Chartered Institute of Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

4 May 2017

AWARENESS

Module C – Corporation Tax

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1. During the year ended 31 March 2017, Hebburn Ltd entered into a contract to buy a new machine for £380,000. The machine was delivered on 1 February 2017 at which point Hebburn Ltd had an unconditional obligation to pay for it. Payment was made as follows:

Payment type	Payment date	Amount £
Trade-in of old machine	1 February 2017	50,000
Cash	1 February 2017	110,000
Cash	30 April 2017	110,000
Cash	31 July 2017	110,000
		£380,000

The old machine was bought in 2007 for £280,000.

Hebburn Ltd made no other additions or disposals during the year.

The tax written down value of Hebburn Ltd's main pool at 1 April 2016 was £76,000.

Calculate the maximum capital allowances that Hebburn Ltd may claim for the year ended 31 March 2017.

	AIA	Main Pool	Cap Allow
TWDV b/f		76,000	
Disposals		(50,000)	
Additions	220,000		
~~220,000~~	(200,000)	20,000	200,000
		46,000	
WDA @ 18%		(8,280)	8,280
TWDV c/fwd		37,720	208,280

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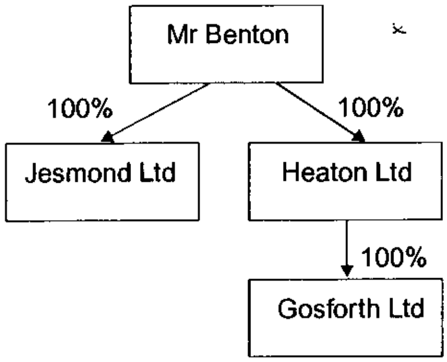
2. Mr Benton has the following shareholdings:



The companies' results are as follows:

	Jesmond Ltd £	Heaton Ltd £	Gosforth Ltd £
Year ended	31 Mar 2017	31 Mar 2017	31 Dec 2016
Trade profit/(loss)	(100,000)	64,000	(36,000)
Loan relationship credit	5,000	–	–
UK property business loss	–	(4,000)	–

Calculate the taxable total profits for each company, assuming all beneficial claims and elections are made. State the amount(s) of any unrelieved trading losses.

	Jesmond	Heaton	Gosforth
Profit/loss	–	64,000	–
LR Credit	5,000	–	–
Business loss		(4,000)	
~~[illegible]~~ current yr deduction	(5,000)	(36,000)	
	–		
TTP: unrelieved loss c/fwd	(95,000)	TTP: 24,000	TTP: NIL
Jesmond not in a loss group as owned by an individual		Gosforth surrendered £36,000 loss to Heaton as in a loss group	

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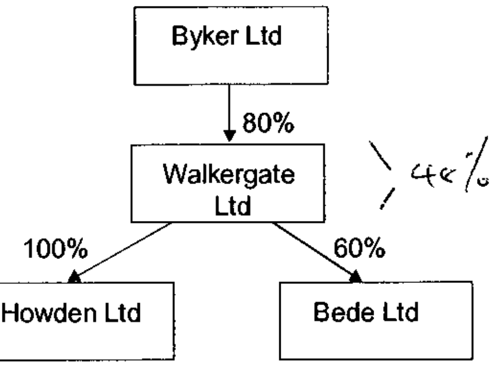
3. Byker Ltd has the following shareholdings:



During the year ended 31 March 2017:

1) Byker Ltd sold land and buildings previously used for the purposes of its trade for £400,000, realising a gain of £320,000.

2) Byker Ltd also sold investments in the share capital of listed companies for £800,000, realising a gain of £330,000.

3) Walkergate Ltd realised a capital loss of £18,000.

4) Howden Ltd acquired land and buildings for use in its trade, paying £300,000.

All transactions were with unconnected companies.

You are required to:

1) Briefly explain which companies form part of Byker Ltd's group for capital gains purposes.

2) Calculate Byker Ltd's chargeable gains, assuming all beneficial claims and elections are made.

1. Byker, Walkergate and Howden are a capital gains group as they are all ~~owned~~ at least 75% owned by Byker, or at least 51% sub-subsidiary.
Bede Ltd is only a 48% sub-subsidiary of Byker and does not therefore meet the test.

