
Taxation I

Republic of Ireland

1st Year Examination

August 2010

Paper, Solutions & Examiner's Report



NOTES TO USERS ABOUT THESE SOLUTIONS

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There are often many possible approaches to the solution of questions in professional examinations. It should not be assumed that the approach adopted in these solutions is the ideal or the one preferred by us. Alternative answers will be marked on their own merits.

This publication is intended to serve as an educational aid. For this reason, the published solutions will often be significantly longer than would be expected of a candidate in an examination. This will be particularly the case where discursive answers are involved.

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Accounting Technicians Ireland
1st Year Examination: August 2010 Paper
TAXATION I (Republic of Ireland)

Thursday 19th AUGUST 2010 - 9.30 p.m. to 12.30 p.m.

INSTRUCTIONS TO CANDIDATES

PLEASE READ CAREFULLY

For candidates answering in accordance with the law and practice of the Republic of Ireland.

Candidates should answer the paper in accordance with the appropriate provisions up to and including the Finance Act 2009. The provisions of the Finance Act 2010 should be ignored.

Allowances and rates of taxation to be used by candidates are set out in a separate booklet supplied with the examination paper.

Answer ALL THREE questions from SECTION A. Answer ANY TWO of the three questions from Section B. If more than TWO questions are answered in Section B, then only the first two questions, in the order filed, will be corrected.

Candidates should allocate their time carefully.

All workings should be shown.

All figures should be labelled as appropriate e.g. €, units etc.

Answers should be illustrated with examples, where appropriate.

Question 1 begins on Page 2 overleaf.

The following inserts are enclosed with the paper:

- **Form P9/P11 [Tax Deduction Card] (QUESTION 1)**
- **Multiple choice Answer Sheet (QUESTION 3)**
- **Tax Reference Material**

Answer ALL THREE questions in this section**QUESTION 1** (*Compulsory Question*)

You have been asked to manage the payroll system of AMQ Ltd. Details regarding two employees are as follows:

Stacey Mitchel

Stacey has been employed by AMQ Ltd. for a number of years. Details of her monthly salary and deductions for the months January to October 2009 are as follows:

	€
Salary	3,600.00
<i>Less</i>	
Pension contribution	180.00
Savings club deduction	<u>400.00</u>
	3,020.00

The tax deduction card used for the calculation of take home pay in months 1 to 10 showed a monthly tax credit of €356 and a standard rate cut off point of €3,150.

For month 11 Stacey received a pay increase and the revised details of salary and deductions are as follows:

Salary	3,780.00
<i>Add</i>	
Savings club refund	<u>4,000.00</u>
	7,780.00
<i>Less</i>	
Pension contribution	<u>190.00</u>
	7,590.00

In addition to the pay increase from the 1st November 2009, Stacey was given a company car and the annual benefit in kind has been calculated at €5,040.

The enclosed tax deduction card was received in time for the calculation of the wages for month 11 of the 2009 tax year.

Barry Fitzmaurice

Barry is a director of AMQ Ltd. and is paid weekly. Details regarding his income and deductions for week 48 of the 2009 tax year are as follows:

	€
Salary	1,550.00
<i>Add</i>	
Payment for business expense based on receipt supplied	<u>800.00</u>
	2,350.00

In addition to the above Barry has an interest free loan from the company since 1st January 2009 amounting to €10,400. The money was used by Barry to finance the purchase of a new car.

Barry's weekly tax credit is €80.50 and his weekly cut off point is €873.00. Tax is calculated on a week one basis.

PRSI Class S applies to Barry.

QUESTION 1 (*Cont'd.*)**Requirement**

(a) Compute Stacey's take home pay for month 11 of the 2009 tax year and complete the tax deduction card (form P9/P11).

12 Marks

(b) Compute Barry's take home pay for week 48 of the 2009 tax year.

8 Marks**Total 20 Marks**

N. B. Form P9/P11 is supplied with the examination paper for the purposes of answering this question.

Clearly show all your workings.

QUESTION 2 (*Compulsory Question*)

You are employed by a firm of Chartered Accountants and have been asked to draft a letter to a client regarding the following matters:

(a) The due date for submission and the content of the following end of year forms:

(i) Form P35.

(ii) Form P60.

6 marks

(b) The term 'exempt individuals' as it applies to income tax.

6 marks

(c) Relief for bad debts in respect of VAT. You are requested to refer to the position for clients who account for VAT on a cash receipts basis and also on an invoice basis.

8 marks**Total 20 marks**

QUESTION 3 (Compulsory Question)

The following multiple-choice question consists of TEN parts, each of which is followed by FOUR possible answers. There is ONLY ONE right answer in each part.

Requirement

Indicate the right answer to each of the following TEN parts.

