

**UNIVERSITY OF BOLTON RAS AL KHAIMAH**

**BUSINESS AND CREATIVE TECHNOLOGIES**

**ACCOUNTANCY PATHWAY**

**SEMESTER 2 EXAMINATIONS 2010/2011**

**PERSONAL AND BUSINESS TAXATION**

**MODULE NO: ACC2507RAK**

Date: 31<sup>st</sup> May 2011

Time: 5:00pm – 8:00pm

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**INSTRUCTIONS TO CANDIDATES:**

There are three questions on this paper.

Answer ALL questions.

The recommended textbook may be referred to in the examination.

No hand written notes or inserts may be taken into the exam

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**Question 1**

You are a tax supervisor working for a firm of certified accountants and one of your clients is Fish Limited, a manufacturer and distributor of microwaveable fish. The company has been expanding over the last few years and recently acquired an industrial unit which was converted to industrial kitchen facilities together with an area for packaging & distribution. There is also office space within the building from which the proprietors Mr & Mrs Jones together run the business.

The company has still not sold the old shop front premises so are renting them out on a 6 month lease.

There is very little stock of finished goods held and the raw materials are perishable so there are specific storage & refrigeration issues which still need to be addressed.

The following draft information has been prepared by the book-keeper for your use:

**Fish Limited****Statement of comprehensive income for the year ended 31 March 2011**

	Note	£	£
Sales			355,322
Cost of sales			<u>(200,199)</u>
Gross profit			155,123
<b><u>Sundry income</u></b>			
Discounts received		1,450	
Bank interest		301	
Rent receivable	1	<u>6,000</u>	
			<u>7,751</u>
			162,874
<b>Less:</b>			
Directors remuneration	2	11,600	
Wages & salaries		28,356	
Entertaining & advertising	3	15,639	
Legal & Professional	4	7,740	
Light & Heat		11,680	
Depreciation		2,365	
Equipment leasing costs		8,975	
Bad & doubtful debts	5	2,938	
Subscriptions & donations	6	623	
Bank interest and charges		1,248	
Sundry	7	3,029	
Repairs & renewals	8	16,473	
Provision for cost of new computer system	9	7,200	
			<u>(117,866)</u>
Net profit			<u>45,008</u>

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QUESTION ONE CONTINUED

**Notes**

**1 Rent receivable**

This represents the rent payable by the tenant for the old shop premises. All rent has been paid up front but the tenant agreed £1,000 p.m and has been in the premises for 3 months to date.

**2 Directors remuneration**

The directors have been advised to draw minimal salary and the remainder as dividends. They are not sure as to why this should be the case, but the accountants run their payroll and tell them that this is the most tax-efficient way to operate. They take dividend income of £1,000 each per month.

**3 Entertaining and advertising**

This comprises:

	£
Entertaining UK customers	6,368
Christmas gifts to customers (this year, a diary was chosen with the company logo at a cost of £5.50 per customer)	550
Christmas party for staff (£38 per head)	190
Advertising	8,531
	<u>15,639</u>

**4 Legal & professional**

	£
Accountancy fees	3,250
Book-keeping	2,400
Legal fees re acquisition of premises	1,565
Legal fees re contract for renting old premises	550
Legal fees re unfair dismissal claim from ex-employee	<u>975</u>
	<u>7,740</u>

**5 Bad & doubtful debts**

	£
Bad debt write-off	938
Increase in general provision	<u>2,000</u>
	<u>2,938</u>

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## QUESTION ONE CONTINUED

**6 Subscriptions & donations**

	£
Subscription to Federation of Small Business	175
Donation to Cancer Research	200
Donation to local hospice	165
Subscription to Food Hygiene Institute*	83
	<u>623</u>

\* This Institute regulates pre-packed food manufacturing

**7 Sundry**

	£
Telephone costs	896
Rates	1,354
Postage & stationery	616
Other - allowable	163
	<u>3,029</u>

**8 Repairs & renewals**

	£
Erection of new moveable partitions within the unit to separate office area	4,193
Office furniture	1,792
Redecoration of whole industrial unit	2,950
Small cooking equipment (<£2,500)	5,643
Maintenance of machinery	1,895
	<u>16,473</u>

**9 Provision for new computer system**

The book-keeper has just been on a refresher Sage accounting course and on the grounds of prudence, decided to accrue for the expense, since the company knew that the costs of purchasing a new system will be incurred in the next month or so.

**10 Capital Allowances**

Balances b/f at 1 April 2010 are as follows:

		£
	General pool	25696
	Audi car (private use by director 25%)	42,000
	Jaguar (private use by director 15%)	26,000
Additions	New Jaguar	38,000
	Machinery	60,600
Disposals	Jaguar	24,950

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QUESTION ONE CONTINUED

**11 Losses**

The company has b/f trading losses of £51,709

**Required:**

Calculate the corporation tax payable by Fish Limited for the year ended 31 March 2011

**(40 marks)**

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**Question 2**

Fish Limited has two directors Mr & Mrs Jones. The following information is available in respect of them:

	Mr Jones	Mrs Jones
	£	£
Director's salary	5,800	5,800
Dividends drawn from Fish Ltd	12,000	12,000
Dividend income from other investments	3,600	29,750
Bank interest	360	
Building Society interest		16,200
Rental income from overseas villa		8,680
Rental income from apartment	9,000	

Mr Jones drives the Jaguar car. The car has a list price of £38,000 and has an emission rating of 135g/km. all private petrol is paid for by the company.

Mr Jones rents out his apartment on an unfurnished basis. Relevant expenses for the year are as follows:

	£
Council tax	690
Water rates	195
Insurance	230
Minor repairs	326

Mr Jones also undertakes some consultancy teaching work at the local college one day per week. He is paid on a self-employed basis but only teaches term-time with pre-determined hours and does not choose what subjects he teaches. He is paid all year round and has had a month off so far this academic year and still received his pay. His monthly consultancy fee is £800.

**Required: Calculate the income tax liability for Mr Jones for 2010/11**

**(15 marks)**

QUESTION TWO CONTINUED ON THE NEXT PAGE

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QUESTION TWO CONTINUED

Mrs Jones drives the Audi which has a list price (new) of £45,000 and an emission rating of 185g/km.

Her investment income is as a result of an inheritance left by a great aunt. She is wondering whether to sell the shares and loan the cash to Fish Limited in order to fund further expansion.

**Required: Prepare the income tax liability for Mrs Jones for 2010/11**

**(15 marks)**

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**Question 3**

**Required:**

Prepare a covering letter to Mr & Mrs Jones explaining the computations you prepared in questions 1 & 2. In addition, Mr Jones has asked you to advise on his employment status with the local college. Mrs Jones has asked you to explain any implications of her loaning her personal money to the company.

**(30 marks)**

**END OF QUESTIONS**