



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

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- You are required to answer **all** questions in each part (both parts printed together).
- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation and annotate your question paper. Calculators may not be used during this time.
- The Presiding Officer will inform you when you can start writing in the answer booklets.
- You are provided with two answer booklets (one for each part of the paper). Make sure you write your answers in the correct 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 I

### Write your answers in the Part I answer booklet.

1. The accounts of Raindrop Ltd for the year ended 31 March 2017 show a profit of £95,500 that is after deduction of expenses which include the following:
- (a) Depreciation of £2,500 and a loss on sale of fixed assets of £750.
  - (b) Entertaining of £3,500 which includes £850 for entertaining overseas customers and £650 for the cost of the staff Christmas party for all members of staff.
  - (c) Legal expenses of £3,250 incurred in acquiring a 20 year lease on new premises, and £750 for compensation paid to a customer for damage to their property caused by the delivery driver.
  - (d) Motor expenses of £3,500 for the costs of running a car provided to a director. The car is used 50% for private use. The total also includes £150 for a parking fine incurred while on company business.

**Calculate the adjusted trading profits assessable for the year ended 31 March 2017. (4)**

2. Hailstorm Ltd is paying for a new factory to be built which will include integral features costing a total of £500,000.
- 1) State the rate(s) of capital allowances available for integral features. (1)**
  - 2) Give four examples of fixtures which are treated as an integral feature. (2)**
3. Richard Smith is a sole trader who has been trading for many years making accounts to 30 September each year. Unfortunately, business declined and he ceased trading on 31 July 2016. The trading profits/(losses) adjusted for tax purposes for the periods prior to cessation are as follows:

	£
Year ended 30 September 2013	18,500
Year ended 30 September 2014	15,000
Year ended 30 September 2015	6,000
Period ended 31 July 2016	(25,000)

At 6 April 2016 there was overlap relief brought forward of £5,000.

- 1) Calculate the amount of terminal loss relief available. (2)**
- 2) Show how the terminal loss will be relieved. (2)**

4. Snowdrift Ltd makes up accounts to 31 December each year. In 2016 it was decided to change the accounting date to 31 March and accounts were prepared for the 15 month period ended 31 March 2016. Snowdrift Ltd was then taken over by another company and, to align their accounting date in the future, accounts were drawn up for the six month period to 30 September 2016.

- 1) **Explain the rules for preparing Corporation Tax returns to cover both of the above periods of account.** (2)
- 2) **State the filing date for each return.** (1)
- 3) **Describe the period in which any corrections or amendments to the returns can be made either by HM Revenue & Customs or the company.** (1)

5. Jack Lincoln is a director and major shareholder of a trading company which is to be sold. Jack also owns the factory from which the company trades and he does not charge rent. He expects to realise capital gains both on the sale of his shares and the factory. His share disposal will qualify for entrepreneurs' relief.

**Explain whether the disposal of the factory will also qualify for entrepreneurs' relief. (You are not required to explain why the share disposal qualifies for relief.)** (4)

6. Hazel Crumb owns 500 ordinary shares of £1 each in her family trading company which represents 50% of the share capital. Her original cost was £200 per share.

She now wishes to sell 250 of her shares to her son for a total of £100,000. A 25% shareholding is valued at £500,000 and they have agreed that the gain will be deferred if possible.

- 1) **Explain the conditions for claiming holdover relief.** (2)
- 2) **Calculate the gain assessable on Helen and the acquisition value of the shares acquired by her son.** (2)

7. Ben is a sole trader with three employees. For 2016/17, his Class 1 employer's National Insurance contributions were £2,750. He is also liable to pay class 1A contributions of £500.

Bill owns 100% of the share capital of his trading company, Bill Ltd, and is the sole director and employee. For 2016/17, Bill Ltd's Class 1 employer's National Insurance contributions were £4,000.

All of the above figures are prior to the deduction of any employment allowance.

**State the amount of Class 1 and Class 1A employer's National Insurance contributions payable by Ben and Bill Ltd for 2016/17, explaining your treatment of the employment allowance.** (2)

8. Bob commenced trading on 1 January 2016 but did not register for VAT. For each month until 30 June 2016 his turnover was £5,500 per month on goods which would be standard rated if he was VAT registered. From 1 July 2016 his turnover increased to £8,000 per month of which £7,500 would be standard rated and £500 zero rated. The turnover has continued at this level since that date.

