

Candidate Number

(Ensure this number matches your candidate number on your desk label and on your candidate attendance letter)



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

8 November 2017

AWARENESS

Module C – Corporation Tax



1. Terne plc had an accounting profit for the year ended 31 March 2017 of £875,000, after deducting the following expenses:

	£
Directors' bonus payments for the year ended 31 March 2017: (Accrued at 31 March 2017 and paid on 15 October 2017)	220,000
Legal and professional fees:	
- In relation to the purchase of a second-hand warehouse on 1 November 2016	10,000
- In relation to the revision of staff contracts	12,000
Repairs to the warehouse purchased on 1 November 2016: (The warehouse was in usable condition when purchased, but on 5 November 2016 it was damaged in a fire and had to be repaired before it could be used. The warehouse had not yet been insured)	25,000
Staff Christmas party (£175 per head):	8,750

Briefly explain the treatment of each item in calculating the tax adjusted trading profit for Terne plc for the year ended 31 March 2017.

	direct	
	directors bonus payments will be allowable as they are paid within 9 months	
	legal fees of purchase of second hand warehouse is disallowable as it relates to capital	
	legal fees in relation to staff contracts is allowable	
	repairs to warehouse is allowable as it was in a usable state when purchased and this is not an improvement	

FOR EXAMINER
USE ONLY



Staff christmas party is allowable

FOR EXAMINER
USE ONLY

--



2. Dove Ltd was incorporated and started to trade on 1 March 2016 and made up its first accounts to 31 December 2016. During that period, it made the following capital purchases:

		£
5 March 2016	Air conditioning system	75,000
26 March 2016	Machine	130,000
1 April 2016	Delivery van with CO ₂ emissions of 165g/km	18,000

Calculate the maximum capital allowances that Dove Ltd can claim for the 10-month period ended 31 December 2016.

	AIA	General pool	Special pool	Total CA
10mth end				
31 Dec '16				
additions:				
air conditioning	75,000			
machine	91667	38333		
van	18000			
machine	73667	56333		
AIA	(166667)			166667
WDA @18% / 12 x 10 months		(10110)		10110
		47883		
		46193		
TWDV c/f				175807
Total CA claim possible				175
				175117
AIA = $200,000 / 12 \times 10 = \text{£}166,667$				

FOR EXAMINER
USE ONLY



3. Swallowit Ltd was incorporated and started to trade on 1 November 2015 and made up its first accounts for the 17 months to 31 March 2017. The company made a profit in this period, but is not required to pay its Corporation Tax by instalments.

State the filing date(s) for the Company Tax return(s) and the payment date(s) for any Corporation Tax due for the 17 month period ended 31 March 2017.

CAP	filing date	Payment date
1/11/15 - 31/10/16	31/3/18	1/8/17
1/11/16 - 31/3/17	31/3/18	1/1/18

FOR EXAMINER USE ONLY

4. Grebe plc is a large company for the purposes of the Research and Development (R&D) legislation. During the year ended 31 March 2017, it had a chargeable gain of £85,000 and a trading loss (after the relevant adjustments for R&D expenditure) but no claim under s.37(3)(a) CTA 2010 is to be made.

Grebe plc's PAYE and Class 1 NIC liability relating to the staff working on qualifying R&D totalled £26,000 for the year ended 31 March 2017. This has been correctly included in the qualifying R&D revenue expenditure amount which is £420,000.

Calculate the cash repayment in respect of R&D expenditure that Grebe plc can claim for the year ended 31 March 2017.

<p>Large company</p> <p>$ROEC = £420000 \times 11\% = £46,200$</p>	
<p>Step 1 - doesn't apply as no CT is due as it is loss making</p>	
<p>Step 2 - n/a</p>	
<p>Step 3 - capped at PAYE/NIC relating to workers</p> <p>£26,000</p> <p>$£46,200 - £26,000 = £20,200$ remaining</p> <p>(46200 - 26000 = 20200 is carried forward to next acc. period)</p>	
<p>Step 4 - discharged against any other ^{CT} tax liability - Grebe doesn't appear to have any so this is ^{chargeable gain} $£85,000 \times 20\% = 17,000$</p> <p>$£20,200 - £17,000 = 3,200$</p>	
<p>Step 5 - group relief - Grebe doesn't appear to be part of a group</p>	
<p>Step 6 - discharged against any other tax liability - Grebe doesn't appear to have any</p>	
	<p>FOR EXAMINER USE ONLY</p>



Step 7 - ~~£170~~ £3200 repayment to
Grebe

FOR EXAMINER
USE ONLY

--



6. On 1 November 2015, Mallard Ltd sold a warehouse that had been used in its trade for £800,000. The indexed gain on the sale was £200,000.