N.B. Each part carries 2 marks

Total 20 Marks

Candidates should answer this question by ticking the appropriate boxes on the special green answer sheet, which is supplied with the examination paper.

[1] ABC Ltd. accounts for VAT on a cash receipts basis. The following information was extracted from the records for the May/June 2009 VAT period: Invoices issued to credit customers €89,700, money collected from debtors €78,900, cash sales €24,000. If the VAT rate on sales is 21.5%, the VAT due on sales for the May/June VAT period amounts to:

- (a) €13,962
- (b) €15,873
- (c) €18,209
- (d) €20,120

[2] Philip, a citizen of France, came to Ireland in 2009 and commenced employment in week 34 of the 2009 tax year. He was unfamiliar with the Irish tax system and did not apply for a PPS number. If Philip earned €400 in week 34, the amount of PAYE deducted from his salary for the week would amount to:

- (a) €44.00
- (b) €128.00
- (c) €80
- (d) €164

[3] Maureen, aged 34 years and single, has been living in rented accommodation for a number of years. In the 2009 tax year she paid rent amounting to €4,650. Upon making the appropriate claim to the Revenue, Maureen's tax liability for the 2009 tax year will be reduced by:

- (a) Nil
- (b) €400
- (c) €800
- (d) €820

[4] PQT Ltd. accounts for VAT on a cash receipts basis. In the Nov/Dec 2009 VAT period, the company received an invoice for €18,225, which is VAT inclusive at the 21.5% rate, in respect of goods purchased for resale. This invoice was paid in February 2010. PQT Ltd. will claim a VAT input credit on this transaction:

- (a) amounting to €3,225 in the Nov/Dec VAT period.
- (b) amounting to €3,225 in the Jan/Feb VAT period.
- (c) amounting to €3,918 in the Nov/Dec VAT period.
- (d) amounting to €3,918 in the Jan/Feb VAT period.

QUESTION 3 (Cont'd.)

- [5]** Tom and Sheila are married and both aged 67 years. In the 2009 tax year they earned a total of €43,000 and had tax credits amounting to €5,490. The total income tax liability for the 2009 tax year amounts to:
- (a) Nil
 - (b) €1,200
 - (c) €3,110
 - (d) €8,600
- [6]** Alex is an employee of VVF Ltd. and in the period to week 48 of the 2009 tax year he earned €76,000. For week 49 Alex earned €1,850 and this figure included an assessable BIK amounting to €70. For week 49 of the 2009 tax year Alex will pay PRSI and Health Contributions amounting to:
- (a) €74.00
 - (b) €92.50
 - (c) €146.99
 - (d) €78.07
- [7]** For the 2009 tax year Sheila was an employee of RTY Ltd. and earned €40,000. She has two children: Philip aged 12 years and Stacey aged 4. Sheila's husband Paul died on the 13th June 2008. For the 2009 tax year, Sheila's tax credits will total:
- (a) €3,660
 - (b) €5,490
 - (c) €7,660
 - (d) €9,490
- [8]** RTQ Ltd. introduced a new product on the market and invited a number of journalists to a trade show where the product was launched. The costs associated with launching the product included €2,350 spent on providing a meal and drinks to the journalists following the trade show. The invoice received in respect of this expenditure shows VAT charged of €350. RTQ Ltd. will not be in a position to claim a VAT input credit in respect of this expenditure because:
- (a) VAT on expenditure referring to new products is not reclaimable.
 - (b) VAT on entertainment expenses is not reclaimable.
 - (c) The launch of a new product is an exempt transaction.
 - (d) None of the above.
- [9]** In week 8 of the 2009 tax year, ATI Ltd. paid an employee €600 wages and a bonus of €800 in respect of the year ended 31 December 2008. If the employee had a tax credit of €70.50 and a standard rate cut off point of €703 on a week 1 basis, the PAYE to be deducted for week 8 would amount to:
- (a) €49.50
 - (b) €209.50
 - (c) €355.87
 - (d) €503.50

QUESTION 3 (*Cont'd.*)

[10] Jimmy has been a milkman for a number of years and is registered for VAT. His business activity has been declining over a number of years and in the last 12 months his turnover from the sale of milk amounted to €60,000. With regards to VAT Jimmy:

- (a) can deregister as his turnover is below the limit for VAT registration.
- (b) must deregister as the sale of milk is a zero rated activity.
- (c) must deregister as the sale of milk is an exempt activity.
- (d) can elect to charge VAT at 13.5% on the sale of milk.

