



The Association of Taxation Technicians

NOVEMBER 2005 EXAMINATION

ATT PAPER 1

EXAMINER'S REPORT

General

A generally well answered paper, but many candidates made marking difficult by messy and illegible presentation of their answers. There were also many simple arithmetic errors, and in some cases, poor use of English. There is still a tendency for candidates to not answer the question set; it appears that they study past papers and regurgitate previous answers without applying them to the requirements of the question.

PART I

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

Question 1

Failure to restrict the repayment to tax deducted from the building society interest.

Question 3

Several included the cost of the sound system and many forgot to restrict the amount for 6 months.

Question 5

Many did not take into account the fact the taxpayer wanted the Revenue to calculate the tax and therefore the date of submission was different to the date from which interest would be calculated.

Question 9

Incorrect tax rates used to gross-up the receipt and then charge the income.

Question 10

Very few appeared to know the rules – there were many guesses of £100 penalty.

Question 13

Deducting losses brought forward before the losses sustained in the year.

Question 14

Not calculating the amount held-over correctly.

Question 16

Pooling share purchases

Question

Confusion over whether the assets qualified for business property relief.

PART II

Question 1

Almost every candidate attempted this question. There were a few who gained full marks but the majority struggled with calculating the accommodation benefit and the rental income. Forgetting to restrict the loan interest to a 6-month period was also a common error. Many ignored the previous year tax under payment or tried to take it into account by adjusting the personal allowance by 100/22. Parts 2 and 3 were often simply ignored or not given much attention with statements such as 'see part 1' for the answer to part 2.

Question 2

This was not a very popular question, although there were a few good answers. Most knew the basic for taking on a new client i.e. writing for professional clearance and getting a letter of engagement signed, but many

were not very clear on the rules to be followed under Money Laundering Regulations.

Most covered aspects of the rental income satisfactorily but many ignored the potential problem with the ex-gratia payment.

Question 3

This was another fairly popular question with most candidates covering rental income and capital gains on the house adequately. However, the explanations of residence rules and travel expenses were confused and very brief in many cases.

Question 4

Although this was a fairly popular question, unfortunately many struggled to get good marks. Many candidates did not cover parts 1 and 2 well with very few mentioning the availability of relief against income for the loss in part 2.

Many candidates did not appreciate that the house sold in October qualified for business asset taper relief and gave £40,000 deduction for residential accommodation. Many also thought that Janine could hold over the gain on the flat sold to her son at undervalue.

Although the income tax calculations were generally well done, many included the claw back of the venture capital trust subscription relief as part of the total income tax liability. There were also a few candidates who added income and gains together and calculated the tax liability on the total figure.

Question 5

This question was very popular and there were many good answers. Unfortunately many candidates failed to apply their knowledge to the requirements of the question. There was a tendency for candidates to state every thing they knew about capital gains tax and inheritance tax without showing any appreciation of the fact that this was an unmarried couple wanting to know how being married would affect them when considering the two taxes.

ATT PAPER 2

EXAMINERS' REPORT

Short Form Questions

Question 1

A very well answered question with the large majority of candidates showing a good understanding of the basic capital allowance principles and rates.

Question 2

A disappointing question badly answered particularly in view of the question merely requiring a textbook quoting of the relief's for non-trade deficits.

The rules for carry back and carry forward relief were known by few.

Question 3

Surprisingly less than half the candidates were able to determine the assessable profits on a change of accounting date. Even less were able to calculate the overlap relief to offset.

Question 4

Whilst the majority of candidates calculated the effective rate of corporation tax virtually no one showed any knowledge of matching profits for an accounting period straddling 1 April 2004.

Question 5

A reasonably well answered question with majority of candidates stating the 150% relief available. A much lower number however stated the tax refund relief.

Question 6

A question of two halves. Many identified the add-back in respect of staff bonuses but very few identified the paid basis for pension contributions.

Question 7

Again a question of two halves. Many identified that the gain for the company would be based on the market value but very few identified the implications for the shareholder.

Question 8

A reasonably well-answered question but many candidates failed to read the question and calculate the gain 'after taper relief'. Similarly many failed to state the base cost after roll over even those who had correctly answered the gain.

Question 9

A well answered question with majority identifying that movement in general provision was not allowable, although a number showed a lack of understanding of double entry.

Question 10

A well-answered question with candidates showing a good knowledge of loss relief under s380 and s385. Few however mentioned the capital gains relief.

Question 11

A reasonably well-answered question but too many failed to read the question and did not identify that companies had different year-ends.

