

Candidate Number			



**Association of Taxation Technicians**

## **Examination**

May 2008

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### **PAPER 3 – PART I**

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### **BUSINESS TAXATION: HIGHER SKILLS**

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

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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 115g/km of CO<sub>2</sub>. 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. (3)**

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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.** (3)

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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.** (2)

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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. (3)**

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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	(9,000)
Year to 30 September 2007	(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. (3)**

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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. (3)**

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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.**  
(4)

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