INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS' COMMENTS	
SUBJECT Tax Practices	**SESSION** Certificate in Accounting and Finance (CAF) Autumn 2024

Passing %

Question-wise								Overall
1	2	3	4	5	6	7	8	
63%	40%	22%	45%	41%	42%	12%	27%	33%

General

The overall performance in this session has slightly declined compared to Spring 2024 (35**%**).

Examinees struggled with fundamental concepts and failed to demonstrate a strong knowledge base. For example, in Q-2(b), there was confusion regarding the distinction between a wealth statement and a wealth reconciliation statement. In Q-3, many examinees were unable to correctly identify heads of income and assets, with several failing to classify a gray parrot as a personal asset. In Q-5, depreciation and amortization were deducted before the adjustment of brought-forward losses from Tax Year 2022, even though this area has been tested many times in previous attempts and was still not performed as expected.

Question-wise common mistakes observed

Question 1

- The taxable salary was mistakenly calculated using 12 months of salary instead of 11 months.
- In respect of the exemption for the medical allowance, 10% was applied to the gross salary instead of the basic salary.
- With respect to the taxation of the perquisite representing a car, a deduction of Rs. 100,000 from Saleem Khan's account was overlooked.
- In respect of taxation on the disposal of rights under the employee share scheme, Rs. 80 was deducted from the selling value of Rs. 120 per share. Many classified this income under capital gain instead of salary income.
- Examinees were unable to provide a reason for excluding pensions received from a previous employer in their calculations.

Question 2(a)

Examinees simply calculated the number of days Arsalan stayed in each country and concluded that, since he did not spend 183 days or more in Pakistan, he is a non-resident for the tax year 2024. However, they overlooked the other criteria for determining his residential status.

Question 2(b)

- Examinees were unable to differentiate between the wealth statement and the wealth reconciliation statement.
- Investment in shares of a listed company was taken at its market value.
- Repayment of the loan was not accounted for.
- Price differential of Rs. 1.2 million was not included in liabilities.

Question 3(a)

- While computing the gain on disposal of the packaging machine, depreciation expense was accounted for to determine the net book value of the machine although it was mentioned in the question that the machine was exclusively used for income subject to FTR.
- When calculating the gain on the export of the cutting machine, the consideration received was not regarded as equal to the machine's cost.
- Fair market value of vases instead of insurance claim was considered as consideration received.
- Gain on disposal of the gray parrot was subject to tax.
- While computing gain on the sale of shares in GL, 45 instead of Rs. 48 was considered as cost per share.

Question 3(b)

Reasons for the treatment of disposal of the packaging machine were either not discussed or were inappropriate.

Question 4(a)

- Foreign source salary was not treated as exempt. Instead, the tax credit was calculated by examinees.
- While computing income from property, the following errors were made:
  - Actual amount received, instead of higher of actual amount or fair market value of the rent, was subject to tax.
  - Repair allowance was not computed.
  - The actual collection charges paid were treated as an allowable expense without considering the lower of the actual amount or 4% of the rent.
  - Property tax and/or interest expenses were not treated as allowable expenses.
- Loss from property income (foreign source) was set off with Pakistan source income.
- Depreciation expense was neither calculated nor accounted for under the head of income from other sources.

Question 4(b)

Examinees failed to realize that changing the job's starting date does not affect the taxable income for 2024.

Question 5

- Advance received was not excluded from profit before tax.
- NRV adjustment of closing stock was not calculated at the correct amount. In addition, the amount calculated was added back to profit. This was required to be deducted from profit.
- Penalty for the late payment of advance tax was treated as allowable expense.
- Interest on a bank loan was considered an admissible expense despite it being a personal expense.
- Amortization of computer software was either not calculated or not proportionated to the number of days in use.
- Tax depreciation and amortization were adjusted before bringing forward losses for tax year 2020.
- Tax depreciation on ramps was not calculated.
- Pakistan source speculation loss was not set off with income from foreign speculation business. Moreover, speculation loss was set off with non-speculation income.
- Sale proceeds from the sale of shares in Sky Limited were considered as gain amounts.
- Brought forward loss on sale of listed securities was set off with current year capital gain.
- Loan received through bearer cheque was either ignored or was not classified under income from other sources.
- Incorrect tax rates were applied on income subject to separate blocks.

Question 6

- Tax on raw material used for exempt supplies was also claimed as input.
- Detergent was subject to tax at purchase price instead of retail price.
- Imported shampoo was subject to tax at import value instead of retail price. Moreover, the tax rate of 18% instead of 25% was applied to these shampoo bottles.
- The incorrect value of the machine was subject to tax.
- Input tax on shaving kits, for which payment was not made within 180 days, was not reversed.
- Supply of toilet soap to the Export Processing Zone for consumption by factory staff was treated as zero-rated.
- Supply of shaving cream kits for onboard consumption was not treated as zero-rated.
- Goods supplied against settlement of debt were taken at Rs. 350,000 instead of Rs. 325,000.
- Goods supplied to Asaasa & Co. were taken at 90% of the total value.
- Entire input tax was apportioned between taxable and zero-rated supplies.
- Further tax was applied to the supply of third-schedule items and supply to end consumers.

Question 7(a)(i)

Examinees did not recognize that a NIL return was required to be filed in the given scenario. They overlooked that failure to file a return would lead to a penalty. Instead, they described the contents of a return and identified those required to file a sales tax return.

Question 7(a)(ii)

The examinees failed to mention the Commissioner's powers to deregister Asim Mir in the given scenario. Instead, they stated that the Commissioner may issue a notice and require the filing of a return.

Question 7(b)

Examinees did not correctly identify the type of document to be issued by the seller and buyer, nor did they address the impact on their sales tax liability in each situation. Some also ignored the required format provided in the question and responded in a descriptive manner instead.

Question 8(a)

Examinees failed to list down the factors in evaluating the level of threats created by providing any tax service to an audit client by a firm of Chartered Accountants. Some mentioned only one or two factors.

Question 8(b)

Examinees were only able to identify the types of indirect taxes without providing sufficient descriptions. Some also mentioned direct taxes.

(THE END)