SECTION B**Answer TWO of the three questions in section B****QUESTION 4**

Judy aged 31 years is married to Patrick aged 39 years. Details of income and outgoings for the 2009 tax year are as follows:

<i>Judy</i>	€
Wages from IIMN Ltd. (excluding assessable benefit in kind)	56,500

In October 2009, Judy and Patrick had to leave their private residence because of a fire. For the six months to the end of March 2010, the family moved to a house that was owned by IIMN Ltd. The house was bought by the company in 2000 for €175,000 and now has a market value of €300,000. No rent was charged to Judy for the six month period.

	€
PAYE deducted in 2009	10,340

On the 1st March 2009 Judy purchased a commercial premises for renting. The premises was let from the 1st August 2009 at a monthly rent of €1,500 payable in advance on the 1st day of each month. Judy took out a loan to assist in the purchase of the premises and the interest paid on this loan for the period March to December 2009 amounted to €4,800.

In 2009 Judy earned interest in respect of monies she had on deposit with the credit union and Big Bank Plc. The interest she earned with the credit union was paid gross without any D.I.R.T. being deducted and amounted to €96. The interest she received from Big Bank Plc amounted to €77 and this was received net of D.I.R.T. at 23%.

Patrick

Self employment

Patrick commenced self employment as a plumber on the 1st February 2009. He was anxious to see how his business performed in the first six months and prepared accounts for the period to the 31st July 2009. He then decided to keep the 31st July as his year end. Details of assessable Case I profit per accounts are as follows:

	€
Period ended 31 st July 2009	12,900
Year ended 31 st July 2010	22,200

Dividends received from ABC Plc

In March 2009 Patrick received a dividend of €204 in respect of the year ended 30th September 2008.

In March 2010 a dividend of €144 was received in respect of the year ended 30th September 2009.

The amounts received were net of Dividend Withholding Tax at 20%.

QUESTION 4 (Cont'd.)*Outgoings*

Judy and Patrick have four school going children. In 2009 medical bills mounted up and a total of €1,855 was paid. These bills have been analysed as follows:

	€
Visits to the family doctor	650
Cost of prescriptions at the local chemist	375
Hospital visit for a scan	250
Visits to the dentist for dental check up and polishing of teeth	360
Physiotherapy on the advice of the family doctor.....	120
Visits to the optician for eye testing.....	<u>100</u>
Total	1,855

Judy and Patrick were not entitled to any assistance in the paying of these bills.

In 2009 Patrick contributed €5,000 to a Revenue approved pension policy.

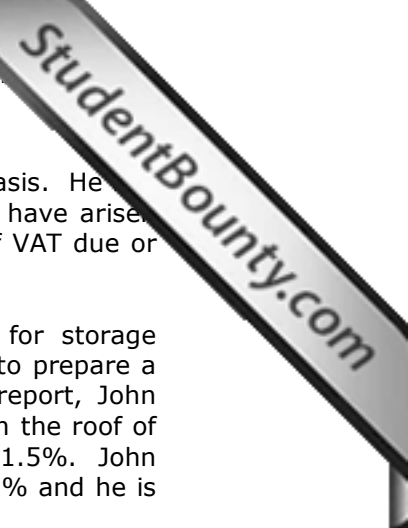
Judy is a member of a trade union and paid €400 in union subscriptions in the 2009 tax year.

Requirement

Prepare Judy and Patrick's Income Tax computation for 2009 on the basis that joint assessment applies.

Total 20 Marks

N. B. For the purposes of answering this question ignore PRSI and Levies.



(a) John is registered for VAT and accounts for VAT on a cash receipts basis. He has asked you to explain the VAT treatment of a number of issues that have arisen during the Nov/Dec 2009 VAT period and to calculate the amount of VAT due or refundable for the period.

1. John was considering the purchase of a warehouse to be used for storage purposes for his business. He engaged the services of an engineer to prepare a report on the premises that was offered for sale. Following the report, John decided not to purchase the warehouse as there was a major fault in the roof of the building. The engineer submitted a bill for €1,000 plus VAT at 21.5%. John has not recorded the invoice as he feels the VAT rate should be 13.5% and he is unsure how to proceed.
2. In December 2009, John advertised a machine for sale in the local newspaper. The machine is surplus to requirements and John hopes he will get approximately €3,500 when it is sold. An invoice has been received for the advertisement dated 20th December but not payable until the 20th January 2010. The invoice from the newspaper regarding the advertising shows a charge of €100 VAT exclusive plus VAT at 21.5%.
3. In July, John purchased three new computers for the office. The cost of the three computers was €3,645 VAT inclusive at 21.5%. In November, John decided that one of the computers was surplus to requirements and he moved the computer to his private house where it is being used by his children for educational research.
4. John imported goods for resale from China which cost €20,000. When the goods were delivered to Dublin Port John had to pay €4,300 VAT before the goods were released by the customs authorities. It was explained to him that this is referred to as 'VAT at the point of entry'.
5. John has had a problem with one customer who refused to pay. Following discussions with his solicitor John has now decided that it is pointless pursuing the issue any further and the amount owing of €4,860 (VAT inclusive at 21.5%) has now been written off as a bad debt.

