

**STRICTLY CONFIDENTIAL**

**THE PUBLIC ACCOUNTANTS EXAMINATION**  
**COUNCIL OF MALAWI**

**2013 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC 10(B): TAXATION**

**MONDAY 2 DECEMBER 2013**

**TIME ALLOWED: 3 HOURS**  
**9.00 AM - 12.00 NOON**

**SUGGESTED SOLUTIONS**

**SECTION A****ANSWER BOTH QUESTIONS IN THIS SECTION**

1. (a) (i) Bad debts will be allowed if:
- they have been proved to be bad to the satisfaction of the commissioner general.
  - they have become bad during the year of assessment.
  - the amount of debt must have been included in the current year of assessment or was included in any previous year in the taxpayers assessable income (trade debts) either in terms of the Act or any previous law.
- (ii) Doubtful debts will be allowable:
- To the extent that they are estimated to be doubtful if the amounts of such debts are included in the current year of assessment or were included in any previous year of assessment in the taxpayers income either in terms of this Act or any previous law.
  - They must be specific provisions.
- (iii) Individual donations:
- must not be of less than K250.
  - must be made to a charitable organization approved by the minister for this purpose.
  - must not be of less than K500.
  - must be made to any such non-profit institution operated.
- Solely or principally for:
- social welfare
  - civic improvement
  - educational development; or
  - other similar purposes as the minister may approve.

(b) (i) Taxable income for Chikwanda Ltd

	K'000	K'000
Profit before taxation		74,680
Add back:		
Depreciation	8,400	
Depreciation	15,200	
General provision doubtful debt	400	
Exchange gain per A/Cs	600	
Exchange loss realized	(600)	
Exchange gain realized	1,500	
Repairs and maintenance	1,200	
Fringe benefits tax	450	
Training allowance additional (50% x 285,000)	142.5	<u>27,292.50</u>
		101,972.50
Less: Capital allowances	21,200	<u>21,200.00</u>
Taxable income		80,772.50
Tax rate 30% ½		
Tax 30% x 80,772.50		= <u>24,231.75</u>

Note to markers

Calculations for exchange gain in two formats all correct i.e.

Gain as per accounts	(600)
Add back unrealized exchange loss	(300)
Taxable gains	<u>(900)</u>

## (ii) Tax if it was foreign company

Rate 35%

Therefore 35% x 80,772.5 = 28,270.38

## (iii) Mining expenditure means capital expenditure incurred in Malawi by a person carrying on or about to carry on mining operations in Malawi.

- In searching for or in discovering and testing or winning access to deposits of minerals.
- In the acquisition of or of rights over such deposits other than the acquisition from a person who has carried on mining operations in relation to such deposits.
- In the provisions of plant and machinery and industrial buildings which would have little or no value to such person if the mine ceased to be worked.

- On the construction of any buildings or works which would have little or no value if the mine ceased to be worked.
- On development, general administration and management prior to the commencement of mining operations.

2. (a) Staff housing means any dwelling house erected for occupation by an employee engaged in the business or farming operations of a taxpayer who is a manufacturer or a farmer.
- (b) Staff housing must be occupied by:
- (i) a fulltime employee
  - (ii) someone who is not able to directly or indirectly control more than 5% of voting rights attaching to all classes of shares in the company.
- (c) Its only that fencing which is used in the carrying on of farming operations referred to as 'farm fencing' and any essential protective fencing enclosing any building deemed to be an industrial building.
- (d) Capital allowances
- (i) Tax written down of machinery that was sold.

Sale proceeds	K4,250,000
Loss	K 750,000
Tax written down value	K5,000,000

- (ii) Gain/loss on vehicle sold

Sale proceeds	K4,400,000
Tax written down value	K2,600,000
Gain	<u>K1,800,000</u>

- (iii) Capital allowance computation

	Factory building	Plant & machinery	Motor vehicles	Furniture & fittings	Staff Housing
	K'000	K'000	K'000	K'000	K'000
1 July 2012	32,600	15,400	19,200	5,300	-
Disposals	<u>-</u>	<u>(5,000)</u>	<u>(2,600)</u>	<u>-</u>	<u>-</u>
	32,600	10,400	16,600	5,300	-
Additions	<u>767</u>	<u>12,200</u>	<u>14,800</u>	<u>2,200</u>	<u>9,620</u>
	33,367	22,600	31,400	7,500	9,620
Investment allowance	(767)	(12,200)	-	-	-
Initial allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>(440)</u>	<u>(962)</u>
	32,600	10,400	31,400	7,060	8,658
Annual allowance	<u>(1,630)</u>	<u>(1,040)</u>	<u>(6,280)</u>	<u>(750)</u>	<u>481</u>
	<u>30,970</u>	<u>9,360</u>	<u>25,120</u>	<u>6,310</u>	<u>8,177</u>