On 20 February 2017, the company purchased a car park adjacent to its office building for use by its staff for £700,000. On 14 March 2017, it purchased office equipment at a cost of £100,000.

The company always defers any gains arising whenever possible.

Briefly explain:

- 1) The conditions to be met for a rollover relief claim to be made.
- 2) The effect on the base cost of the car park and the office equipment if a claim for maximum rollover relief is made.

Rollover relief	
•	a qualifying asset must be sold
•	a qualifying asset must be purchased
•	it must be used in trade and mustn't be a moveable asset
•	the replacement asset must be purchased either 12 months before the disposal or within 3 years after the disposal
•	proceeds must be reinvested in replacement asset, where they are not fully invested only a proportion of rollover is allowed
	£
	Proceeds 800,000
	(cost + IIA) <u>600,000</u>
	indexed gain 200,000

FOR EXAMINER
USE ONLY

Proceeds were not fully reinvested

RR is reduced from base cost

FOR EXAMINER
USE ONLY

7. The recent results of Coot Ltd are as follows:

	Year ended 30 September 2014 £	Year ended 30 September 2015 £	6 month Period ended 31 March 2016 £	Year ended 31 March 2017 £
Trading profit/(loss)	22,000	(17,000)	(40,000)	65,000
Property income/(loss)	(2,000)	-	1,500	4,000
Capital gain/(loss)	(32,000)	-	47,000	9,000

Calculate the taxable total profits for each period, assuming the company claims loss relief as early as possible. Your answer should clearly show your treatment of the losses.

	yle Sep 14	ye Sep 15	plc Mar 16	yle March 17
Trading profit	22,000	NIL	NIL	65,000
Carry forward				(25,000)
Property income			1500	4000
Capital gain			15000	9000
CVR			(1500)	
CVR			(15000)	
CB	(17,000)			
TTP	5000	NIL	NIL	53000
Carry back				

FOR EXAMINER
USE ONLY

capital loss calc gain ye 31 Mar	47000
loss yle Sep 14	<u>(32000)</u>
	15000

~~1 Apr 2015 - 31 March '16~~

1 Oct 2015 - 30 Sep '15

~~1 Oct~~

1 Oct 2015 - 31 March 16 (6 months)

~~1 Oct 2014~~

1 Oct 2014 - 30 Sep

loss memo trade profit 6 month end 31 March '16

£40000

CYR (15000)

25,000

carry forward (23500)

loss cf (nil)

FOR EXAMINER
USE ONLY

8. Sparrow Ltd has owned an 80% shareholding in Rook Ltd for many years. Both companies are UK resident trading companies and have a year-end of 31 March.

Rook Ltd has trading losses brought forward at 1 April 2016 of £300,000. For the year ended 31 March 2017 Rook Ltd has a trading loss of £180,000 but Sparrow Ltd has taxable total profits of £540,000.

On 1 November 2016, Sparrow Ltd sold the entire share capital of Rook Ltd to Eagle Ltd, an unconnected company. Eagle Ltd has plans to return Rook Ltd to profitability by making changes to the way in which Rook Ltd conducts its trade.

You are required to:

- 1) Calculate the maximum amount of loss that Rook Ltd can surrender to Sparrow Ltd in the year ended 31 March 2017.
- 2) Briefly explain the potential impact of Eagle Ltd's plans with regards to Rook Ltd's trade on the availability of future loss relief for Rook Ltd.