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2. Land + buildings gain : 320,000
Roll over relief re new land + building cost (300,000)
20,000 GAIN remaining

Investments gain : 330,000
TOTAL chargeable gain 350,000
Less: Capital loss (18,000)
GAIN for group : 332,000

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4. Cullercoats Ltd is a small company for the purposes of research & development tax relief. It commenced trading on 1 April 2016. For the year ended 31 March 2017, it has a trading loss of £35,000 before deducting qualifying revenue expenditure on a research and development project of £50,000.

Briefly explain, with the aid of calculations, the ways in which Cullercoats Ltd could claim tax relief for the research and development expenditure.

As Cullercoats is a small company, it is eligible to claim 230% of qualifying ~~??~~ R+D expenditure.
Therefore: 50,000 x 230% = £115,000 tax relief

It could surrender its trading loss of 35,000 in exchange for an 11% rebate on the R+D expenditure i.e. £5,500.

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5. Jarrow Ltd is a trading company. For the year ended 31 March 2017, it has a profit of £680,000. The company's accounting information shows that:

1) Turnover includes overseas sales income of £54,500 (£45,000 received; withholding tax of £9,500 suffered).

2) Expenditure includes pension contributions of £50,000, including £12,500 that was accrued at 31 March 2017 and was paid in April 2017.

3) Jarrow Ltd owns 90% of the issued share capital of Meadow Well Inc, a non-UK resident company. For the year ended 31 March 2017, Meadow Well Inc has chargeable profits of £130,000 which pass through one of the Controlled Foreign Company (CFC) gateways. It paid tax of £nil in its country of residence in respect of those profits.

Calculate Jarrow Ltd's UK Corporation Tax payable for the year ended 31 March 2017.

Profits 680,000

Add back: Pension Cont's not paid 12,500

O/seas Profit 130,000

o/seas sales income 54,500

TTP 877,000

CT @ 20% = 175,400

Less: DTR on lower of

o/ses Tax: 9,500 * (9,500)

UK tax: 20% x 54,500 = 10,900

Revised CT: 165,900

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6. Simonside Ltd's tax-adjusted trading profit, before capital allowances, for its 18-month accounting period ended 31 March 2017 is £183,000. It made a charitable donation of £12,000 on 1 February 2017.

The tax written down value of the company's main pool at 30 September 2015 was £78,000. Its only acquisition in the period was of a zero emissions car on 5 October 2016 for £27,000.

Calculate the company's taxable total profits for the period ended 31 March 2017.

	30 Sept 16	31 Mar 17
Trade Profit		
183,000 × 12/18	122,000	
183,000 × 6/18		61,000
Charitable donation	–	(12,000)
Less: Capital allowances (w1)	14,040 (~~41,040~~)	(32,756)
TTP	107,960	16,244

C.A's (w1)

	FYA	Main Pool	CA's	
TWDV b/f		78,000		
~~Addition: New Car 27000~~				
~~(27,000) (27,000)~~			~~27,000~~	
WDA @ 18%		(14,040)	14,040	
30/Sept 16 TWDV c/f		63,960	41,040	TOTAL CAs

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31 March '17:	FYA	Main Pool	CA's
TWDV b/f		63,960	
New Car adds	27,000		
Zero emission FYA	(27,000)		27,000
WDA @ 18% x 6/12		(5756)	5,756
TWDV c/f		58,204	32,756

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7. Chillingham SA was incorporated on 1 March 2017 in Ruritania. It is a manufacturing company and its main asset is a factory in Ruritania. The company's Board of Directors meet quarterly in Ruritania to make operational decisions. The company is 100% owned by a UK resident individual who directs the company's activities from his home in the UK.

There is no double tax agreement between the UK and Ruritania.

You are required to:

1) **State how the charge to UK Corporation Tax applies to a non-UK resident company compared to a UK resident company.**

2) **Briefly explain whether or not Chillingham SA is UK resident for Corporation Tax purposes.**

1. If a non-UK resident Company is ~~owned~~ at least 25% owned by a UK resident Company, then profits can be taxed in the UK. The charge to tax begins when the company commences trading.

