

UNIVERSITY OF BOLTON
RAS AL KHAIMAH CAMPUS
SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES
ACCOUNTANCY PATHWAY
SEMESTER 1 EXAMINATION 2010/2011
PERSONAL AND BUSINESS TAXATION
MODULE NO: ACC2507

Date: Monday 17th January 2011

Time: 2.00pm – 5.00pm

INSTRUCTIONS TO CANDIDATES:

There are **THREE** questions.

Answer **ALL** questions.

The recommended text book may be referred to in this examination.

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Question 1

Quality Cloth Limited is a manufacturer of quality clothing which makes its accounts up to the 31st March each year.

Its Trading and Profit and Loss account for the year ended 31st March 2011 is as follows:

Sales		787,315
Cost of sales		<u>(731,118)</u>
Gross profit		56,197
Add miscellaneous income (note 1)		<u>5,142</u>
		61,339
Less expenses:		
Salaries	4,705	
Rent rates and insurance	1,650	
Lighting and heating	1,291	
Motor expenses	7,402	
Repairs and renewals (note 2)	10,011	
General expenses (note 3)	8,117	
Depreciation	5,483	
Debenture interest paid (trading, gross)	7,500	
		<u>46,159</u>
Profit before taxation		<u>15,180</u>

You are given the following information:

1. Miscellaneous income comprises:	£
Profit on sale of plant and machinery	1,542
Dividend from UK company received 15.6.10	900
Building society interest received gross, non trade	1,800
Bank interest received gross, non trade	900
	<u>5,142</u>

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QUESTION ONE CONTINUED

2. Repairs and renewals comprise:

Repairs to new premises, needed to make them usable	2,502
Portable office partitioning	2,509
New microcomputers	<u>5,000</u>
	<u>10,011</u>

3. General expenses comprise:

	£
Bad debts written off	1,123
Increase in general bad debt provision	1,000
Legal costs of renewal of lease for 20 years	557
Entertaining	1,532
Promotional gifts of bottles of wine	2,055
Gift Aid Payment	100
Theatre outing for staff	<u>1,750</u>
	<u>8,117</u>

4. Capital allowances pools brought forward are £21,550.

5. The debenture interest received is in respect of a trade loan.

Requirement :

- a) Compute the taxable total profits for Quality Cloth limited for the accounting period ended 31 March 2011.
- b) Calculate the corporation tax liability and state its due date for payment.

(Total 35 marks)

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Question 2

Graham, who is an interior designer for Fabulous Designs Limited, was re-located from London to Manchester on 6 April, 2010. His annual salary is £48,000. He was immediately provided with a house with an annual value of £4,000 for which his employer paid an annual rent of £3,500. Graham was reimbursed relevant relocation expenditure of £12,000. Fabulous Designs Limited provided ancillary services for the house in 2010/11 as follows:

	£
Electricity	700
Gas	1,200
Water	500
Council tax	1,300
Property repairs	3,500

The house had been furnished by Fabulous Designs Limited prior to Graham's occupation at a cost of £30,000. On 6 October, 2010 Graham bought all of the furniture from Fabulous Designs Limited for £20,000 when its market value was £25,000.

Fabulous Designs Limited had made a loan to Graham in 2008 of £10,000 at a rate of interest of 2%. The loan is not being used for a 'qualifying purpose'. No part of the loan has been repaid.

Graham was provided with a 1800 c.c. petrol engine company car from the start of the tax year with CO₂ emissions of 186 g/km. It had a list price of £18,500 when new in August 2007 and has had no accessories added. Fabulous Designs Limited paid for the petrol for all the mileage done by Graham until 5 December, 2010. On 5 December, 2010 the company discontinued the company car scheme and sold the car to Graham for £5,000, its market value at that date. His mileage from 6 April 2010 to 5 December 2010 was 20,000 of which 13,000 was on business. After that date Graham no longer used his car for business.

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QUESTION TWO CONTINUED

Required:

- a) Calculate the total income amount chargeable to income tax on Graham for the year 2010/11. Assume an official rate of 5% per annum. Calculate his monthly Class 1 National Insurance contribution (he has not contracted out), and state the employer's secondary contribution on his behalf.

(35 marks)

- b) Graham's wife is considering setting up her own business. Advise her of the difference between allowable and disallowable expenditure and (with examples) how they affect her tax liability calculation.

(10 marks)

- c) She has also asked for your advice about capital allowances and why they need to be calculated when her accountants have already talked about depreciation. Distinguish between capital allowances and depreciation and explain how the Annual Investment Allowance will help to encourage investment for small businesses.

(10 marks)

(Total 55 marks)

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Question 3

When deciding whether or not a trade is being carried on, HMRC is often guided by the “badges of trade”.

Assess (with examples of the “badges of trade”) the extent to which the “badges of Trade” provide a useful basis from which HMRC may determine trading activities to be being undertaken.

(Total 10 marks)

(Paper total 100 marks)

END OF QUESTIONS