Think Ahead ACCA

# CBE-Style Question Practice for F6

## Introduction

This collection of questions is designed to allow you to practice answering questions in an environment similar to that of the live exams, even when you cannot access ACCA's online support resources.

1. This interactive PDF will allow you to answer Objective Test (OT) and OT Case questions similar to the styles that appear in sections A and B in the live exam.
2. Questions in the style of the constructed response (CR) questions that appear in section C in the live exam can be accessed in the accompanying spreadsheet.
3. These documents can be saved and submitted for marking.
4. The questions are organised into broad topic areas, as indicated on the Contents page.

**Some important points to note are as follows:**

- These documents cannot replicate the exact functionality of the live exam environment but will provide a similar experience
- The questions are presented in a way which closely mirrors, but is not the same as the live exam
- If you have not done so already, please refer to the full specimen exam and other resources available at www.accaglobal.com/uk/en/student/exam-support-resources.html
- The full specimen exam has been prepared by ACCA's examining team and reflects the live exam experience in terms of its structure, range of questions and functionality, and these resources should be a key part of your preparation for the exam.

**The content for this F6 question pack has been provided by BPP Learning Media and may feature in the BPP Q&A banks.**

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*See related spreadsheet file for constructed response questions

# Topic 1 – Introduction to tax

## QUESTION 1

**Which TWO of the following have legal force?**

(1) Revenue and Customs Brief
(2) A Statutory Instrument
(3) An Act of Parliament
(4) An Extra Statutory Concession

- ○ 1 and 2
- ○ 2 and 3
- ○ 1 and 3
- ○ 2 and 4

**(2 marks)**

## QUESTION 2

**Which TWO of the following types of income are exempt from income tax?**

(1) Interest on an NS&I Investment account
(2) Premium bond prizes
(3) Interest on UK Government stocks ('gilts')
(4) Dividends on shares held in an Individual Savings Account

- ○ 1 and 2
- ○ 1 and 4
- ○ 2 and 3
- ○ 2 and 4

**(2 marks)**

## QUESTION 3

Petunia is a single parent with a two year old son. She receives child benefit of £1,076 in the tax year 2016/17. Petunia has net income of £57,000 in 2016/17 and she made gross personal pension contributions of £2,000 during 2016/17.

**What is Petunia's child benefit income tax charge for the tax year 2016/17?**

- ○ £1,076
- ○ £430
- ○ £538
- ○ £753

**(2 marks)**

## QUESTION 4

**Which of the following statements correctly explains the difference between tax evasion and tax avoidance?**

- ○ Both tax evasion and tax avoidance are illegal, but tax evasion involves providing HM Revenue and Customs with deliberately false information.
- ○ Tax evasion is illegal, whereas avoidance involves the minimization of tax liabilities by the use of lawful means
- ○ Both tax evasion and tax avoidance are illegal, tax evasion involves providing HM Revenue and Customs with deliberately false information.
- ○ Tax avoidance is illegal, whereas tax evasion involves the minimization of tax liabilities by the use of any lawful mean.

**(2 marks)**

## QUESTION 5

Samuel is planning to leave the UK to live overseas, having always previously been resident in the UK. Neither the automatic overseas residence nor the automatic UK residence test will apply. Samuel has several ties with the UK and will need to visit the UK for 60 days each tax year. However, he wants to be not resident after he leaves the UK.

**For the first two tax years after leaving the UK, what is the maximum number of ties which Samuel could keep with the UK without being treated as resident in the UK?**

- ○ One
- ○ Three
- ○ Two
- ○ Four

**(2 marks)**

**(TOTAL: 10 marks)**

# Topic 2 – Employment income

## QUESTION 6

*See related spreadsheet file for constructed response questions

## THE FOLLOWING SCENARIO RELATES TO QUESTIONS 7 – 11.

**Joe**

On 31 December 2016 Joe resigned as an employee of Firstly plc, and on 1 January 2017 commenced employment with Secondly plc. He received a salary and taxable benefits from both Firstly plc and Secondly plc. He is paid monthly by both Firstly plc and Secondly plc.

