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## Association of Taxation Technicians

## Examination

May 2008

## PAPER 3 - PART I

## BUSINESS TAXATION:

HIGHER SKILLS

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. Felix Ltd is a medium sized company which has traditionally drawn up accounts to 30 June of every year. After the preparation of the accounts to 30 June 2007 it was decided, for commercial reasons to shorten the next period of account to 29 February 2008.

In this period the company incurred expenditure of $£ 20,000$ on plant, (which includes $£ 5,000$ on machinery that will be leased to a third party), and $£ 10,000$ on a car registered on 1 January 2008 which emits $115 \mathrm{~g} / \mathrm{km}$ of $\mathrm{CO}_{2}$. In addition the company sold a piece of equipment for $£ 5,000$ which had originally cost $£ 4,000$.

The tax written down value on the pool was $£ 47,000$ at 1 July 2007.
Calculate the capital allowances for the period ended 29 February 2008.
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2. Ms Plenty is employed by J B Enterprises at a salary of $£ 25,000$ per annum. Ms Plenty also operates in a self-employed capacity and had taxable trading profits of $£ 30,000$ in 2007/08.

Calculate Ms Plenty's maximum Class 4 National Insurance liability for 2007/08.
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## 3. A farmer can value a production herd on the herd basis if he so elects.

1) Define a production herd.
2) Explain how the cost, any replacements and the sale of mature animals are treated if an election for the herd basis is made.
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4. Dominic bought a factory on 1 January 2000 and used it in his business until 31 March 2000. The factory was then let out to an unincorporated trading business until it was sold on 1 January 2008.

The property was acquired for $£ 125,000$ with further expenditure of $£ 75,000$ on 1 July 2005. The building was sold for $£ 800,000$.

Calculate the chargeable gain.
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5. VAT 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/her.

Briefly explain the difference between standard rated, zero rated and exempt supplies.
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6. A company may form part of a Corporation Tax group relief group. In addition a company may also form a part of a chargeable gains group.

Define the terms 'group relief group' and 'chargeable gains group'.
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7. Stephen, a tax senior, is preparing the computation of trading profits for the year ended 31 March 2008 for the company, Fran Manga Ltd. Fran Manga Ltd commenced trading on 1 April 2007. Accounting profits for the year amounted to $£ 150,000$ inclusive of the following transactions:

Dividends received from Khan Ltd
£
10,000
Advertising costs promoting the business incurred in December 2006 2,500

Depreciation 5,000
Diaries to customers which cost $£ 65$ (per donee), bearing the name "Fran Manga Ltd" 2,600

Employee loan written off in period 1,400

Chargeable gain

10,000

In addition, capital allowances amount to $£ 30,000$.
Calculate the Schedule D Case I profits for the period to 31 March 2008.
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8. Termination payments, ex-gratia payments and redundancy payments can be made by an employer to an employee.

State how these payments are treated for tax purposes in respect of the employer.
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9. Mr Smallbear started up his own business manufacturing honey pots, making up his accounts to 30 September each year. Previous to his self-employment, Mr Smallbear was employed as a production manager at a local factory until 5 April 2005 and then took a business course at the local college until 31 December 2005.

His income from employment was as follows:

## £

2002/03 25,000
2003/04 26,000
2004/05 30,000
His trading results were as follows:

Nine months to 30 September 2006 Year to 30 September 2007

## £

$(9,000)$
$(6,000)$

Assuming loss relief is claimed under s. 72 ITA 2007 (formerly s. 381 ICTA 1988) calculate his net income for 2002/03 to 2007/08.
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10. Fleming Ltd, a small company, has prepared a long period of accounts for the period 1 October 2006 to 31 December 2007. Julius is preparing the Corporation Tax returns for the period.

## You are required to state:

1) The periods that will be covered by the Corporation Tax returns.
2) The filing dates for those returns.
3) When the Corporation Tax liability will be due.
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11. Mr Draks prepares accounts to 31 December of every year. The accounts at 31 December 2007 show debtors of $£ 27,000$ of which $£ 2,000$ arising from Mr Goodfellow is considered irrecoverable. In addition Mr Draks is doubtful whether $5 \%$ of the remaining balance will ever be paid.

The bad debt provision at 31 December 2006 was $£ 2,000$.

1) Record the above entries in the ' $T$ ' accounts for debtors, provision for doubtful debts and bad debts.
2) Show the balance sheet extract in respect of debtors at 31 December 2007.
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12. An asset was purchased for $£ 9,000$. It has an estimated useful life of four years and an estimated residual value of $£ 1,000$. It is depreciated on a straight line basis.
1) Calculate the annual depreciation charge.
2) State the net book value at the end of year two.
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13. Auric has just purchased a new vehicle for $£ 22,000$ having part exchanged his old vehicle and paid a balance of $£ 9,000$. The original vehicle had cost $£ 18,000$ and had accumulated depreciation of $£ 3,500$.

## Show the journal entries in debit/credit format in respect of the disposal of the original vehicle.

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