

UNIVERSITY OF BOLTON

OFF CAMPUS DIVISION

IDM - BOTSWANA

BA (HONS) ACCOUNTANCY

SEMESTER 1 EXAMINATIONS 2019/20

PERSONAL AND BUSINESS TAXATION

MODULE NO: ACC5003

Date: Thursday 16 January 2020

Time: 3 hrs

INSTRUCTIONS TO CANDIDATES:

There are 5 questions in this examination; answer **ALL three** questions from section A and **ONE** question from section B:

This is a closed book examination.
Tax tables are provided.

You must hand in this exam paper
with your answer booklet.

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Section A answer ALL questions in this section

QUESTION 1

You work as a tax assistant in a local firm of Chartered Accountants, one of your clients Mr A Senna (who is a sole trader) has completed their year-end financial statements for the year ended 31 December 2019 and these have been passed to you. The Tax partner is currently off sick but has left you the client's tax files which include a number of notes that he made during his client meeting. The notes below are all relevant to the financial year just ended:

Revenue		£
		3,555,300
Operating costs	Note 1 & 4	(2,133,400)
		1,421,900
Profit on disposal of land	Note 2	840,000
Loss on sale of plant and equipment	Note 2	(9,200)
Interest received	Note 3	222,000
Profit before tax		2,474,700

Notes:

Note 1

Operating costs include the following:

	£
Depreciation	304,066
Entertaining customers (£30 each)	16,500
Entertaining all staff (£40 each)	1,600
Political donation	3,000
Calendars and diaries all with the company logo and telephone number (£25 each)	18,400
Payment of Mr A Senna's tax and NIC's from 2018	15,000
Repairs of machine purchased in the financial year to 31 December 2016	14,200
Repairs to a machine purchased in the year which could not be used until the repairs had been carried out	8,600
Legal fees in respect of debt collection	2,400
Wages to Mrs Senna who works as a manager in the business	21,000
Wages to Mr Senna's daughter who is at University and never worked in the business	4,800
Purchase of a new office heating system	16,000
Fine for breach of Government health and safety regulations	8,400

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Question 1 continued

Note 2

The disposal of the land gave rise to a chargeable gain which should be taxed under capital gains rules and not subject to income tax. The property plant and equipment was sold for £9,000 and had a carrying value of £18,200 at the date of disposal.

Note 3:

Included in the interest receivable is an amount of £18,000 in respect of an investment bank account held personally by Mr A Senna.

Note 4:

Mr A Senna took goods from the business for personal use, the cost of these goods amounted to £8,000. He makes a gross profit margin on his sales of 20% and he paid £8,000 into the business bank account when he took these goods.

Required:

Calculate the adjusted taxable trading profit for Mr A Senna's 31 December year end. In addition, briefly explain the reasons behind the adjustments you have made **PLUS** any items you have decided are not required for adjustment in your computation.

(30 marks)

End of question 1

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Question 2

You have been asked by the tax partner of your practice (Button and Hamilton LLP) to assist with the tax computation for a new client Coulthard Ltd. Coulthard Ltd operates in the motor sports area and manufactures race cars for junior racing teams that race in the University of Bolton Formula Graduate series. The company started trading on 1 October 2018 and his first accounting date was 31 March 2019 where the company made a pre tax profit of £328,000 (adjusted for tax purposes for the 6 month period) and the company made an adjusted pre tax profit (which has already been adjusted for tax purposes) of £1,358,000 for the year ended 31 March 2020 financial year end. You have been provided with the following information in relation to the purchases and sale of assets over those two accounting periods:

		£
5 October 2018	Purchased plant and equipment	260,000
5 October 2018	Bought a transit van (emissions 212g/km)	32,400
17 November 2018	Bought an Audit A7 (emissions 153g/km)	37,200
23 December 2018	Bought desks, chairs, cupboards for office	9,600
9 February 2019	Bought Smart car (emissions 102g/km)	18,400
17 April 2019	Sold the Smart car (purchased 9 February 2019)	19,200
17 April 2019	Bought Ford ST24 car (emissions 110g/km)	31,000
30 November 2019	Sold some of the machinery that had cost £23,000 when purchased on 5 October 2019	16,600
7 February 2020	Purchased some new machinery to replace that sold on 7 November 2019 (more efficient for production)	60,000

Required:

Prepare a capital allowances computation **AND** compute the corporation tax payable by Coulthard Ltd for each accounting period ended 31 March including the balances on the capital allowances pools carried forward at each period end (round to nearest £). **(25 Marks)**

End of Question 2

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Question 3

You have been approached by one of your clients (Mr F Williams) in respect of completing their personal tax return for the fiscal year to 5 April 2020. They have told you that during the year they were employed as a motor sports technical support officer and they received gross pay of £62,000 before PAYE and National Insurance Contributions amounting to £4,250 were deducted. In addition to his salary he was provided with a petrol Mercedes car with emissions of 133g/km, the car originally cost the company £28,000 however the list price was £32,000, his employer covered all running costs of this car. He was also supplied with a mobile telephone at a cost of £1,000 and the company also paid £1,100 in respect of private medical insurance. On 6 October 2019 he was provided with living accommodation by his employer as he needed to work away from home, the house was purchased several years ago by the company at a cost of £185,000 and has a rateable value of £6,550 (HMRC official rate of interest 2.5%). The home was also furnished with beds, sofa's, TV etc which cost the company £12,300. During the year, Mr Williams received NET bank interest of £2,400 on his savings and he also received dividends on his investments in UK company shares of £28,000.

Required:

Prepare the income tax liability of Mr Williams for the 2019/20 tax year, clearly showing **ALL** workings (work to the nearest £).

(25 Marks)

End of Question 2

End of Section A

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Section B answer ONE question only from this section

Question 4

One of your clients who was recently made redundant has sought your advice over a business they are planning on setting up. Mr Prost is a highly skilled motor sport strategist and is planning to either do some consultancy work for the Formula Bolton motor sport series teams and/or selling motor sport memorabilia on the internet, however he may only have one client who is potentially interested in securing his services for a number of years. In addition, Mr Prost is a motor car enthusiast, he likes to buy sports cars and use them until something more appealing is for sale when he then sells his car and buys a new car. These sales and purchases may occur during the year, alternatively he may keep hold of his car for a few years until an appealing car becomes available.

Required:

Write a report to Mr Prost in relation to the situations above, you should clearly outline any HMRC issues that may arise as well as applying the badges of trade concept to the situations above (not you are providing **TAX** advice only and **NOT** business advice).

(20 Marks)

End of Question 4

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Question 5

Mr Kubicka has been working as a freelance motorsports photographer for several years, he started his business on 1 July 2015 with an accounting period end date of 31 December each financial year, as a result of a full time job offer from a competitor her ceased trade on 30 September 2020. His results are as follows:

Period/ year to	Profits £
31 December 2015	16,800
31 December 2016	18,400
31 December 2017	21,000
31 December 2018	15,000
31 December 2019	12,800
30 September 2020	11,600

Required:

Computer Mr Kubicka's profits for each fiscal year, clear state the amount of any overlap reliefs (show ALL workings - your workings should include the dates each period covers).

(20 Marks)

END OF QUESTIONS