**Calculate the month in which Bob became liable to register for VAT, state the date by which HM Revenue & Customs must be notified and the date from which the registration would take effect.** (4)

9. Sunburst Ltd makes up accounts to 31 October each year. The balance sheet at 31 October 2015 showed fixed assets at a cost of £37,000 with accumulated depreciation of £24,000. On 1 May 2016, the company purchased a new machine for £10,000. Depreciation is charged at 25% each year on the reducing balance with pro rata for additions.

**1) Calculate the depreciation charge for the year ended 31 October 2016.** (2)

**2) Show the 'T' accounts for the fixed asset cost and fixed asset depreciation, including the balance carried forward at the year end.** (2)

10. A company wishes to raise finance with a rights issue of shares.

**Explain the rules for determining the number of shares a shareholder might acquire, any conditions relating to the price of the shares and the shareholders' options for dealing with a rights issue.** (3)

11. Mario has been trading for many years. In November 2016 he sold a lorry for £10,000. The lorry had cost £30,000 and accumulated depreciation at the date of sale was £25,000.

**1) Calculate the profit on the sale of the lorry.** (1)

**2) Show the journal entries necessary to record the sale of the lorry.** (3)

## Part II

### Write your answers in the Part II answer booklet.

Marks are specifically allocated for appropriate presentation.

1. Joel, age 45, has been trading for many years as a gardener preparing accounts to 30 September. After the completion of the accounts to 30 September 2015, he decided to prepare the next set of accounts to 31 March 2017.

The draft profit for the period ended 31 March 2017 was £57,000, after deduction of the following items:

- (a) Gifts of wine for customers of £750.
- (b) A motoring penalty of £80.
- (c) Purchase of turf £250, which had a sales value of £600. Half of the turf was used for Joel's own garden.

The tax written down value on the main pool at 1 October 2015 was £6,000. The only asset in the special rate pool was a Land Rover Discovery car which was used entirely for business purposes. The tax written down value at 1 October 2015 was £8,000.

During the period ended 31 March 2017, Joel purchased a Polo hybrid car on 1 July 2016 for £16,000 which had CO<sub>2</sub> emissions of 60 g/km and is used 60% for business purposes. The Land Rover car was sold for £6,500 on 1 August 2016 and immediately replaced with a van costing £10,000. The van is used entirely for business purposes. In January 2017, Joel purchased a mower for £6,000 and sold an old mower for proceeds of £800.

At 1 October 2015, Joel had £13,500 of overlap relief brought forward representing nine months of profits.

**You are required to calculate the Income Tax and National Insurance contributions payable by Joel for 2016/17.**

(10)

2. Bridge Ltd is a computer company which supplies computers and web hosting to businesses. You are provided with the following trial balance for the year ended 30 June 2016.

	£	£
Sales		137,000
Purchases	35,750	
Stock of 20 computers at 1 July 2015	6,000	
Wages	90,000	
Rent	4,000	
Electricity and gas	1,200	
Telephone	1,250	
Office expenses	2,000	
Motor expenses	3,000	
Land and buildings	80,000	
Plant and machinery – cost	16,000	
Plant and machinery – depreciation		6,000
Debtors	11,000	
Bank account	8,000	
Creditors		92,000
Share capital		100
Profit and loss reserve		23,100
	<u>£258,200</u>	<u>£258,200</u>

You are provided with the following information:

- (a) Office expenses include insurance of £1,200 which was for the year ended 30 September 2016.
- (b) The fee for preparation of the company's accounts will be £900.
- (c) The company invoiced £5,000 for website hosting for June 2016 at the beginning of July 2016.
- (d) Rent includes a deposit paid to the landlord of £500.
- (e) The employees had accrued £2,000 entitlement to holiday pay which had not been taken by 30 June 2016.
- (f) The company buys its computers in bulk from China. There had been the following deliveries during the year:

<u>Date</u>	<u>Number of units</u>	<u>Total cost</u> £
23 July 2015	40	8,000
31 December 2015	25	7,500
31 March 2016	50	13,750

The company sold 80 computers during the year.