2. As the Board of Directors meet in Ruritania and make operational decisions there, it can be ~~argued~~ argued that the Company is not resident in the UK for Corporation tax purposes. it is owned by an individual shareholder in the UK who directs the activities, but is not involved in the day to day operational decisions. The main factory is also based in Ruritania. Place of incorporation does not make a difference.

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8. Percy Main Ltd ceased to trade on 31 March 2017, making a trading loss of £200,000 for the three-month period to 31 March 2017. It also made a trading loss of £12,000 for the year ended 31 December 2016. It had trading profits but no other income or gains, for all earlier accounting periods.

You are required to:

1) Calculate the company's terminal loss.

2) Briefly explain how the terminal loss will be utilised.

1. Terminal loss : 200,000 + 12000 (x 3/12) = 62000

2. Terminal loss can be carried back for 3 previous years prior to the final cessation period (31 March 17). Therefore the terminal loss can be used to offset against total profits back to accounting year end 31 March '14.

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9. Hadrian Ltd's tax-adjusted trading profits for the year ended 31 March 2017 are £110,000. The following receipts have not been included in this figure:

Date	Description	£
April 2016	Proceeds from sale of factory used in trade	330,000
April 2016	Proceeds from sale of intellectual property used in trade	120,000
May 2016	Dividend received from 100% UK-resident subsidiary company	60,000

The company bought the factory and the intellectual property in September 2007 from an unconnected party, paying £145,000 for the factory and £35,000 for the intellectual property. It incurred legal expenses of £2,500 in respect of the purchase of the factory.

The tax written down value of the goodwill at 31 March 2016 was £3,500.

Calculate the company's taxable total profits for the year ended 31 March 2017.

Profit	110,000
Factory gain (w1)	152,099
IP (w2)	85,000
~~less~~: CA's (3500 × 4%)	(140)
TTP	346,959

* Dividend rec'd from connected party exempt.

W1: Factory: Proceeds	330,000
Less Cost: (145,000 + 2500)	(147,500)
	~~182,500~~
Less: Indexation allowance	
262.0 − 208.0 / 262.0 = 0.206 × 147,500	(30,401)
	152,099 gain

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W2: 1.P 120,000

(35,000)

85,000

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10. Mr Whitley provides IT services through Bay Ltd. Bay Ltd's results for the year ended 5 April 2017 are summarised below:

	£	£
Sales to Gateshead Ltd	87,000	
Sales to other customers	7,400	
Total sales		94,400
Salary paid to Mr Whitley plus employer's NICs	15,951	
Pension contributions made in respect of Mr Whitley	3,000	
Other allowable expenses	6,384	
		(25,335)
Profit per accounts		£69,065

The contract between Bay Ltd and Gateshead Ltd is a relevant engagement for the purposes of the IR35 rules. The other allowable expenses above do not relate to this engagement.

Calculate Bay Ltd's trading profit for the year ended 5 April 2017.

Relevant engagement :	87000
Less: 5% deduction	(4,350)
	82,650
Salary/e'er NI	(15,951)
Pension	(3,000)
	63,700
ee's NI 63,700 × 13.8/113.8	(7,725)
Deemed Salary	55,975

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Bay Ltd	Sales	7,400
	expenses	(6,384)
	~~[illegible]~~	~~[illegible]~~
	TTP	1,016

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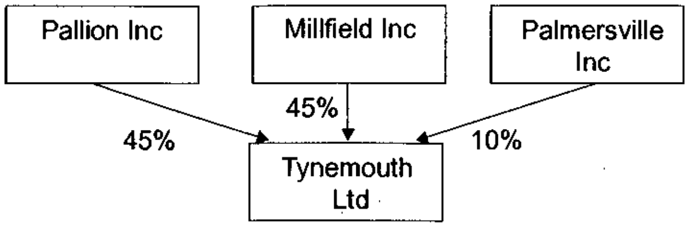
11. Tynemouth Ltd is a large UK resident company. Its shares are held by three non-UK resident companies as follows:



During the year ended 31 March 2017, Tynemouth Ltd sold goods to Millfield Inc for £2,100,000. Tynemouth Ltd would have received £3,500,000 if the goods had been sold at an arms-length price. Tynemouth Ltd has entered into similar transactions with the other shareholders.

