

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TAXATION 1 (IOBM – D213)**

**Date: Tuesday, 13th November 2018**

**Time Allocated: 3 hours (08:00 – 11:00 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

1. A taxpayer paid the following taxes during the 2016/2017 tax year:

Withholding tax; Non resident tax; Value added tax; Customs duty; Provisional tax; Estate duty; Excise tax; Income tax; Pay As You Earn and tax on dividends.

**Required:**

In line with the various Acts, classify these into direct taxes, indirect taxes and methods of collecting taxes. *(5 marks)*

b) A contract of employment was entered into between Mr. Mphazi and Norman Limited with the following provisions:

* Period of contract 36 months, commencing on 1st July 2014.
* Gratuity: 15% of basic salary earned over the period of the contract.
* Monthly salary fixed throughout the contract period at K960, 000 inclusive of 20% housing allowance.

**Required:**

1. Compute the monthly basic salary paid to Mr Mphazi. *(1 mark)*
2. Calculate the gross gratuity payable at the end of the contract. *(2 marks)*
3. Compute the total tax payable by Mr Mphazi for the twelve months ending 30 June, 2017. *(6 marks)*
4. In which tax year is the total income earned for the twelve months ending 30 June, 2017 going to be assessed. *(1 mark)*

**(Total 15 marks)**

**QUESTION 2**

Bereu, Dyeratu and Thabwa, who are trading as Debt Associates, have been in partnership for a long time. The partnership agreement provides that the three partners share profits equally. During the financial year ending 31 December, 2016 they had the following profit and loss records.

|  |  |  |
| --- | --- | --- |
|  | Mk Million | Mk Million |
| Gross profit |  | 60 |
| Expenses: |  |  |
| General expenses |  | 15 |
| Advertising |  | 2 |
| Depreciation |  | 3 |
| **Salaries [all three partners]** |  |  |
| Bereu | 9 |  |
| Dyeratu | 7 |  |
| Thabwa | 3 | 19 |
| **Interest on capital** |  |  |
| Bereu | 2 |  |
| Dyeratu | 1.5 |  |
| Thabwa | 1.9 | 5.4 |
| **Profit for the year** |  | 15.6 |

**Required:**

1. Compute the taxable profit for each partner for the year ended 31 December, 2016. *(13 marks)*
2. Explain how an assessed loss for a partnership would be treated. *(2 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. 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 January 2017.

**Business related expenditure, inclusive of VAT at 16.5%**

|  |  |
| --- | --- |
|  | **K** |
| Security expenses | 23, 300 |
| Legal expenses | 58, 250 |
| Stationery | 163, 100 |
| Office furniture | 205, 040 |
| Office rentals | 60, 580 |
| Electricity | 6, 757 |
|  | 517, 027 |

**Business related expenditure exclusive of VAT**

|  |  |
| --- | --- |
|  | **K** |
| Salaries | 350,000 |
| Rice | 2,500 |
| Postal services | 1,500 |
|  | 354,000 |

In addition to the above transactions, the value of sales net of VAT were K5, 000, 000 and K1, 000,000 in respect of local sales and exports respectively.

**Required:**

1. Calculate the amount of VAT paid or payable on each expenditure item given above. *(9 marks)*
2. Compute the amount of VAT chargeable on total sales, local and export, indicating gross sale values. *(2 marks)*
3. Calculate the amount of net VAT payable to the Revenue Authorities after taking into account the input tax paid on each of expenditure items given above.

*(2 marks)* **(Total 15 marks)**

**QUESTION 4**

1. Mention **three** types of capital allowances. *(3 marks)*
2. **Kasungu Limited** capital allowances’ tax schedules as at 1 January, 2016 were as listed;

|  |  |  |
| --- | --- | --- |
| **Asset** | **Tax written Down Value**  **MK 000** | **Rate of Annual Allowance** |
| Factory Building | 32,500 | 5% |
| Plant and Machinery | 15,200 | 10% |
| Motor vehicles | 17,600 | 20% |
| Furniture & Fittings | 8,400 | 10% |
| Computer Equipment | 4,300 | 40% |

During the year to 31 December, 2016, the following transactions took place:

*Plant and Machinery:*

Some plant and machinery was sold for K2, 100,000. This transaction resulted into a gain of K540, 000. New replacement machinery was acquired at a cost of K9, 700,000.

*Furniture and Fittings:*

New furniture and fittings were purchased at a cost of K900, 000. Additional fittings were bought second hand at K260, 000.

*Motor Vehicles:*

One saloon motor vehicle acquired in October 2015 for K2, 528,000 was sold during the year for K1, 950,000. Another vehicle, a pick up, with a tax written down value of K665, 000 was involved in an accident and was written off. The insurance paid K2, 900,000 as compensation, and the whole amount was used to purchase another single cabin pick up as a replacement.

*Office Equipment:*

Computers worth K950, 000 were acquired during the year.

