



Practical Tax People  
Association of  
Taxation Technicians

## **May 2017 Examination**

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### **PAPER 2**

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### **Business Taxation and Accounting Principles**

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Part I Suggested Answers

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1. Raindrop Ltd – adjusted profits 31 March 2017

	£	£	
Profit per accounts		95,500	
Depreciation	2,500		½
Loss on sale of asset	750		½
Entertaining (3,500 - 650)	2,850		½ + ½
Legal fees – new lease	3,250		½ + ½
Motor expenses – parking fine	150		½ + ½
	9,500		
		£105,000	(4)

2. Fixtures treated as ‘integral features’ qualify for Annual Investment Allowance (100% on first £200,000 of expenditure) ½ and writing down allowance of 8% on the balance. ½

Four examples – ½ mark each (max 2) for four out of the following:

Electrical systems (including lighting)

Cold water systems

Space or water heating systems

Powered systems of ventilation

Air cooling or air purification (and any floor or ceiling comprised in such systems)

Lifts, escalators and moving walk ways

External solar shading

(3)

3. Richard Smith – terminal loss relief

Loss – last 12 months:

1.8.15 to 30.9.15	2/12 x £6,000	1,000		½
1.10.15 to 5.4.16	6/10 x (£25,000)	<u>(15,000)</u>	(14,000)	½
6.4.16 to 31.7.16	4/10 x (£25,000)	(10,000)		½
Overlap relief brought forward		<u>(5,000)</u>	(15,000)	½
			(£29,000)	

Setoff – latest year first:

2015/16	6,000			½
2014/15	15,000			½
2013/14 (restricted)	8,000			½
	£29,000			

(4)

4.

Corporation tax returns cannot cover a period greater than 12 months  $\frac{1}{2}$  so accounts for the 15 month period to 31 March 2016 require two returns.  $\frac{1}{2}$  The first return will be for the 12 months to 31 December 2015  $\frac{1}{2}$  and the second for the three months to 31 March 2016.  $\frac{1}{2}$  Both returns must be filed by 31 March 2017  $\frac{1}{2}$  ie one year after the end of the accounting period.

A return can be made for a short period so one return will be due for the six month period to 30 September 2016.  $\frac{1}{2}$  The filing date will be 30 September 2017.  $\frac{1}{2}$

HMRC can correct obvious errors within nine months of the date the return was actually filed  $\frac{1}{2}$  and the company can notify amendments within 12 months of the due filing date.  $\frac{1}{2}$

Max (4)

5. Entrepreneurs' relief is available for qualifying disposals of business assets.

For Jack to qualify for entrepreneurs' relief on the sale of the factory:

- 1) The disposal must be associated with a relevant material disposal  $\frac{1}{2}$  (ie in Jack's case the sale of his shares)  $\frac{1}{2}$
- 2) The disposal must be part of the withdrawal from participation in the business  $\frac{1}{2}$ .
- 3) The disposal must take place up to three years  $\frac{1}{2}$  after the relevant material disposal.  $\frac{1}{2}$
- 4) The asset must be used in the business for a period of at least one year  $\frac{1}{2}$  up to the date of the material disposal.  $\frac{1}{2}$

As long as Jack sells the factory within three years of the disposal of the shares  $\frac{1}{2}$ , the gain will qualify for entrepreneurs' relief.  $\frac{1}{2}$

Max (4)

6. To qualify for holdover relief, shares must be in a trading company.  $\frac{1}{2}$  Any number of shares in an unquoted trading company qualify for relief.  $\frac{1}{2}$  In addition, shares in the donor's personal trading company (ie one in which they own at least 5% of the voting rights) qualify for relief.  $\frac{1}{2}$

A claim for gift relief to apply must be made by both the donor and donee jointly.  $\frac{1}{2}$  The time limit for making the claim is four years from the end of the relevant year of assessment.  $\frac{1}{2}$

Helen will be assessed on £50,000  $\frac{1}{2}$  being the amount of consideration received (£100,000) less the original cost of £50,000 (250 x £200).  $\frac{1}{2}$

Helen's son will have an acquisition cost of £100,000  $\frac{1}{2}$  being the market value (£500,000) less the gain heldover  $\frac{1}{2}$  (£450,000 less £50,000).

Max (4)

7. Ben – pays £500 Class 1A NI contributions.  $\frac{1}{2}$  His Class 1 employer's contributions of £2,750 are covered by the employment allowance of £3,000.  $\frac{1}{2}$

Bill – pays £4,000 Class 1 NI contributions.  $\frac{1}{2}$  He is the director and only employee of his company and therefore does not qualify for the employment allowance of £3,000.  $\frac{1}{2}$

(2)

8. Turnover:		£	
6 months to 30.6.16	6 x 5,500	33,000	1/2
6 months to 31.12.16	6 x £8,000	<u>48,000</u>	1/2
		81,000	
January 2016		(5,500)	1/2
January 2017		<u>8,000</u>	1/2
		<u>83,500</u>	
Liabe in January 2017 as limit (£83,000) exceeded			1/2
Notify HMRC by 2 March 2017			1
Registered from 1 March 2017			1/2
			(4)

Note: if zero rated supplies are ignored, the limit is exceeded in March 2017 – max marks (3)

9. Depreciation charge:				
	<u>Cost</u>	<u>Depreciation</u>	<u>NBV</u>	
1.11.15	£37,000	£24,000	£13,000	1/2
Depreciation:				
B/F 13,000 @ 25%		£3,250		1/2
Addition 10,000 @ 25% x 6/12		£1,250		1/2 + 1/2

Fixed asset cost

	£		£	
B/f	37,000			
Addition	10,000			
	<u>47,000</u>	Balance c/d	<u>47,000</u>	1/2 + 1/2

Fixed asset depreciation

	£		£	
		B/f	24,000	
		Charge for year	4,500	1/2 + 1/2
Balance c/d	<u>28,500</u>		<u>28,500</u>	

(4)

10. Right issues are offered to existing shareholders in proportion to their shareholding.  $\frac{1}{2}$

Often the shares are issued at a favourable cost (i.e. less than market value)  $\frac{1}{2}$ , but they cannot be issued for less than nominal value.  $\frac{1}{2}$

Shareholders have three options: take up their rights and pay for the shares,  $\frac{1}{2}$  sell their rights to a third party,  $\frac{1}{2}$  or do nothing.  $\frac{1}{2}$  If the shareholder does nothing, the rights lapse  $\frac{1}{2}$  and the company will sell the rights for them and send them the proceeds.  $\frac{1}{2}$

Max (3)

11. Mario – profit on disposal:

	£	
Cost	30,000	
Depreciation	( <u>25,000</u> )	$\frac{1}{2}$
NBV	5,000	
Proceeds	( <u>10,000</u> )	$\frac{1}{2}$
Profit	<u>£5,000</u>	(1)

Journals:

	Dr £	Cr £	
Accumulated Depreciation – lorry sold	25,000		$\frac{1}{2}$
Disposal of fixed asset		25,000	$\frac{1}{2}$
Disposal of fixed asset	30,000		$\frac{1}{2}$
Fixed asset – cost of lorry sold		30,000	$\frac{1}{2}$
Bank – sale proceeds	10,000		$\frac{1}{2}$
Disposal of fixed asset – proceeds of disposal		10,000	$\frac{1}{2}$

(3)