Specimen Exam

Exam Name: Taxation (E1 MWI)
Time Allowed: 3 hours
Pass Mark: 50%

This exam contains 2 sections:

Section A:
15 questions, each worth 2 marks
30 marks in total

Section B:
4 questions, each worth 10 marks
2 questions, each worth 15 marks
70 marks in total

Note: This specimen examination has been prepared based on legislation passed by 30 September 2025 (to be updated).

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Section A

Question 1

Quamba Limited (Quamba) is a Malawi incorporated company which manufactures soap. It started operations on 1 January 2025. During the year ended 31 December 2025, the company bought a used factory building at K25,500,000 and purchased second hand plant and equipment at K15,000,000.

During the year Quamba also purchased a new truck for K8,000,000, and a new saloon car for K4,500,000.

No assets were sold during the year.

What is the maximum capital allowances Quamba Limited can claim during its first year of operations to 31 December 2025?

A K44,600,000
B K23,075,000
C K23,975,000
D K45,500,000

Question 2

Samuel is employed as an engineer at a local factory. The following details are available regarding his earnings for the year to 31 March 2026:

Salary	K65,000,000
Employer's contribution into an approved pension scheme	K6,500,000
Bonus	K2,500,000
Utility allowance	K800,000
Allowance for use of his own laptop	K2,400,000
Rent paid by his employer	K6,000,000

What is the total amount of PAYE payable by Samuel's employer for the tax year ended 31 March 2026 in respect of Samuel's earnings?

A K22,465,000
B K21,345,000
C K23,725,000
D K24,740,000

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Question 3

The following are the results for Potanna Limited:

	Year to 30 June 2024	Year to 30 June 2025	Year to 30 June 2026
	K	K	K
Taxable profit/(loss)	37,000,000	(38,000,000)	42,000,000
Capital gains/(loss)	1,500,000	8,000,000	(5,500,000)

There was a total of trading losses brought forward on 1 July 2023 of K45,000,000 made up as follows:

From the year ended 30 June 2017 - K5,000,000
From the year ended 30 June 2023 - K40,000,000

What amount of loss will be available for offset in the year ended 30 June 2026?

A K46,000,000
B K33,000,000
C K41,000,000
D K38,000,000

Question 4

Peteli imported a car from Japan on 1 May 2025. The car arrived in Malawi on 5 August 2025 and on this date the car cleared customs. The car cost US$1,500. Freight, insurance, storage and port charges totalled US$1,000.

The exchange rate on 1 May 2025 was US$1 = K 1,875.
The exchange rate on 5 August 2025 was US$1 = K2,000

The rate of customs duty on cars is 25% and excise tax is 15%

What is the total amount of customs duty and excise tax which is due on the importation of this vehicle?

A K2,187,500
B K2,050,781
C K2,105,469
D K2,000,000

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Question 5

Philippe owns two houses which he rents out. The income and expenses for the year ended 31 March 2026 are as follows:

	Property A	Property B
	K	K
Rent	10,000,000	0
Expenses		
City rates	5,500,000	3,000,000
Construction of driveway	1,500,000	0
Repairs and maintenance	2,500,000	1,500,000

Property B is occupied by Philippe's mother, rent free.

Which TWO of the following statements show the amount of taxable rental income or (loss) attributable to Philippe for the year ended 31 March 2026 for each of the two properties A and B?

A Property A rental income of K2,000,000
B Property A rental income of K6,000,000
C Property A rental income of K5,000,000
D Property B loss of K4,500,000
E Property B loss of K3,000,000
F Property B loss of K0

Question 6

Onedin Limited owns a house which it has rented out but it has decided to sell this property.

The house was bought on 8 December 2011 for K5,500,000. The company carried out an extension to this house on 11 January 2025 for K2,500,000. The property was sold on 5 May 2025 for K70,000,000

CPI indices:

December 2011	71,409.08
January 2025	652,898.18
May 2025	671,559,59

Calculate the capital gain chargeable on Onedin Limited on the sale of the property.

K ☐

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Question 7

Lesmis Limited is a trading company. The results for the year ended 31 December 2025 showed a profit before tax of K6,400,000. This is after charging depreciation of K450,000 and after crediting gross interest receivable of K365,000. In addition, the company incurred a capital loss for the year of K125,000.

The capital allowances on the assets have been agreed at K395,000, this sum has not been adjusted for in the results.

What is Lesmis Limited's taxable profit for the year ended 31 December 2025?

