



Practical Tax People  
Association of  
Taxation Technicians

## May 2015 Examination

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### PAPER 2

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### Business Taxation & 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. You are not permitted to write in the answer folders. The Presiding Officer will inform you when you can start writing. Calculators may not be used during this time.
- You are provided with two answer folders (one for each part of the paper). You must put your candidate number on the front cover of both folders.
- You must write your answers on the paper provided. Please start each answer on a new sheet of paper and write on one side of the paper only. Put your candidate number at the top of each page and make sure you place your answers in the correct answer folder.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.

## Part I

### You must use the Part I answer folder.

1. Ashfield Ltd commenced trading on 1 April 2014. The first set of accounts are for the nine months to 31 December 2014.

On 1 May 2014 a silver car with emissions of 165g/km was purchased for £18,000. It is used 50% for private use by the managing director. On 1 August 2014 a blue car with emissions of 110g/km was purchased for £12,000 for business use by the sales manager. On 1 October 2014 a black car with emissions of 160g/km was purchased for £20,000 to replace the silver car which was sold for £15,000. The managing director continued to use the black car 50% for private use.

**Calculate the capital allowances for the period ended 31 December 2014.** (4)

2. Tom Smith has annual income from self-employment of around £30,000.

**Explain the rules for payment of Income Tax under self-assessment and the penalties for late payment.** (4)

3. Edward is a farmer and has a large herd of cows for milk production.

**Explain the consequences of a herd basis election.** (3)

4. **Explain the time limits for HM Revenue & Customs to start an enquiry into a sole trader's tax return and the taxpayer's right of appeal on completion of the enquiry.** (3)

5. Lionel has been trading since 1 January 2008 making up accounts to 31 December each year. He had trading profits of £12,000 for the year ended 31 December 2008. His trading profits for the year ended 31 December 2012 were £36,000. In 2013 he decided to extend his accounting date to 30 April 2014 and his trading profits for the 16 month period ending on that date were £46,000. It is anticipated that the trading profits for the year to 30 April 2015 will be £38,000.

**Calculate the amounts assessable for 2013/14, 2014/15 and 2015/16 and the amount of overlap relief carried forward at 5 April 2015.** (4)

6. Hyper Ltd has four associated companies and for the nine month period to 31 March 2015 has taxable total profits of £65,000.

**Calculate the Corporation Tax payable by Hyper Ltd for the period to 31 March 2015 and state the date it is payable.** (4)

7. Charles owns an industrial estate which consists of a large factory and five smaller units on two acres of land. The estate was purchased for £2.5 million in June 2006 and in 2007 he spent £500,000 on improving the land with new roads, walls and fences. In June 2014 he sold one of the smaller buildings for £250,000. The previous year he had paid for small repairs and general re-decoration of this unit at a cost of £15,000. The legal costs for selling the unit were £10,000 and the remaining industrial estate is now valued at £4.75 million.

**Calculate the capital gain arising on the sale of the industrial unit.** (4)

8. **Explain the rules for registering for VAT for a UK-established person.** (4)

9. Deidre is a self-employed hairdresser with a turnover of £85,000. She also has a part-time business as a dog groomer with a turnover of £10,000.

**Explain the term 'taxable person' for VAT purposes and how this will affect Deidre's dog grooming business.** (2)

10. **Explain the difference between capital and revenue expenditure for accounting purposes.** (4)

11. Jonathan runs a window installation company. On 1 September 2014 he sold an old van for £5,000. The old van had cost £15,000 and the accumulated depreciation at the time of sale was £12,500.

**Record the disposal in the relevant 'T' accounts, clearly showing the resulting profit or loss.** (4)

**Place your answers for Part I in the Part I answer folder.**

## Part II

### You must use the Part II answer folder.

Marks are specifically allocated for appropriate presentation.

1. Marvellous Ltd sells photographic prints, which are printed onto various materials using high quality computerised printing equipment. It has been trading for many years and makes up its accounts to 30 June each year. It has no associated companies. For the year ended 30 June 2014, the draft accounts showed a profit for the year of £350,000.

You are provided with the following information.

- (a) The accounts include depreciation of plant and equipment and motor vehicles of £17,000 and a loss on disposal of equipment of £8,000.
- (b) The printing equipment needs to be refurbished every five years. A provision is included in repairs of £4,000 in respect of the costs that are expected to be incurred the next time that the work is carried out.
- (c) Legal costs include £1,500 for the renewal of the lease on the company's premises for a further 10 years and £2,000 for costs incurred on the abortive purchase of a property.
- (d) The accounts include entertainment costs of £5,000 for a race day for customers and £3,000 for a similar day which was to reward staff.
- (e) The company incurred a penalty for late paid VAT of £1,350.
- (f) A car with CO<sub>2</sub> emissions of 250g/km was leased during the year with annual lease costs of £2,400.
- (g) The written down value on the pool of plant and machinery at 1 July 2013 was £17,000. During the year ended 30 June 2014, a new laminator was purchased for £10,000, replacing one sold for £3,000. A new heating system was installed at a cost of £7,500 and a new car with CO<sub>2</sub> emissions of 200 g/km purchased at a cost of £15,000.
- (h) The company had no other income or gains for the year.

