

1. John is training to become an electrician. He needs to take various training courses and assessments before he is qualified to start work and he will also incur travel and accommodation costs while on the courses.

Once he starts trading he will need to take further courses to keep up to date with legislative changes.

Eventually he will employ his nephew as an apprentice and pay for all of his nephew's training and course fees.

Explain whether each of the different training and associated costs will be allowable as a deduction from John's trading income. (3)

2. Sheila has been trading for many years as an interior designer and has an annual turnover of £120,000 for the year ended 31 March 2018. Unfortunately, she is finding that her clients are increasingly late paying invoices, which has created cashflow problems for her.

She has few overheads and claims mileage for any travel costs. Her only business asset is her computer equipment.

1) **Explain the rules for joining and leaving the cash basis of assessment for Income Tax purposes.** (2)

2) **Explain one advantage or one disadvantage of Sheila using the cash basis of assessment for Income Tax purposes.** (1)

3. On 1 October 2017 Spacebarre Ltd signed a 10-year lease to rent premises for £2,000 per annum, together with a premium of £50,000. Spacebarre Ltd prepares accounts to 31 March each year.

Calculate the amount deductible for tax purposes in respect of the rental and premium payments for the year ended 31 March 2018. (3)

4. Mirabain Ltd is a trading company which made accounts up to 31 December each year. In 2016 it decided to change its year end to 31 March and prepared accounts for the fifteen month period to 31 March 2017.

Due to management problems, the Corporation Tax returns for the period ended 31 March 2017 were not submitted until 31 May 2018.

Explain the rules under the unified scheme for charging penalties on the late filing of the Corporation Tax returns by Mirabain Ltd. (2)

5. Liam, Cheryl and Simon were in partnership sharing capital and profits in the ratio 30%:35%:35%. Simon retired from the partnership on 31 December 2017 and a property owned by the partnership was transferred to him on that date.

Explain how any gain or loss realised on the transfer of the asset to Simon will be dealt with for Capital Gains Tax purposes. (3)

6. In June 2005, Harry Smith acquired a thirty-year lease on business premises for £40,000. In June 2017 he sold the lease for £60,000.

Calculate the capital gain arising on the sale of the lease. (3)

7. Claire Littlehall sells jewellery as a sole trader. Her turnover each month is £5,000. She is considering opening a café in partnership with Ann Hilton. They anticipate a turnover of £9,000 per month. Claire is not currently registered for VAT.

Explain the meaning of a 'taxable person' for VAT purposes and how this applies to Claire. (3)

8. **Explain the circumstances when deregistration from VAT is compulsory, the date when it takes effect and the requirement to notify HM Revenue & Customs.** (3)

9. Stuart is 35 years old, and the sole director and shareholder of Stuart Trading Ltd which has one other employee. Both Stuart and the employee are paid above the secondary threshold for National Insurance contributions. The total secondary Class 1 National Insurance contributions payable by Stuart Trading Ltd for 2017/18 are £2,500.

Susan is a sole trader and employs one assistant. The total secondary Class 1 National Insurance contributions payable by Susan for 2017/18 are £3,500. For 2016/17, the maximum available Employment Allowance exceeded the secondary Class 1 National Insurance contributions payable by Susan by £250.

Calculate the amount of secondary Class 1 National Insurance contributions payable by Stuart Trading Ltd and Susan for 2017/18, assuming that they both utilise the maximum amount of Employment Allowance available. (2)

10. Jason runs a plumbing business and is considering taking on two more employees; Peter, who is 19, and Betty, who is 23. Betty will be an apprentice under a scheme which follows a government approved framework.

Explain Jason's liability to secondary Class 1 National Insurance contributions in connection with each employee. (3)

11. Sheldon is a sole trader and has decided to purchase a van for £20,000 via his business bank account. To finance the purchase, he is using £10,000 of his own savings and a £10,000 loan from the bank, both of which will be paid into the business bank account before being used to purchase the van. Repayment of the bank loan will be by means of a monthly payment of £450 of which £25 is interest.