1.4m

Briefly explain the application of the transfer pricing rules to the transaction between Tynemouth Ltd and Millfield Inc.

By selling the goods to Millfied Inc at Less than market value (arms length price), Tynemouth is in breach of Transfer pricing rules.

Tynemouth has therefore understated its profits by £1.4m (3.5m - 2.1m) and also subsequently over inflated Millfield profits by the same amount.

Therefore Tynemouth should increase its profits by £1.4m, and Millfield may make a claim to counteract the transaction in it's own books.

As Palmersville only owns 10% of the shares in Tynemouth, it won't be affected by ~~the~~ a similar transaction.

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12. Heworth Ltd pays its Corporation Tax in instalments. It expects to have a Corporation Tax liability of £400,000 for the 10-month accounting period ended on 31 March 2017.

You are required to:

1) **Calculate the amount of each instalment payment for Heworth Ltd for the period ended 31 March 2017.**

2) **State the date by which each instalment is due for payment.**

1) $3/10 \times 400{,}000 = £120{,}000$ per installment.

2) ~~installment~~

1st Installment : 14th Nov'16 = 120,000
14th Feb'17 = 120,000
14th May'17 = 120,000
14th Aug'17 = 40,000 (bal)
400,000

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AWARENESS

Module F – Environmental Taxes, Excise Duties and Stamp Duties

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1. Henrich GmbH, a company based in Germany, is reviewing the potential to exploit aggregate commercially in the UK.

Briefly explain:

1) When Heinrich GmbH will become liable to be registered for Aggregates Levy, and from when the registration will be effective.

2) Any specific Aggregates Levy requirements as a result of Heinrich GmbH being non-UK resident; how and when these requirements must be met; and any penalties for failure to meet those requirements.

1. Non resident tax payers are liable to be registered for Aggregate Levy within 30 days after the first day the company becomes liable.
Registration will be effective on approval from the Commissioners.

2. Heinrich may be required to appoint a person resident in the UK to act as tax representative from the date specified.
The Commissioners may oblige the taxpayer to request them, no later than such earlier date than the date specified above to approve the appointment of that person as tax representative.
A request for approval must be made in writing containing all particulars (no later than 30 days from the first day required to be registered)
Penalty of £250 for each failure to meet requirements.

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2. AggregatesRUs Ltd wishes some clarity on the technical aspects of weighing aggregate particularly with regard to water content.

Briefly state:

1) When and how the weight of aggregate will be determined for Aggregates Levy purposes.

2) When discounts can be applied to Aggregates Levy for water content within the aggregate.

1. Weight determined when aggregate has been commercially exploited.
The weight should be determined by the use of a weighbridge at the time of exploitation / leaving the site.
If this is not possible, the use of an agreed weighing method from HMRC may be used.
if no agreement in place, a prescribed method by HMRC must be used instead.

2. A distinction between natural water content and added water needs to be made.
Natural water is included in definition of aggregate, so no allowance can be made for natural water.

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Water added to aggregate after it has been won (washing etc) may be discounted from the calculation. This has to be agreed with MMRC. Rainwater does not count.

There are 2 options to calculate the added water:

1. washed Sand : 7%

 " gravel : 3.5%

 " rock/agg : 4%

2. Agree a more exact % of added water, but provide evidence of this first to MMRC.

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3. Joneton Ltd bought 625 tonnes of sand at £3.58 per tonne from Smithton plc in August 2016. Joneton Ltd has recently gone into receivership with the full amount outstanding and written off by Smithton plc.

You are required to:

1) Calculate, with brief explanations, the credit that can be included on the next Aggregates Levy return in respect of the write-off.

2) Explain what Smithton plc should do in the event that the receiver makes a payment to it by way of dividend in the future.

1. 625 x 3.58 = 2,237.50

@ normal rate : 625 x 2 = 1250

As the charge at £3.58 per tonne is less than twice ~~half of double the normal rate~~ the rate of tax, half the value of the overall transaction total can be claimed (2,237.50/2 = £1,118.75)

2. if a payment is made in the future, Smithton should repay any previously claimed credit to the same value back to HMRC. Calculated as the credit claimed, multiplied by the amount received, divided by the outstanding consideration.

