



The Association of Taxation Technicians

MAY 2005 EXAMINATION

ATT PAPER 1

EXAMINER'S REPORT

General

The majority of candidates made a good attempt at answering the questions and it would appear that many were very well prepared. Unfortunately there are still candidates who make no attempt to make their handwriting legible or give any attention to the layout of their answers.

Part I

The majority of candidates attempted all questions. The most common errors were:

- Question 1 – incorrect amount of married couple's allowance.
- Question 2 – failure to restrict the income tax repayment.
- Question 4 – failure to use the gross amount of gift aid payment
- Question 5 – failure to show foreign tax credit restricted (cannot result in repayment)
- Question 7 – failure to calculate the amounts payable
- Question 8 – failure to show top-slicing relief
- Question 13 – taper relief before losses
- Question 16 – showing annual exemption for 2004/05 before loss set-off
- Question 19 – failure to take into account percentage ownership of related property

Part II

Question 1

This was a very popular question and was attempted by almost every candidate. The main areas which gave problems were the calculation of the net rental income (in many cases wear & tear allowance was omitted), accrued income (where many showed a grossed-up amount), and the failure to deduct the loss on unquoted shares from the gross income.

Question 2

This was a fairly popular question with many good attempts. The description of the basic rules for calculation rental income and capital gains was well done in the majority of cases. However, there were many candidates who mistakenly stated that the parents would be entitled to rent-a-room relief and principal private residence relief. There were also a few who went into great detail over the rules for notifying the Inland Revenue of a new source of income, completing a tax return etc.

Question 3

This was not a popular question and was not answered well by the majority that attempted it. Although most stated the rules for income tax relief on both investments, many candidates were unclear on the capital gains tax deferral potential and subsequent CGT liability on the deferred gains and gains on investments. Many appeared to take the view that these were risky investments to be avoided!

Question 4

This question was well answered by many candidates, most being able to state all the basic rules for Inheritance Tax. Apart from a lack of knowledge of Inheritance Tax rules, the only area that appeared to cause a problem was the consequences of the possible divorce. However, as this was only a part of the overall scenario, few marks were lost if this point was not addressed.

Question 5

This question was another very popular one to attempt, and was very well done in many cases. Many calculated the gain on QRC shares and his father's family company shares correctly. However, there were several who showed a gain on the car and although many did show the proceeds less cost of restoration of the painting, very few went onto calculate the gain after the cost (part disposal) was taken into account. Most included the gain realised in the previous year in the final summary and used the correct tax rates after taking into account assessable income.



The Association of Taxation Technicians

MAY 2005 EXAMINATION

ATT PAPER 2

EXAMINER'S REPORT

Part 1

Question 1

A straightforward capital allowances question that was well answered by the large majority of candidates. A minority however failed to show an understanding of basic capital allowance principles and rates.

Question 2

A disappointing average mark on a question on a basic principle of corporation tax. Many answers were vague with a large number suggesting that an accounting period commences on incorporation.

Question 3

Many candidates totally ignored the new rules on non-corporate distributions and merely attempted, often erroneously, a normal marginal rate calculation. Instantly therefore many candidates restricted themselves to half the available marks. This topic is a fundamental concept that will be commonly questioned.

Question 4

A reasonably well-answered question with majority stating deemed incurred on first day of trade. The first part of this question was not as well answered with many vague answers.

Question 5

A disappointing average mark on another fundamental area of the business tax paper. This area is and will continue to be commonly examined. A lack of understanding of basis periods.

Question 6

Disappointed to note that many candidates failed to know the penalty provisions for Corporation Tax, which again is commonly questioned in this part of the business tax paper.

Question 7

A reasonably answered question but again many candidates showed a lack of understanding of the rules on Agricultural Buildings Allowances. The most common mistake being in relation to the farmhouse.

Question 8

This question was recently tested yet the results were disappointing. The reading of past papers should be a key area of revision. Many failed to understand or comment on the principle of control in relation to groups.

Question 9

A relatively straightforward group relief calculation, which was not well answered. The most disappointing note being the failure to read the question and note that Juliet was only acquired on 1 July 2004.

Question 10

Few showed a full understanding of the rules on overdrawn loan accounts and in particular the nine-month rule. The most common mistake was to use the March repayment in the initial payment calculation. Many also failed to know the due dates of payment of tax.

Question 11

A well answered question with first part very well answered. Second part not as well answered with many failing to understand non-trade deficits.

