

1. Susan Butler filed her tax return for 2014/15 on time. However, she did not pay any Income Tax for 2014/15 until June 2017, despite being liable to make payments on account for the year.

Explain the basis for calculation of any interest and penalties that will be due on these late payments of Income Tax. (4)

2. Samuel Williams has bought and sold three items and is concerned that this may be treated as a trade by HM Revenue & Customs.

Give four examples of the criteria used by HM Revenue & Customs to determine whether a trade is being carried on and explain how each one may indicate trading. (4)

3. Chloe Fulsome is a sole trader who has been trading for many years making up accounts to 5 April each year.

During the year ended 5 April 2017 she had the following purchases:

	£
Equipment for use in the business	25,000
An electric car for use by an employee of the business	15,000
A car with CO ₂ emissions of 140g/km which has 50% private use by Chloe	12,000

She also sold several items of old equipment for a total of £1,500. All items were sold for less than their original cost.

At 6 April 2016 the tax written down value on the main pool brought forward was £5,500.

Calculate the capital allowances due for the year ended 5 April 2017. (3)

4. Redblue Ltd is a trading company. In July 2016 it purchased a property with a bank loan and has rented it to a third party.

1) Explain the rules for assessing property income received by a company. (1)

2) Explain the basis for relief for interest paid on a loan to purchase property which is rented out. (1)

3) Explain the relief for losses incurred by a company on the letting of a rental property. (2)

5. Cromer Ltd has traded for many years and every year purchased several items of equipment. Unfortunately it had been suffering poor trading conditions and, due to the loss of a major customer, ceased trading on 31 December 2016.

Explain the basis for the calculation of capital allowances, balancing charges and balancing allowances in the final period up to the cessation of trade. (3)

6. On 31 August 2017, Wildfarm Ltd sold an area of land for £300,000, which represented one third of the whole plot. The plot had been purchased for £100,000 on 30 September 2007 and the remaining area was valued at £900,000 at the time of sale.

Calculate the chargeable gain assessable on Wildfarm Ltd. (3)

7. Lucy Africa is a sole trader and sold a property used exclusively for business purposes for £800,000. She had purchased the property for £200,000 five years ago. Three months after the sale, Lucy purchased a new property for use in the business for £750,000.

Calculate the amount of the gain which may be rolled over, any chargeable gain and the resulting base cost of the new asset for Capital Gains Tax purposes. (4)

8. Any business registered for VAT is required to keep records to verify the amount of VAT charged on supplies and claimed on purchases.

Give four examples of records to be kept for VAT purposes. (2)

9. Tourelle Ltd, a company based in the UK, is providing services to businesses and individuals based in France.

Explain the basic rules for determining the place of supply for Tourelle Ltd's services for VAT purposes. (2)

10. Angus is considering becoming self-employed and has asked you to explain the implications for National Insurance contributions purposes.

Explain the different classes of National Insurance contributions a self-employed individual is subject to, the basis of the charge and the due date and method of payment. (4)

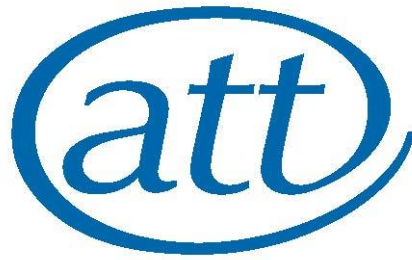
11. Cliftdell Ltd has been trading for many years making up accounts to 31 December each year. On 1 July 2016 it paid £30,000 for a new maintenance contract which will run for 24 months.

1) Calculate the maintenance charge to be included in the Profit and Loss account for the year ended 31 December 2016 and the amount carried forward as a prepayment. (1)

2) Show the entries in the 'T' accounts necessary to record the payment, the prepayment and the profit and loss charge. (3)

12. Malcolm has asked you to prepare his first set of accounts. You have told him that you will need to discuss bad and doubtful debts with him and he has asked you to explain the meaning of these terms.

