

STRICTLY CONFIDENTIAL

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

DECEMBER 2014 EXAMINATIONS

PROFESSIONAL LEVEL

PAPER B4: TAX COMPLIANCE PAPER

EXAMINER'S REPORT

General Comments

Five candidates entered for the paper, but only one sat the examination which he failed. The candidate had problems with the paper. It is doubtful whether the candidate had attended classes in taxation before attempting the examination. He/she failed to demonstrate knowledge of the subject matter. He had significant problems in computational questions but was somewhat better in discursive questions. This meant that questions number one and two were poorly answered. He had some idea of adding back some expenses but adding back to what and how much was his major problem. He ended up failing the paper.

Comments on Individual questions

Question 1

In making adjustments, the student started from gross profit instead of net profit. However, the candidate was able to recognize some expenses which were supposed to be added. He rightly identified that the wife's salary was supposed to be added back but did not know how to treat it. He failed to calculate PAYE on the wife's salary but added the whole amount to the salary of the husband. Instead of using 15%, he used 10% for withholding tax on rent.

Question 2

Part (a) was not attempted. In part (b) the candidate had problems with the calculation of disposal value and the annual allowances. The student realized it was a saloon car but he calculated initial allowances and annual allowances instead of annual allowances only. This meant that the student calculated the wrong amount of capital gain for tax purposes. Part (c) had the same problem as question 1. The student did not know where to start from. Instead of net profit and make adjustments for non allowable expenses, he started from gross profit. The student was also unable to calculate backwards to find how much was the gross salary of the employees given net salaries. This culminated into another problem of not being able to calculate pension as

it depended on the salary. The following expenses were a problem to the student, export allowance, additional international transport and treatment of loss carry forward in agriculture company. As the student started on gross profit, this resulted into tax payable instead of tax refundable.

Question 3

Part (a)(i) was atleast well done except for the rate of 6.25% which he indicated as 16.25%. Part (a) (ii) was tricky for him on the interest revenue. The act defines what is revenue for taxable clubs and associations which does not include interest income. The student also did not realize that the amounts were in thousand kwacha's and his note said the withholding tax could not be applied as it was less than K10,000 which was not true. In addition, the student deducted donations from the taxable revenue while the act talks of the total revenue should be subject to tax. The rest of the explanations in the remaining parts of question 3 were well done.

Question 5

The candidate avoided question 5(a) but attempted part (b). He had very good knowledge of the question except the buying commission which he missed. The student also did better in part (c) but missed the definition of mixed supplies.

Question 6

Part (a) definition of assessable income was somewhat fine. His definition did not include the element of "including any capital gains". Part (b) of the question was tough for the student. It looks like the student does not understand anything to do with wife earned income.