**You are required to calculate the Corporation Tax liability for the year ended 30 June 2014.**

(12)

2. Robinson and Noble have been in partnership for many years operating a catering school. Accounts are prepared to 30 September each year. Noble is also in partnership with his wife. They own and operate a hotel which has been very profitable for the last five years. They took the decision to purchase a second hotel in 2013 and so Noble decided to retire from the partnership with Robinson with effect from 30 April 2014. Robinson decided to carry on the business and approached Metcalfe who became a partner in the catering school from 1 May 2014. Until he joined the partnership, Metcalfe was employed as a chef.

Due to a significant amount of refurbishment expenditure which qualified for the annual investment allowance, the accounts of the catering business for the year ended 30 September 2014 showed a loss for the year of £120,000. Profits and losses between Robinson and Noble and then between Robinson and Metcalfe are shared equally.

Robinson and Noble are disputing the amount that should be paid to Noble on his retirement. Robinson has approached you for advice on the partnership accounts for the year of Noble's cessation. You are then contacted by Noble for advice on the same issue.

**You are required to:**

- 1) **Explain the different ways in which each of the three partners can relieve their losses, the time limit for any claims and any restrictions that apply.** (12)
- 2) **Explain the matters that you need to consider in respect of the approaches from Robinson and Noble.** (3)
- 3) **Explain the extent to which a retiring partner remains liable for partnership debts.** (3)

Total (18)

3. Meera purchased a sweetshop on 1 June 2013. The cost of the shop was £200,000. This was financed by a transfer from her savings account of £75,000 and a bank loan of £125,000. You have been given the following trial balance for the year ended 31 May 2014 based on the entries in her cash book. This does not yet reflect the purchase of the business.

	£	£
Equipment purchased	12,000	
Sales		100,000
Stock purchased	60,000	
Wages paid	14,500	
Rates and water charges	3,000	
Light and heat	1,500	
Repairs	700	
Telephone	600	
Van expenses	1,800	
HP payments	2,400	
Loan interest	10,000	
Drawings	5,000	
Capital introduced		15,000
Bank	3,500	
	<u>£115,000</u>	<u>£115,000</u>

You are also given the following information:

- (a) At the year end the value of the closing stock was £20,000. The stock was valued at sales price, which includes a mark-up of 100%.
- (b) Meera purchased a van on hire purchase. The cost of the van was £8,000. The hire purchase agreement was taken out over four years and the repayments are £200 per month.
- (c) Rates and water charges include £1,000 in respect of the year ended 31 March 2015.
- (d) The accounts are estimated to cost £800 to complete.
- (e) Both the equipment and the van were purchased on 1 June 2013. The rate of depreciation for the equipment is 25% straight line, for the van 25% reducing balance and for the shop 2% straight line.
- (f) Meera also used her car for business purposes and would like an adjustment for the 1,000 business miles covered at the rate authorised by HM Revenue & Customs.
- (g) Due to the small size of the shop, Meera carries out administrative tasks at home in a bedroom which she uses solely as an office. She spends about 25 hours per month at home dealing with ordering and bookkeeping. A fixed rate deduction should be included in the final accounts for the use of her home.

**You are required to:**

- 1) Prepare a profit and loss account for the year ended 31 May 2014 and a balance sheet as at 31 May 2014. (18)**
- 2) Identify which classes of National Insurance Contributions are payable by Meera and her employees. (2)**

Total (20)

4. In June 2010, Elmer sold shares in Fudge Ltd, making a substantial gain that qualified for entrepreneurs' relief. He then formed another company, Lecksi Ltd, which commenced to trade in software development in March 2011. The shares in Lecksi Ltd are owned equally by himself and his wife. He is a director, but his wife takes no part in the company. The business has been very successful.

Elmer owns the property from which Lecksi Ltd trades, which he rents to the company at a market value rent. Elmer and his wife have now received an offer to buy both the company and the property. They are thinking of investing some of the proceeds into shares in a trading company owned by their son.

**You are required to:**

- 1) **Explain how the taxable gains on the disposal of the shares in Lecksi Ltd would be calculated.** (2)
- 2) **Explain whether entrepreneurs' relief is available on the disposal of the Lecksi Ltd shares and the property which Elmer rents to the company.** (3)
- 3) **Explain the impact of the disposal of the Fudge Ltd shares on any entitlement to entrepreneurs' relief in respect of the current disposals.** (1)
- 4) **Briefly explain whether any relief is available on the investment into the son's company.** (1)
- 5) **Explain the legal factors that will need to be considered if Elmer and his wife dispose of the business assets rather than the shares of the company.** (3)

Total (10)

**Place your answers for Part II in the Part II answer folder.**