Show the entries to be made in the bank, fixed asset, capital, loan and interest 'T' accounts to account for the capital and bank loan receipts, the van acquisition and the first loan repayment. (4)

12. Accounts provide relevant information for organisations or individuals who may wish to use the financial statements.

Give four examples of users of accounts and explain how each one may use the information shown. (4)

13. The useful life of an asset is the period over which the present owner will derive economic benefit.

Explain four ways that an asset's useful life may be determined by a business. (4)



November 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. Sloth Ltd draws up accounts to 31 May each year. Its accounts to 31 May 2017 show the following:

	£	£
Turnover		1,080,000
Cost of sales		<u>(467,000)</u>
Gross profit		613,000
Office expenses	79,300	
Employment costs	180,000	
Travel and subsistence	12,000	
Interest costs	10,000	
Rent	12,000	
Depreciation	<u>78,700</u>	
		<u>(372,000)</u>
Net profit		<u>241,000</u>

In addition, you are provided with the following information:

- (a) Employment costs includes a bonus of £2,500 in respect of the year to 31 May 2017 paid to a director on 31 December 2017.
- (b) Travel and subsistence includes hotel costs of £2,000 for a prospective customer who visited the site.
- (c) Interest costs may be analysed as follows:

	£
Overdraft interest	2,500
Debenture interest paid to long-term investors. The debenture was issued to allow the company to buy an investment.	5,000
Hire purchase interest for motor cars	<u>2,500</u>
Total	<u>10,000</u>

- (d) Rent payable during the year was £15,000, but the company received rent of £3,000 for letting part of the premises that is temporarily surplus to their requirements.
- (e) Depreciation is shown net of a profit on disposal of £3,000 in relation to the sale of a printing press.
- (f) The tax written down values at 1 June 2016 were £25,000 on the general pool and £18,000 on the special rate pool.
- (g) During the year the company sold a printing press for £5,000. The press had originally cost £25,000. It purchased a new press for £280,000. The useful life of the new press is 20 years. It also bought a new car, used 50% by the director for his private use, costing £75,000. Its CO₂ emissions were 150g/km.

Sloth Ltd is a large company and is required to pay its Corporation Tax liability by instalments. Due to cash flow issues it paid half of its liability on 14 April 2017 and the other half on 14 July 2017.

The directors of Sloth Ltd understand that they have a duty to promote the success of the company. They have asked what issues they need to take into account when exercising this duty.

Continued

Continuation

You are required to:

- 1) Calculate the Corporation Tax payable for the year ended 31 May 2017. Your answer should explain your treatment of each item shown in notes (a) to (d) above.** (10)
- 2) State the due dates for payment of the Corporation Tax liability for the year to 31 May 2017 and calculate any interest charge or interest repayment arising on the first and fourth instalments.** (4)
- 3) Explain briefly how any deficits on non-trading loan relationships may be relieved.** (3)
- 4) Give three examples of issues the directors should consider when deciding whether an action is consistent with their duty to promote the success of the company.** (3)

Total (20)

2. It is November 2018. You have just met with Sam who has been trading for a number of years, drawing up accounts to 31 March.

Sam has provided you with draft accounts and tax computations for the year to 31 March 2018 that show a loss of £145,000. This loss was mainly as a result of a large contract overrunning. He expects his results to be much better in the current year.

Sam received a claim last week in respect of a contract that he completed in February 2018. He will contest the claim but thinks he will know a definite outcome by the end of March 2019. If he loses the case, he estimates the cost of rectifying the work may be around £10,000. Accordingly, you advise him that a provision may be made in the accounts to 31 March 2019. Sam wants to understand whether he will obtain tax relief in relation to any costs he has to incur in relation to this case.

Sam's tax-adjusted trading profits/(losses) for recent accounting periods are as follows:

		£
Year to 31.3.18	Estimated	(145,000)
Year to 31.3.17	Actual	62,000
Year to 31.3.16	Actual	158,000

The only other sources of income that Sam receives are a fixed pension of £15,000 each year, and property income of £40,000 in 2015/16 and 2016/17.

You are required to draft an email to Sam including:

- 1) A brief explanation of whether he can obtain tax relief on the estimated rectification costs of £10,000.** (2)
- 2) Calculations of his revised net income for 2016/17 and 2017/18 and any loss carried forward on the basis that loss relief is claimed as early as possible. You should clearly identify and explain any loss claims made, together with a brief explanation of how any losses to be carried forward might be used.** (5)
- 3) An explanation of the time limits for filing his tax return for 2017/18, including explanations of when any amendments might be made by both Sam and HM Revenue & Customs.** (3)

Total (10)

3. Azra and Kellie have been partners in the Retreat partnership for many years, drawing up accounts to 30 April each year. They shared profits in the ratio of 60% to Azra and 40% to Kellie, after paying each a salary of £30,000 per annum.

On 1 July 2016, a new partner, Eduardo, was introduced. At that time it was agreed all partners should have a fixed capital account of £40,000. Eduardo introduced the capital from his own resources, while Azra and Kellie decided to allocate part of their current account balance for this purpose. In the trial balance shown below, no adjustment has been made for these allocations for Azra and Kellie.

