluntary medical and personal insurance, advertising expenses, bad debt expenses, interest expense and foreign exchange loss.

However, performance could have been improved if candidates were more attentive to the details in the scenario and did not make the following commonly-encountered mistakes:

Part (a)

- Forgetting the deduction of the 512,000 RR threshold when calculating social insurance contributions
- Applying the incorrect months to the formula for non-linear depreciation
- Omitting the write-off applicable to planchet computers depreciation and forgetting the relevant VAT deduction
- Deduction of the 2,761,200 debt without VAT or including this debt in a bad debt reserve
- Using the incorrect number of days in the interest calculation

Part (b)

- Omitting VAT on the free-of-charge promo prizes distribution and recovering VAT on promo prizes acquired in the year 2012
- Recovering input VAT on the debt written-off
- Applying VAT to all types of insurance
- Incorrect VAT rate application to prepayments

The overall performance on this question was satisfactory with several very strong answers.

**Question Two**

This 25-mark question covered the topics of taxable and deductible items for personal income tax, including the application of different deductions and different tax rates

The most common mistakes encountered were:

In part (a)

- Pension contributions to the non-state pension fund were not included in the social deduction
- Medical expenses for Alexander's mother were not treated as an exempt item
- Not including the property allowance and relevant bank loan interest in part (a). Rather, they were shown in part (b), without explanation
- Incorrect bank loan interest calculation
- Calculation of imputed interest income on bank loan ignoring the scenario information

In part (b)

- Italian lessons of Natalia were included in the social deduction for Alexander
- Sales proceeds for the plot of land were not exempted from PIT, regardless of the ownership period

In part (c)

- Incorrect calculation of the children allowance, ignoring the number of children and number of months
- Including actual expenses instead of the professional deduction
- Forgetting the prize deduction for the advertising prize
- Including bank interest in deductible expenses
- Incorrect calculation of the imputed interest in terms of CBR rate application or days
- Incorrect tax rate application to the advertising prize and imputed interest income

The overall performance to this question was, nonetheless, satisfactory.

### Question Three

Question 3 examined VAT issues.

Part (a) examined output and input VAT for both principal and selling agent transactions where the agent sells goods on behalf of its own name but at the expense of the principal. In fact this part was the most straightforward part of the whole question. In spite of that the following mistakes were commonly encountered in this subpart:

- Incorrect recognition dates in respect of the output VAT of the principal for Q2
- Ignoring the percentage of initial invoice payment when calculating the output VAT in Q2
- Incorrect rate application for the agent in Q3
- Lack of input VAT recognition on the warehousing expenses

Part (b) was generally not answered well by those who attempted it.

The most common mistakes encountered were the following in part (i):

- Incorrect ratio calculation in terms of exempted revenue share in the total revenue excluding VAT
- Forgetting the 5% rule test for further input VAT split

In part (ii), candidates answered well in respect of VAT invoices for goods purchased for VAT taxable operations only. Elsewhere in this requirement, marks could have been improved by careful reading of the requirement. It should be mentioned that many candidates omitted question 3 in total or answered some parts of this question based on the residual principle.

### Question Four

Part (a) of this question focused on the social insurance contributions for Konstantin for the year 2013. This part of the question was well answered by many candidates. The common minor mistakes made are listed below:

- Forgetting to deduct 800,000 RR when calculating SIC under civil law agreement
- Ignoring voluntary medical insurance exclusion

Part (b) of this question concentrated on Konstantin's personal income tax liability, taking into account his different status based on different agreements concluded during the year 2013. This part was answered quite well by the majority of candidates. However the following mistakes were often made:



- Taking into account the professional deduction and ignoring actual expenses incurred
- Non-deduction of SIC paid under civil law agreement
- Deducting all donations without any differentiation between them
- Calculation of the imputed interest on the mortgage loan
- Incorrect calculation of the imputed interest on the bank deposit

In part (c) candidate should explain what Konstantin must do to receiving his tax deduction for donations. Some candidates failed to answer the question with this requirement.

Nevertheless the overall standard of the answers to this question was fairly satisfactory.

### **Question Five**

Question 5 consisted of 2 parts and concerned the application of the thin capitalization rules.

Part (a) of the question focused on the thin capitalization rules and recognition of deductible interest for both Quarters 3 and 4.

Candidates managed to correctly calculate the net assets positions for both quarters, loans revalued in local currency, capital ratio and deductible interest in local currency, dividend amount and withholding tax on dividends. This part of the requirement was the most satisfactorily-answered part of the question. However, the following mistakes were still commonly made:

- Incorrect exchange rate applications for monthly interest calculation
- Application of an incorrect rate of withholding tax on dividends to non-residents

Part (b) of the question continued with the review of technical knowledge on the thin capitalization rules but in a slightly different context with a different loan provider.

Many candidates applied the residual approach in part (b) and only well-prepared candidates managed to complete part (b) in the correct way.