	Rook Ltd	Sparrow Ltd	
	Trade profit	NTL	540,000
<p>② Where a company has a change of ownership, there are rules in place that state if the nature/conduct of the business significantly changes either in the 3 years prior to being bought or in the 3 years after the change of ownership, then the losses of the company will not be able to be utilised by the group. This is to stop companies buying loss making companies purely for the loss reliefs. Therefore Eagle plans to change the conduct of the trade then if this is a change in market, or locations or customers or products sold, losses will not be able to be relieved.</p>			

FOR EXAMINER
USE ONLY

~~Loss memo~~ Book

① Common period = 1 April 2016 - 31 Oct 2016
7 months

lower of available profit or available loss

available profit = $540000 / 12 \times 7 = 315000$

available loss = $180000 / 12 \times 7 = 105000$

loss to surrender = £105000

losses brought forward cannot be surrendered to group companies, only current year losses.

'(2) continued'

Furthermore, as Book has a small, negligible trade if this is drastically changed in any period after the change of ownership, this will mean losses are not able to be offset to group relief companies

FOR EXAMINER
USE ONLY



9. In February 2011, Cygnet Ltd purchased 90% of the share capital of Goslinge Ltd. Both companies are investment companies and are resident in the UK.

On 17 December 2011, Cygnet Ltd purchased a building for £420,000. It transferred the building to Goslinge Ltd on 22 September 2014 when the building's market value was £600,000.

On 1 August 2016, Cygnet Ltd sold half of its shareholding in Goslinge Ltd to Duckling Ltd, an unconnected company.

Briefly explain, with supporting calculations, the chargeable gains implications of the disposal of the shares in Goslinge Ltd in August 2016. Ignore indexation.

<p>As Cygnet owns 90% of Goslinge, this is more than 75%, so they are in a group gains group. This means the transfer in Sep 2014 will be made under no gain, no loss rules meaning that the transfer price will equal the cost and no gain will arise.</p>		
proceeds	451920	
cost	(420,000)	
indexation	<u>(31920)</u>	(25760 $\frac{2576 - 2394}{2394}$)
gain	nil	0.076×420000
<p>90% shares / 2 = 45%.</p> <p>Cygnet & Goslinge are no longer in a group as it's less than 75% and because this is within 6 years of the transfer, a degrouping charge will arise.</p>		

FOR EXAMINER
USE ONLY

This is as though the transfer in Sep 2014 was at MV.

Proceeds	600000
cost	(420000)
IA	<u>(31920)</u>
gain	148080

This will be added to the share consideration of the sale made by Cygnet.

SS&T will not apply as they are both investment companies

FOR EXAMINER
USE ONLY

10. Robin Ltd had the following results in its year ended 31 March 2017:

	Gross £	Overseas tax rate
UK trading profit	50,000	
Overseas property profit	200,000	23%
Overseas interest income	150,000	17%
Qualifying charitable donations	70,000	

There are no double tax treaties in place between the UK and the overseas countries.

Calculate Robin Ltd's UK Corporation Tax liability for the year ended 31 March 2017, clearly showing your treatment of the qualifying charitable donations.

	Total	UK	o/s 1	o/s 2
UK profit	50000	50000		
o/s property	200000		200000	
o/s interest	150000			150000
QCD	(70000)	(50000)	(20000)	
	330000	nil	180000	150000
UK tax 20%	66000			
DTR: lower of				
UK tax or			36000	30000
overseas tax			46000	25500
DTR	(36000)			
	(25500)			
	(30000)			
CA due	11 4500			

FOR EXAMINER
USE ONLY



DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY



12. Wren Ltd, a trading company, prepares accounts to 31 March each year.

On 1 April 2014, Wren Ltd acquired a copyright for use in its trade for £200,000. Wren Ltd elected to write off the copyright at 4% per annum for tax purposes.

On 1 September 2016 Wren Ltd acquired patent rights for use in its trade for £325,000.

On 1 April 2017 the company sold the copyright purchased in 2014 for £350,000.

Wren Ltd claims all beneficial reliefs.

Calculate the taxable profit on the disposal of the copyright and state under which heading this would be included in the Corporation Tax computation.

FOR EXAMINER
USE ONLY

--

DO NOT WRITE IN THIS AREA

THIS PAGE IS LEFT INTENTIONALLY BLANK

MANI

DO NOT WRITE IN THIS AREA

Candidate Number

(Ensure this number matches your candidate number on your desk label and on your candidate attendance letter)



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

8 November 2017

AWARENESS

Module F – Environmental Taxes, Excise Duties and Stamp Duties

1. Aggregates Levy applies where there is 'commercial exploitation'. Set out five circumstances in which exploitation of an aggregate would not be regarded as 'commercial exploitation' such that no liability to Aggregates Levy would arise.