Question 12

Another well answered question with majority of candidates knowing the conditions and effects.

Question 13

Disappointed to note that a large minority could not even calculate the deduction in relation to rent paid under the lease. Even if they could not calculate the relief due on the lease premium this would still have ensured half marks. Candidates should be aware of the need to look for the easier marks first.

Question 14

A reasonably answered question but too many candidates failed to include overlap relief in the calculation. A large minority also attempted to calculate the 2003/04 assessment after loss relief. This was not asked for in the question.

Question 15

A very badly answered question with the worst average mark on this part of the paper. Few appeared to know the view to profit test and only a handful knew about farming and market gardeners.

Question 16

A reasonably well answered question with many showing good marginal rate calculation skills. Group relief was not as well answered.

Question 17

Too many vague meandering answers with failure to comment on time limits or even other conditions. Succinct bullet points are always preferable.

Question 18

A disappointing set of answers on a simple VAT calculation question. Again this area has tested in a recent exam and the studying of past papers is and will continue to be of great benefit.

Question 19

A very well answered question with candidates showing a good knowledge of the rules on VAT bad debt relief.

Question 20

Many failed to know a basic principle of NIC and the age conditions.

Part 2

Question 1

The majority of candidates scored well on this question, although it did highlight a number of technical errors by candidates.

A significant proportion of candidates, potentially more than half, did not appreciate that each payment on account should include 50% of the Class 4 National Insurance liability.

A number of candidates also failed to correctly calculate the Class 4 National Insurance liability as they double counted the personal allowance.

A proportion of candidates failed to deal with the overlap provisions correctly.

A few candidates displayed an alarming lack of understanding of taper relief, with the annual exemption being deducted before taper relief, or relief of 25% being given rather than 75%.

Finally, most worryingly a small percentage of candidates charged corporation tax on the partnership profits.

Question 2

- 1) Well answered although some candidates still do not gain marks for setting their answer out as a letter when this is the requirement.
- 2) Most candidates could set out the considerations well although there was some confusion with IR35.

- 3) No comment.

Question 3

Only a small proportion of candidates attempted this question, and it clearly showed the difference between the stronger candidates and the weaker ones. There was little middle ground with candidates either scoring well or badly, although those that scored badly generally only attempted a small part of the question.

The question showed up a number of technical weaknesses of which the most worrying was that a number of candidates failed to recognise the differing treatments for individuals and companies.

The majority of candidates failed to identify the factors for a transfer of going concern to take place, instead describing conditions for various capital gains tax reliefs.

Finally, a number of candidates did not appreciate that the funds would need to be extracted from the company, despite the fact it was set out in the question.

Question 4

- 1) Well answered although the capital allowance computation was incorrect in about 50% of cases.
- 2) A significant number of candidates stated the number of associated companies incorrectly.
- 3) UK resident rather than UK establishment was the requirement often incorrectly stated by the candidates.

Question 5

- 1) Most candidates correctly calculated the overlap profit and assigned the profits to the correct tax year. Some candidates incorrectly dealt with the introduction of the new partner as a cessation of trade for Trevor.
- 2) No comment

- 3) No comment
- 4) Few candidates gained full marks with most candidates merely dealing with VAT registration requirements rather than the transfer of going concern.



The Association of Taxation Technicians

MAY 2005 EXAMINATION

PRINCIPLES OF LAW

EXAMINER'S REPORT

Question 1

Part 1) was generally well answered provided that candidates realised that Ted has only 74% of the shares which is just short of the 75% needed to pass a special resolution. Out of the more than one hundred candidates who attempted this question only four stated that the other way in which a company's objects can be changed is by all members agreeing to a resolution in writing.

Part 2) was either well answered if candidates knew the rules relating to substantial property transactions or badly if they didn't. Many candidates also said that a director of a company should not make a profit for themselves rather than that they must not make a *secret* profit.

Part 3) saw many candidates getting ordinary and special resolutions confused and many different majority figures were stated as being necessary to pass them. Surprisingly, about half stated that 50% is a majority. It isn't. If the other 50% voted against them they wouldn't get anywhere. 51% is a majority.

Question 2

Part 1 and Part 2: A number of candidates talked about authority and repeated that partners have joint and several liability which is in the quote. A few listed the three categories of creditor but did not say what the retiring partner had to do in relation to those creditors. It was also common to state that a farewell party was needed so creditors would know the partner had retired.

Part 3: This was done really well done and most candidates picked up a lot of marks on this part.

