

**INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**EXAMINERS' COMMENTS**

<b>SUBJECT</b>	<b>SESSION</b>
Tax Practices	Certificate in Accounting and Finance (CAF) Spring 2022

**Passing %**

Question-wise							Overall
1	2	3	4	5	6	7	
42%	13%	30%	10%	66%	15%	72%	31%

**General comments**

The overall performance in this session has declined as compared to Autumn 2021 (46%) mainly due to selective study and failure to apply the theoretical knowledge to practical situations. It is therefore, advised that examinees should study the entire syllabus which would not only help them to attempt the complete paper but would also help them to apply their knowledge to practical questions.

**Question-wise common mistakes observed**

**Question 1(a)**

- Allowance as fixed percentage of salary was considered as exempt.
- Entire gratuity amount was considered as exempt.
- Lease rental of car was taken as an allowable expense without appreciating the fact that no expense is allowed against 'Income from salary'. Similarly, 5% of fair value of car was considered as subject to tax by some examinees.
- Amount in respect of shares acquired under employee share scheme was computed incorrectly.
- Income from foreign university was considered exempt.
- Gift was considered as subject to tax under capital gain.
- Total income including exempt and separate block of income was not shown as a separate line.
- Foreign tax credit was either ignored or computed incorrectly.
- Tax credit for investment in mutual fund was either ignored or rate of tax credit was applied on incorrect amount.

**Question 1(b)**

Arrears were considered as subject to tax at the average rate of last three years.

**Question 1(c)**

- Wealth statement was incorrectly identified as additional statement.
- All particulars were not mentioned.

**Question 2(a)**

- In (i), examinees just mentioned that immovable property having fair market value of Rs. 5 million or more shall not be allowed to purchase in cash; however, they ignored the consequences if such purchase is made.
- In (ii), the loan was not identified as dividend. Those who identified as dividend could not produce the related conditions.
- In (iii), profit on debt was not considered as exempt. Those who considered this income as exempt could not produce the related conditions.

**Question 2(b)**

- Impact of increase in foreign currency loan due to change in AED rate was not capitalized in cost of plant and machinery.
- Entire amount of feasibility study instead of amortization thereon was considered as an allowable deduction.
- Finance charges was either ignored or computed incorrectly.

**Question 2(c)**

Incorrect list of persons or incomes was mentioned.

**Question 3**

- Entire commission expense was considered as admissible expense rather it should be restricted to 0.2 percent of sales being distributor's name is not appearing in the active taxpayers' list.
- Freight charges paid in cash were considered as an inadmissible expense.
- Unpaid liabilities in respect of purchases made on 1 August 2018 were subject to tax in tax year 2022, considering 2022 as a first year following the end of the three years.
- Incorrect amounts of debt were included/excluded from loss before tax following partial recovery of bad debts.
- Gain on selling the derivative contract before its settlement date was not identified as income from speculation business.
- Rental income from leasing of factory building along with the plant was subject to tax under the head 'Income from property'. Consequently, instead of deducting actual repair and maintenance as an allowable expense, 1/5<sup>th</sup> of rent was deducted. Further depreciation on building as well as plant was calculated incorrectly.
- Capital gain on sale of immovable property was not reduced to 25% by ignoring that holding period of the property was between 3 to 4 years.
- Capital gain on sale of shares of private company was considered as separate block of income.

**Question 4(a)**

It seemed that examinees did not study this area of the syllabus as they either did not attempt or obtained low mark in this part of the question.

**Question 4(b)**

Instead of identification of the due/last date, examinees reproduced the provisions related to due date of filing of return / amendment of assessment.

**Question 4(c)**

Examinees concluded regarding classification of all three companies without stating the consideration of additional information which may be required for determining the classification of companies.

**Question 5(a)**

- In (i), discounted price was considered as value of supply despite the fact that it was not shown on the tax invoice.
- In (ii), entire amount of taxable goods used for internal testing and evaluation purposes was considered as value of supply chargeable to tax.
- In (iii), advance was considered as subject to tax in February 2022.
- In (iv), supply price instead of retail price was considered as value of supply chargeable to tax.
- In (v), free of cost replacement of defective parts was considered as separate supply.
- In (vi), value of supply was computed as net of discount.

**Question 5(b)**

- While computing input and output tax, purchase and sales returns were not accounted for.
- Examinees failed to show that input tax on electrical and sanitary fittings was inadmissible.
- Only 60% of electricity bill was considered as admissible input tax.
- Various errors were made in apportionment of input tax.

**Question 6(a)**

It seemed that examinees did not study this area of the syllabus as they either did not attempt or obtained low mark in this part of the question.

**Question 6(b)**

Although examinees were able to identify the document i.e., debit note, they failed to mention the complete particulars of the debit note.

**Question 7(a)**

Performance in this part of the question was good.

**Question 7(b)**

Performance in this part of the question was good.

***(THE END)***