A K6,090,000
B K6,455,000
C K6,330,000
D K6,345,000

Question 8

Bonny is married to her husband, Vaughan. The following income was received by Juli for the year ended 31 March 2026:

	K
Salary from employment at a local bank	25,000,000
Bank interest (gross)	6,250,000
Rent from her property	16,500,000
Director's fees	8,600,000
Dividends from a local company	2,500,000

What amount of Bonny's income will be taxed on Vaughan for the year ended 31 March 2026?

A K22,750,000
B K17,350,000
C K31,350,000
D K25,000,000

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Question 9

Loma Limited had a taxable income of K4,500,000 for the year ended 31 August 2026 with a resulting tax liability of K1,350,000. The company paid provisional tax of K400,000 during the year.

The following information is available in connection with withholding taxes during the financial period:

	Withholding tax (K)
On sales income	250,000
On dividends received	200,000
On interest received	160,000
On expenses paid	175,000

Calculate the tax payable by Loma Limited for the year ended 31 August 2026.

Note: Ignore any penalties which may apply on the amount of provisional tax paid.

K ☐

Question 10

Where it is not possible to determine the taxable income through the normal manner as provided in the Act, in respect of businesses extending to any country outside Malawi, the taxable income of the business will be determined in a prescribed manner.

Which TWO of the following statements regarding how the taxable income will be determined are correct?

A A fixed amount will be proposed and determined by the taxpayer
B The taxpayer will make a proposal to the Commissioner on how much income should be taxed
C A fixed amount will be proposed and determined by the Commissioner
D The Commissioner will consider any proposals and determine the taxable income in a manner which appears appropriate

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Question 11

Yona is a trader who is registered for value added tax (VAT) and makes only taxable supplies. For the month of March 2026, the VAT return showed an amount payable of K465,000. The return was due for submission on 25 April 2026 however this was not submitted until 20 May 2026.

What is Yona's penalty for the late submission of the VAT return?

A K60,000
B K75,000
C K95,000
D K50,000

Question 12

Dimu Limited has an accounting period reference date of 30 November each year. For the year ended 30 November 2025 it made a profit before tax of K5,800,000. The company paid provisional tax of K800,000 during the year

In order to avoid any penalty, which of the following options show the minimum balance of provisional tax to be paid by the last quarter and the due date for this payment?

Option	Balance of provisional tax	Due date for payment
1	K766,000	14 December 2025
2	K940,000	25 January 2026
3	K940,000	14 January 2026
4	K766,000	25 December 2025

A Option 1
B Option 2
C Option 3
D Option 4

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Question 13

Churey is employed by Chango Limited. In addition to being paid a salary of K4,000,000 per month he is also provided with the following:

- Furnished housing - Chango Limited pays a monthly rental of K600,000 for the house.
- A company car which cost K12,000,000 three years previously
- Utility allowance paid to Churey of K60,000 per month
- School fees allowance paid to Churey of K70,000 per month

Calculate the total value on which fringe benefits tax will be calculated for the quarter ending 31 March 2026.

K ☐

Question 14

A taxpayer who is aggrieved by an assessment or decision made by the Commissioner General according to Section 97 may appeal against the assessment or such decision.

Which THREE of the following statements in respect of such appeal are true?

A The appeal must be made to the Commissioner
B The appeal must be made to the special arbitrator
C The appeal must be made within 30 days of the assessment
D The appeal must be made within 42 days of the assessment
E The appeal must be made in writing
F The appeal may be made by telephone

Question 15

Which TWO of the following transactions will be exempt from capital gains tax?

A The disposal of property between spouses and former spouses
B The disposal of an individual's principal residence
C The disposal of a property in the year in which and individual dies
D The disposal of an asset as a result of involuntary conversion

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Section B

Question 16

The following scenario relates to two requirements.

Dima Limited (Dima) is a company in the construction industry and registered for value added tax (VAT) in December 2025.

The following information is available in connection with Dima's transactions during the month of January 2026:

1.	Certificates issued for commercial building work done	K145,000,000
2.	Interest received from fixed deposit accounts	K3,500,000
3.	Proceeds from the sale of plant and equipment	K450,000
4.	Purchases for materials used in the construction of the commercial building	K100,000,000
5.	Salaries for the month	K15,000,000
6.	Office supplies, including stationery and printing costs	K5,600,000
7.	Rent and rates, including rent on a residential building of K1,500,000	K8,500,000
8.	Other expenses (includes K850,000 for hotel accommodation for the managing director)	K4,500,000
9.	Management fee paid to a local holding company	K15,000,000
10.	The cost of spare parts for repairs to motor vehicles	K2,000,000

Other information

This is the first return of VAT submitted since the company registered for VAT in December 2025. At the time of registration, it had paid for capital goods amounting to K6,500,00.

