

1. Jack Soldier commenced trading on 1 June 2016. The first set of accounts were prepared for the 11 month period to 30 April 2017 and are prepared annually thereafter. The accounts for the first two periods of trading show the following adjusted net profits:

	£
11 months to 30 April 2017	22,000
Year ended 30 April 2018	36,000

Calculate the trading income assessable for the years 2016/17, 2017/18 and 2018/19, clearly showing the basis periods. (4)

2. Sally Lane has received a penalty notice from HM Revenue & Customs which she considers has been issued on the basis of an incorrect decision.

Explain briefly the rules for submitting an appeal to HM Revenue & Customs and how to deal with an appeal that has been rejected after review. (2)

3. Greenhole Ltd makes up accounts to 30 September each year. For the year ended 30 September 2017, it had net rental income of £40,000 and net adjusted trading profits of £25,000. At 30 September 2016 there were trading losses carried forward of £35,000.

Calculate the amount of Corporation Tax payable for the year ended 30 September 2017 and the amount of unrelieved losses carried forward at that date. (4)

4. Yellowbag Ltd is a trading company which makes up accounts to 30 June each year. The corporation tax return for the year ended 30 June 2016 was filed with HM Revenue & Customs on 30 April 2018.

Explain the rules under the unified scheme for charging penalties on the late filing of the Corporation Tax return by Yellowbag Ltd. (3)

5. Greybook Ltd sold a commercial property in March 2018. The gross proceeds of sale were £550,000 and the costs of disposal, comprising of agent's fees and commission, were £50,000.

The property had been purchased in August 1999 for £275,000 and in April 2013 an extension was built at a cost of £40,000.

Calculate the net chargeable gain, if any, on the sale of the property by Greybook Ltd. (4)

6. Selbyfinders Ltd was incorporated on 15 August 2015 and commenced trading on 1 December 2015. Its first set of accounts was made up to 30 September 2016 and annually thereafter. On 31 March 2018 it ceased trading, but retained a source of investment income so will continue to make up accounts to 30 September each year.

Show the accounting periods for Corporation Tax purposes for Selbyfinders Ltd for all periods up to 30 September 2018. (2)

7. **Explain the three types of supply for VAT purposes and give an example of each.** (3)

8. Waitedown Ltd is a toy manufacturer and in April 2018 sold goods to one of its customers for £4,500 plus VAT. The invoice stated that 'a discount of 5% applies if payment is made within 30 days of the invoice date. No credit note will be issued'. The customer paid the discounted price within 10 days of the invoice date.

Waitedown Ltd had purchased 10 laptop bags in January 2018 at a cost of £100 each plus VAT. In April 2018 it gave four of the bags to customers as gifts; the other six bags are being used by employees for business purposes.

Calculate the amount of output VAT to be included in the VAT return for the quarter ended June 2018 in respect of the above transactions. (2)

9. Tim and Tom are friends and both run businesses. Tim is a sole trader and employs one assistant on an annual salary of £20,000. Tom has incorporated his business and is the sole director and shareholder drawing an annual salary of £25,000.

Explain whether Tim and Tom are entitled to the Employment Allowance and, if so, how it is claimed. (3)

10. The accounts of Maryown Ltd include an asset which cost £25,000 and has accumulated depreciation of £14,000 at 31 March 2018. In April 2018 the asset was sold for £9,000.

1) Calculate the loss on the disposal of the asset. (1)

2) Show the entries in the 'T' accounts necessary to record the disposal of the asset. (3)

11. The accruals basis is applied in four situations so that the accounts show income earned and expenditure incurred during the accounting period.

Explain, with examples, two of the situations where the accruals basis is applied. (2)

12. In order to meet the objectives of financial statements under FRS 102, the information included in the accounts has to have certain qualities or 'qualitative characteristics'.