Explain the accounting definition of bad and doubtful debts and their treatment in the accounts. (3)



November 2017 Examination

PAPER 2 PART II

Business Taxation and Accounting Principles

TIME ALLOWED – 3 ¼ HOURS
(for Part I and Part II)

- The first 15 minutes of the three and a quarter hour exam is designated as reading time. You then have three hours to answer both the Part I and Part II questions.
- During the 15 minutes reading time, you may read and annotate your Part II question paper. You may also read the legislation.
- You are **NOT** permitted to open the Part I question and answer booklet until the Presiding Officer says the 15 minutes reading time is over. Calculators may not be used during reading time.
- The Presiding Officer will inform you when you can start writing your answers.
- You are required to answer **all Part II** questions in the Part II answer booklet.
- Please start each answer on a fresh page and do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.

Part II

You must use the Part II answer booklet.

Marks are specifically allocated for appropriate presentation.

1. Hop, Skip and Jump have been trading together in partnership for many years drawing up accounts to 31 May each year. You are provided with the following draft trial balance for the year ended 31 May 2016.

	£	£
Accountancy costs	6,500	
Accruals		3,175
Bank current account		14,975
Bank deposit account	100,000	
Creditors		32,250
Debtors	129,680	
Drawings — Hop	40,000	
Drawings — Skip	40,000	
Drawings — Jump	60,000	
Employment costs	98,300	
Grants received		4,095
Plant and machinery - cost	155,500	
Plant and machinery - accumulated depreciation		49,350
Office equipment cost	25,000	
Office equipment - accumulated depreciation		3,750
Office running expenses	109,315	
Partner's capital account — Hop		50,000
Partner's capital account — Skip		50,000
Partner's capital account — Jump		70,000
Partner's current account — Hop		3,130
Partner's current account — Skip	8,250	
Partner's current account — Jump		2,870
Prepayments	3,950	
Purchases	310,500	
Sales		987,000
Stock	119,000	
Travel costs	64,600	
	<u>£1,270,595</u>	<u>£1,270,595</u>

You are provided with the following additional information:

- (a) Profits are shared 30% to Hop, 30% to Skip and 40% to Jump, after allowing for interest on capital accounts at 5% per annum.
- (b) Accruals brought forward at 1 June 2015 were £3,175, representing accountancy costs still to be invoiced. These accruals are shown in the above trial balance.
- (c) The accountancy costs shown in the trial balance represent payments made during the year, but the agreed accountancy charge to be shown in the profit and loss account for preparing the accounts to 31 May 2016 together with other work throughout that year is £12,000.

Continued

1. Continuation

- (d) The partnership is in dispute with one of its suppliers who provided them with goods in December 2015, for which they were invoiced £950, but the bill remains unpaid. The supplier has agreed that the goods were inferior and has agreed to issue a credit note for £575. No adjustments have been made yet for the credit note.
- (e) A stocktake at 31 May 2016 gave a valuation of £125,000. The value of stock at 31 May 2015 was £119,000.
- (f) Depreciation is still to be charged. This is provided at 25% on a reducing balance basis.
- (g) The grant received represents £4,095 towards employment costs that was fully spent during the year.

- (h) Employment costs comprises:

	£
Wages, salaries for employees	61,000
Employers National Insurance	4,750
Income Tax payments for Hop	6,500
Income Tax payments for Skip	7,600
Income Tax payments for Jump	11,000
Pension costs for employees	5,000
Training costs for employees	2,450
Total	<u>£98,300</u>

All of these costs were expended during the year.

- (i) In June 2016, the partnership received an invoice for £5,000 for employee training costs. Half of this training had been delivered by 31 May 2016. The invoice has not been included in the above figures.
- (j) The prepayment of £3,950 brought forward at 1 June 2015 was in relation to professional indemnity insurance. This prepayment is shown in the above trial balance.
- (k) Professional indemnity insurance paid during the year was £13,800 for the year to 31 August 2016. This cost is included in office running expenses.

Jump retired from the partnership on 1 June 2016. He owned the property from which the partnership traded. No rent was ever paid to him. On his retirement, he gifted the property to his son who lives in London.

You are required to:

- 1) **Prepare the profit and loss account and appropriation statement for the year ended 31 May 2016 and the balance sheet as at 31 May 2016.** (18)
- 2) **State the two Capital Gains Tax reliefs that might be claimed with regard to Jump's disposal, together with the time limits for claiming them.** (2)

Total (20)

2. Roundabout Ltd has 20 related 51% group companies. Due to historical difficulties, at 1 April 2016 Roundabout Ltd is carrying forward a trading loss of £5,765 as well as a non-trading loan relationship deficit of £3,200. More recently trading has improved and last year it was a large company for the purposes of paying Corporation Tax by instalments.