None of these transactions have been recorded as John is waiting for advice from you regarding the VAT implications of each transaction.

QUESTION 5 (Cont'd.)

The following summary information has been extracted from the records kept by John.

Purchases Book

Total	For Resale	Not For			VAT
		Resale			
	21.5%	21.5%	13.5%	Zero%	
€	€	€	€	€	€
103,874		13,800	2,800	290	18,070
	69,000				

The cross totals and VAT calculations do not agree and following investigation you discover the following errors:

- (i) An invoice not for resale shows the VAT exclusive cost as €200 plus VAT of €43. This was recorded as €200 in the total column, €243 in the 13.5% column and €43 in the VAT column.
- (ii) An invoice was received in respect of goods for resale purchased in the UK. The invoice showed the VAT exclusive cost of the goods as St£3,000 and VAT of St£525 was charged. John recorded the transaction in the purchases book as follows: Total €3,525; for resale at 21.5% €3,000 and VAT €525. You discover that the cost of the goods when paid for amounted to €3,900.

John has requested a brief explanation regarding the correction of the errors made in the purchases book.

Sales Book

Invoices are written for all sales to credit customers. These invoices are recorded in the sales book and the totals for November and December are as follows:

Month	Total €	VAT Excl €	VAT at 21.5% €
November	43,011	35,400	7,611
December	38,637	31,800	6,837

QUESTION 5 (Cont'd.)**Cash Book**

A summary of the totals for November/December per the cash book has been extracted.

	€		€
Bank Loan	10,000	Sundry expenses	1,500
Cash sales	36,800	Drawings	8,400
Receipts form debtors	81,500	Bank Lodgements	121,900
Bounced cheque dated 14 th	3,500		
November relodged			
Total	131,800	Total	131,800

The bounced cheque was originally lodged on the 14th November and relodged on the 18th December. The amount of €3,500 was received in respect of cash sales.

Following discussions with John you are made aware of the fact that €4,000 taken from cash sales has been paid to John's wife as wages and not recorded in the cash book.

Requirement

Write a letter to John explaining your treatment of the items identified above and quantify the amount of VAT payable/refundable for the November/December VAT period.

Total 20 marks

Leona Burke has owned a boutique for a number of years. She has prepared accounts for the year ended 31 July 2009 and these are reproduced below:

	Notes	€	€
Sales			432,596
Cost of sales			<u>305,156</u>
Gross Profit			127,440
<i>Other income:</i>			
Discount received		560	
Rental income		<u>5,680</u>	
			<u>6,240</u>
			133,680
<i>Less:</i>			
Depreciation		1,560	
Interest and charges	(1)	5,235	
Entertainment and marketing	(2)	3,160	
Rent of storage area	(3)	1,890	
Commission	(4)	1,930	
Motor expenses.....	(5)	8,590	
Repairs	(6)	2,571	
Wages and salaries.....	(7)	59,554	
Telephone	(8)	2,248	
Casual wages.....	(9)	2,286	
Advertising and promotional costs		(10)	3,280
Sundry expenses – all allowable			<u>2,200</u>
			<u>94,504</u>
Net profit/(loss)			39,176

NOTES

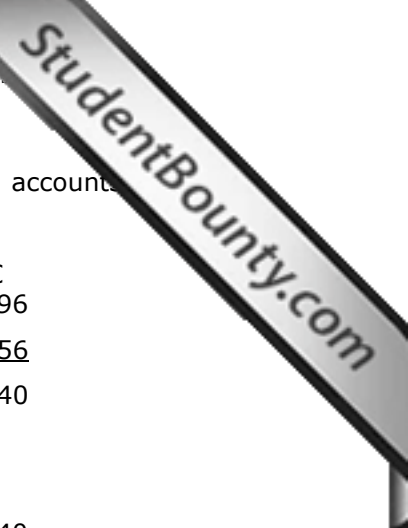
(1) <i>Interest and charges</i>	€
Term loan interest	1,510
Bank charges	120
Credit card charges	1,810
Mortgage interest	<u>1,795</u>
	5,235

The term loan interest is in connection with a loan used to finance the cost of improvements made to a rented property.

The bank charges were incurred on the business bank account.

During the year Leona installed a machine in the boutique for accepting receipts by credit and laser card. The cost of this machine amounted to €800 and the balance charged represents a commission charge levied by the bank based on the volume of transactions.

The mortgage interest refers to Leona's private residence.