	<ul style="list-style-type: none"> • It is removed from one registered site to another in a case where both sites are registered under the name of the same person 	
	<ul style="list-style-type: none"> • It is known subject to an exempt process 	
	<ul style="list-style-type: none"> • It requires its removal to any premises for the purpose of having china clay clay or ball clay extracted or otherwise separated from it on that site 	
	<ul style="list-style-type: none"> • the aggregate returns to the site in which it was won in its original state (nothing mixed with it, apart from water) 	
	<ul style="list-style-type: none"> • aggregate has previously been used for construction purposes 	

FOR EXAMINER
USE ONLY



2. Billy Jones is having difficulty paying his Aggregate Levy liabilities and wants to understand what action HM Revenue & Customs can take.

Explain what actions HM Revenue & Customs may take in respect of outstanding Aggregates Levy debts.

	HMRC may issue a penalty of £250 if	
	full payment is not received on time.	

FOR EXAMINER
USE ONLY

--

DO NOT WRITE IN THIS AREA

3. Newbie Ltd has recently registered for Aggregates Levy. It knows that it needs to complete an AL100 form but does not know when this has to be submitted and what goes into each box.

Explain when the AL100 form should be submitted and paid, and what should be entered into each box on the form.

	<u>Box 1</u>	
	Net Levy due. (this can be taken from ACL account, must take account of errors on previous returns, BRR, credits etc)	
	<u>Box 2</u>	
	The tonnage for all taxable aggregate commercially exploited in the period.	
	<u>Box 3</u>	
	The tonnage of aggregate on which relief is being claimed for	
	<u>Box 4</u>	
	The tonnage of exempt aggregate	
	Box 5	

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA

Payment is required no later than the due date for the return for that period

Return should be submitted no later than the last working day of the month immediately following the end of the period to which it relates

FOR EXAMINER
USE ONLY

4. Supplies to be used in certain forms of transport are exempt from Climate Change Levy.

Give five examples of when such a supply is exempt.

• When the supply is for domestic or charity use
• when the supply is used in transport (certain forms) i.e. in order to propel a train
• if used in a mineral
• if supply is not for burning in the UK
• Supplies of taxable commodities other than gas or electricity intended for re-sale
• if used in metallurgical and mineralogical processes

FOR EXAMINER
USE ONLY

5. Explain the Climate Change Levy tax point rules for supplies of commodities other than gas or electricity.

Basic tax point

If the commodity is physically removed from a place of storage the supply takes place at a time of removal.

If the commodity is not to be removed, the supply takes place at the time when the commodity is made available to the customer.

If there is a fixed time limit for adoption of less than 12 months from the date goods are sent, the basic tax point is the date when the time limit expires. If not, it will be 12 months from the date goods were sent/removed.

Invoice/early payment

~~This will~~ The earlier of the two will create a tax point if it is done before a commodity is removed/made available

Override

If an invoice is issued within 14 days of the basic tax point the supply is treated as taking place at the time invoice is issued.

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA

(rules apply)

FOR EXAMINER
USE ONLY

6. Lardy Ltd understands that there is a reduced rate for Climate Change Levy but does not know what this applies to and how to go about claiming it.

Provide three examples of processes that are eligible for the reduced rate of Climate Change Levy and explain how Lardy Ltd will claim the reduced rate.

	<ul style="list-style-type: none"> • supplies covered by climate change agreement 	
	<ul style="list-style-type: none"> • variations of ^{certificates} supplies under CCA 	
	<ul style="list-style-type: none"> • deemed supply 	
	<p>Must notify supplier on form PP1A</p>	
	<p>Supplier Certificate. Penalties will apply if</p>	
	<p>this is incorrect</p>	

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA



7. State, with brief explanations, the liability to Landfill Tax of the following disposals:

- 1) Domestic pets at a pet cemetery.
- 2) Household waste.
- 3) A disposal at a landfill site used to create or maintain a temporary haul road.
- 4) Building site waste.
- 5) Material dredged from a harbour.