Secondly plc has 700 employees. It filed its PAYE return due on 31 January 2017 on 4 April 2017. This was the second return that it had submitted late in the tax year 2016/17.

## QUESTION 7

**Which TWO of the following statements about Joe's PAYE tax code are correct?**

- ☐ The code number for Joe, if he was only entitled to a personal allowance, would be 1100L.
- ☐ Joe's tax code cannot be adjusted for unpaid tax on income from earlier years.
- ☐ Joe's tax code will be applied to his salary when calculating the amount of income tax that has to be paid each month under the PAYE system.
- ☐ Joe's employer will be issued with the tax code at the start of the tax year and must use the same code throughout the tax year.

**(2 marks)**

## QUESTION 8

**By what date and by whom must Joe be provided with PAYE form P45?**

| | *Date* | *By whom* |
|---|---|---|
| ○ | 31 May 2017 | Firstly plc |
| ○ | 31 May 2017 | Secondly plc |
| ○ | 31 December 2016 | Firstly plc |
| ○ | 31 December 2016 | Secondly plc |

**(2 marks)**

## QUESTION 9

**By what date and by whom must Joe be provided with PAYE form P60?**

| | *Date* | *By whom* |
|---|---|---|
| ○ | 31 May 2017 | Firstly plc |
| ○ | 31 May 2017 | Secondly plc |
| ○ | 6 July 2017 | Firstly plc |
| ○ | 6 July 2017 | Secondly plc |

**(2 marks)**

## QUESTION 10

**By what date must Joe be provided with PAYE form P11D and what information will it contain?**

| | *Date* | *What information* |
|---|---|---|
| ○ | 31 May 2017 | Cash equivalents of the benefits |
| ○ | 31 May 2017 | Total taxable earnings |
| ○ | 6 July 2017 | Cash equivalents of the benefits |
| ○ | 6 July 2017 | Total taxable earnings |

**(2 marks)**

## QUESTION 11

**What is the penalty that may be imposed by HMRC on Secondly plc for the late filing of its PAYE return due on 31 January 2017?**

£ _____

**(2 marks)**

**(TOTAL: 10 marks)**

# Topic 3 – Investment income

## THE FOLLOWING SCENARIO RELATES TO QUESTIONS 12 – 16.

**Rosie and Sam**

You should assume that today's date is 15 February 2017.

**Rosie**

Rosie is the managing director of Hornburg plc. During the tax year 2016/17 Rosie was paid gross director's remuneration of £220,000 and she received dividend income of £500,000. She has made the following gross personal pension contributions:

| *Tax year* | *Pension contribution* |
|---|---|
| | £ |
| 2013/14 | Nil |
| 2014/15 | 26,000 |
| 2015/16 | Nil |

Rosie was a member of a pension scheme for the tax year 2015/16 but not in the tax year 2013/14.

**Sam**

In September 2015 Sam invested £7,000 in a cash ISA. In May 2016 he invested a further £6,000 in that cash ISA. He withdrew £5,000 from the cash ISA in October 2016. Sam is now considering investing more cash into the cash ISA before 5 April 2017. He also invested £4,000 in premium bonds and government securities ('gilts') in the tax year 2016/17.