QUESTION 6 (Cont'd.)

(2) <i>Entertainment and marketing</i>	€
Lunches with customers and suppliers.	850
Foreign trip	1,250
Printing	<u>1,060</u>
	3,160

Leona estimates that 70% of the cost of lunches refers to customers and suppliers, while her share is approximately 30%. She feels the expense is worthwhile as goodwill is generated with customers and suppliers.

The foreign trip refers to a visit to Paris by Leona and the boutique manager to negotiate contracts regarding new designs. The cost of this trip includes €250 for meals.

Brochures were printed regarding new designs received. An error was made in the number ordered and only 60% of the brochures were used. The balance was scrapped.

(3) *Rent of storage area*

The storage area was rented from the 1st February 2009. The amount paid of €1,890 represents the rent due for the year ended 31 January 2010.

(4) *Commission*

Employees are paid a commission based on achieving targeted sales. The commission earned by employees for the months of June and July 2009 was not paid by the accounts year end and amounts to €900. This was paid in August 2009 and is not included in the figures above.

(5) <i>Motor Expenses</i>	€
Car insurance and motor tax	1,250
VRT on the importation of a car from the U.K.	4,560
Running expenses	2,430
Legal fees	<u>350</u>
	8,590

Leona travelled 35,000 kilometres during the year. The private kilometres travelled amounts to 10,500 kilometres.

During the year a car was imported from the UK at a cost of St£20,000. When the car was registered with the Revenue authorities a VRT charge of €4,560 was paid.

Running expenses includes €330 paid to an employee who uses her car for collecting stock from a supplier. The amount paid was in accordance with civil service mileage rates.

During the year an employee was injured in a car accident on the way to a trade show. The legal fees were incurred when seeking advice regarding the liability of the business for the injuries sustained in the crash.

QUESTION 6 (Cont'd.)**(6) Repairs**

€

Replacement of damaged window	1,300
Repairs to rented holiday home	850
Repairs to shop fittings	<u>421</u>
	2,571

The damage to the window was covered by insurance and Leona received €1,000 from the insurance company in August 2009. The amount due from the insurance company was not recorded in the accounts for the year ended 31 July 2009.

(7) Wages and salaries

€

Wages to family	5,550
Drawings taken by Leona	24,560
Lump sum for sundry expenses	1,500
Employee wages and PRSI	<u>27,944</u>
	59,554

Leona's son Mark, aged 16 years, helps out in the shop at weekends and during the summer holidays. Leona feels it is better to pay him a wage for working rather than giving him pocket money. She was unaware that PAYE/PRSI should have been calculated on the wages paid and has now been informed that €600 is due to the Revenue. This figure includes an estimate of €120 in respect of interest due on late payment. No account of the amount due to the Revenue has been included in the accounts.

The lump sum was taken by Leona to cover incidental costs she might have incurred during the year. She thinks she might have spent some money from her own personal bank account on business expenses.

(8) Telephone

€

Staff telephone calls	450
Purchase of new mobile telephones for staff	400
Land line calls	<u>1,398</u>
	2,248

Land line calls are in respect of shop and home telephones. The figure of €1,398 includes €600 in respect of Leona's home telephone. 40% of the calls from the house are business related.

(9) Casual wages

Leona has been spending more and more time working in the business as trading conditions have deteriorated. In January 2009, she engaged the services of a part time staff member to look after domestic duties in her private house. The amount above refers to the wages paid to this staff member and includes PAYE/PRSI of €400.



QUESTION 6 (*Cont'd.*)

(10) *Advertising and promotional costs*

Included in this figure is an amount of €1,500 in respect of the purchase of display stands for use at fashion shows.

Requirement

Compute Leona's Schedule D, Case I tax adjusted profits for the year ended 31 July 2009.

Total 20 Marks



1st Year Examination: August 2010

Taxation I ROI

Suggested Solutions

Students please note: These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

Question 1

Stacey Mitchel

			Month 1	10 months
Salary			3,600	36,000
Pension			180	1,800
Taxable			3,420	34,200
	3150.00	20%	630.00	
	270.00	41%	110.70	
	3420.00		740.70	
Tax				
Credit			356.00	
			384.70	3,847

			Month 11
Salary			3,780
Pension			190
BIK	€5,040/12		420
Taxable			4,010

Class A1			
PRSI Employee			
550.00	4%		22.00
3460.00	8%		276.80
4010.00			298.80

PRSI Employer			
4010.00	10.75%		431.08

Total			
PRSI			729.88

Income Levy			
4200.00	2%		84.00

Question 1*(Cont'd)*

Tax per TDC	816.90
Take Home Pay	
PAY	3,780.00
Less Pension	190.00
	3,590.00
Less	
PRSI	298.80
Less Income Levy	84.00
Less TAX	816.90
	2,390.30
Add Savings club refund	4,000.00
	6,390.30