	<ul style="list-style-type: none"> • exempt under s45 FA1996 	
	<ul style="list-style-type: none"> • taxable 	
	<ul style="list-style-type: none"> • taxable due to Waste recycling group 	
	<ul style="list-style-type: none"> • taxable 	
	<ul style="list-style-type: none"> • exempt under s43 FA1996 falls under 'water' 	

FOR EXAMINER
USE ONLY



DO NOT WRITE IN THIS AREA 3539 DO NOT WRITE IN THIS AREA

8. Stormcastle Ltd raised an invoice for £31,200 including Landfill Tax of £11,200 to Stevie Ltd. Stevie Ltd paid £10,000 towards the invoice but then went into administration. Stevie Ltd made supplies of gravel back to Stormcastle Ltd and was owed £3,000 by Stormcastle Ltd at the time the company went into administration. Stormcastle Ltd has accounted for the Landfill Tax in full to HM Revenue & Customs and has written off the debt due from Stevie Ltd.

You are required to:

- 1) State the value of Landfill Tax that potentially may be claimed through bad debt relief.
- 2) List the three checks that should be carried out by Stormcastle Ltd to determine whether Landfill Tax bad debt relief can be claimed.

total charge for disposal	=	£31,200
payment received	=	£10,000
Landfill tax	=	£11,200
amount of debt	=	£21,200 - 3000 = 18200
amount owed to Stevie	=	£3000

Bad debt claimable

$$\rightarrow \frac{18,200}{31,200} \times 11,200 = £6533$$

checks:

- 12 months has passed since the date of issue of landfill ^{of} _{invoice}
- the landfill invoice was issued within 14 days of disposal
- landfill ^{invoice} ~~tax~~ that was issued shows the amount of Landfill Tax in respect of disposal

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



9. Jimmy Ltd has undertaken the following activities at its landfill site:

- 1) Used 15 tonnes of municipal waste to cover the disposal area in May 2017 while there was a short cessation of activity.
- 2) Temporarily stored 20 tonnes of ashes in June 2017 from a local power station.
- 3) Used 25 tonnes of mineral material in September 2017 to form separate cells on the edge of the site as part of an engineered containment.
- 4) Used 10 tonnes of municipal waste in October 2017 to help maintain the hard standing at the site where some waste recycling is performed.
- 5) Used 30 tonnes of municipal waste in July 2017 to construct a permanent road on the site.

Calculate the Landfill Tax that Jimmy Ltd should have included in its Landfill Tax returns with regard to these activities, clearly showing your treatment of each item.

1) 15 tonnes \times $\pounds 84.40 = \pounds 1266$	
2) 20 tonnes \times $\pounds 2.65 = \pounds 53$	
3) not taxable due to WRG case	
4) on the basis that the hard standing is permanent this is not taxable	
5) not taxable due to WRG case	
Total Landfill Tax = $\pounds 1319$	

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA

3539

DO NOT WRITE IN THIS AREA



DO NOT WRITE IN THIS AREA

3003

10. Explain briefly when Stamp Duty Reserve Tax arises; when it is payable and provide three examples of chargeable securities.

FOR EXAMINER
USE ONLY

--



11. Farming Miles Ltd is a horticultural producer and wishes to understand more about claiming relief from hydrocarbon oil duty.

Explain what relief from hydrocarbon oil duty is available to Farming Miles Ltd, what documentation is required to make a claim and the time limits for submitting it.

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

--



12. Give five examples of the types of operations that can be carried out in an excise warehouse.

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

--

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

THIS PAGE IS LEFT INTENTIONALLY BLANK

MANI

Candidate Number

(Ensure this number matches
your candidate number on
your desk label and on your
candidate attendance letter)



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

8 November 2017

AWARENESS

Module G – Accounting

1. Zohaib started his own business on 1 October 2017 and opened a business bank account into which he paid £4,000. In the first week of trading he had the following transactions:

	£
Paid rent on his business premises for the week	800
Purchased goods on credit	1,000
Sold 90% of the goods for cash	2,400
Withdrew cash out of the business for personal living costs	300

Prepare the accounting equation at the end of the first week of October taking account of these transactions. Clearly show each balance in the accounting equation.