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4. During March 2017, MultiEnergy plc made the following supplies:

1) 12,000 kilowatt hours of electricity to a prison
2) 1,250 kilowatt hours of electricity to a hospice
3) 8,645 kilowatt hours of gas to a house
4) 8,900 kilowatt hours of liquefied petroleum gas to a hospital
5) 927 kilowatt hours of electricity to a retail unit

State, with brief reasoning, the amount of Climate Change Levy due in respect of the supplies by MultiEnergy plc during March 2017. Answers should be to the nearest penny.

1. Prisons are taxable, 12,000 × 0.00559 = £67.08
(not for domestic use)

2. Excluded supply to hospices (treated as domestic use)

3. Excluded supply to houses (domestic use)

4. Hospitals don't qualify for domestic, so taxable:
8,900 × 0.01251 = £111.34

5. Exempt as under the 1000 kw threshold - small scale user.

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5. SmallCo Ltd has expressed interest in submitting a single annual Climate Change Levy return and payment.

You are required to explain:

1) The conditions that SmallCo Ltd must meet to apply for authorisation to submit annual returns.

2) The actions that must be taken if SmallCo Ltd's Climate Change Levy increases once in the scheme.

1. Conditions: Must have been registered for CCL for at least 12 months at time of application and have submitted at least 4 quarterly returns.
- expect amount of CCL on taxable supplies to be made in next 12 months to not exceed £2,000.
- Registration is not a group registration
- Have not in 12 months preceding application date, ceased to make annual returns.

2. If CCL liability increases above £2,000 threshold, SmallCo must notify the Environmental Taxes Team within 30 days of it coming to attention.

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6. Supplies that are not used as fuel are exempt from Climate Change Levy.

State five examples of wholly non-fuel uses of energy.

1. Not for burning / consumption in UK
2. Use in certain forms of transport
3. Supplies made to CHP stations subject to restrictions
4. Supplies used in metallurgical and mineralogical processes
5. Supplies used in production of taxable commodities other than electricity.

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7. Stormin Ltd, a landfill site operator, has undertaken the following transactions.

1) A customer was issued with a Landfill Tax invoice on 23 April 2017 then made the disposal of its waste on 30 April 2017 and paid the invoice on 1 May 2017.

2) A company made an advance payment on 15 March 2017 to dispose of waste from a building site. The disposal took place on 26 March 2017 and a Landfill Tax invoice was issued on 31 March 2017.

3) A customer disposed of waste at the landfill on 31 March 2017 but the Landfill Tax invoice was not issued until 23 April 2017. The invoice was paid on 28 April 2017.

You are required to briefly explain the tax points for Landfill Tax in each of the three situations described.

1. Tax point: 30 April 17 as this was when the disposal was made.

2

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8. In relation to Landfill Tax:

1) **State how long records must be retained.**

2) **Give three examples of relevant record types.**

3) **Explain the maximum civil penalty that would apply if there was a deliberate but not concealed error in a return, and how this could be reduced.**

1. Records must be kept for 6 years.

2. • Landfill Tax account
   • Landfill Tax bad debt account, if bad debt relief has been claimed / will be claimed
   • All invoices issued and any documents issued to landfill tax operator.

3. Max penalty of 100% of tax evaded if dishonest conduct
   • Could be reduced if a reasonable excuse provided

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9. In January 2017, Somehow Ltd disposed of the following by way of landfill:

1) Eight tonnes of waste material dredged from the Somewhere Canal
2) Five tonnes of broken slate
3) 20 tonnes of general waste
4) 10 tonnes of fines with a tested 'loss on ignition' (LOI) of 15%
5) 10 tonnes of bottom ash from wood combustion to be deposited in a separate cell

Calculate the Landfill Tax due on the five disposals by Somehow Ltd.