All figures shown are exclusive of VAT.

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Requirements:

(a) Summarise the conditions which must be met in order for a value added tax (VAT) registered business to deduct any relevant input VAT on expenses.

(3 marks)

(b) Calculate the value added tax (VAT) payable by or refundable to Dima Limited for the month of January 2026.

Note: You should clearly identify any item on which VAT is not chargeable or deductible by the use of a zero (0).

(7 marks)

(10 marks)

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Question 17

The following scenario relates to two requirements.

Aled entered into the following transactions during the year ended 31 March 2025:

1. Aled had bought 10,000 shares in Loga Limited which he had purchased in March 2009 for K8 per share. He sold 5,000 of these shares on 1 March 2025 for K125 per share. On 1 June 2022 Loga Limited had made a rights issue and as a result of this Aled had purchased 500 shares at K10 per share.

2. Aled held a rare vase which he had bought for K650,000 on 1 November 2019. He had insured this vase. The vase was destroyed by fire on 1 October 2024 and a sum of K1,400,000 was paid by the insurance company.

3. Aled held 8,000 shares in Maga Limited, a subsidiary of Lombe Limited. These shares were acquired on 1 September 2023 at a total cost of K80,000. On 1 February 2025 these shares were swapped for 3,500 shares in Lombe Limited. The value of Lombe Limited shares at the date of the swap was K45 per share.

All the shares were held in unlisted companies.

Consumer price indices (CPI):

March 2009	61,517.21
November 2019	254,972.99
June 2022	328,230.29
September 2023	424,975.37
October 2024	561,127.31
February 2025	667,014.09
March 2025	673,128.70

Requirements:

(a) Calculate the capital gain which will be taxable on Aled for the year ended 31 March 2025.

(8 marks)

(b) Compare the tax treatment on the sale of the vase if Aled were to reinvest the insurance proceeds of K1,400,000 in another vase.

(2 marks)

(10 marks)

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Question 18

The following scenario relates to two requirements.

Bell Limited had both recorded and made payments for the following transactions in the month of March 2026:

Local payments	**K**
Purchase of motor vehicle	18,400,500
Rental for offices	6,500,000
Advertisement	2,500,000
Payment to contractor for canteen extension	10,500,000
Audit fee	6,500,000
Canteen supplies (all made in cash)	3,400,000
Interest paid on shareholder loan	850,000
Payment of supplies to traders	6,800,000
Commission paid	650,000
Interim dividend	10,000,000
International payments	
Management fee	4,500,000
Procurement fee	8,600,000
Insurance	2,100,000

There are no withholding tax exemption certificates issued for any of these transactions.

Withholding tax has not previously been made for any of these transactions.

Requirements:

(a) Calculate any withholding tax payable on the payments made by Bell Ltd.

Note: Your answer should show all items listed in the scenario and indicate with a zero (0) if withholding tax is not applicable.

(8 marks)

(b) Analyse which penalties will apply if withholding tax is not correctly deducted and/or not correctly remitted to the Malawi Revenue Authority.

(2 marks)

(10 marks)

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Question 19

The following scenario relates to two requirements.

The following financial information relates to Dawel Sports and Recreation Club for the year ended 30 November 2025:

Receipts	**K**
Bar sales (note 1)	12,500,000
Restaurant sales (note 1)	8,200,000
Membership fees	10,000,000
Income from gambling machines and stage plays	22,500,000
	53,200,000
Expenses	
Bar purchases	6,500,000
Restaurant purchases	7,200,000
Ground maintenance	2,500,000
Salaries and wages	4,500,000
Motor vehicle-pickup	6,500,000
Computers	2,500,000
Telephones	400,000
	33,300,000
Surplus of receipts over expenditure	**19,900,000**

Note 1

The amount for bar sales which have not yet been paid by customers at year end was K465,000, while for restaurant sales was K160,000. These amounts are not reflected in the numbers shown above. There were no opening debtors.

Other information

Bank interest on Dawel Sports and Recreation Club's fixed deposit account for the year but not yet credited to the account amounted to K1,800,000 (gross).

Provisional tax paid in the year was K500,000.

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Requirements:

(a) Analyse how clubs formed for leisure or recreation are treated for tax purposes in respect of the income which is taxed, the tax treatment of their fixed asset purchases and the tax treatment of their expenses.