Barry Fitzmaurice**Week 48**

Salary	1,550
BIK	25
(10,400 * 12.5% / 52)	1,575

873.00	20%	174.60
702.00	41%	287.82
1575.00		462.42
Tax Credit		80.50
		381.92

Class S1

PRSI Employee

1443.00	7%	101.01
132.00	8%	10.56
1575.00		111.57

Income Levy

1443.00	2%	28.86
132.00	4%	5.28
		34.14

Take Home Pay

PAY	1,550.00
Less PRSI	111.57
Less Income Levy	34.14
Less TAX	381.92
	1,022.37
Plus expenses	800.00
	1,822.37

Question 2

Ms. Sarah Client,
A Street,
A Town

Tax Consultants
Next Street,
B Town

20th August 2010

Dear Sarah,

I am responding to your request for information regarding the due date and content of Revenue forms, the term exempt individuals and relief for bad debts.

(a) (i) Form P35

A completed form P35 contains a summary of the total deductions from employees for the tax year. The summary contains details of total amounts deducted in respect of tax, income levy and PRSI. It also contains details of total PRSI (employer and employee). The form P35 compares the total amount of Tax and PRSI due for the year with the amount paid during the year. The balance represents the amount to be paid on submission of the form P35 (or a claim for a refund).

By using form P35 the Revenue Commissioners can ensure that the employer has paid over the correct amount of tax and PRSI/Levies deducted throughout the year.

The due date for submission of form P35 (together with form P35L) is the 14 February following the end of the tax year.

(a) (ii) Form P60

When an employer completed the form P35 for the tax year they will also complete a form P60 for each employee who is in their employment at the end of the tax year.

This form shows details of total taxable pay tax deducted, employee PRSI/Levies, employer PRSI, total PRSI and details of PRSI class applicable during the tax year.

The details contained in the form P60 should match the details included in the P35L submitted to the Revenue Commissioners for that employee.

The form P60 can be used by the employee as evidence of earnings for both the Revenue Commissioners and also for other purposes such as application for loan approval and Social Welfare claims.

Between the 1 January and the 15 February the employer is obliged to give to each employee who was in their employment on the previous 31 December a form P60.

(b) Exempt individuals as it applies to Income tax

An individual is exempt from Income Tax if they are over 65 years of age and their total income does not exceed €20,000 in the 2009 tax year. For a married couple where at least one person is aged over 65 years the income limit is €40,000.

These limits are increased by €575 for each of the first two dependent children and €830 for each other child.

Marginal relief could apply where the income exceeds the specified limit.

(c) Relief for bad debts in respect of VAT

Where a trader has invoiced a customer and the customer fails to pay the invoice, the action required will depend on whether the trader pays VAT on an invoice or cash receipts basis.

Question 2 (Cont'd)**Invoice Basis**

Where the invoice basis applies the trader will have paid the VAT by reference to the date the invoice was issued. As he is now writing off this amount, on the basis that payment will never be received, he is entitled to claim back the VAT content of the invoice previously paid over to the Revenue. If the bad debt is subsequently recovered, the VAT must be paid to the Revenue at that time.

Cash Receipts Basis

Where a trader accounts for VAT on a cash receipts basis he does not make any VAT adjustment for bad debts as he will not have paid any VAT to the Revenue in respect of the invoice being written off as bad. If the bad debt arises because the cheque for payment bounced when lodged then adjustment for VAT may have to be made. This will arise if the VAT due on cash receipts has been paid to the Revenue.

Please feel free to contact me if you have any further queries.

Yours faithfully,

Student



Question 3

- [1] C
- [2] D
- [3] B
- [4] A
- [5] B
- [6] D
- [7] D
- [8] B
- [9] C
- [10] A

Question 4**Judy and Patrick
Income Tax Computation 2009**

Judy			€	
Sch E	Salary		56,500	
	BIK			
	House	3 months CU	6,000	
Sch D	Case III	Interest	96	
Sch D	Case IV	Deposit interest	100	
Sch D	Case V		<u>5,100</u>	
				67,796
Patrick				
Sch D	Case I		22,150	
	Pension max 20%		4,430	
			17,720	
	Case IV	Dividends from ABC Plc		
	(204) / .8		255	
				17,975
Total income				85,771
Tax				
	45,400	20%	9,080.00	
	100	23%	23.00	
	17,975	20%	3,595.00	
	22,296	41%	9,141.36	
	85,771			21,839.36
Tax credits				
Married			3,660.00	
Health expenses			279.00	
PAYE			1,830.00	
Trade union	350 *	20%	70.00	
				5,839.00
				16,000.36
Paid PAYE			10,340.00	
DIRT			23.00	
DWT			51.00	
				10,414.00
Tax due				5,586.36