Question 12

A well-answered question with majority of candidates being able to state the criteria. A large minority however gave definition of furnished holiday accommodation.

Question 13

The candidates basic profit allocation skills were poor and as a result the marks on this question were disappointingly low.

Question 14

A reasonably answered question with many understanding the loss relief restrictions. Marks were given for stating that losses can only be carried forward against profits from the same trade.

Question 15

Whilst many calculated the maximum loss relief available many ignored the fact that the relief for Andover was restricted to the level of profits. Again showing a failure to fully read the question.

Question 16

On the basis that a very similar question was asked in November 2004 the results were disappointing. A varied mix of answers with a large majority giving definitions for group relief.

Question 17

A badly answered question with the majority of candidates failing to be aware of the rules for repayment of VAT on unpaid invoices.

Question 18

An awful set of answers with few candidates showing even a limited knowledge of the rules for supplies after de-registration.

Question 19

A reasonably well-answered question with a large number of the candidates showing a reasonable knowledge of the TOGC rules. By far the best answered of the three VAT questions.

Question 20

Few candidates appeared to have any knowledge of the NIC basis for directors and the practicalities of the calculation. As a result the marks were very disappointing.

Long Form Questions

Question 1

1. Well answered other than the Sch DIII deficits element.
2. This part was poorly answered by candidates. Very few candidates dealt with the issue of non-corporate dividends and virtually no candidates were able to apply the NCD rules correctly.
3. No comment
4. No comment

Question 2

1. A significant element (estimated at 20%) of the candidates answering Q2 did not apply the FRS rules correctly – typically applying the FRS% to the net sales
2. No comment
3. No comment.
4. This section was well answered by the candidates.
5. Well answered but many candidates applied the deemed payment calculation to the total turnover figure of £58,000 rather than the “IR35 sales” of £30,000.

Question 3

1. Very well answered by candidates, more than 50% of candidates answering the question gaining full marks in this section. Most weakness was shown in the capital allowance computations.
2. No comment
3. No comment

Question 4

This question was only attempted by a minority of candidates, but the question did highlight some gaps in candidates understanding of providing practical advice to clients.

Candidates generally scored well on the corporation tax compliance, and most candidates demonstrated some knowledge of the impact of providing exempt supplies and the ability to opt to tax. However a number of candidates failed to go on to advise the client of the future impacts of opting to tax.

Candidates' knowledge of the national insurance compliance issues was generally poor, which resulted in many candidates obtaining low marks on the question.

Question 5

A few candidates scored well on this question, but the majority of the candidates scored in the 10 to 15 marks range.

There were some areas of concern in the candidates' approach to the question, with many failing to spot the substantial shareholdings exemption, despite the signposts in the question.

A significant number of candidates suggested that the gain could be deferred either by way of rollover relief or through investing in EIS or VCT shares.

Since all candidates should be aware of the details of rollover relief, it is particularly concerning that candidates believe that this can be used in respect of shares.

In addition, a significant proportion of candidates displayed poor knowledge of the Schedule A loss rules for companies.

However most candidates displayed a reasonable knowledge of the quarterly instalment regime in the final part of the question.

PRINCIPLES OF LAW

EXAMINERS' REPORT

Question 1

This was a straightforward and popular question on the formal requirements for a will. Most candidates (even those who performed poorly elsewhere in the exam) were able to score good marks, although a disappointingly large proportion did not answer part 2 in letter format and also incorrectly advised that the 2002 will was invalid (it was not, only the bequest to Hilda failed).

Question 2

Very few candidates attempted this question, and those that did often did not answer what was asked. Many candidates did not seem to attempt to answer the question, and there was a tendency just to write what they knew on the areas of law being examined without any correlation to the question. The scores were really low.

Part 1 – This required candidates to mention the rules and regulations but very few did and went on to describe public companies.

Part 2 – Many candidates explained at length resolutions required under company law but did not give the restrictions that the question asked.

Part 3 – Only a few candidates scored anything on this.

Part 4 – For 2 marks the answers to this part contained a lot of details about resolutions, which did not gain candidates any marks.

Part 5 – This was the part of the question that candidates gained the most marks on. Although most went into the tax issues at length and forgot about other considerations.

It appears that was a difficult question.

Question 3

It must be said that illegibility, lack of grammar, and imaginative spelling that most candidates used in the exam simply made them lose marks, as if the examiner cannot understand what is written it cannot gain any marks.

