

EXAMINATION NO. _____

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

INSTRUCTIONS:

1. You are allowed **15 minutes** reading time **before the examination begins** during which you should read the question paper and, if you wish, make annotations on the question paper. However, you are **not** allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
2. Number of questions on paper – 7.
3. The paper is divided into **TWO** Sections, **A** and **B**. **BOTH** questions to be answered in Section **A** and **ANY THREE** from Section **B**.
4. Each question carries 20 marks.
5. Use of non-programmable calculators is allowed.
6. You are provided with the following:
 - (i) A set of tables containing rates of tax on taxable income (Table 1).
 - (ii) Rates of capital allowances (Table 2).
 - (iii) Penalty rates for underpaid provisional tax (Table 3).
7. Begin each answer on a fresh page.
8. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This question paper contains 9 pages

This question paper must **not** be removed from the examination hall.

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

1. (a) Describe the circumstances under which the following items are allowable or deductible for tax purposes in accordance with the Taxation Act:
- (i) Bad debts **2 Marks**
- (ii) Doubtful debts **2 Marks**
- (iii) Individual donations **4 Marks**
- (b) Chikwanda Limited is incorporated in Malawi and manufactures toilet tissue. The company's summarized profit and loss account for the year ended 31 December 2012 is as follows:

	Notes	K'000	K'000
Sales			255,500
Cost of sales			<u>148,200</u>
Gross profit			107,300
Interest			7,200
Depreciation	1	8,400	
Auditor's fees		1,200	
Bad debts		750	
Doubtful debts	2	720	
Net exchange (gains)	3	(600)	
Repairs & maintenance	4	2,200	
Fringe benefits tax		450	
Staff expenses		6,200	
Directors fees		2,100	
Other allowable expenses		18,400	
Total expenses			<u>39,820</u>
Profit before tax			<u>74,680</u>

Notes

1. Included in the cost of sales is K15,200,000 in respect of depreciation for plant and equipment.
2. Doubtful debts are made up of the following:

	K'000
Specific provision	320
General provision	<u>400</u>
	<u>720</u>

3. Net exchange gains are in respect of imported machinery and are made up of the following:

	K'000
Exchange gains – realized	(1,500)
Exchange losses – realized	600
Exchange losses – unrealized	<u>300</u>
Total net exchange gains	<u>(600)</u>

In the previous years all exchange gains and losses were realized.

4. Repairs and maintenance includes an amount of K1,200,000 for work paid for but not done by 31 December 2012.
5. Staff expenses include K285,000 being cost of tuition and related expenses incurred by Chikwanda Limited in respect of a Malawian employee who obtained a degree in Engineering and works as a production manager.
6. Agreed capital allowances were K21,200,000.

Required:

- (i) Compute the taxable income and tax payable for the accounting year ended 31 December 2012. **7 Marks**
- (ii) How much tax would Chikwanda Limited have paid had it been a foreign company? **1 Mark**
- (iii) Define the term “mining expenditure” as provided in part (ii) of the second schedule to the Taxation Act. **5 Marks**

(TOTAL: 20 MARKS)

Continued/.....

2. (a) Define the term “staff housing” as stipulated in the Malawi Taxation Act. **2 Marks**
- (b) What must a taxpayer do to ensure that maximum capital allowances are claimed in respect of staff housing? **2 Marks**
- (c) Mention the type of fencing expenditure that is eligible for capital allowances. **2 Marks**
- (d) Chikobonya is running a manufacturing business. The capital allowances schedule as at 1 July 2012 contained the following information:

<u>Asset Type</u>	<u>Tax written down value</u> K'000	<u>Annual Allowance Rate</u>
Factory building	32,600	5%
Plant & machinery	15,400	10%
Motor vehicles	19,200	20%
Furniture & fittings	5,300	10%

During the year to 30 June 2013, the following transactions were recorded:

Fencing

Fencing of the factory which started in 2009 was completed and brought into use during the year under review and an amount of K767,000 was spent in this final phase.

Plant & machinery

Some aging machinery was sold for K4,250,000. This sale resulted in a capital loss of K750,000. New replacement machinery was acquired at a cost of K12,200,000.

Motor vehicle

One motor vehicle with a tax written down value of K2,600,000 was sold for K4,400,000. A replacement saloon vehicle was acquired at a cost of K14,800,000.

Furniture & fittings

Additional furniture and fittings were acquired at a cost of K2,200,000.

Staff housing

One staff house was built at a cost of K9,620,000.

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Required:

- (i) Calculate the tax written down value of the machinery that was sold.
2 Marks
 - (ii) Calculate the capital gain or loss on the motor vehicle that was sold.
2 Marks
 - (iii) Calculate the capital allowances due for the year to 30 June 2013.
(Assume initial allowances have been claimed, where appropriate).
10 Marks
- (TOTAL: 20 MARKS)**

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SECTION B**ANSWER THREE QUESTIONS ONLY FROM THIS SECTION**

3. (a) Describe the **two** types of clubs, societies or associations which are recognized under the Taxation Act. **3 Marks**
- (b) How is the income of such clubs, societies or associations treated by the Malawi Revenue Authority? **2 Marks**
- (c) Where a club or association is subject to tax, state how the taxable income is computed. **3 Marks**
- (d) The transactions of Chawaka Club, which is a taxable club and registered in Malawi, for the financial year ended 30 June 2013, were listed as follows:

Income	K'000
Gambling machine	315
Live band performances	416
Sale of food	250
Video shows	85
Sale of drinks	320
Club membership fees	160
Expenses:	
Repairs & maintenance	485
Trading licences	265
Cost of goods sold	125
Food licence	25
Salaries & wages	675

Required:

- (i) Compute the taxable income of Chawaka Club for the financial year ended 30 June 2013. **4 Marks**
- (ii) Calculate the amount of tax payable on the taxable income computed in (i) above. **1 Mark**
- (iii) State the tax year in which the taxable income computed in (ii) above will be assessed. **1 Mark**
- (e) Explain how turnover tax works. **5 Marks**
- (f) Name any **two** reasons why turnover tax was introduced. **1 Mark**

(TOTAL: 20 MARKS)**Continued/.....**

4. (a) A Malawian businessman obtained a foreign currency loan facility whose proceeds were used to set up a fertilizer company in Balaka. The loan was for \$320,000 and was obtained in September 2011. The payment of the loan was made as follows:

March 2013	\$95,000
June 2013	\$125,000
September 2013	\$100,000

Exchange rates for the relevant periods were as follows:

September	2011	\$1 = 150
March	2013	\$1 = 365
June	2013	\$1 = 420
September	2013	\$1 = 480

Required:

- (i) Define the term “foreign currency liability”, in terms of the Taxation Act.
1½ Marks
 - (ii) Calculate the value of the foreign currency in Malawi Kwacha at the time of establishing the foreign currency liability, in September 2011. **1 Mark**
 - (iii) Calculate the total amount of foreign exchange gain, or foreign exchange loss, as the case may be, realized on the loan transaction upon being paid in full.
10 Marks
 - (iv) Calculate how much would have been saved in realized foreign exchange loss, or how much would have been realised as additional foreign exchange gains if the whole of this foreign exchange liability was settled in March 2013.
3½ Marks
- (b) The Taxation Act exempts certain capital gains and losses realized on the transfer of some capital assets from being assessable for tax.

Required:

State any **four** situations in which those exempt capital gains or losses could arise.

4 Marks

(TOTAL: 20 MARKS)

Continued/.....

5. (a) Mention any **five** general conditions that all traders dealing with goods and services that attract excise tax must comply with, in accordance with the customs and excise tax law. **2½ Marks**
- (b) For purposes of customs duty, the law demands that all goods must be cleared at the border port except in circumstances where the importer is allowed to clear them at an inland port.

Required:

Name any **four** reasons/circumstances that may necessitate the Commissioner General of the Malawi Revenue Authority to allow an importer to clear their goods inland. **2½ Marks**

- (c) In readiness for Easter, a shop ordered 5,000 cards from China. The prospective supplier sent an email to indicate that the cost of each card was \$2 CIF Blantyre.

An enquiry from the Malawi Revenue Authority reveals that upon arrival at the border port of the imported cards, the shop will be required to pay 30% customs duty, 25% excise tax and 16½% value added tax.

Required:

- (i) Explain the term CIF as used in international trade. **1½ Marks**
- (ii) Advise how much the shop will pay to MRA should they go ahead to import the cards. (Assume the exchange rate at the time of arrival of the cards will be K450 to 1 US dollar). **8½ Marks**
- (d) Chikoko Limited is a company incorporated in Malawi. Its taxable profits for the 2012/2013 tax year amounted to K245,600,000. During this period the company never paid provisional tax.

Required:

Calculate the penalty that the company is liable to.

5 Marks
(TOTAL : 20 MARKS)

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6. (a) Under what circumstances is a person liable to register as a taxable person for purposes of the Value Added Tax (VAT) Act? **2 Marks**
- (b) The following transactions were recorded in the books of a VAT registered taxpayer for the month of July 2013.

1. Business related expenditure inclusive of VAT at 16.5%

	K'000
Security expenses	81,550.00
Legal expenses	17,475.00
Stationery	13,980.00
Office furniture	18,640.00
Office rentals	45,435.00
Electricity	8,737.50
	<u>185,817.50</u>

2. Business related expenditure exclusive of VAT

	K'000
Salaries and wages	195,000
Water	25,000
Postal services	10,000

3. In addition to the above transactions, the value of sales net of VAT were K425,000,000 and K5,000,000 in respect of local sales and exports respectively.

Required:

- (i) Calculate the amount of VAT paid or payable on **each** of the above expenditure items. **9 Marks**
- (ii) Calculate the amount of VAT chargeable on total sales, local and export, indicating the gross sales values. **2 Marks**
- (iii) Calculate the amount of net VAT payable to the Revenue Authorities after taking into account input tax paid on each of the expenditure items given above. **2 Marks**
- (iv) In relation to Value Added Tax (VAT), the time of supply of goods and services for normal value added tax purposes is when the earliest of five events occurs.

Required:

Mention the **five** events which may define the tax point. **5 Marks**
(TOTAL: 20 MARKS)

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7. (a) Certain types of expenditure incurred by farmers during a year of assessment, which would normally be accounted for as special expenditure, are fully deductible from the taxable income.

One of the six types of expenditure listed in the Taxation Act, as eligible for this treatment, is water control work in connection with the cultivation and growing of rice, sugar or other approved crops.

Required:

- (i) Mention **four** other types of expenditure listed in the Taxation Act. **4 Marks**
- (ii) Define the term “water control work” as stipulated in Section 58 of the Taxation Act. **3 Marks**

- (b) Mrs Katundu is a Managing Director of Viwemi Limited. She is paid a salary of K2,600,000 per month and a house allowance of 50% of the salary. She is also paid K600,000 together with her salary every quarter for school fees for her children, and K75,000 every month for domestic servants.

Required:

Calculate her tax liability for the twelve months period ended 31 December 2012. **5 Marks**

- (c) State any **five** offences listed under **Section 112 of the Taxation Act** which, when committed, attract the imposition of a penalty. **5 Marks**
- (d) Explain the circumstances under which research and experiments may be allowed as a deduction from a taxpayer’s assessable income. **3 Marks**

(TOTAL: 20 MARKS)

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