

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Principles of Taxation	Certificate in Accounting and Finance (CAF) Examination - Autumn 2021

Passing %

1	2	3	4	5	6	7	8	Overall
66%	34%	30%	27%	28%	53%	63%	70%	46%

General

The overall performance in this session has improved (46%) as compared to Spring 2021 (39%). The underperformance in question number 2, 3, 4 and 5 may be attributed to selective studies and lack of practice. All examinees are advised to study the entire syllabus and must do reasonable practice before appearing in the exam.

Question-wise common mistakes observed

Question 1

- Legal expenses for obtaining the loan were not shown as inadmissible expenses.
- Interest income was grossed up incorrectly.
- Deductible allowance for profit on debt related to purchase of new house was ignored.
- Relocation allowance was considered as taxable.
- Rent amount was not proportionated for nine months.
- Income from utilities, cleaning and security was taxed under the head 'income from property'.
- The entire amount of administration and collection charges of rent was taken as an admissible expense instead of restricting it to the extent of 4% of chargeable rent.
- Time was wasted on computation of tax liability which was not required in the question.

Question 2(a)

- Share of profit from an AOP was ignored in wealth statement. Further, car provided by AOP for office use was included in wealth statement.
- Gold was accounted for at market value instead of historical cost.
- Gain on sale of car was not showed as wealth reconciliation item.

Question 2(b)

- Carry forward period for loss on sale of listed securities was mentioned as six years.
- Loss from other sources was considered as eligible for carrying forward to next years.

Question 3(a)

- In point no. (i), examinees failed to mention that while giving the permission, the Commissioner may impose conditions as he may deem fit.
- In point no. (ii), examinees failed to mention that items affected by the change shall be adjusted in a manner that no item is omitted and no item is taken into account more than once.

Question 3(b)

- Examinees did not mention when permission of the Commissioner was not required.
- Discussion on deemed approval by Commissioner was ignored.

Question 4

- In order to compute tax loss on sale of motor vehicle, disallowed depreciation on account of use of motor vehicle for personal purpose was not added to its tax written down value.
- Initial allowance on new computer was not calculated.
- Normal depreciation on new computer was not reduced by 50%.
- Payment to Chinese company related to 'In-house scientific research' was treated as an admissible expense.
- Capital gain on sale of investment in shares of unlisted company was considered as separate block of income.
- While calculating tax credit for investment in health insurance, maximum limit of Rs. 150,000 was ignored.
- Tax refund received from income tax department was not deducted from profit before tax. Further, it was adjusted from income tax liability for the year.
- Additional payment received from income tax department due to delay in tax refund was not taxed under income from other sources.

Question 5

- While computing taxable income of AOP, commission to SPL was treated as an admissible expense.
- Brought forward losses from tax year 2020 was not adjusted with taxable income of tax year 2021.
- In order to compute tax liability of AOP, SPL's share was not deducted from taxable income of AOP.
- Share of profit from AOP in tax year 2021 was allocated to Baqir whereas he had only separate block of income i.e. capital gain on sale of property in tax year 2021.
- Capital gain on sale of property by Baqir was not reduced by 75% despite that the holding period of property was between 3 to 4 years.
- Omer's share of profit from AOP in tax year 2021 was calculated incorrectly.

Question 6(a)

Examinees failed to mention the following points:

- In (i), sales tax % shall be applied on open market price of taxable goods.
- In (ii), free replacement of defective parts is considered as original supply.
- In (iii), payment through personal credit card is not eligible for claiming input tax due to non-verifiability of the said payment from the business bank account of the company.

Question 6(b)

Examinees failed to discuss the provisions related to filing of tax return, issuing of sales tax invoice and refund or carrying forward of input tax.

Question 7

- Examinees failed to show that input tax on furniture and fixtures is inadmissible.
- Input tax related to purchase made in February 2021 was ignored.
- In order to compute input and output tax, sales tax % on third schedule item i.e. tea was applied on invoice price instead of retail price.
- Export of exempt goods to UAE were not treated as zero rated supplies.
- Refund on account of input tax related to materials exclusively used for export items was ignored.
- Input tax on machine B was also allocated to zero rated supplies.
- Further tax was calculated on supply of tea to unregistered wholesaler.
- Cost of goods which were sold to a customer who did not provide his CNIC or NTN was considered for claiming input tax.

Question 8(a)

Good performance was observed in this part.

Question 8(b)

Good performance was observed in this part.

(THE END)