Part 1) Many candidates wrote about intestacy and minors, but most remembered resulting and constructive trusts and the differences between them. This question was therefore generally well answered.

Part 2) This was also quite well answered, with nearly every candidate attempting this question. Most got the salient features of a discretionary trust though very few remembered that the income can be accumulated by the trustees as they wish. This hampered their ability to realise that this is one of the key differences between a discretionary and life interest trust, i.e. that in the former income can be accumulated but in the latter it cannot, as it must be paid to the life tenant as it arises.

In this as in all the questions, many candidates made their point and then went on to make the same point again in an example, which was not requested. This is simply a waste of the candidates' time as they will not score two marks for making the same point twice. It was notable that the candidates that scored highest often wrote very little, but it was concise and clear.

Question 4

This question on parliamentary supremacy resulted in a wide range of answers, both in terms of content and quality. Many candidates commented on directives and regulations in the second part and marks were given to reflect those answers, although the candidates who explained the consultation, cooperation and co decision procedures scored higher marks. A proportion of candidates went into detail about delegated legislation and explained specific examples of delegated legislation. The question did not ask for a detailed commentary on delegated legislation and therefore those candidates' efforts were wasted to an extent in that regard- another example I fear of candidates answering the question they wanted to be asked rather than the one which was asked!

Question 5

This should have been a straightforward question and most candidates attempted it.

Part 1 - Again candidates liked talking at length about resolutions and meetings. This would not have got them many marks. There was a lot of confusion about the type of resolution so candidates tended to put everything they knew referring to both special and ordinary ones so they

could not be wrong. There was also a large proportion of candidates who talked at length about market value of shares instead of nominal value.

Part 2 – The answers to this part mostly discussed at length how to issue a dividend, which was not asked, and so low marks were scored.

Part 3 – Most candidates did not talk about the directors' fiduciary duties but about the veil of incorporation. They did however on the whole mention the repayment of the dividend.

Part 4 – A number of candidates went to the other duties of directors but the question was looking for the overriding duty. I was surprised more candidates did not do better on this question.

Question 6

This was a popular question that was generally well answered.

Part 1) Most candidates got the three estates (in England and Wales) as being freehold, leasehold and commonhold. However, quite a few instead wrote about joint tenancies and tenancies in common. It was also noticeable that though commonholds are new and thus rare, of the three estates this was the one that most candidates knew the largest amount about. Some candidates got leaseholds muddled up with trusts believing that when leaseholders die the lease reverts to the freeholder, which would be very bad news for the children of anyone who owns a flat.

Part 2) Few candidates grasped the three types of interests in land as being legal, equitable and overriding and then breaking these down into their constituent parts. This led to widespread confusion over what is and isn't registered at the Land Registry, what needs to be registered to be binding and what is binding whether purchasers know about it or not. Instead, many candidates gave endless examples of each case. As this was the last question on the paper, it was obvious that many candidates simply ran out of time to answer this question as well as they probably could under more comfortable circumstances.

General

Again some candidates did not follow basic instructions for filling in boxes, starting a new question on a new piece of paper, and wrote on both sides of the paper. Often, they did not answer the questions but just put down everything they knew and hoped they would score marks.

PRINCIPLES OF ACCOUNTING

EXAMINERS' REPORT

Question 1

A very popular question among candidates. Overall, the question was well answered.

The bad debts section of the question raised the most problems with only a few candidates obtaining full marks for this part.

Some candidates had problems calculating the correct figures for sales, cost of sales and gross profit. In particular, the calculations for product C were the most problematic.

Question 2

This was a reasonably straightforward question which candidates with a good knowledge of accounts scored highly on.

Presumably due to spending too much time on other questions, many candidates did not fully complete the question and so failed to score as highly as they could.

The fixed asset part of the question was well answered.

The main problem areas were the calculation of the HP creditor and debtors.

Question 3

Was attempted by approximately two thirds of the candidates and of these about half achieved reasonable marks for the question.

It was disappointing that the other half of the candidates who attempted this question achieved poor marks on a style of question that has been set on several occasions in recent examinations.

Marks were lost by candidates for failing to correctly work out the cash flow impact of the various transactions listed and for failing to be able to calculate the depreciation charge and the loss on fixed assets. A surprising number of candidates also were unable to calculate the actual dividends paid in the year and the corporation tax paid.

The standard of presentation by a large number of candidates was also disappointing.

Question 4

Was also attempted by approximately two thirds of the candidates and the marks achieved for this question were in general better than for Question 3. However, a number of candidates did fail to correctly operate the LIFO basis.