

## MAY 2006 EXAMINATION

### EXAMINERS' REPORTS

#### ATT PAPER 1

##### General

Most candidates appeared to cope well with this paper, and attempted the required number of questions.

##### PART I

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

- Question 2 – failure to restrict the repayment due to tax due on gift aid.
- Question 3 – failure to include the gross rateable value
- Question 4 – deducting the married couple's allowance from income.
- Question 6 – omission of interest received in December.
- Question 9 – incorrect date for charging interest on PAYE
- Question 12 – ignoring losses
- Question 13 – calculating loss on first painting and setting this loss against profit on second painting
- Question 15 – incorrect taper relief rates
- Question 18 – not separating gifts made in different years.

##### PART II

##### Question 1

This question was attempted by almost every candidate and most gained the majority of marks. The main errors were in ignoring the car benefit on the car provided to the daughter, assuming that the loan written off was exempt, taking the full amount of net rental income (not a 50% share) and confusing the rules for payments on account and collection through PAYE coding.

### Question 2

This was not a very popular question, and not very well done by those that did attempt it. Very few made any mention of Money Laundering Regulations in the note to the partner, and in many cases the enquiry procedures were only briefly explained.

### Question 3

This was a fairly popular question but candidates were not very clear on the consequences of the separation and divorce, many just explaining the tax position of the two individuals.

### Question 4

This question was popular and well answered by many candidates. They appeared to know the rules for residence and domicile and the tax consequences of this. The main problem for some was not giving enough explanation of each point. Several candidates thought that the money inherited from Eva's parents would be subject to Inheritance Tax if remitted to the UK. There were also several candidates who were determined that Eva would be getting married and described how that would affect her tax position.

### Question 5

This question was very popular and there were many good answers. The majority were well laid out and most candidates appeared to know how to calculate the gains on each asset adequately. The most common errors were to include the gain on the 3% loan stock and to set the losses off after taper relief.

## **ATT PAPER 2**

Question 1 – Very few candidates identified the benefit of a partial disclaimer of First Year Allowance to avoid balancing charge and maximise overall capital allowances claim.

Question 2 – Majority of candidates correctly stated the 5 or less participators / director rule. However very few described control, a commonly examined concept.

Question 3 – For a straight forward assessable profit / overlap calculation this question was very badly answered. Few understood the interaction of losses in first period.

Question 4 – A well answered question with majority of candidates showing good understanding of the definition of group for group relief purposes.

Question 5 – Most candidates correctly calculated the effective rate however few identified the unmatched NCD's brought forward. Full use was not made of information given in the question.

Question 6 – A disappointing number of candidates could not give the relevant conditions. A textbook definition question with little thought needed.

Question 7 – A simple loss allocation question was badly answered with lack of understanding of loss allocation and set off.

Question 8 – A generally well answered question with large number of candidates identifying the status of two companies. A surprising minority however did not know the normal payment date for corporation tax.

Question 9 – A badly answered question. A minority made the comment re: pre trading acquisitions but very few knew other situations.

Question 10 – A well-answered question with candidates showing a good knowledge of allowable and non-allowable expenditure. The highest marks of all short form questions were achieved on this question.

Question 11 – A reasonably well-answered question but would have expected even better marks on a straight forward penalty question that is regularly examined.

Question 12 – A reasonably answered question but again this type of question is very regularly examined and would have expected much higher marks.

Question 13 – A poor question with few candidates showing any understanding of the impact of residence on liability to UK tax.

Question 14 – Very surprised at poor results on this question on what was a basic text book loss question. Even candidates who stated terminal loss rules often did not state normal loss relief rules.

Question 15 – Average mark for this question was less than 50% which was very disappointing and showing that few candidates even understood the normal deduction for rent.

Question 16 – A very badly answered question and I cannot understand how so few candidates know the normal enquiry limits.

Question 17 – Candidates showed a lack of understanding of registration limits and that exempt supplies should not be included. Even the candidates who correctly identified the supplies to include failed to correctly state the 30-day deadline.

Question 18 – Reasonably well answered questions with many candidates correctly stating the conditions for annual accounting.

Question 19 – An awful question giving lowest average mark on short form questions. Half marks were available for merely calculating output VAT at 17.5% of £300,000. Candidates must learn to take easy marks in questions even if they cannot do the more difficult parts.

Question 20 – A very well answered question with most candidates correctly calculating NIC and identifying the associated employers.

#### Question 1

1. Well answered, most candidates identified the qualifying expenditure & basic requirements.
2. The capital allowances were overall correctly calculated. But most candidates were not able to select the correct figures for the IBA calculation.
3. No comment – well answered although most candidates incorrectly adjusted the profits for R&D expenditure.

