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## Association of Taxation Technicians

## Examination

May 2008

## 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.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise

1. An individual has yet to notify HM Revenue \& Customs of his chargeability to Income Tax.
1) Explain the time limits for notification and penalties for late notification of chargeability to Income Tax.
2) How would your answer differ if the person were a limited company paying Corporation Tax?
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2. Sibley Ltd makes its accounts up to 31 March each year. It has been dormant for a number of years but commenced trade on 1 August 2007. On this date the company moved into a new industrial building which had a qualifying cost for Industrial Buildings Allowance of $£ 222,000$.
1) Calculate the Industrial Buildings Allowance for the accounting period ended 31 March 2008.
2) If Sibley Ltd were to dispose of the building, briefly describe the balancing adjustment position as it would affect the seller and buyer following the Finance Act 2007 (you are not required to carry out any calculations).
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3. Harry was born on 18 June 1934 and has been married to Jemima for over twenty years. Jemima was born on 20 October 1960. Harry's only income is from his selfemployment as a carpenter and joiner. In the year ended 5 April 2008 he had taxadjusted profits of $£ 26,000$. Jemima had no income in 2007/08 apart from a wage of $£ 780$ from Harry's business.
1) Calculate Harry's Income Tax liability for 2007/08.
2) Briefly outline Harry's liability to National Insurance.
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4. Phillip Parks provides legal services to his ex-employer through his company, Parks Legal Services Ltd. He receives a small director's salary and substantial dividends from his company.
1) Briefly explain when an engagement will be caught by the personal service company legislation.
2) Briefly outline the consequence for Phillip if his engagement is considered to be within the personal service company legislation.
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5. Explain what is meant by the term "notional loss" in a partnership profit and loss allocation. How, under tax law, do you deal with a notional loss?
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6. Value Added Tax is charged on taxable supplies of goods and services made in the UK by a taxable person in the course or furtherance of any business carried on by him.

How does the place of supply differ between goods and services? (2)
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## Use the following information for questions 7 and 8

Lazarus Ltd sells only one product, a mini widget. The company prepares monthly management accounts, which include an accurate month-end stock adjustment. During the month of February 2008 the following information on stock purchases and sales is available:

## Transactions during the month (per purchase and sales invoices) as goods received and dispatched.

| 1 February 2008 | 750 units costing $£ 10$ each | Brought forward |
| :--- | :--- | :--- |
| 10 February 2008 | 1,000 units costing $£ 11$ each | Purchased |
| 15 February 2008 | 500 units costing $£ 12$ each | Purchased |
| 27 February 2008 | 1,250 units sold for $£ 25$ each | Sold |

Stock was physically counted on 28 February and 1,600 mini widgets were recorded. A purchase invoice dated 3 March 2008 for 600 units costing $£ 13$ each which were received on 26 February 2008 had not been included in the February purchase invoices.

## 7. Calculate the value of the stock at 28 February 2008 using the FIFO basis (show your workings clearly).

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9. Givens Ltd acquired a new warehouse on 1 April 2007 for $£ 450,000$. As the warehouse is in an area of special economic need, the government paid the company a grant of $20 \%$ of the acquisition costs to assist them with their purchase. The company makes its accounts up to 31 March each year and has a $2 \%$ per annum straight-line basis depreciation policy on its buildings.

## Show the ' $T$ ' account entries in the:

1) Grant account - deferred income (balance sheet); and
2) Grant income (profit and loss account).
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10. Janet Morgan has spent a number of years preparing for her new business as an advertising consultant. She has spent a considerable amount on expenses getting things ready for the start of business on 1 April 2008. She wants to know if these expenses will be allowed for taxation purposes, and if so, how?

Outline the Income Tax rules for pre-trading expenses.
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11. Explain the authority of a partner to make contracts on behalf of a partnership. How does this differ from the authority of a shareholder to make contracts on behalf of a limited company?
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12. A member of the Association of Taxation Technicians may have a particular lien (Scots Law-special lien) over documents belonging to a client in respect of which he has performed work for which he has not been paid the fee due.

What are the conditions that need to be met if a right of particular lien (Scots Law - special lien) is to exist?
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13. Resolutions are passed by shareholders at meetings of the company. An ordinary resolution dealing with such matters as the adoption of accounts, would need a 14-day meeting notice period and a simple majority (over 50\%) vote. Other resolutions are extraordinary, special and elective.

For each of the other three resolutions, give an example of the type of matters resolved, the notice period required and the majority needed to pass the resolution.
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