## QUESTION 12

**What is total amount of pension scheme annual allowances that Rosie has available for the tax year 2016/17?**

- ○ £114,000
- ○ £64,000
- ○ £94,000
- ○ £54,000

**(2 marks)**

## QUESTION 13

**What are the tax implications if Rosie makes pension contributions in excess of her available annual allowances?**

- ○ Charge at 25% on excess contributions
- ○ Charge at 55% on excess contributions
- ○ Charge at 20% on excess contributions
- ○ Charge at 45% on excess contributions

**(2 marks)**

## QUESTION 14

**What are the tax consequences for Rosie if she takes pension benefits under flexible access drawdown?**

| *Lump sum* | *Rest of pension fund* |
|---|---|
| ○ Up to 10% of fund can be taken tax-free | Taxable as pension income when received |
| ○ Up to 10% of fund can be taken as tax-free lump sum | 5% of fund taxable as pension income each year whether or not received |
| ○ Up to 25% of fund can be taken as tax-free lump sum | Taxable as pension income when received |
| ○ Up to 25% of fund can be taken as tax-free lump sum | 5% of fund taxable as pension income each year whether or not received |

**(2 marks)**

## QUESTION 15

**What is the maximum amount that Sam can invest into the cash ISA for the tax year 2016/17 in addition to his investments already made?**

- ○ £9,240
- ○ £14,240
- ○ £7,240
- ○ £10,240

**(2 marks)**

## QUESTION 16

**What are the income tax and capital gains tax treatments of Sam's investments in premium bonds and government securities?**

| *Premium bonds* | *Government securities* |
|---|---|
| ○ Exempt from income tax, chargeable to capital gains tax | Chargeable to income tax and capital gains tax |
| ○ Exempt from both income tax and capital gains tax | Chargeable to income tax, exempt from capital gains tax |
| ○ Chargeable to income tax and capital gains tax | Exempt from both income tax and capital gains tax |
| ○ Chargeable to income tax, exempt from capital gains tax | Exempt from income tax, chargeable to capital gains tax |

**(2 marks)**

**(TOTAL: 10 marks)**

# Topic 4 – Trading income assessments

## QUESTIONS 17 & 18

See related spreadsheet file for constructed response questions

# Topic 5 – Other aspects of earnings

**QUESTIONS 19 – 22**

See related spreadsheet file for constructed response questions

# Topic 6 – Chargeable gains

## QUESTION 23

See related spreadsheet file for constructed response questions

# Topic 7 – Further chargeable gains, inheritance tax and self-assessment

## THE FOLLOWING SCENARIO RELATES TO QUESTIONS 24 – 28.

**Nim**

Nim disposed of the following assets during the tax year 2016/17:

(1) On 20 July 2016 Nim made a gift of 10,000 £1 ordinary shares in Kapook plc to his daughter. On that date the shares were quoted on the Stock Exchange at £3.70 – £3.80. Nim has made the following purchases of shares in Kapook plc:

| | |
|---|---|
| 19 February 2004 | 8,000 shares for £16,200 |
| 6 June 2009 | 1 for 2 rights issue at £3.65 per share |
| 24 July 2016 | 2,000 shares for £5,800 |

Nim's total shareholding was less than 5% of Kapook plc, and so holdover relief is not available.

(2) On 13 August 2016 Nim transferred his entire shareholding of 5,000 £1 ordinary shares in Jooba Ltd, an unquoted company, to his wife. On that date the shares were valued at £28,200. Nim's shareholding had been purchased on 11 January 2010 for £16,000.

(3) On 26 November 2016 Nim sold an antique table for net proceeds of £8,700 after deducting the sale costs of £300. The antique table had been purchased for £5,200.

**Other information**

Nim has unused capital losses of £15,800 brought forward from the tax year 2015/16.

## QUESTION 24

**What are the deemed proceeds of the shares in Kapook plc sold on 20 July 2016?**

- ○ £37,000
- ○ £37,250
- ○ £37,500
- ○ £38,000

**(2 marks)**

## QUESTION 25

**What is the total cost of the shares in Kapook plc sold on 20 July 2016?**

- ○ £26,333
- ○ £28,500
- ○ £25,667
- ○ £20,533

**(2 marks)**

## QUESTION 26

**Which TWO of the following statements about capital gains tax for Nim and his wife are correct?**

- [ ] Nim's wife will take the Jooba Ltd shares at market value at the date of the transfer
- [ ] Nim will have deemed proceeds on the transfer of the Jooba Ltd shares to his wife so that neither a gain nor a loss will arise
- [ ] The transfer of the Jooba Ltd shares is exempt from capital gains tax because it is between spouses
- [ ] Nim's wife will not be able to transfer her annual exempt amount to Nim