Now the company has changed its accounting date and drawn up accounts for the nine month period to 31 December 2016.

You are provided with the following Profit and Loss account for the nine month period to 31 December 2016:

	£	£
Turnover		850,000
Cost of sales		<u>(450,000)</u>
Gross profit		400,000
Interest received		350
Rental income		15,650
Office expenses	125,000	
Entertaining	7,500	
Loan written off	9,000	
Depreciation	40,000	
Salaries	185,000	
Profit on sale of asset	<u>(1,200)</u>	
		<u>(365,300)</u>
Profit before tax		<u>£50,700</u>

In addition, you are given the following information:

- (a) Entertaining represents:

	£
Office Christmas party	2,000
Golf outing for clients	4,500
Football season tickets gifted to a major client	<u>1,000</u>
	<u>£7,500</u>

- (b) The company had loaned money to one of their suppliers to assist them buying new machinery. Unfortunately, the supplier has become insolvent and the directors of Roundabout Ltd were told to expect no repayment of the loan and have written off the loan of £9,000 in the Profit and Loss account.

- (c) Salary costs includes:

	£
Accrued pay increase, paid 30 April 2017	3,300
Accrued bonuses, paid 1 December 2017	15,000

- (d) During the accounting period, the company managed to obtain £1,200 for the sale of an old generator that had originally cost £6,500 and had been fully depreciated in the company's accounts.

- (e) The tax written down values on the company's capital allowances pools at 1 April 2016 were as follows:

	£
Main pool	4,260
Special rate pool	15,770

The directors of Roundabout Ltd recognise that they need additional expertise and are about to appoint Mr Waltzer as a consultant.

Continued

2. *Continuation*

You are required to:

- 1) **Calculate the Corporation Tax liability for the period to 31 December 2016.** (10)
- 2) **Explain why Roundabout Ltd will be required to pay its Corporation Tax for this accounting period by instalments and state the due dates of payment.** (6)
- 3) **Identify four factors that will be taken into account in determining whether or not Mr Waltzer is employed or self-employed. For each factor, you should provide a brief explanation as to whether that might indicate employment or self-employment.** (4)

Total (20)

3. It is 31 October 2017. Your manager has just met with a client, Mr Field, who was made redundant from his employment in March 2015 and decided to set up his own business.

He began trading on 1 October 2015 and you have drawn up accounts on the accruals basis to 30 September 2016. These accounts show a tax-adjusted loss of £65,000.

Mr Field is concerned that the tax year runs to 5 April, whereas his first accounts are for the year to 30 September 2016. He wants to understand how his trading loss will be allocated to tax years.

You are provided with the following additional information:

- (a) In August 2015, Mr Field incurred advertising expenses of £1,500 in relation to the business that he was about to commence. This expense is not included in the accounts that have been prepared.
- (b) Mr Field had the following income and gains in previous tax years:

<u>Tax year</u>	<u>Employment income,</u>	<u>Bank interest, gross</u>	<u>Capital gains,</u>
	£	£	<u>before annual exemption</u>
			£
2012/13	11,000	220	0
2013/14	15,400	250	0
2014/15	21,600	300	12,000
2015/16	0	20	20,000

Mr Field took out a hire purchase contract on 1 October 2017 to purchase a car that he will use in the business. The car cost £30,260: he paid a deposit of £6,000 and is paying 12 monthly instalments of £2,300. He is not sure what amount will be deducted from his accounting profits in the year to 30 September 2018.

You are required to:

- 1) **Provide calculations, suitably annotated with explanations, for your manager showing the use of the loss incurred in the year to 30 September 2016, assuming it is to be used as early as possible. These calculations should show Mr Field's taxable income and/or gains for the tax years 2012/13, 2013/14, 2014/15 and 2015/16. (10)**
- 2) **Write a letter to Mr Field explaining:**
- (a) **The basis of assessment for his accounting results.**
- (b) **The amount that will be charged in his Profit and Loss account for the year to 30 September 2018 in relation to the hire purchase contract he took out on 1 October 2017. (7)**

Mr Field is going on holiday now for a few months and may not be back in time to enable his tax return to be filed on time. On that basis, he decides to engage you to prepare the return and to file it on his behalf.

- 3) **You are required to explain the ethical considerations arising from this. (3)**

Total (20)