Question 4 (Cont'd)**BIK**

MV of house	300,000
BIK	0
Annual BIK	24,000
3 months	6,000

Case V

Rental income 5 months	7,500
Interest restricted	
4,800 / 10 * 5	2,400
Profit	
rent	5,100

Case I

Basis period 1 Feb 2009 to 31 Dec 2009	
1 Feb 2009 to 31 July 2009	12,900
1 Aug 09 to 31 Dec 2009	9,250
	22,150

Health Expenses

Doctor Visits	650
Prescriptions	375
Hospital Scan	250
Dentist - Routine	-
Physiotherapy	120
Eye Testing	-
	1,395
Tax credit 20%	279

Question 5

Ms. Sarah Client,
A Street,
A Town

Tax Consultants,
Next Street,
B Town

20th August 2010

Dear John,

As requested I have calculated the amount of VAT refundable for the November/December 2009 VAT period. Details of my workings are attached to this letter.

You asked me to provide you with an explanation regarding the treatment of items you identified and my comments are as follows:

1. Invoice from engineer

The VAT content of this invoice is reclaimable as the item represents a business expense. You are obliged to record the invoice as presented to you. It is not your function to query the rate of VAT charged as this is a matter for the supplier to determine.

2. Invoice from newspaper.

The VAT content of this invoice is reclaimable as the item represents a business expense. The VAT is reclaimable by reference to the date on the invoice and not the date of payment.

3. New Computers

The VAT on the computers purchased would have been reclaimed in the VAT return submitted. As one of the computers is now being used for private purposes this represents a self supply, the VAT on this computer will have to be repaid to the Revenue.

4. Imports from China

The VAT paid at the point of entry can be reclaimed.

5. Bad Debt

As John accounts for VAT on a cash receipts basis no adjustment need be made.

Purchases Book

It is advisable to do a cross check on the figures in the purchases book as this will assist in the identification of errors made.

Error (i) has been rectified by changing the position of the figures recorded.

Error (ii) The UK VAT should not have been recorded as you are not entitled to claim credit for UK VAT paid. When you purchased the goods from the UK supplier you should have quoted your Irish VAT number and the goods would have been supplied VAT free to you. I suggest you contact your UK supplier to claim a credit for the UK VAT charged.

If you have any queries please do not hesitate to contact me.

Yours faithfully,

Student

Question 5
(Cont'd)
Workings

Purchases Book per Question

	Total €	For Resale		Not for Resale		VAT €
		21.50% €	21.50% €	13.50% €	Zero% €	
Per Q	103,874	69,000	13,800	2,800	290	18,070
Error 1	-200			-243		-43
	243		200			43
Error 2	-3,525	-3,000				-525
	100,392	66,000	14,000	2,557	290	17,545
Proof	100,392					17,545

Omissions and explanations

1	1,215		1,000			215
2	122		100			22
3	Self Supply €1,215. VAT element €215 accounted for in sales					
4	24,300	20,000				4,300
5	Bad Debt. As John accounts for VAT on a cash receipts basis this will not impact on the VAT due on sales.					
	126,029	86,000	15,100	2,557	290	22,082
Proof	126,029					22,082

VAT on sales

Cash sales	36,800
Self supply	1,215
Cheque relodged	-3,500
Receipts from debtors	81,500
Cash sales not recorded	4,000
	120,015
VAT on sales	21,237
VAT on imports	3900*21.5%
	839
	22,076

VAT on purchases

VAT on purchases	22,082
VAT on imports	839
	22,920

VAT refundable

-844

Question 6**Adjusted Profit Computation Question**

Leona Lewis

Accounts for the year ended 31st July 2009

Schedule D Case I

	€	€
Net Profit		39,176
<u>Add backs</u>		
Depreciation	1,560	
Interest and charges		
Term loan interest	1,510	
Credit card machine	800	
Private residence	1,795	
		4,105
Entertainment		
Lunches		850
Rent		
Rent prepaid		945
Commission		-900
Motor expenses		
Insurance and motor tax	375	
VRT	4,560	
Running expenses (2430-330) * 10.5/35	630	
		5,565
Repairs		
Insurance claim	1,000	
Repairs to rented house	850	
		1,850
Wages and salaries		
PAYE/PRSI due (600- 120)	480	
Drawings	24,560	
Lump sum	1,500	
		26,540
Telephone		
New mobiles	400	
Home calls	360	
		760
Casual wages		
Domestic help		2,286
Advertising		
Display stands		1,500
		45,061
<u>Deductions</u>		
Rental income		-5,680
Schedule D Case I - tax adjusted profits		78,557

1st Year Examination: August 2010

Taxation I ROI

Examiner's Report

Question 1

This question tested the candidates' knowledge of the PAYE/PRSI system.