Give four examples of 'qualitative characteristics' and explain why each one is important to the users of the accounts. (4)

13. Barry is a sole trader and has a new line of stock. The purchases and sales of this stock item during the year ended 30 September 2017 were as follows:

<u>Date</u>	<u>Transaction</u>	<u>No of units</u>	<u>Cost per unit</u>
			£
1 February 2017	Purchase	10	20
1 April 2017	Purchase	50	22
1 May 2017	Sale	20	
1 June 2017	Purchase	5	25
1 July 2017	Sale	15	
1 August 2017	Purchase	20	18
1 September 2017	Sale	10	

Calculate the value of stock at 30 September 2017 on a First In First Out (FIFO) basis. (3)



May 2018 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 read the legislation and use your calculator.
- 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.
- 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.

1. Elonda Ltd has been trading for many years preparing accounts to 30 September each year. In order to fund an expansion plan, the company has recently raised funds from a number of sources. However, these new funds are not yet reflected in the accounts.

You are provided with the following trial balance for the year ended 30 September 2017:

	£	£
Sales		1,500,000
Cost of sales	895,000	
Business rates	38,000	
Heat and light	8,000	
Insurance	7,000	
Wages	120,000	
Office costs	34,000	
Accountancy fees	5,000	
Legal and professional fees	6,500	
Corporation tax charge	70,000	
Dividend paid	15,000	
Land and buildings	2,300,000	
Accumulated depreciation on land and buildings		75,000
Plant and equipment	140,000	
Accumulated depreciation on plant and equipment		65,000
Stock	95,000	
Debtors	275,000	
Bank overdraft		58,000
Creditors		175,000
Corporation tax creditor		70,350
Ordinary share capital (200,000 shares at £1 each)		200,000
Profit and loss reserve		1,865,150
	<u>£4,008,500</u>	<u>£4,008,500</u>

No adjustment has yet been made for the following items:

- (a) Accountancy costs for the preparation of the accounts are expected to be £7,000.
- (b) Business rates includes £26,000 for the year ended 31 March 2018.
- (c) A bonus issue of shares was made of 5 new shares for each 4 shares held.
- (d) A second bank account was opened which is not currently included in the accounts. The following amounts were paid into this account:
 - (i) The proceeds of a bank loan of £500,000 taken out on 1 July 2017. The loan is repayable in five equal annual instalments of £100,000, starting one year after the loan is taken out. Interest is payable on the bank loan in June and December each year at an annual rate of 7%.
 - (ii) The proceeds of a rights issue which took place after the bonus issue of 1 £1 share for each 5 shares held at £1.50 per share. All rights were taken up. There were no other transactions on the account.
- (e) The dividend included in the trial balance is the interim dividend for the current financial year. It was declared in March 2017 and paid in April 2017. A final dividend for the year of £12,000 was agreed by the board in October 2017 and paid in November 2017.

(f) Depreciation has not been provided for the year. The rates are 2% straight line on the depreciable amount of the land and buildings which has been calculated at £1.5 million and 15% reducing balance on the plant and equipment.

- 1) **You are required to prepare a Profit and Loss account for the year ended 30 September 2017 together with the Balance Sheet as at 30 September 2017. Explain your treatment of the final dividend in (e).** (13)

Following preparation of the financial statements you receive a complaint from the directors of Elonda Ltd claiming that delays in the preparation of the financial statements resulted in them losing a significant contract.

- 2) **You are required to explain the procedures that your firm should have in place to deal with complaints.** (4)

The complaint from Elonda Ltd cannot be resolved and the company's solicitors have written to your firm to advise you that they are considering a claim for professional negligence.

- 3) **You are required to explain what Elonda Ltd will need to show to prove negligence.** (3)

Total (20)

2. Robert has traded for many years as a sole trader retailing carpets and other flooring products.

In September 2017, he sold the warehouse out of which his business operated for sales proceeds of £750,000, realising a gain of £85,000. He had purchased a new warehouse for his sole trader business in November 2016 for £700,000.

In June 2017, he set up a new company to retail building products. He will be the sole shareholder. He intends to invest £75,000 into the share capital of this company to enable it to buy stock and to provide working capital.

You are required to draft a letter to Robert explaining the options that he has for deferring the gain on the sale of the warehouse, setting out the conditions applicable. (10)

3. John and his two sons, Charles and Edward, are in partnership as dairy farmers and have been trading for a number of years. Accounts are prepared on an accruals basis to 30 April each year.