Capital = £4,000	
Assets = £2400 + 1000 - 800 = 2600	
Liabilities = 1000	
net assets = proprietors funds	
assets - liabilities = capital + profit/loss - drawings	
2600 - 1000 = 4000 - (2700 - 300)	
1600 = 4000 - (2700) - 300	
1600 = 1600	

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA

FOR EXAMINER USE ONLY.

2. Adam, a freelance architect, had the following transactions for the month of June 2017:

	£
Purchase of a computer for cash	2,000
Purchase of stationery for cash	500
Sales to clients on credit	8,000
Paid insurance in cash	600
Received cash 'on account' from a client	4,500

Prepare 'T' accounts to record the above transactions. You do not need to balance off the 'T' accounts.

Bank		Fixed Asset	
Debtors 4500	fixed asset £2000	Bank 2000	
	purchases £500		
	insurance £600		
Purchases		Sales	
Bank 500			Debtors 8000
Debtors		Insurance expense	
Sales 8000	Bank 4500	Bank 600	

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA

3. A trial balance of Wand Ltd at 31 March 2017 has been extracted by an office junior and the following issues have been identified:

- 1) The share capital of £1,700 has been omitted.
- 2) Some of the other balances have been extracted to the wrong side of the trial balance.
- 3) One figure has been transposed.

	<u>Debit</u>	<u>Credit</u>
	£	£
Fixed asset account		8,700
Purchases	3,600	
Bank overdraft	3,300	
Profit and loss reserve		4,000
Sales	5,100	
Rent paid	2,700	
	<u>14,700</u>	<u>12,700</u>

Prepare a corrected trial balance for Wand Ltd at 31 March 2017.

Trial balance for Wand Ltd at 31 March 2017		
	Debit	Credit
	£	£
Fixed asset account	8,700	
Purchases	3,600	
Share Capital		1,700
Bank overdraft		3,300
Sales		5,100
Rent paid	2,700	
Profit & loss reserve	4,700	4,000
	<u>15,000</u>	<u>15,000</u>

FOR EXAMINER
USE ONLY

4. Bernard purchased goods on credit from a supplier for £500. The supplier offered a 5% discount for payment within 14 days. Bernard made payment five days after purchase.

Bernard sold the goods three days after purchase for £800. Bernard buys goods to order so does not hold any stock.

You are required to:

- 1) Set out the double entries to record the transactions with the supplier, using debit/credit notation.
- 2) Calculate the mark-up for the goods sold.

	Dr Debtors £500	
	Cr Sales £500	
	Dr Purchases £500	
	Cr Creditors £500	
	Dr Creditors £500	
	Cr Discount received £25	
	Cr Bank £475	
	Dr Bank £800	
	Cr Sales £800	
	Sales £800 141%	
	Cost £475 100%	
	Profit £325 41% ← mark-up	
	$325/800 = 41\%$	

FOR EXAMINER
USE ONLY



5. Victory Ltd has been trading for many years as a building company. The following items relate to events in the year ended 31 March 2017.
- 1) During the construction of a housing estate by Victory Ltd many existing pavements were damaged. The contract for the project included a requirement for Victory Ltd to repair the existing pavements. The project was completed in February 2017 but the pavement repairs had not been undertaken by 31 March 2017. The repairs are expected to cost £8,000.
 - 2) An individual who purchased a property from Victory Ltd in January 2017 made a claim for compensation of £300,000 against the company. The individual claims that he received an electric shock as a result of poor workmanship by the company. The company disputes the claim and it is to be heard in court in the near future. The company's legal advisers are uncertain as to the outcome of the case.

Briefly explain how each of these events will be treated, in accordance with FRS 102, in the accounts to the year ended 31 March 2017.

	<p>① This should be recognised as a provision in the financial statements as it meets the conditions: there is a reliable estimate (£8000) there is a legal obligation for based on a past event; and it is probable that there will be a transfer of economic benefits to</p>	
	<p>② This is a contingent liability as it is an uncertain obligation as it fails to meet the provision conditions (not probable & the amount cannot be reliably estimated). It does not need to be recognised in the statements. However, a note should be included to detail this</p>	

FOR EXAMINER
USE ONLY

--

DO NOT WRITE IN THIS AREA

3539

DO NOT WRITE IN THIS AREA

6. The following facts relate to the business rates account of Chloette Trading for the year ended 31 December 2016:

- 1) There was a prepayment of business rates at 1 January 2016 of £1,500.
- 2) The local authority charged business rates as follows:

	£
Year ended 31 March 2016	10,000
Year ended 31 March 2017	11,200

- 3) Each year Chloette Trading pays its business rates in 10 equal monthly instalments from 1 April to 1 January inclusive.
- 4) Due to cashflow problems the payments due in October, November and December 2016 had not been paid by 31 December 2016.