Part 4: This part probably needed to be qualified because candidates explained the process of what needed to be done on dissolution of a partnership rather than when it occurs. However most candidates got good marks on this part.

Question 3

Was an easy question and most candidates scored well, especially in part 2. It was disappointing to see that, although candidates could recite the law (part 2) they struggled to apply it (parts 3 and 4) and this demonstrated a lack of understanding of the basic principles.

Question 4

Nearly every candidate attempted this question.

Part 1) was generally well answered as long as candidates noticed that the question was about offers rather than contracts. Several gave lots of very interesting information about terminating contracts, all of which was irrelevant to the question. Many got offerors and offerees confused and wrote long complex examples of offers being terminated. Candidates who simply answered using succinct bullet points should be praised for their brevity.

Part 2) was also usually well answered with most candidates knowing the differences between damages and specific performance. Quite a few made the mistake of thinking that the aim of damages is to put the injured party into the position they were in before the contract came into existence, rather than the position they would have been in had the contract been properly performed. This is a very important distinction. Many candidates also gave complicated examples. Whilst it is good to understand the practical application of the law, it seemed to this examiner that many candidates got so lost in their examples that they didn't have a firm grasp of the principles upon which the question turned. The question did not ask for examples.

Part 3) was generally not very well answered as most candidates failed to state the most obvious fact that a contract to do something illegal is itself not a legal contract. Not many candidates wrote about restraint of trade clauses, but those who did usually did mention protecting the legitimate interests of a party, how reasonable it is and the interests of the public.

Question 5

Was poorly answered. The majority of candidates answered part 1 incorrectly, scoring little or no marks. The question asked what terms would be implied into a contract by law if there was no written contract. The majority of candidates instead answered the question they would have preferred to have– the terms which should be included in a written contract!

Those that did answer part 1 correctly scored high marks overall.

As an aside, many candidates reported that "unfair dismissal is a statutory right" – I know that they meant that the right to claim damages for unfair dismissal is a statutory right but not one candidate expressed that view– perhaps this is something the tutorial bodies could address as no student will score marks for the former comment, which is a shame.

Question 6

Overall very few scored good marks on this question and not many attempted it.

Part 1: Most candidates gave only two points which will not get them five marks.

Part 2: Again candidates only gave two points for four marks, there were six available.

Part 3: Nearly all the candidates talked about money laundering. However a lot of candidates talked about negligence which is not a crime but a civil action.

Part 4: Very few had read this in the manual which forms the syllabus for this examination but those who had scored well on this part.

General

Difficulties in reading candidates handwriting again caused problems for the examiners in this sitting and should be borne in mind by candidates sitting in the future.



The Association of Taxation Technicians

MAY 2005 EXAMINATION

ATT PRINCIPLES OF ACCOUNTING PAPER

EXAMINER'S REPORT

Question 1

This question was attempted by most candidates. Well prepared candidates appear to have found this a straight forward question and scored highly. However many candidates scored low marks through a combination of incorrect answers to parts of the question and not completing the entire question resulting in easy marks being lost.

The calculation of closing debtors caused problems for a number of candidates. This mainly related to the opening debtors not being grossed up to calculate debtors before the bad debt provision.

The majority of candidates failed to correctly calculate the closing stock figure. This was due to either not understanding mark ups or applying the mark up calculation to purchases in the year rather than the sales figure.

Only a few candidates correctly calculated the closing Corporation Tax debtor. Most candidates deducted the over provision rather than added it to the Corporation Tax charge.

It was surprising how many candidates made simple errors with the depreciation calculations through depreciating the assets by the wrong number of years.

Question 2

This was the least attempted question of the paper.

Overall the VAT, corporation tax and deferred tax 'T' accounts section of the question was well answered.

Many candidates had problems with the interest and income tax 'T' accounts and in particular the cut off at the year end.

The accounts disclosures for Corporation Tax and deferred tax caused problems for some candidates including some who had shown the 'T' account workings correctly.

Question 3

This question was attempted by virtually all candidates and was generally well answered. However, a large number of candidates spent too long on this question and as a consequence failed to pick up marks available on the other questions.

Question 4

This question was attempted by the majority of the candidates and a disappointingly high number of candidates failed to score high marks due to:

- a) Failing to calculate the share premium on the issue of shares correctly;
- b) Incorrectly dealing with the dividend proposed but not paid;
- c) Not adequately explaining the cashflow consequences of the transactions;
- d) Failing to account for the bonus issue correctly.