(3 marks)

(b) Calculate the tax payable by Dawel Sports and Recreation Club for the year ended 30 November 2025.

(7 marks)

(10 marks)

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Question 20

The following scenario relates to three requirements.

Fredilo purchased three saloon cars and on 1 April 2025 he started to operate as a taxi business with these three vehicles. The first year to 31 March 2026 shows the following results:

	Note	K	K
Revenue			20,600,000
Less Expenses:			
Staff costs	1	8,400,000	
Fuel and oil	2	4,200,000	
Insurance	3	435,000	
Depreciation		2,265,000	
Rental for taxi office		2,400,000	
School fees	4	800,000	
			(18,500,000)
Net profit			**2,100,000**

Notes:

1. Staff costs include K4,000,000 being the salary paid to Jenny, Fredilo's wife. Jenny manages the taxi business and the salary paid is a market rate for the work done.

2. Fuel and oil costs relate equally to the three taxis used in the business. One of the three taxis is used 25% for private use by Fredilo.

3. Insurance costs relate to the amount actually paid in the year however, K300,000 was still outstanding as at 31 March 2026.

One third of the insurance relates to the one taxi, 25% of which is used personally by Fredilo.

4. School fees relates to the amount paid for his son for the year.

Additional information

The following other information is available in connection with the taxi business:

No provisional tax was paid during the year in connection with the taxi business.

The three saloon cars were purchased at the beginning of the year at a cost of K3,500,000 each. As stated above, one of these was subject to 25% private use by Fredilo.

A laptop costing K500,000 was purchased at the beginning of the year.

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Fredilo's employment income

In addition to his taxi business, Fredilo was employed by Ben Limited. The following were his earnings from employment for the year ended 31 March 2026:

	K
Salary	25,000,000
Bonus	5,000,000
House rent allowance	6,000,000

Fredilo contributes 5% of his salary into an approved pension fund and the company, Ben Limited contributes 10% of his salary.

Other income

	K
Sale of grain	10,500,000
Cost of grain	6,000,000

Requirements:

(a) Calculate the taxable income from Fredilo's taxi business for the year ended 31 March 2026.

Note: You should start your answer with the net profit of K2,100,000, listing all items relating to the taxi business and indicating by use of a zero (0) any items which do not require adjustment.

(8 marks)

(b) Calculate Fredilo's taxable income from all sources, listing the items in the scenario and indicating by use of a zero (0) any item which is not taxable.

(4 marks)

(c) Analyse the process by which Fredilo's total income will be taxed for the year ended 31 March 2026.

(3 marks)

(15 marks)

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Question 21

The following scenario relates to two requirements.

Momumba Construction Limited prepares its financial statements to 31 December each year.

The following extract from the financial statements shows the results for the year ended 31 December 2025:

Income	**Note**	**K**	**K**
Construction revenue	1		128,000,000
Interest receivable (net)			3,500,000
Profit on sale of assets	2		7,500,000
Dividends (net)			4,500,000
			143,500,000
Expenses			
Construction costs	3	72,500,100	
Salaries and wages		12,400,600	
Depreciation		8,400,000	
Unrealised exchange loss	4	3,600,500	
Impairment of investments		700,000	
Management fee paid to Zambia	5	4,650,000	
Penalties for late payment of tax		465,000	
			(102,716,200)
Net profit			**40,783,800**

Notes

1. Construction revenue includes a K4,500,000 retention fee re-released during the year.

2. Profit on sale of assets is the profit on sale of a house which was sold on 1 February 2025 for K58,400,000. The house was bought in August 2011 for K3,500,000.

Consumer Prices Indices (CPI):

February 2025	667,014.09
August 2011	63,951,10

3. Construction costs include a general provision for construction losses of K11,200,000.

4. Unrealised exchange losses relate to conversion of foreign account creditors.

5. Management fee paid to Zambia is stated gross and includes non-resident tax.

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Other information

Capital allowances amount to K8,566,000 for the year.

The provisional tax paid during the year amounted to K9,500,000.

Requirements:

(a) Prepare a computation of the tax payable by Momumba Construction Limited for the year ended 31 December 2025.

Note: Your computation should start with the net profit of K40,783,800 and show all items included in the scenario, indicating with a zero (0) those not requiring adjustment.

(13 marks)

(b) Analyse the treatment of, and limitations which apply to, foreign exchange losses for tax purposes.

(2 marks)

(15 marks)

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