Prepare a 'T' account for business rates for the year ended 31 December 2016. You must clearly show the profit and loss charge for the year and state whether there is a prepayment or accrual at the end of the accounting period.

<u>Business Rates</u>		
Dr	Cr	
Prepayment 1500	Prepayment 1500	
Bank 10000		
<u>Prepayment</u>		
	Ballbf 1500	business rates 1000

FOR EXAMINER USE ONLY

DO NOT WRITE IN THIS AREA

yle Mach 16 = £10000/12 x 3 months = £2500
£10,000/10 months = £1000 per instalment
£11200/10 mths = £1120 per instalment

FOR EXAMINER
USE ONLY

7. Ursula's business has a year end of 31 December. On 1 April 2014 she purchased machinery for use in her business for £30,000. Ursula has a policy of depreciating machinery at 25% per annum on a reducing balance basis.

On 25 October 2016 she sold the machinery for £15,000.

Ursula's business charges a full year of depreciation in the accounting period of purchase but none in the accounting period of disposal.

Prepare the completed 'T' account for the disposal of the machinery, clearly identifying the profit or loss on disposal to be shown in the accounts for the year ended 31 December 2016.

Disposals		Acc. Dep	
Machinery 30000	acc dep 13125	disposal 13125	dep charge 7500
	bank 15000		dep charge 5625
	P+L 1875		
30000	30000		
Machinery		Bank	
Bank 30000	disposal 30000	disposal 15000	machinery 30000
		Dep charge	
30000 x 25% = 7500 1st year			
30000 - 7500 = 22500			
22500 x 25% = 5625 2nd year			
Loss on disposal = £1875			

FOR EXAMINER
USE ONLY



DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY



8. In June 2017 Daniel leased two items of equipment for use in his business: one under an operating lease and the other under a finance lease. He is unsure about the different accounting treatment of each type of lease.

Briefly explain the accounting treatment of these two types of lease.

	<h2 style="text-decoration: underline;">Finance Lease</h2>	
	<p>The assets under a finance lease should be recorded in the balance sheet as it is treated the same as if the asset had been purchased outright. i.e. it transfers all the risks/rewards incidental to ownership. It is capitalised as a fixed asset and therefore is depreciated over its estimated useful life. Depreciation for finance leases is an allowable deduction for tax purposes. Accounting treatment is:</p> <ul style="list-style-type: none"> Or Fixed Asset Or Interest charge Or finance creditor Or finance creditor Or Bank 	
	<h2 style="text-decoration: underline;">Operating Lease</h2> <p>This is where the risks/rewards are not substantially transferred incidental to ownership.</p> <p>Daniel would debit lease charge and credit the bank for each lease payment made. It is taken to the profit & loss account rather than the balance sheet.</p>	

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

9. Harrison is in business selling beds. At 31 October 2017 he had two particular product lines that have been in stock for several months; the 'Slumber' and the 'Dream'. Set out below is financial information regarding these two product lines:

	<u>'Slumber'</u>	<u>'Dream'</u>	<u>Total</u>
	£	£	£
Original cost	3,000	2,000	5,000
Estimated selling price	7,000	1,800	8,800
Selling and distribution costs	500	300	800

You are required to:

- 1) Calculate the value of Harrison's stock of the two product lines at 31 October 2017.
- 2) Set out the double entry to record the closing stock at 31 October 2017.