**SECTION B**

**ANSWER THREE QUESTIONS ONLY FROM THIS SECTION**

3. (a) The **two** types of clubs are:
- (i) Clubs which are formed or are operated solely or principally for:
    - social welfare
    - civic improvement
    - other similar purposes
    - and which do not distribute any income.
  - (ii) Those which are formed or operated solely or principally for:
    - pleasure or
    - recreation.
- (b) Income treatment
- (i) The income of clubs and associations which are formed or operated solely or principally for social welfare or civic improvement are exempt from taxation.
  - (ii) Certain types of incomes for clubs formed or operated for pleasure and recreation are taxable.
- (c) The taxable income of clubs or associations which are subject to tax is deemed to be an amount equivalent to 6¼% of all receipts by or accruals to or in favour of the club or association from:
- sales of goods
  - cinematograph performances
  - stage plays
  - gambling machines

(d)	(i)	<u>Chawaka Club</u>	K'000
		Gambling machine	315
		Live band performances	416
		Sales of food	250
		Video shows	85
		Sale of drinks	320
			<u>1,386</u>
		Taxable income (1386000 x 6¼%)	= K86,625

- (ii) Tax payable =  $86,625 \times 30\%$   
                               = K25,987.5
- (iii) Taxable in the year 2012/13

(e) Turnover tax:

- Business whose turnover for the year is more than 2 million but less than 6 million.
- Tax is payable monthly on turnover realized.
- Withholding tax suffered by the taxpayer will be credited on assessment.
- Turnover tax is not payable by registered companies even if their turnover is below 6 million.
- Not payable on income which is subject to a final withholding tax.

(f) Turnover tax was introduced

- to simplify the tax system
- to encourage compliance

4. (a) (i) Foreign currency liability means a liability denominated in or amount of which is otherwise determined by reference to a foreign currency and includes notes and coins of such foreign currency.

(ii) Calculations September 2011

Foreign currency	=	\$320,000
Exchange rate		\$1 = 150
Total amount	=	<u>K48,000,000</u>

(iii) Formula  $ar_1 - ar_2$

Where

a = amount of foreign currency received or paid

$r_1$  = official rate of exchange on the date of establishing the liability

$r_2$  = official rate of exchange on the date of satisfying the transaction.

1. Payment March 2013 - \$95,000

$$\begin{aligned}
 & (95,000 \times 150) - (95,000 \times 365) \\
 & = 14,250,000 - 34,675,000 \\
 & = (20,425,000) \text{ Loss}
 \end{aligned}$$

2. Payment June 2013 - \$125,000

$$\begin{aligned}
 & (125,000 \times 150) - (125,000 \times 420) \\
 & = 18,750,000 - 52,500,000 \\
 & = (K33,750,000) \text{ Loss}
 \end{aligned}$$

$$\begin{aligned}
3. \quad & \text{Payment September 2013} - \$100,000 \\
& (100,000 \times 150) - (100,000 \times 480) \\
& = \text{K}15,000,000 - 48,000,000 \\
& = (33,000,000) \text{ Loss}
\end{aligned}$$

(iv) Whole amount paid in March 2013

$$\begin{aligned}
& (320,000 \times 150) - (320,000 \times 365) \\
& = 48,000,000 - 116,800,000 \\
& = \underline{68,800,000}
\end{aligned}$$

$$\begin{aligned}
\text{Saving} &= (20,425,000 + 33,750,000 + 33,000,000 - 68,800,000) \\
&= \underline{\underline{\text{K}18,375,000}}
\end{aligned}$$

(b) Capital gains arising from the following are exempt from taxation:

- Transfer of assets between spouses or former spouses;
- Transfer of assets to a spouse from the estate of a deceased spouse;
- Transfer of assets from deceased parent to a child;
- Disposal of an individual's principal residence;
- Disposal of personal and domestic assets not used in connection with any trade.

5. (a) (i) No other business should be conducted on the entered premises except with the permission of the controller.
- (ii) No other excisable goods may be kept on the entered premises except those manufactured on the premises.
- (iii) All rooms, stores, plant, equipment and warehouses must be given distinguishing marks and numbers.
- (iv) The licensee must provide office, sanitary or living accommodation for an officer or facilities for proper exercise of the officer's functions as the Commissioner may require.
- (v) The name of the licensee must be exhibited on a conspicuous place outside the entered premises.
- (b) (i) Finance institutions are not available at the border.
- (ii) Need to facilitate trade.
- (iii) Carriers not being the owners of the goods and may not possess necessary documents for clearance at the border.

(iv) No customs clearing agents at the border.