After introducing Eduardo, the partners agreed to share profits equally.

You have been provided with the following trial balance at 30 April 2017:

	£	£
Office building - cost	140,000	
Office building - aggregate depreciation		6,300
Fixtures and fittings - cost	48,000	
Fixtures and fittings - aggregate depreciation		19,650
Work in progress	270,000	
Turnover		650,000
Purchase of Lochend	50,000	
Salaries	210,000	
Rent		16,000
Fixed capital - Eduardo		40,000
Current account - Azra		72,000
Current account - Kellie		32,500
Deposit account	100,000	
Motor expenses	22,000	
Utilities and insurance	37,500	
Debtors and prepayments	120,000	
Depreciation	12,250	
Creditors and accruals		344,000
Purchases	49,000	
Drawings - Azra	45,000	
Drawings - Kellie	49,700	
Drawings - Eduardo	21,000	
Bank current account	6,000	
Totals	<u>1,180,450</u>	<u>1,180,450</u>

The bookkeeper has already made most of the adjustments required but the following additional issues are outstanding:

- (a) On 30 April 2017 the Retreat partnership bought the business of Lochend for £50,000. The net assets of Lochend at that time were as follows:

	£
Work in progress	25,000
Debtors	8,000
Creditors	<u>(2,000)</u>
Net assets	<u>31,000</u>

These assets and liabilities are not yet included in the accounts.

- (b) The partnership has a tenant in part of its premises. The tenant arrived on 1 November 2016, but paid a full year's rent in advance at that time.

Continued

Continuation

- (c) The deposit account was opened on 1 February 2017 and is for a fixed term of one year. Interest is receivable at the end of that one year period at the rate of 1.5%.

Your fees are based on the time taken to prepare the accounts. Because of the changes to the partnership during the year, you are aware that your fee is likely to be higher than in previous years.

You are required to:

- 1) **Prepare the Profit and Loss account and appropriation statement for the year ended 30 April 2017 and the Balance Sheet as at 30 April 2017.** (12)
- 2) **Explain the difference between inherent and purchased goodwill and state how they should be treated in order to comply with FRS 102.** (3)
- 3) **State three of the Association of Taxation Technicians' guidelines in relation to charging fees on a time basis.** (3)

Total (18)

4. Mrs Blue had been a sole trader for several years. She sold her business on 30 June 2017 for £770,000 made up as follows:

	<u>Cost</u> £	<u>Sale proceeds</u> £
Warehouse	315,000	600,000
Plant and machinery	40,000	10,000
Work in progress	40,000	100,000
Other net assets	<u>70,000</u>	<u>60,000</u>
	<u>465,000</u>	<u>770,000</u>

In addition, you are provided with the following information:

- (a) The warehouse was originally bought in May 2007 for £250,000. Significant work was carried out to enlarge the warehouse in May 2012 at a cost of £60,000, plus £5,000 of architects' fees.
- (b) Each item of plant and machinery originally cost less than £6,000 and was sold for less than £6,000. Included within the items sold, for proceeds of £10,000, is a machine that was purchased in February 2017 for £1,200. The tax written down value of the general pool at 1 January 2017 was £8,500.
- (c) Legal fees associated with the sale of the warehouse amounted to £25,000.
- (d) Other net assets comprise debtors, creditors, prepayments and accruals.
- (e) The only previous capital disposal made by Mrs Blue was in December 2013 when she sold some shares she had inherited at a loss of £3,000.
- (f) Mrs Blue's tax adjusted trading results for the periods up to cessation were as follows:

	<u>Profit</u> £
Year to 31 December 2015	89,000
Year to 31 December 2016	95,000
Period to 30 June 2017 (before deducting capital allowances)	44,000

The tax adjusted profits for the years ended 31 December 2015 and 2016 are stated after deducting capital allowances.

The remaining unrelieved overlap profits from the start of the trade are £8,000.

- (g) Mrs Blue will continue to pay professional indemnity insurance for the next few years.

You are required to:

- 1) Calculate the Capital Gains Tax arising on the sale of the business, with a brief explanation of any reliefs claimed. Your calculation should clearly identify any items that are not chargeable to Capital Gains Tax. (5)
- 2) Calculate Mrs Blue's taxable trading profits for 2015/16 to 2017/18, clearly showing the basis periods. (4)
- 3) Briefly explain if and how Mrs Blue may obtain tax relief for the cost of her professional indemnity insurance. (3)

Total (12)