*Factory Building:*

A total of K2, 700,000 was spent on the extension of the factory building. The extension was only used for business from January, 2017.

**Required:**

1. Calculate the tax written down value of the machinery that was sold. *(1½ marks)*
2. Calculate the capital gain or capital loss on the saloon vehicle that was sold during the year. *(2 marks)*
3. Calculate the capital allowances due for the year ended 31 December, 2013.  *(8½ marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

1. Tondole Limited provided the following benefits to its General Manager for the year ended 30 June, 2017.
2. Fully furnished accommodation which is owned by the company;
3. Two night watchmen;
4. School fees for one child who was at Northern Finish Private Secondary School; and
5. Unlimited use of a Toyota Prado Tx motor vehicle.

During the year ended 30 June, 2017, the following information was true:

* Salary of the General Manager was K3, 500, 000 per month;
* Market value monthly rental for the house was K400, 000.00;
* Salary of each watchman was K50, 000 per month;
* School fees, which were being paid directly to the school Northern Private Secondary School, were paid as follows: 30 September 2016 K550, 000, 31 January 2017 K650, 000 and 30 April, 2017 K655, 000; and
* The motor vehicle cost K80million when it was bought but prices for vehicles like these during the year ended 30 June, 2017 were K120million.

**Required:**

1. Calculate Fringe Benefits Tax payable by Tondole Limited for the quarter ending 30 June, 2017. *(10 marks)*
2. State the due date of payment for the tax computed in (a) above. *(1 mark)*
3. Mention **four** ports of entry and exit of goods by road in Malawi as prescribed by the Minister under Section 8 of the Customs and Excise Act. *(4 marks)*
4. name any **five** items which the excise return must show. *(5 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Abiti, a business lady from Mangochi bought a diesel propelled boat from South Africa costing ZAR2, 500 on credit on 3 March, 2018. The supplier allowed her to pay in two instalments as follows:

1 April 2018 ZAR1, 500

1 May 2018 ZAR1, 000

The exchange rates for the relevant periods were as follows:

3 March 2018 ZAR1 = K55

1 April 2018 ZAR1 = K60

1 May 2018 ZAR 1 = K62

**Required:**

1. Calculate the total amount of foreign exchange gain or foreign exchange loss, as the case may be, realised on the cost of the boat upon full payment. *(7 marks)*
2. Compute how much would have been saved in realised foreign exchange losses or how much would have been realised as additional foreign exchange gains if the whole cost of the boat was paid on 1 April, 2018. *(3 marks)*
3. (i) Name any four methods which the Malawi Revenue Authority uses to Collect

taxes. *(4 marks)*

(ii) State any **four** advantages of these methods to Malawi Revenue Authority and government *(4 marks)*

(iii) Mention any **two** disadvantages of these methods to taxpayers. *(2 marks)*

**(Total 20 marks)**

**QUESTION 7**

1. (i) State any **four** items that an excise manufacturer must state in his application

for an excise license. *(4 marks)*

(ii) Mr Phiri has imported a Mazda Damio from Japan with a value for duty purposes of K600, 000. Assuming that the vehicle will attract 20% customs duty, 25% excise tax and 16.5% VAT. You are required to compute the following:

1. Excise duty *(4 marks)*
2. Landed cost of the car *(3 marks)*
3. State any **three** circumstances when the duty of secrecy by any person carrying on duties under the Taxation Act can be waived. *(3 marks)*
4. Mention **three** bodies to whom a taxpayer can appeal and also state the circumstances under which the taxpayer can appeal to those bodies. *(6 marks)*  **(Total 20 marks)**

**QUESTION 8**

1. Describe the **two** types of clubs, societies or associations which are recognised under the Taxation Act. *(4 marks)*
2. How is the income of such clubs, societies or associations treated by the Malawi Revenue Authority? *(2 marks)*
3. Where a club or association is subject to tax, state how the taxable income is computed. *(2 marks)*
4. Transactions of Chiwere Club, which is a taxable club, for the financial year ended 30 June, 2017 were as follows:

|  |  |
| --- | --- |
| Description | **Amount K’000** |
| Rentals from excess accommodation | 80 |
| Ground entrance fees | 205 |
| Sale of drinks | 160 |
| Sale of food | 70 |
| Video shows | 30 |
| Live band performances | 115 |
| Gambling machines | 60 |
| Total income | **980** |
|  |  |
| Trading licence | 15 |
| Food licence | 25 |
| Salaries and wages | 250 |
| Cost of goods sold | 200 |
| Repairs and maintenance | 130 |
| Total expenses | **620** |

**Required:**  
i) Compute the taxable income for Chiwere Club for the financial year to 30 June, 2017. *(3½ marks)*

1. Compute the amount of tax payable in (i) above *(1½ marks)*

(d) (i) Mention any **five** expenditures that are allowed by a taxpayer who derives income from pastoral, agricultural or any other farming operations. *(5 marks)*

(ii) State any **two** functions of the Malawi Customs Tariff. *(2 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**