**(2 marks)**

## QUESTION 27

**What is the gain on the sale of the antique table on 26 November 2016?**

- ○ £4,500
- ○ £5,000
- ○ £3,500
- ○ £800

**(2 marks)**

## QUESTION 28

**Assuming that Nim had chargeable gains of £20,000 in the tax year 2016/17, what is the amount of the loss brought forward from 2015/16 which will be carried forward to 2017/18?**

£ _____

**(2 marks)**

**(TOTAL: 10 marks)**

## THE FOLLOWING SCENARIO RELATES TO QUESTIONS 29 – 33.

**Ernest**

You should assume that today's date is 30 June 2017.

You are a trainee Chartered Certified Accountant and your firm is dealing with the tax affairs of Ernest.

Ernest's self-assessment tax return for the tax year 2015/16 was submitted to HM Revenue & Customs (HMRC) on 15 May 2016 and Ernest paid the resulting income tax liability by the due date. However, you have just discovered that during the tax year 2015/16 Ernest disposed of a freehold property, the details of which were omitted from his self-assessment tax return. The capital gains tax liability in respect of this disposal is £18,000 and this amount has not been paid.

Ernest has suggested that since HMRC's right to make a compliance check enquiry into his self-assessment tax return for the tax year 2015/16 expired on 15 May 2017, no disclosure should be made to HMRC of the capital gain.

## QUESTION 29

**Identify, by clicking on the relevant boxes in the table below, whether each of the following statements concerning tax evasion and tax avoidance is true or false.**

| | | |
|---|---|---|
| Tax evasion is illegal | **TRUE** ☐ | **FALSE** ☐ |
| Both tax evasion and tax avoidance are illegal | **TRUE** ☐ | **FALSE** ☐ |
| Tax avoidance involves any legal method of reducing the taxpayer's tax burden | **TRUE** ☐ | **FALSE** ☐ |
| Tax evasion always involves providing HM Revenue and Customs with false information | **TRUE** ☐ | **FALSE** ☐ |

**(2 marks)**

## QUESTION 30

**Which TWO of the following statements are correct about how your firm should deal with the suggestion from Ernest that no disclosure is made to HMRC of his capital gain?**

- ☐ Ernest should be advised to disclose details of the capital gain to HMRC.
- ☐ If Ernest does not disclose the gain to HMRC, your firm can definitely still continue to act for him.
- ☐ If your firm ceases to act for Ernest, it must disclose this to HMRC and provide detailed reasons why it has ceased to act.
- ☐ If Ernest does not disclose the gain to HMRC, your firm would be obliged to report under the money laundering regulations.

**(2 marks)**

## QUESTION 31

**What is the maximum penalty that could be imposed on Ernest for the error by omission in his tax return in relation to the capital gain, assuming that it is considered to be deliberate but not concealed?**

- ○ £18,000
- ○ £12,600
- ○ £9,000
- ○ £5,400

**(2 marks)**

## QUESTION 32

**Assuming that HMRC discover the capital gain and Ernest then makes a disclosure of it, what is the minimum penalty that could be imposed on Ernest for the error if it is considered to be deliberate but not concealed?**

- ○ £0
- ○ £2,700
- ○ £6,300
- ○ £9,000

**(2 marks)**

## QUESTION 33

If Ernest pays the capital gains tax liability on 31 July 2017, what is the interest that will be charged on this late payment?

