Association of Taxation Technicians

Examination

May 2007

PAPER 2 – PART II

BUSINESS TAXATION & ACCOUNTING PRINCIPLES

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

- You are required to answer **all** questions in Part I (printed separately) and Part II.
- The maximum number of marks for each question in Part II is shown in brackets.
- For Part II, start each answer on a new sheet of paper.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.
- Marks are specifically allocated for good presentation.

1. Sally and Henry began to trade as a partnership on 1 October 2003, sharing profits equally. Their first accounts were prepared to 30 June 2004 and thereafter annually to 30 June.

   On 1 July 2005 they admitted Mark as a partner, sharing profits equally after salary deductions of £10,000 to both Sally and Henry.

   Henry left the partnership on 30 June 2006.

   The accounts showed the following profits:

	£
Nine months to 30 June 2004	36,000
Year ended 30 June 2005	60,000
Year ended 30 June 2006	110,000
Year ended 30 June 2007	90,000

   You are required to show the amounts assessable on each partner for the years 2003/04 to 2006/07 inclusive. (10)

2. Jerome Brown has completed his first year as a self-employed jobbing builder. He has prepared his own accounts and wants you to review these and complete his tax return. He informs you of the following matters:

   (a) Wages
   He has paid his young trainee a wage during the year. Modest wage payments for clerical duties have also been paid. The clerical wages are in respect of Brown's wife who, due to the demands of the couple's two small children, was unable to work at all in the year. Brown has also paid himself a weekly wage to cover his personal needs. All of these payments have been entered in the profit and loss account under expenses.

   (b) Capital items
   He has given you a list of equipment which has been included under 'repairs' in the expenses section of the profit and loss account. He expects that the economic life of these assets will be six years.

   (c) Home expenses and family motor car
   He has included the total cost of home telephone rental and calls and 50% of electricity and gas bills in the profit and loss account in the expenses section. He has also entered the running expenses of his family car in the profit and loss account. The telephone and car expenses have mainly business use, but there is no specific area of the house used as an office.

   (d) Restaurant bill
   During the year he nearly acquired a large contract from a property developer. Despite "wining and dining" this potential client he failed narrowly to secure the contract. The restaurant bill has been included as an expense under "promotional costs" in the profit and loss account.

   You are required to:

   1) State what, if any, changes should be made to the accounting treatment with regard to (a) and (b) above. (3)

   2) State what, if any, adjustments should to be made to the accounting profits for tax purposes with regard to (a) to (d) above. (7)

   3) Explain what capital allowance claims could be made, based on the above information. (2)

   Total (12)

3. Charger Ltd is a UK trading company, with no associated companies, and recently completed its accounting period 1 July 2005 to 31 December 2006 (18 months). Its new year-end date is 31 December. The results for the period are as follows:

	£
Trading profits before capital allowances	315,000
Profits from rental properties	22,500
Interest received from bank deposits (non-trade)	25,000
Chargeable gain	212,000
Dividends received from other UK companies	18,000
Gift Aid payment made to Oxfam	20,000

The following points should be noted:

1) The capital allowance general pool at 1 July 2005 stood at £39,000. No additions or disposals occurred during the period.

2) Rental profits accrued at £1,500 per month until 30 September 2006, when the property was sold.

3) Interest was credited to the company's deposit account half-yearly. £10,500 on 30 September 2005, £8,200 on 31 March 2006 and £6,000 on 30 September 2006. The amount accrued at 30 June 2005 was £6,000, at 30 June 2006 £3,000, and at 31 December 2006 £6,300.

4) The chargeable gain arose on 30 September 2006 from the disposal of the company's investment property.

5) The dividend was received on 31 July 2006.

6) No dividends were paid.

7) The Gift Aid payment was made on 31 March 2006.

You are required to:

1) Calculate the profits chargeable to Corporation Tax for each accounting period. (9)

2) Calculate the Corporation Tax liability for each accounting period. (4)

3) Outline the due dates for:

(a) submission of Corporation Tax returns, and;

(b) payment of Corporation Tax. (3)

4) Discuss what action the company should have taken under company law in respect of its change of accounting date. (2)

Total (18)

4. Kevin Johns is an electrician. He started trading on 1 January 2006, introducing his car into the business at a value of £5,000. He has asked you to prepare his accounts for the year ended 31 December 2006. You have been given the following balances as at 31 December 2006:

	Dr £	Cr £
Bank account	3,720	
Drawings	36,110	
Sales receipts		52,600
Bank interest received		320
Materials purchased	5,000	
Wife's wages for bookkeeping	2,600	
Motor running expenses	4,290	
Advertising	1,200	

You have also been given the following information:

Cost of new car purchased during the year	8,000
Sale proceeds of old car	4,680
Amounts due from customers at 31 December 2006	7,000
Amounts due to suppliers at 31 December 2006	3,000
Stock of materials at 31 December 2006	1,200

Advertising expenses represents a payment made on 1 July 2006 for advertising for the year to 30 June 2007 in Yellow Pages.

Kevin is not registered for VAT.

Kevin has agreed that motor vehicles should be depreciated at 25% on a reducing balance basis. A full year's charge will be made in the year of purchase, but no depreciation is charged in the year of sale. Both the sale of the old car and the purchase of the new car were passed through his private bank account.

You estimate that your fees for preparing the accounts will be £400 plus VAT.

Kevin has taken £36,110 out of the business as his 'wages' and assumes that he will pay tax on this amount.

You are required to:

1) **Show the entries in the 'T' accounts in respect of the introduction, purchase and sale of the motor vehicles.** (3)

2) **Prepare the profit and loss account for the year ended 31 December 2006.** (8)

3) **Prepare the balance sheet as at 31 December 2006.** (6)

4) **Briefly explain to Kevin the basis of calculating assessable profits and why there is a difference between the assessable amount for tax purposes and the amount of his drawings. You are not required to show any calculations.** (3)

Total (20)