1. Exempt - dredged from a watercourse
2. Exempt
3. 20 × 84.40 = £1,688.00 (Std rate)
4. 10 × 2.65 = £26.50 (lower rate)
5. 10 × 2.65 = £26.50 (Lower rate)

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10. **Give two examples of bets that are NOT subject to general Betting Duty and explain how are bookmaker's profits calculated for Betting Duty purposes?**

1. Not for profit games
2. when ~~[illegible]~~ winnings less than the bet placed.

Profits calculated ~~[illegible]~~ stakes less winnings.

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11. In March 2017, the following transactions in unlisted UK shares occurred:

1) Michael sold some shares to Thomas. Thomas paid £10,000 in cash and also gave Michael an antique wardrobe worth £3,500 as part of the deal.

2) John purchased shares for £750 with money gifted to him by his brother.

3) Billy gifted £3,000 worth of shares to his sister Sally, and she forgave him his debt to her of £1,500.

4) As part of their divorce, shares worth £25,000 were transferred from Jill to Jack.

5) James purchased shares for £4,000 as part of his investment portfolio.

Calculate, with brief explanations, the Stamp Duty liability on each of the above transactions.

1. 13500 x 0.5% = £675

2. ~~Purchase gifted~~ Gifts are exempt, plus under £1000 threshold for S. Duty

3. Exempt transaction between family members

4. Divorce, so transfer is exempt from stamp duty.

5. £4000 x 0.5% = £200. ~~Standard~~ Stamp Duty payable on commercial transaction.

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12. Scotmay Ltd is considering bringing goods into the UK which have been excise paid in another member state.

Outline the procedures that Scotmay Ltd should follow with HM Revenue & Customs in order to bring the excise goods into the UK.

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AWARENESS

Module G – Accounting

1. The following information relates to Kristina's business for the year ended 31 March 2017:

	£
Net assets at 1 April 2016	18,000
Net assets at 31 March 2017	48,000
Capital introduced during the year	2,000
Drawings for the year	12,000

On 1 April 2017, Kristina bought stock for £650 on credit, and a customer paid an outstanding balance of £300.

You are required to:

1) **Use the accounting equation to calculate Kristina's profit for the year ended 31 March 2017.**

2) **Explain briefly how your answer may have differed if the transactions on 1 April 2017 had occurred on 31 March 2017.**

1. Change in assets - liabilities = ~~liabilities~~ Capital + Profits + Drawings
(48,000 - 18,000) = Capital + Profits (- losses) + drawings
= 2000 + Profit + 12,000
30,000 = 2000 + Profit + 12,000
∴ Profit = 16,000

2 There would be no change to profit as stock (asset) goes up by same amount as the creditor and whilst debtor decrease from the payment of £300, the bank asset would increase by the same amount.

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2. On 1 April 2017, Melissa began trading, making wedding cakes. She had cash of £600 to invest in the business. On the first day of trade, she spent £370 of this on baking equipment and put the remaining £230 into a business bank account.

During the month of April, she spent £150 on ingredients for cakes which she made and then sold for a total of £1,200. One customer still owed £200 at 30 April 2017.

On 18 April 2017, Melissa took £50 from the business bank account to pay for a haircut. The bank account balance at 30 April 2017 was £1,030.

Melissa has prepared the following trial balance at the end of April but does not understand why it does not balance:

	Debit £	Credit £
Bank	1,030	
Baking equipment	370 ✓	
Debtors		← 200
Capital		230
Sales		1,200
Purchases	105	
	£1,505	£1,630

Produce Melissa's corrected trial balance, assuming no other transactions occurred.

Bank : 600 -370 -150 +1000 -50

Capital : 600

Baking equip : 370

Debtors : 200

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T.B:	DR	CR
Bank	1,030	
Baking Equip	370	
Debtors	200	
Capital		600
Sales		1,200
Purchases	150	
Drawings	50	
	1,800	1800

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3. Leroy sold goods on credit to Sandra. The full selling price was £200, but Leroy offered Sandra a discount of 10% if she paid within 30 days. Sandra paid within 20 days.

The goods had cost Leroy £150.

You are required to:

1) Set out the double entries for Leroy to record the initial sale and the subsequent receipt of payment.

2) Calculate Leroy's mark-up percentage and gross profit margin before the discount is applied.