- ○ £540
- ○ £405
- ○ £270
- ○ £135

**(2 marks)**

**(TOTAL: 10 marks)**

## THE FOLLOWING SCENARIO RELATES TO QUESTIONS 34 – 38.

**Marcus**

Marcus died on 10 March 2017. He had made the following gifts during his lifetime:

(1) On 14 January 2008, Marcus made a chargeable lifetime transfer of £315,000 to a trust. The trustees paid the lifetime inheritance tax which arose in respect of this gift.

(2) On 3 February 2014, Marcus made a chargeable lifetime transfer to another trust. In addition to the gift, Marcus paid the related lifetime inheritance tax on this gift. The gross chargeable lifetime transfer amounted to £491,250.

(3) On 17 March 2014, Marcus made a gift (a potentially exempt transfer) of 30,000 £1 ordinary shares in Scarum Ltd, an unquoted investment company, to his daughter.

Before the transfer, Marcus owned all of Scarum Ltd's issued share capital of 100,000 £1 ordinary shares. On 17 March 2014, Scarum Ltd's shares were worth £5 each for a holding of 30%, £9 each for a holding of 70%, and £12 each for a holding of 100%.

(4) On 29 June 2015, Marcus gave a plot of land worth £100,000 to his wife. Marcus had bought the land in 2008 for £80,000.

The nil rate band for the tax year 2007/08 is £300,000, and for the tax year 2013/14 it is £325,000.

Under the terms of his will, Marcus left his entire estate to his wife. Jerome's wife has not made any gifts during her lifetime. She is intending to remarry.

Ignore the inheritance tax annual exemption.

### QUESTION 34

**What was the amount of the lifetime inheritance tax paid by the trustees (if any) as a result of the gift made on 14 January 2008?**

£ _____ **(2 marks)**

### QUESTION 35

**What was the amount of the lifetime inheritance tax paid by Marcus as a result of the gift made on 3 February 2014?**

- ○ £120,312
- ○ £33,250
- ○ £96,250
- ○ £41,562 **(2 marks)**

### QUESTION 36

**What was the amount of the taper relief deductible from the additional inheritance tax due as a result of the death of Marcus on the gift made on 3 February 2014?**

- ○ £154,000
- ○ £38,500
- ○ £13,300
- ○ £57,750 **(2 marks)**

## QUESTION 37

**What was the amount of the potentially exempt transfer made by Marcus on 17 March 2014?**

- ○ £360,000
- ○ £270,000
- ○ £150,000
- ○ £570,000

**(2 marks)**

## QUESTION 38

**Which TWO of the following statements about Jerome and his wife for inheritance tax purposes are correct?**

- ☐ There is no liability for inheritance tax on the transfer of Jerome's estate to his wife because they are treated together as a single chargeable person for inheritance tax.
- ☐ If Jerome's wife remarries, any unused nil rate band on her death can be transferred to her spouse if they survive her.
- ☐ The gift of the land on 29 June 2015 by Jerome to his wife is a potentially exempt transfer of £80,000.
- ☐ The transfer of Jerome's estate to his wife on his death is an exempt transfer.

**(2 marks)**

**(TOTAL: 10 marks)**

## THE FOLLOWING SCENARIO RELATES TO QUESTIONS 39 – 43.

Jimmy died on 14 February 2017. He had used up his nil rate band at the date of his death by making the following gifts during his lifetime:

(1) On 2 August 2015 Jimmy made a cash gift to his grandson as a wedding gift when he got married.

(2) On 9 September 2015 Jimmy gave 200 shares valued at £5 each in J Ltd, an unquoted investment company, to his daughter, Before the gift, Jimmy owned 5,100 shares valued at £30 each in J Ltd. After the gift Jimmy owned 4,900 shares valued at £20 each in J Ltd.

(3) On 14 November 2015 Jimmy made a cash gift of £800,000 to a trust. Jimmy paid the inheritance tax arising from this gift. Additional inheritance tax was payable on this transfer as a result of Jimmy's death.

At the date of his death Jimmy owned assets valued at £980,000. Under the terms of his will Jimmy left £200,000 to his wife and the residue of his estate to his son.