The average mark achieved was 9.95 (50%).

It seems that candidates do not take the time to consider the facts in the question prior to commencing a solution. In questions such as this there is a need for the candidate to consider the basis to be applied to the calculations. All too often candidates do not consider if the cumulative, week 1, month 1 etc basis applies.

Candidates who failed to score high marks made the following errors:

Stacey Mitchel

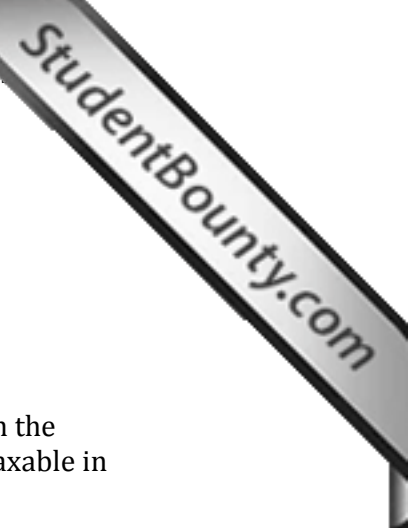
Failure to calculate the pay and tax details for month 1 to month 10.

Including the savings club deduction and receipt in the calculations of the taxable pay.

Failure to deduct the pension contribution in the calculations of the taxable pay.

Incorrectly calculating the monthly BIK figure to be included in the calculations for the month of November.

Incorrect calculation of the amount of employee PRSI due.



Incorrect treatment of the amount paid in respect of business expenses.

Incorrect calculation of the PRSI due under class S

Failure to identify the assessable BIK in respect of the interest free loan from the company. Many candidates suggested that the full amount of the loan was taxable in week 48.

Question 2

This question required that the candidates display an understanding of some revenue forms, the term exempt individuals and bad debts with regard to VAT.

Part (a)

Candidates were unsure of the purpose and content of the forms P35 and P60. This is disappointing as these forms are fundamental to the PAYE/PRSI system and it is expected that candidates would have a comprehensive knowledge of these forms.

Few candidates knew the due date for submission of the forms.

Part (b)

Candidates scored better on this part of the question. However, many referred to the position regarding exempt individuals for VAT purposes.

Part (c)

This part was poorly answered. It seems that very many candidates do not know the difference between the invoice basis and the cash receipt basis. Many therefore were unable to demonstrate an understanding of the relief due for bad debts.

Too many candidates spent time trying to explain the system of accounting for VAT rather than answering the question asked.

The average mark achieved for this question was a disappointing 7.8 (39%).

Question 3

This was a multiple-choice question and the average mark achieved was 9.2 (46%). This compares to 12.1 (61%) for the summer examination.

Question 4

This question required the candidate to prepare an income tax computation based on joint assessment. The average mark achieved was 10.2 (51%).

A number of candidates scored well in this question. In general the solutions presented were well laid out and easy to follow.

Candidates who failed to pick up marks made the following errors:

Incorrect calculation of the assessable BIK for Judy. This is a common feature of this type of question and there is a need for candidates to understand the importance of this topic.

Incorrect calculation of the assessable rental income.

Failure to adjust the 20% rate band by the amount of income which suffered deposit interest retention tax.

Failure to calculate the assessable Case 1 income in respect of Patrick.

Question 5

This question tested the candidates understanding of the VAT system. It also tested the ability to explain the treatment of certain items and quantify the amount of VAT due for a VAT period.

The average mark achieved was 7 (35%)

Solutions presented for this question were disappointing. Candidates failed to explain their treatment of the items identified. Too often workings were presented without any explanation as required by the question.

Common errors included:

Failure to demonstrate an understanding of the cash receipts basis. Many candidates included VAT on credit sales in the calculation of the VAT due.

Failure to cross check totals in the purchases book.

Failure to identify the self supply when one of the computers was used for personal use.

Incorrect treatment of the VAT on imports.

Question 6

This question required the preparation of an adjusted profit computation. The average mark achieved was 11.3 (57%).

The question was well answered by many candidates and in general the presentation was good with solutions well laid out and easy to follow.

The main areas where candidates failed to pick up marks included:

Failure to add back the cost of purchasing the credit card machine.

Incorrectly adding back the cost of the foreign business trip.

Incorrectly adding back the cost of the scrapped brochures.

Failure to add back the VRT on the car purchased.

Incorrect adjustment for the insurance claim on the damaged window.

Failure to add back the lump sum for sundry expenses.