(v) Security reasons.

$$\begin{aligned}
 \text{(c) (i) CIF} &= \text{cost} \quad \frac{1}{2} \\
 &= \text{insurance} \quad \frac{1}{2} \\
 &= \text{freight} \quad \frac{1}{2}
 \end{aligned}$$

of the imported goods.

$$\begin{aligned}
 \text{(ii) Cost of 5,000 cards} &= 5000 \times \$2 = \$10,000 \\
 \text{Malawi Kwacha} &= 10,000 \times 450 = \text{K}4,500,000 \\
 \text{Value for duty purposes} &= \text{K}4,500,000 \\
 \text{Customs duty} &= 4,500,000 \times 30\% = \underline{\text{K}1,350,000} \\
 \text{Value for excise purposes} &= \text{K}5,850,000 \\
 \text{Excise tax} &= 5,850,000 \times 25\% = \underline{\text{K}1,462,500} \\
 \text{Value for VAT purposes} &= \text{K}7,312,500 \\
 \text{Value Added Tax} &= 7,312,500 \times 16\frac{1}{2}\% = \text{K}1,206,562.5
 \end{aligned}$$

$$\begin{aligned}
 \text{Customs duty} &1350000 \\
 \text{Excise tax} &1462500 \\
 \text{VAT} &\underline{1206562.5} \\
 &\underline{4019062.5}
 \end{aligned}$$

(d) Chikoko Limited

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Penalty for provisional tax for 2012/2013

$$\begin{aligned}
 \text{Actual tax} &= 30\% \times 245,600,000 \\
 &= 73,680,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Provisional tax liability} &= 100\% \times 73,680,000 \\
 &= \text{K}73,680,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Unpaid provisional tax as a percentage of tax liability} &= \frac{73,680,000}{73,680,000} \times 100\% \\
 &= 100\%
 \end{aligned}$$

The amount of penalty as percentage exceeds 50% of unpaid amount is 30%

$$\text{Penalty} = 30\% \times 73,680,000 = \text{K}22,104,000$$

6. (a) A taxpayer is registrable for VAT when that person makes taxable supply of goods and services and whose business turnover is or exceeds K6 million per annum.

If a person makes taxable supply of goods or services but sales turnover does not exceed the prescribed limit may apply for registration.



(b) (i) VAT on expenditure

	K'000
Security expenses (16.5%/116.5% x 81,550)	11,550
Legal expenses (16.5%/116.5% x 17,475)	2,475
Stationery (16.5%/116.5% x 13,980)	1,980
Office furniture (16.5%/116.5% x 18,640)	2,640
Office rentals (16.5%/116.5% x 45,435)	6,435
Electricity (16.5%/116.5% x 87,375)	1,237.5
Salaries	0
Water	0
Postal services	0
	<u>26,317.5</u>

(ii) Sales value

	<u>Net</u>	<u>VAT</u>	<u>Gross</u>
Export	5,000,000	0	5,000,000
Local	<u>425,000,000</u>	<u>70,125,000</u>	<u>495,125,000</u>
Total	430,000,000	70,125,000	500,125,000

(iii) Amount payable

	K
Output VAT	70,125,000
Input VAT	<u>26,317,500</u>
Net payable	43,807,500

## (iv) The time of supply of goods or services in the normal course of business occurs at the earliest of the times:

1. the goods are removed from the premises of the taxable person or
2. the goods are made available to the person to whom they are supplied; or
3. the services are supplied or rendered
4. a payment is received for all or part of the supply
5. a tax invoice is issued.

7. (a) (i) Any **four** types of expenditure incurred by farmers:

- the stumping, leveling and clearing of lands
- works for the prevention of soil erosion
- sinking of boreholes
- digging of wells
- carrying out aerial of geophysical surveys

(ii) Water control work includes any canal, channel, dyke, furrow, and any other flood control structure, whether of a permanent nature or otherwise.

- (b) Tax payable year ended 30/6/13

			K'000
Salary	K2.6m x 12		31,200
House allowance	K2.6m x 50% x 12		15,600
School fees	K600,000 x 4		2,400
Domestic servants	75,000 x 12		<u>900</u>
			50,100
Tax payable			
First	180,000	0%	= 0
Next	60,000	15%	= 9,000
Balance	49,860,000	30%	= <u>14,958,000</u>
			<u>14,967,000</u>

- (c) **Five** offences listed under Section 112 of the Taxation Act:

- (i) Failure to comply with any notice served on the taxpayer by the Commissioner under the Taxation Act or any rules made thereunder.
- (ii) The taxpayer gives any incorrect information or omits any relevant information from any statement required to be made to the commissioner.
- (iii) Failure to keep records, books or accounts required to be kept under Section 54.
- (iv) Being a public officer of a company, fails to furnish to the Commissioner documents and particulars relating to the notification of dividend declared, as required under Section 69.
- (v) Failure to furnish the Commissioner returns or particulars relating to persons employed by him as required under Section 69.
- (vi) The taxpayer or his agent fails to furnish any other persons with a certificate as required under Section 87(3).
- (vii) Tax payer or his agent fails to deduct tax due, or to remit to the Commissioner tax deducted, under Section 76A.

- (d) Expenditure on research and experiments will be allowed as a deduction from a taxpayers assessable income if the following conditions are met:

- (i) Expenditure must not be of capital nature;
- (ii) Expenditure must be incurred by the taxpayer during the year of assessment on research and experiments relating to the taxpayers trade.
- (iii) any sum contributed by the taxpayer during the year of assessment to any scientific or educational society or institution or other body of a public character approved by the Minister if the taxpayer has stipulated that the sum must be utilized by such society, institution or body as the case may be, solely for the purpose of industrial research or scientific experimental work connected with the trade of the taxpayer.

END

NOT FOR SALE