

**STRICTLY CONFIDENTIAL**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**DECEMBER 2015 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC10(B): TAXATION**

**EXAMINER'S REPORT**

**INTRODUCTION**

This report presents feedback on the candidate's performance during the examination, with proposals on how shortfalls noted may be rectified.

The paper consists of two sections, A and B. Section A consists of two compulsory questions each carrying twenty marks. Section B comprises five questions each carrying twenty marks but the candidates are required to attempt any three questions only.

**CANDIDATES' PERFORMANCE**

Candidates showed understating of the tax laws generally, and the computations were well presented in terms of format and accuracy. The questions were varied and sampled the entire syllabus covering areas of corporate taxation, capital allowances, fringe benefits tax, value added tax, partnerships, tax administration and computation of individual tax.

**COMMENTS ON INDIVIDUAL QUESTIONS**

**QUESTION 1**

This question required the candidates to calculate the taxable income of a limited company by adding back non allowable expenses and deducting those allowances that had not yet been deducted.

- (a) (i) The general layout of the answers was very good and most candidates got the add backs right. They were able to deduct the capital allowances given, together with the dividend. The computation of tax was well done, but some candidates did not use the assumed figure. They used the calculated figure. This was wrong. Other candidates used income tax rates for individuals instead of the corporate rate of 30%.
- (ii) Well done but some candidates mentioned the tax year to 2013/2014 instead of 2014/2015 tax year.
- (iii) The examiner expected 30 June 2015 or 180 days after the end of the year as the correct answer.
- (b) Candidates are advised to be familiar with this type of question as it is always part of the examination. The rules for deductibility or non deductibility of expenses must be well revised before candidates attempt the examination. The overall performance was very good.

## **QUESTION 2**

This question was on the computation of capital allowances. It was well answered by most candidates.

- (a) The computation of capital gains and accounting profit or loss was well answered by most candidates with only a few missing the point as they mixed up the two.
- (b) The treatment of accounting loss and capital loss was not well presented. Some candidates stated that they are all carried

forward. Candidates demonstrated inability to articulate the effects of an accounting loss or an allowable capital loss on the computation of tax.

- (c) The computation of capital allowances was well done by most candidates and the layout was also appropriate.
- (d) The allowability of capital loss depends on whether or not the loss was realised during trading and there being any realised gains. Many candidates failed to articulate this point. They need to thoroughly cover this area as they prepare for the examination.

Generally, this was one of the questions that was well answered.

### **QUESTION 3**

This question was on tax administration, especially as it related to collection dates and penalties for late payment of the taxes.

- (a)
  - (i) This part required the candidates to state payment dates for various taxes. Most candidates gave the correct dates for withholding taxes and fringe benefits tax. They did not give correct dates for Provisional tax and VAT which are 25<sup>th</sup> of a quarter and a month respectively. Some candidates gave the dates that have been changed or penalties that have been revised, an indication that they may have been using an out of date manual.
  - (ii) The calculation of the tax payable and the relevant tax credits was not well done as some candidates reduced the taxable income figure with the taxes i.e. fringe benefits

tax, withholding tax, value added tax and provisional tax before applying the 30% tax rate. There were also some candidates who used tax rates for computing taxes on individuals.

- (b) Well done. Some of the Payment due dates for the taxes were a repeat of the answers in (a)(i).
- (c) The penalties were well done save for PAYE where most candidates used 20% instead of 15% and 5%. Some candidates failed to state the penalties for provisional taxes which were even given in the table that formed part of the question paper. That showed that candidates did not make use of the table.

#### **QUESTION 4**

This question was on partnership and it was not popular among the candidates. It seemed the candidates did not expect to see the large number of items listed as having been charged. Usually partnership accounts would only have depreciation, interest on capital and salaries as charges. It is important that the candidates understand the subject fully.

- (a) The taxable profit was not well computed as candidates did not deduct capital introduced. They displayed ignorance of the rules.
- (b) The allocation of income for each partner was not well done by most candidates. This showed that the candidates had forgotten the rules of appropriation of taxable profit /loss.

- (c) The computation of income tax for Chitsanzo was not well done. Candidates added some amounts that were personal, like sale of personal car and dividends which were not taxable. Candidates did not also show that the interest received by Chitsanzo was net of tax at K60,000 and that it needed to be grossed up to MK75, 000. This was not well answered by most candidates. They are advised to fully cover this area. Most candidates did not do well in this question.

### **QUESTION 5**

- (i) This question was on S58 addressing taxpayers who are engaged in special trades. Candidates mentioned the types of expenditure that are allowable in determining their taxable incomes. A few candidates mentioned “geographical surveys” instead of “Geophysical surveys”.
- (ii) Candidates failed to explain how income from the sale of timber is treated. Very few candidates mentioned “additional 5%”. It looked like the topic was not covered as the candidates were preparing for examinations.
- (iii) Most candidates stated that clubs formed for pleasure and recreation were liable to tax. Whereas some mentioned the correct rate of 6.5% others mentioned 30%. Some candidates failed to gain full marks because they did not mention the types of income that is taxed. They said ‘all income’.
- (iv) Mining expenditure was well defined by most candidates.
- (v) Well done by most candidates on the waiver of secrecy.

## **QUESTION 6**

- (a) (i) The question asked the candidates to mention the general conditions that all traders dealing in goods and services that attract Excise must comply with. This was poorly answered by most candidates. Revision in this area is recommended.
- (ii) The reasons for clearing imported goods at an inland port were well articulated by some candidates.
- (b) The definitions for bad debts, doubtful debts, research and experiments, individual donations and repairs were generally well done. However, some candidates did not give full descriptions, hence lost marks. Some candidates mixed up initial business expenditure with research expenses. They lost marks as a result.

## **QUESTION 7**

- (a) This question was on VAT. Candidates were expected to display their understanding of VAT related matters.
  - (i) The question whether VAT is “payable” or “claimable” was not well attempted by some candidates as they were not sure if it was claimable or not. The question expected the candidates to mention these two key words.
  - (ii) The follow up question on the calculation of the VAT was affected largely, by the answers given in part (i). Candidates

calculated VAT on items that were exempt like cassava and entertainment cost.

- (b) Fringe benefits tax was well defined and the candidates mentioned the information that should be kept by the employer.

## **CONCLUSION**

Generally the paper was well attempted compared to the last sitting. Candidates are advised to revise, read and understand all tax rules.

Secondly, candidates are advised to go through past examination papers and suggested solutions to know the level of detail that is required by the examiner.

Candidates and lecturers need to be aware that **all** areas of the syllabus are examinable, as such there is need to cover all areas of the syllabus during preparation.

Candidates need to be conversant with updated tax rates, due dates and penalties as these change frequently and are always part of the examinations.