1. Initial Sale: DR Debtors 200
CR Sales 200

Receipt:
DR Bank 180
(200 - 10%)
DR Discounts Allowed 20
CR Debtors 200

2

Markup: $\frac{\text{Profit}}{\text{Cost}} = 0.33 = 33\%$.

G Profit margin: $200 - 150 = 50 / 200 = 25\%$

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4. FRS 102 states that the information in financial statements should have certain qualities or 'qualitative characteristics'. These include 'understandability', 'relevance', 'reliability' and 'completeness'.

State and briefly explain five other qualitative characteristics required for information in accounts to comply with FRS 102.

Materiality: Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.

Substance over Form: Transactions and other events/conditions should be accounted for and presented in accordance with their substance and not merely legal / ~~for~~ form.

Prudence: inclusion of a degree of caution in the exercise of judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities and expenses are not understated.

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Comparability : Users must be able to compare financial statements of an entity through time to identify trends in financial position and performance. Therefore measurement of transactions and events must be presented consistently.

Timeliness : To be relevant, financial information must be able to influence economic decisions of users. Timeliness means providing the information within the decision time frame.

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5. Spirk Ltd uses the same number of electricity units each month.

At 1 January 2016, Spirk Ltd had an electricity prepayment of £600. During the year ended 31 December 2016, Spirk Ltd paid for electricity by direct debits of £1,000 per month.

The electricity supplier changes prices on 1 April and 1 October each year, and issued Spirk Ltd with invoices showing the actual cost of electricity used in six month periods as follows:

	£	
1 October 2015 to 31 March 2016	5,800	= 2900
1 April 2016 to 30 September 2016	6,200	= 6200
1 October 2016 to 31 March 2017	6,500	= 3250

Prepare the electricity 'T' account for the year ended 31 December 2016, showing clearly the profit and loss charge for the year and the accrual or prepayment at the year end.

Electricity

1/1/16 Prepayment	600		
Elec DD's (1000x12)	12,000		
		P+L	12,350
		end of year Prepayment.	250
	12,600		12,600

P+L 12,350

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6. Ken part-exchanged a cutting machine for a new machine. The original machine had cost £50,000 and had accumulated depreciation of £30,000 on the date of the part-exchange.

The new machine cost £56,000 and the manufacturer gave Ken a part-exchange allowance of £15,000 in respect of the original machine.

Set out the double entries to record the disposal of the original machine and the purchase of the new machine.

DR Disposal A/C 50,000
CR Machine asset 50,000

DR Provision for depn 30,000
CR Disposal A/C 30,000

DR New machine 56,000
CR Bank (56000 - 15,000) 41,000
CR Disposal A/C 15,000

∴ DR Loss on disposal 5,000
CR Disposal A/C 5,000

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7. Danny had no stock at 1 April. He made the following purchases and sales of units of stock during April:

	Purchases/(Sales)	Cost per unit £
2 April	1,000	50
6 April	(550)	
15 April	800	52
28 April	(600)	

Calculate the value of stock at 30 April under:

1) The first in first out (FIFO) method.

2) The weighted average cost method.

In your calculations, you should value each unit to the nearest penny.

1. FIFO

2 APR 1,000 = £50

6 " (550)

15 APR 800 £52

28 (600)

- 1000 - 550 - 450 = NIL @ £50
- 800 - 150 = 650 @ £52

= £33,800

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2. Weight av:

Purch/Sales	Cost	W. av
1000	50,000	50
(550)	(27,500)	
450	22,500	50
800 @52	41,600	
1,250	64,100	= 51.28
(600) @51.28	(30,768)	

650 × 51.28 = 33,332 $

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8. NYNY plc had 50 million £1 ordinary shares in issue prior to a rights issue. A one for five rights issue was made at £3 per share and all shareholders took up their rights in full.

Andrew, one of the shareholders, had been reluctant to invest further in the company but did take up his rights offer in full as he did not want to lose out by letting his rights lapse.

You are required to:

1) Show the double entry to record the rights issue in the accounts of NYNY plc.

2) State what else Andrew may have done in relation to the rights issue.