### Question 2

1. Some candidates answered this section well but most failed to calculate the payments on accounts & dates of payments for C (Retail) Ltd's corporation tax.
2. No comment – well answered.
3. Some candidates discussed group relief & capital gain groups in this section.
4. Few candidates gained full marks for this section – most incorrectly identified inclusion of the loan interest payments on the CT61.
5. Most candidates failed to identify the zero-rated supply and discussed opting to tax.

### Question 3

1. No comments – well answered.
2. Overall candidates made a fair attempt to cover the calculations with many discussing use of Annual Exemptions.
3. No comment – well answered.
4. Candidates demonstrated poor understanding of the Class 1 NI rules for directors.
5. No comment – well answered.

### Question 4

Very pleasing set of answers to this group CGT question. Candidates generally showed a good understanding of the reliefs/calculations.

Good knowledge of roll over relief rules and proceeds not re-invested.

Only disappointing area was part 4 in relation to substantial shareholding exemption. Few showed any significant knowledge of conditions or even identified that this area was being examined.

### Question 5

Very few candidates answered this question, in general preferring computational questions. For the few that did answer the question the answers were very respectable with most the main methods of extracting monies from company. Candidates also showed that they had properly read the question and all the 'clues' contained therein.

## **PRINCIPLES OF LAW**

### Question 1

This was a straightforward question and on the whole was answered well by the candidates, although a proportion did not give examples as requested in the question, thereby losing the opportunity to score more highly.

### Question 2

The examiner was again surprised at how many candidates fail to write the answer in the required letter format, thereby losing the very easy marks allocated to the format. A significant number of candidates answered this well, however many candidates did not explain the factors they identified. For example, often candidates would say a factor would be "remuneration" without saying more (that the method of pay– monthly or by invoice was relevant). Again, on the whole this question was well answered by the majority.

### Question 3

1. Tax evasion and tax avoidance – generally answered very well and most students got nearly full marks. The point on concealment was the one missed.
2. Elements of a crime and burden of proof. Again good answers and full marks obtained by a lot of candidates. A few got *mens rea* and *actus reus* the wrong way round but marks were given for them anyway.
3. Professional Privilege. This was very badly answered and very few marks were achieved. Some students described professional privilege as benefits.
4. When confidentiality can be broken. In this part only a few marks were given. Most students talked about money laundering which was not what the answer was looking for at all. Only one mark was given for the mention of money laundering.
5. Overall those that chose this question did not get as many marks as on other questions.

### Question 4

1. Partners binding others – a very well answered question. Some could have expanded their answers and got full marks
2. New partners – most students got full marks
3. Retiring partners – again most students got full marks
4. Duties – this was the weakest part of this question but again nearly full marks were given in a lot of cases. This question was very well answered.

#### Question 5

1. Companies – this part was well done, although many candidates wasted time talking about administration and company procedures.
2. Veil of incorporation – some marks were achieved but this could have been better answered.
3. Limited by shares or guarantees – a few achieved full marks, and although some really did not understand the question, generally some marks were gained.

Overall the answer to this question was acceptable with most marks gained on part one.

#### Question 6

More variable in terms of quality of response. It appeared that a number of candidates who chose to answer this question had not revised the subject area. I suspect that it was a "last choice" question for many, although those who had studied it picked up good marks. A number of candidates listed the legal equitable and overriding interests without saying which was which! This cost them in terms of marks. Although many stated that overriding interests were not registered (part 1 of the question) very few carried that knowledge through to the answer to part 4 by mentioning that an inspection of the property and asking the owner who lived there was a relevant search (to identify such interests).

#### Generally

On the whole it was pleasing to see that the quality of scripts overall was higher than in previous diets, and that the perception (of this examiner at least!) is that candidates had prepared for the exam more thoroughly than before.

## **PRINCIPLES OF ACCOUNTING**

### **Question 1**

This question was attempted by virtually all candidates and around half of these candidates failed to obtain half marks. Common reasons for lost marks were:

- a) failing to include a bank account in part 1 of the question;
- b) failing to understand the difference in accounting terms between a bad debt & a doubtful debt; and
- c) incorrectly calculating the bad debt provisions.

### **Question 2**

Less than half of the candidates answered this question and the marks achieved were in the main disappointing due to the following failings:

- a) not actually answering the question. Too many candidates insisted on showing the double entries needed to record the transaction rather explaining how the transactions should be recorded;
- b) not understanding the difference between research expenditure & development expenditure.
- c) not appreciating the difference between a finance lease & an operating lease.

### **Question 3**

Generally this was reasonably well answered by candidates. A number of candidates seemed to lack an understanding of the format of a cash flow and in particular determining the starting point and accounting for taxation and dividends.



The written part of the question was the least well answered with many candidates explaining what a cash flow statement was rather than its importance.

#### Question 4

A popular question that was attempted by virtually all candidates. Overall the majority of candidates showed a good understanding of 'T' accounts and double entry and therefore scored very highly.

The calculation of depreciation and the double entry for bad debts caused the most problems.