	Dr Stock	£4500	
	Cr P&L	£4500	
<p>Stock is valued at the lower of cost or Net Realizable Value which is estimated selling price - costs to complete product.</p>			
	Slumber	Dream	Total
	Cost	£3000	£2000
	NRV	£6500	£1500
	(7000-500)	(1800-300)	
	Stock value	£3000	£1500
	(3000 is lower)		<u>£4500</u>

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA

10. Tariq is preparing his accounts for the year ended 30 September 2017. His trade debtors at 30 September 2017 were £20,000. After a review of the individual accounts he has decided to make the following adjustments:

	£
Create a provision for doubtful debts	500
Write off a debt due from a customer	470

During the year ended 30 September 2017 he received £250 from a customer relating to a debt that he wrote off in the accounts for the year ended 30 September 2016.

Prepare completed 'T' accounts for the trade debtors, the bad debts expense and the provision for doubtful debts accounts for the year ended 30 September 2017.

Debtors		Bad debt	
bal bf 20000	470 Bad debt	Provision for doubtful debts 500	Bank 250
	19530 bal cf	470 debtors	P&L 720
20000	20000		
Bal bf 19530		970	970
Provision for doubtful debts			
Bal cf 500	bad debt 500		
500	500		
	Bal bf 500		

FOR EXAMINER USE ONLY

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

FOR EXAMINER
USE ONLY

11. Sandra considered setting up her new business as either a company or as a sole trader. She decided to trade through a company due to her long-term plans and paid £25,000 for 10,000 newly issued £1 ordinary shares.

Sandra's long-term plans include a significant expansion of the business within two to five years for which substantial funding will be needed. Eventually she would like to pass the management of the business on to her children, but still draw some income from the business.

You are required to:

- 1) Set out the double entry to record the issue of the shares to Sandra, using debit/credit notation.
- 2) Briefly explain the non-tax advantages of trading through a company rather than as a sole trader based on Sandra's long-term plans.

	<p>①</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Dr Bank</td> <td style="width: 50%; text-align: right;">£25,000</td> </tr> <tr> <td style="padding-left: 20px;">Cr Share Capital</td> <td style="text-align: right;">£10,000</td> </tr> <tr> <td style="padding-left: 20px;">Cr Share Premium</td> <td style="text-align: right;">£15,000</td> </tr> </table>	Dr Bank	£25,000	Cr Share Capital	£10,000	Cr Share Premium	£15,000	
Dr Bank	£25,000							
Cr Share Capital	£10,000							
Cr Share Premium	£15,000							
	<p>25 10000 x £1 = £10000 10000 x</p>							
	<p>$25000 \div 10000 = \text{£}2.50$ per share $10000 \times \text{£}1.50 = \text{£}15000$ share premium</p>							
	<p>② It will be easier to ^{obtain} finance as the company could issue more shares, which could help fund the planned expansion</p>							
	<p>A com Sandra can still have control of the company and not have a day to day role within the company, she can</p>							
	FOR EXAMINER USE ONLY							

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

simply receive her dividends from the shares owned.

Also, an advantage is that the company would still exist for her children if she passed away, whereas if it was a sole trader business this would cease to exist unless it was sold to someone else.

FOR EXAMINER
USE ONLY

12. Eleman Ltd prepares its financial statements to 31 March each year.

For the year ended 31 March 2017, the company had an accounting profit of £200,000.

This is stated after charging/crediting:

	Income/ (Expense)
	£
X10 Depreciation	(6,000)
P Entertaining of customers	(2,400)
Donation to a UK registered charity	(4,000)
P Dividends received from investments	9,500

X10 The company had capital allowances for the period of £7,900. The actual Corporation Tax liability for the year ended 31 March 2017 at 20% was £38,200.

Prepare an FRS 102 reconciliation for Eleman Ltd for the year ended 31 March 2017 to show the difference between the expected and actual tax charge. Separately identify the tax effects of permanent differences and timing differences.

Assume Corporation Tax rates will remain at 20% into the future.

Actual Tax charge	£ 38,200
Tax effect of permanent differences	
- Dividends $9500 \times 20\%$	1900
- Entertaining $2400 \times 20\%$	<u>(480)</u>
	1420
Tax effect of timing differences	
- Capital allowances $7900 \times 20\%$	1580
- Depreciation $6000 \times 20\%$	380 <u>(1200)</u>
	380
Expected tax charge	£40,000
working expected tax charge $200000 \times 20\% = £40000$	

FOR EXAMINER
USE ONLY

DO NOT WRITE IN THIS AREA



DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

THIS PAGE IS LEFT INTENTIONALLY BLANK

MANI