1. 1 for 5 = $\frac{50,000,000}{5}$ = 1,000,000 @ £3 = £3m

DR Bank 3,000,000
CR Share Capital 1,000,000
CR Share Premium 2,000,000

2. Andrew could have purchased preference shares to guarantee a ~~fixed~~ fixed dividend each year. He would also be first in line should the company be wound up.

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9. Under FRS 102 Section 24, government grants received by a company are recognised either under the 'performance model' or the 'accrual model'.

Pallobar Ltd uses the accrual model. On 1 April 2016, Pallobar Ltd received a government grant of £80,000 towards the purchase of a machine which it bought for £200,000 on that date.

The company's policy is to depreciate machines on a straight line basis over 10 years.

You are required to:

1) **Show the double entries under the accrual model for the year ended 31 March 2017 in respect of the grant received by Pallobar Ltd.**

2) **State when government grants should be recognised if the performance model is applied.**

1. Dr Depn expense 20,000
CR Provision for depn 20,000
being straight line depreciation charge : $\frac{200,000}{10 \text{ yrs}} = 20,000$

2.

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10. Carrie prepared her accounts for the year ended 31 December 2016.

At 1 January 2016 she had a provision for doubtful debts of £350 relating to a sale in April 2015. In February 2016, £150 was received from the customer in respect of this sale. Carrie still considered the remainder of the amount owed to be doubtful at 31 December 2016.

In April 2016, a customer disputed the amount of an invoice (for £500) and paid only £400. Carrie wrote off the remaining amount.

At 31 December 2016, Carrie decided that she should also provide for £625 in respect of a sale in July 2016.

Prepare the completed 'T' accounts for the provision of doubtful debts account and the bad debt expense account at 31 December 2016.

Provision for doubtful debts

		1/1/16 b/fwd	350
Feb'16 Debtors	150		
		July'16 sale: Bad debts expense	625
~~[illegible]~~			
31 Dec '16 b/d	825		
	975 ~~350~~		~~350~~ 975
		31 Dec'16 c/d	~~[illegible]~~ 825

Bad debt expense

Apr'16 (500-400)	100		
Provision	625		
		P+L	725
	725		725
P+L a/c	725		

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11. Nicky and Olivia trade in partnership together. The profit of the partnership for the year ended 31 March 2017 was £120,000. Olivia made drawings of £40,000 during the year.

Under the terms of the profit sharing agreement, Nicky receives an annual salary of £30,000. Interest is paid at 5% on the partners' capital accounts, and the remaining profit is shared equally between the partners.

Throughout the year ended 31 March 2017 the balances on Nicky's and Olivia's capital accounts were £50,000 and £100,000 respectively.

Set out the double entries recording the allocation of profits to the partners, and the drawings made during the year.

'T' accounts are NOT required.

		Nicky	Olivia
Profit	120,000		
Salary	(30,000)	30,000	
Interest			
5% × 50,000	(2,500)	2500	
5% × 100,000	(5,000)		5,000
P/S 50:50	(82,500)	41,250	41,250
		73,750	46,250

DR P+L 73,750
CR Nicky Current a/c 73,750 } Profit Share

DR P+L 46,250
CR ~~Nicky~~ Olivia Current a/c 46,250 } Profit Share

DR Olivia Current a/c 40,000
CR Bank 40,000 } Drawings

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12. Peter is a VAT registered photographer. During the quarter ended 30 September 2016, Peter made cash sales for his photography services totalling £30,000. He made cash purchases of consumables totalling £12,000. These amounts are inclusive of VAT at the standard rate of 20%.

The flat rate percentage for a photography business is 11%.

Set out the double entries in relation to VAT if:

1) Peter does not use the flat rate scheme.

2) Peter does use the flat rate scheme.

1. Sales : DR Bank 30,000
CR Sales 25,000
~~[illegible]~~
CR VAT Ctrl a/c 5,000
(30,000 × 1/6)

Purchases : DR Purchases 10,000
DR VAT Ctrl a/C 2,000
(12,000 × 1/6)
CR Bank 12,000

2. Sales : DR Bank 27,750
CR Sales 25,000
CR VAT Ctrl a/c 2,750
(25,000 × 11%

Purchases : DR Purchases 12,000
CR Bank 12,000

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