

Examiner's report

F6 Taxation (RUS)

June 2012

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General Comments

This examination under the current syllabus consisted of 5 compulsory questions (Question 1 for 30 marks, Question 2 for 25 marks, Questions 3, 4, 5 for 15 marks each).

Many candidates attempted all five questions. Even of those who attempted less than five questions, many managed to answer them in a well-done manner to gain the pass mark. I did not notice any evidence of poor time management. During this session Question 3 was answered, however all parts were answered partially without paying sufficient attention to the scenario data and question requirements.

Part (a) of question 4 was answered by many candidates but unfortunately not all candidates were able to recognise the gain from sale of the computer. Part (b) of question 4 was answered well by the majority of candidates.

Question 5 part (a) unfortunately was not answered by many candidates, who were unable to pick up total marks due to the lack of knowledge of property tax base calculation.

Part (b) of question 5 was answered, but not all candidates really distinguished between two different options based on author's agreement and its impact on social insurance contributions.

However part (c) of Question 5 was very well answered by many candidates with the clear recommendations and impacts.

Questions 1, 2, 4 and 5(c) were the most popular questions amongst candidates and these questions were generally answered very well. Outstanding answers were presented by well-prepared candidates for both question 1 and 2 for the full answers and partly for questions 3, 4 and 5.

The overall performance of candidates was quite good.

Workings were generally shown but sometimes it seemed to be difficult to follow them. There is improvement as compared to previous exams but still many candidates did not tick the question number box on the top of the answer booklet to indicate which question they were answering. This is especially critical when the answers and workings are provided not in order in the script.

Each question should be started on a new page with 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, especially when the candidates tried to show on one page simultaneously answers for both parts (a) and (c) of a question, for example.

Overall performance showed that the candidates didn't have a problem with the time pressure during this exam, they managed to attempt all questions, most of the questions were answered using correct methodology which allowed the majority of candidates to gain pass marks.

Specific Comments

Question One

This 30-mark question tested candidates' ability to cope with the various aspects of core subjects of both profits tax, taking into account the allocation of direct expenses, limited voluntary medical insurance, advertising expenses, interest expense, impact of exchange rates on forex and VAT applicable for services provided to the company.

Overall the question was well answered with many outstanding answers. Candidates demonstrated good appreciation of the practical aspects of the scenario described in the question, especially in the difference on calculation of direct materials, direct salaries and social insurance contributions, as well as indirect remuneration under civil law agreement and respective social insurance contributions, limited advertising expenses, interest expense, bad debt expenses, foreign exchange loss and utilisation of previous years losses.

However the performance might be even better if candidates try to be more attentive to the details in scenario and do not make the following mistakes:

Part (a)

- Calculating of non-linear direct depreciation instead of showing one-off write-off for the fixed assets with the value less than 40,000 RR per item
- Forgetting the threshold for social insurance contributions in spite of the fact that this data is available in the rates and allowance sheet
- Including 700,000 RR into deductible expenses for profits tax purposes
- Including 436,600 net of VAT into bad debt provision

Part (b) Forgetting net of VAT direct expenses in calculation of completeness ratio

Part (c)

- Lack of output VAT calculation on promo presents distributed free of charge
- Incorrect VAT rate implementation when calculating input VAT on advertising expenses
- Forgetting application of relevant % in respect to VAT invoices received for input VAT on advertising expenses

The overall performance to this question was very good with several outstanding answers.

Question Two

In question 2 taxable and deductible items were examined, as well as the application of different deductions for personal income tax purposes for Vladislav and his wife Alina. Common mistakes included:

In part (a) personal income tax liability of Vladislav withheld at source by Agrimon :

- Incorrect calculation of insurance income to be received as a result of fire damage
- Including sales accelerator training into taxable base
- Non-application of relevant gift deduction as well as material aid deduction

In part b) final settlement of Vladislav's personal income tax liability for the year 2012:

- Social deductions relevant for part (b) was included in part (a)
- Educational deduction was shown as a single one of 50,000 RR for both daughter and son
- Non-application of prize deduction to the trip to Croatia

In part (c) final settlement of Alina's personal income tax liability for the year 2012:

- Non-application of correct months for children allowance
- Non-including into taxable base annual bonus for the year 2011 which was credited on account in April 2012

The overall performance to this question was good, especially for parts (a) and (c).

Question Three

Question 3 examined VAT issues.

Part (a) examined VAT issues and VAT impact related to appearance of summing difference, amended VAT invoice and VAT claw-back date.

Part (b) reviewed candidates' knowledge on output VAT related to the sales of accounts receivable

Part (c) examined VAT payable in case of unconfirmed export and relevant late interest charges

It should be noted that overall Question 3 was quite a straightforward question which required technical knowledge on all the above issues. Well prepared candidates prepared good answers to all parts of this question with the following exclusions:

- Non-application of correct exchange rate for calculating positive summing difference in part (a)(i)
- Non-using of correct exchange rates for calculating input VAT for both ZAO Bars and OOO Georgin
- Not paying attention to question requirements in (a)(iii) and answering in a way that was irrelevant to the scenario question
- Lack of technical knowledge for calculating VAT on interest in excess of the CBR rate in part (b)
- Late interest charges were calculated ignoring 1/3 VAT payment procedure

In summary, question 3 was answered based on residual principle by candidates, attempting all parts in a satisfactory manner, however some candidates did not providing full answers to each part.

Question Four

Part (a) of this question focused on the comparison of personal income tax liability for an individual entrepreneur in the situation of using business deduction vs option of non-confirming his actual expenses.

The typical mistakes were the following:

- Credit on bank account was not included into taxable income
- Gain from sale of computer was not calculated properly since 30% one-off write-off was not taken into account

Part (b) (i) of this question reviewed the impact on personal income tax in respect to available two loan alternatives. It should be pointed out that this question was answered in a good manner by many candidates.

Point (b) (ii) was a theoretical question. It was answered correctly by many candidates in essence but without disclosing the reason of exemption.

The overall performance of this question was good.

Question Five

Question 5 consisted of 3 parts.

Part (a) of the question required the calculation of advance property tax payment which in turn depended on calculation of the property tax base. This part of question was answered correctly by well- prepared candidates.

Part (b) of the question reviewed the social insurance contributions calculation for each of the options available for Vasiliy and in subpart (ii) reviewed the conditions of receiving deduction at source by Vasiliy.



This part of the question 5 was answered in a good manner without significant mistakes.

Part (c) of the question focused on thin capitalisation rules issue and the tax effect of each option available.

It should be pointed out that candidates managed to calculate correctly the thin capitalisation ratio, maximum limit of deduction, dividend relevant to the applicable option and make a correct conclusion regarding the more tax efficient option. Therefore I should say that this part of question was answered very good by prepared candidates.