The accounting profit for the year ended 30 April 2017 was £163,000.

You are given the following information:

- (a) The accounts include depreciation of £35,000 and profit on the sale of a tractor of £14,000. The original cost of the tractor was £45,000 and depreciation of £20,000 had been provided to the date of sale.
- (b) During the year the access road to the farm was entirely resurfaced at a cost of £16,000. The repair re-used the existing surface of the road. This cost is currently included in repairs.
- (c) Heat and light costs include £2,500 which was the cost for the farmhouse, which is used 40% for business purposes.
- (d) Motor expenses includes £4,600 for a car used by the partners 50% for business use.
- (e) 300 litres of milk, which cost 24p per litre to produce and had a sales value of 30p per litre, were kept by the family for their personal use.
- (f) Professional costs include £1,500 legal fees for the purchase of a field, £1,400 for the preparation of a grant claim in respect of repairing field walls and £900 for defending the right to use an access road.
- (g) During the year a quad bike was purchased at a cost of £8,000, which is used 40% for private purposes. The balance on the main pool at 1 May 2016 was £9,000. The partnership's car had a balance of £16,000 at 1 May 2016. The CO₂ emissions of the car are 240g/km.
- (h) John is entitled to 5% interest on the capital of £250,000 that he has invested in the partnership. Charles and Edward are entitled to salaries of £15,000 and £20,000 respectively. The balance of the profits is shared 40% John, 35% Charles and Edward 25%.

John's profits from the partnership for the last four years were as follows:

	Year ending	£
2016/17	30 April 2016	65,000
2015/16	30 April 2015	5,000
2014/15	30 April 2014	50,000
2013/14	30 April 2013	35,000

The partners are considering diversifying and are planning to buy a flock of sheep. They understand that it is possible for them to elect for the herd basis to apply to the new animals.

You are required to:

- 1) Calculate the tax adjusted trading profit for the year ended 30 April 2017 and show its allocation between the three partners. Your answer should clearly show your treatment of items (a) to (h). (15)**
- 2) Explain whether five-year averaging is available to John and calculate his assessable profits for 2013/14 to 2017/18 inclusive were a five-year averaging claim to be made. For the purpose of this part of the question you should assume that John's profit share for the year ended 30 April 2017 was £80,000. (3)**
- 3) Briefly explain how the herd basis would work if an election is made. (2)**

Total (20)

4. Elestra Ltd has been trading for many years as an engineering company preparing accounts to 31 December each year.

You have been provided with the following information:

- (a) A punch press was ordered in October 2017. It was invoiced and delivered in December 2017. The total cost was £45,000. However, due to difficulties with the company's cash flow in December, the contract states that only £15,000 is to be paid in January 2018, with the balance to be paid in May 2018.
- (b) A new welder with a cost of £15,000 was delivered to the company in November 2017. Elestra Ltd was not sure whether it would purchase the welder and so the supplier agreed that the company could try the machine for three months before deciding whether to buy. Elestra Ltd decided in March 2018 that it would purchase the machine and was invoiced by the supplier on 31 March 2018.
- (c) A new van was ordered in November 2017 and a hire purchase agreement arranged. The van was delivered in January 2018.
- (d) The company hired oxy-acetylene equipment under an operating lease at a cost of £800 per month over 12 months from June 2017. The retail cost of the equipment would have been £9,000.
- (e) A laser cutter was purchased at a cost of £250,000 in December 2017. The cutter has a useful life of 35 years.
- (f) An electric car was purchased for use by a director at a cost of £35,000 in April 2017. The car will be used 50% for private purposes.
- (g) A diesel car was purchased for £17,000 in May 2017 to be used as a pool car. The CO₂ emissions of the vehicle are 170g/km.
- (h) A new washroom was installed in the factory in March 2017. The fittings cost £3,000.
- (i) A high-quality printer was purchased for £10,000 in February 2017. The estimated useful life of the printer is five years.
- (j) A storage container was purchased for £2,500 in June 2017 and secured to a concrete base in the yard.

You are required to explain the capital allowances that can be claimed by Elestra Ltd for the year ended 31 December 2017. You should assume that the annual allowance is not available. Calculations are not required. (10)