- (g) During June 2016, one of the company's engineers was working at a customer's premises. During his visit, he damaged some of the customer's equipment. In August 2016, the customer made a claim against the company for £2,500 for the cost of the repairs which had been carried out in July 2016.
- (h) The company is involved in a legal case with a customer. The case may go to court in December 2016 and the customer is claiming £7,500. Bridge Ltd are confident that they will win the case, but there is a possibility that the case will be settled in favour of the customer.

*Continued*

2. *Continuation*

- (i) Depreciation has not yet been provided for the year. The charge has been calculated as £1,500 on the plant and machinery.
- (j) The company needs to provide for corporation tax of £1,750.

The accountant has mentioned to the directors that they need to make a going concern assessment.

**You are required to:**

- 1) **Prepare a profit and loss account for the year ended 30 June 2016 and a balance sheet as at 30 June 2016, clearly explaining your treatment of items (g) and (h).** (14)
- 2) **Explain when the going concern basis for the preparation of the accounts does not apply and what information management need to consider when making their assessment.** (2)
- 3) **Write a memorandum to the directors explaining the legal procedures for approving and filing the accounts for large companies at Companies House. Your answer should include reference to the reports that must accompany the accounts.** (4)

Total (20)

3. Lutz met with you in December 2016. He advised you that he had been trading through a website that he developed in January 2014, but had made no contact with HM Revenue & Customs. He wanted to correct matters and make a full disclosure.

You have prepared accounts and calculated the tax due. Lutz paid all the outstanding tax on 30 March 2017.

Lutz has also been given advice by an accountant on a tax planning scheme that he can use to reduce his tax bills. He has asked for your opinion on the scheme.

**You are required to:**

- 1) **Explain the penalty that will potentially be charged in relation to the late notification of chargeability and how it can be reduced.** (9)
- 2) **Explain the issues that the Association of Taxation Technicians' Professional Conduct in Relation to Taxation recommends a member should consider when asked to comment on advice given by another adviser.** (4)

Total (13)

4. Buzzard Developments Ltd is a property development company that has been trading for a number of years. The company builds new houses, some of which are sold and some of which are rented out on a long-term basis. From time to time, the company may buy older houses to renovate and sell.

During the year ended 30 September 2014, the company made a trading loss, which was fully relieved against other profits. The following year, the company made a trading loss of £85,000 part of which was relieved against other profits of £18,000.

For the year ended 30 September 2016, you are given the following information:

A property was sold in December 2015 for £215,000, which the company had purchased in September 2011 at a cost of £85,000. £47,000 had been spent on improvements in June 2013. The property had been used as office accommodation by the company throughout its period of ownership.

The company received rental income of £20,000 on two unfurnished houses. Costs were incurred as follows:

	£
Improvements to garden wall	750
Repairs to windows	1,500

The properties were purchased with the aid of a loan on which interest of £6,000 was paid.

The company had a trading profit for the year of £120,000, after deduction of the following costs:

	£
Legal costs for the sale of the office accommodation	1,200
Depreciation	3,200

The company also had bank interest receivable of £2,000 and received interest of £1,000 on a Corporation Tax refund.

There was a tax written down value of £8,000 on the main pool for plant and machinery at 1 October 2015. During the year, a car with CO<sub>2</sub> emissions of 120 g/km was purchased for the director for £18,000, which he uses 50% for business.

The director has told you that the company may purchase new office accommodation with the proceeds of the sale of the previous premises.

**You are required to:**

- 1) **Explain whether the following supplies made by the company are standard rated, zero rated or exempt for VAT purposes:**
  - (a) **The sale of a new house.**
  - (b) **The long term rental of a house.**
  - (c) **The sale of a second hand house.** (3)
- 2) **Calculate the company's Corporation Tax liability for the year ended 30 September 2016.** (11)
- 3) **Explain the conditions that must be satisfied in order to claim rollover relief in respect of the chargeable gain on the disposal of the office accommodation.** (3)

Total (17)