Candidate Number					



#### **Association of Taxation Technicians**

## **Examination**

May 2007

### PAPER 2 - PART I

# BUSINESS TAXATION & ACCOUNTING PRINCIPLES

TIME ALLOWED – 3 HOURS (for Part I and Part II)

You are required to answer all questions in Part I and Part II (printed separately).

#### Part I

- You must write your answers in this booklet using the space provided under each question and complete your candidate number at the top of this page.
- Each question carries between two and four marks as indicated in brackets.
- It is expected that your answers will be in brief bullet point format or summary computations.
- It is not expected that you will require all of the space provided.

1.	Nina has recently started self-employment as a bookkeeper and her profits for tax purposes for her first period of trade from 1 March 2006 to 30 June 2007 (16 months) are £24,350.
	Calculate her assessable trading profits for 2005/06, 2006/07 and 2007/08 – you should clearly show the basis period for each tax year. What, if any, overlap profits are to be carried forward? (4)

2.	Your client purchased a new industrial building during their accounting year ended 31 March 2007, which was in use on the year-end date. The cost of the property includes land, administration offices and drawing offices. The main part of the cost is the factory cost. The property is not in an enterprise zone and is to be used in a qualifying trade.
	Advise your client of the claims that could be made for Industrial Buildings Allowance. (3)

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4. Hugh Slate is a self-employed builder and makes up his accounts to 31 March each year. He completed his own 2006 tax return and submitted it to HM Revenue & Customs on 30 September 2006. Hugh now discovers that he has understated his self-employed earnings by £1,000 due to an addition error in his books. This error will increase his tax liability by £300 (£220 Income Tax and £80 Class 4 National Insurance). He paid his 2005/06 liability of £1,322 along with the first payment on account for 2006/07 of £661 on 1 March 2007. HM Revenue & Customs received details of the additional profits and a cheque for £450 (being £300 for the additional tax and £150 for the additional payment on account) on 31 March 2007 and amended his return on 30 April 2007. Calculate any interest and penalties arising from the above. Assume a rate of interest of 5% on tax paid late.



7.	In June 2006, John Williams sold a piece of equipment for £20,000. He had purchased the asset in March 2003 for £15,000, and claimed capital allowances on the cost. The written down value of the pool for capital allowances at 1 April 2006 was £5,000. John makes up accounts to 31 March in each year and made no other disposals of assets during 2006/07.
	Show the calculation of the balancing charge for 2006/07 and the chargeable gain arising on the sale of the equipment. (2)
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8.	You have a company client who has a rare painting by the artist Rugrat in their boardroom. They acquired the painting for £3,000 earlier this month and one of the company's salesmen – who is a fan of the artist – wants to purchase the picture from them.							
	What	chargeable gain would arise on the sale of the painting to the salesman for:						
	1)	£5,900, or;						
	2)	£6,100? (3)						

9.	A trading company has sold its freehold offices and wishes to purchase workshop premises.
	Explain the conditions that must be met in order for the company to defer any chargeable gain arising on the disposal. (3)

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11.	Mary set up a tearoom and commenced trading on 1 June 2006. Mary estimates that her turnover will be £16,000 per month for the next twelve months.
	Based on Mary's estimated turnover, state the date by which she will be required to notify HM Revenue & Customs of her liability to be registered for VAT and the date from which her registration will take effect. Give a brief explanation of how you have arrived at these dates.
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12.	Matthew is registered for VAT. He charges his customers (both in UK and overseas) for postage and has asked whether he should charge VAT on the price including or excluding the postage costs.						
	Briefly explain the VAT treatment for postage costs charged to customers. (2)						

1 June 2006 1 April 2007 19 April 2007	Insurance for the year to 30 June 2007 Water charges for three months to 31 March 2007 PAYE for March 2007	£ 3,000 250 1,250
Its accounts are accountancy fe £1,500.	e made up to 31 March each year and you have been es for preparing the accounts for the year to 31 Mar	advised that the ch 2007 will be
	nals for accruals and prepayments in respect of the be adjusted in the accounts to 31 March 2007.	ne above items (4)

Topper Ltd has the following costs posted to its nominal ledger:

13.