The nil rate band for the tax year 2015/16 was £325,000.

### QUESTION 39

**What was the total amount of the exemptions that were deducted in computing the potentially exempt transfer made on 2 August 2015?**

- ○ £3,000
- ○ £8,500
- ○ £6,000
- ○ £11,000

**(2 marks)**

### QUESTION 40

**What is the diminution in value in Jimmy's estate as a result of his gift on 9 September 2015?**

- ○ £55,000
- ○ £4,000
- ○ £6,000
- ○ £1,000

**(2 marks)**

### QUESTION 41

**What was the amount of the inheritance tax paid by Jimmy as a result of his gift made on 14 November 2015?**

£ _____

**(2 marks)**

## QUESTION 42

**Select the due date for payment of the additional inheritance tax on the gift made on 14 November 2015 as a result of Jimmy's death and by whom should it be paid.**

| DUE DATE | BY WHOM PAID |
|---|---|
| 14 August 2017 | Trustees of trust |
| 31 August 2017 | Executors of Jimmy's estate |

| | |
|---|---|
| **DUE DATE** | |
| **BY WHOM PAID** | |

**(2 marks)**

## QUESTION 43

What is the inheritance tax chargeable on Jimmy's death estate as a result of his death on 14 February 2017?

£ _____

**(2 marks)**

**(TOTAL: 10 marks)**

## QUESTION 44

See related spreadsheet file for constructed response questions

# Topic 8 – Corporation tax

## QUESTIONS 45 – 47

See related spreadsheet file for constructed response questions

# Topic 9 – Claims and admin for companies

## THE FOLLOWING SCENARIO RELATES TO QUESTIONS 48 – 52.

**Tay Ltd**

Tay Ltd prepares accounts to 31 March each year. In the year to 31 March 2017, it had the following events relating to chargeable assets:

(1) Received insurance proceeds of £180,000 in December 2016 as the result of the destruction of a freehold warehouse in a flood in that month. The warehouse originally cost £140,000 and had an indexed cost in December 2016 of £155,000. Tay Ltd purchased a new warehouse for £162,000 in March 2017.

(2) Received shares and cash on the takeover of Grey Ltd. Tay Ltd had acquired 20,000 shares in Grey Ltd. The shares had an indexed cost in September 2016 of £96,000 when Grey Ltd was taken over by Kline plc. On the takeover, Tay Ltd received one £1 ordinary share in Kline plc worth £4 per share and £2 in cash for each one share held in Grey Ltd.

(3) Sold a piece of machinery which it had used in its trade for £9,000 in July 2016. The machinery had an indexed base cost in July 2016 of £3,500. Capital allowances had been claimed on the machinery.

(4) Sold a plot of land, which it had held as an investment, for £45,000 in October 2016. The land had been acquired in June 2006 for £20,000. Tay Ltd had spent £2,000 on draining the land in January 2010. The indexation factor from June 2006 to October 2016 was 0.324 and from January 2010 to October 2016 was 0.206.

In the year to 31 March 2018, Tay Ltd will dispose of an investment property which will realise a loss. The company wants to know how this loss can be relieved.

## QUESTION 48

**What is the base cost of the new warehouse purchased in March 2017?**

- ○ £162,000
- ○ £155,000
- ○ £144,000
- ○ £140,000

**(2 marks)**

## QUESTION 49

**What was the chargeable gain arising on the takeover of Grey Ltd?**

- ○ £8,000
- ○ £24,000
- ○ £16,000
- ○ £64,000

**(2 marks)**

## QUESTION 50

**What was the chargeable gain (if any) arising on the disposal of the machinery?**

- ○ £Nil
- ○ £5,500
- ○ £2,500
- ○ £5,000

**(2 marks)**

## QUESTION 51

**What was the chargeable gain arising on the disposal of the plot of land?**

- ○ £16,520
- ○ £15,872
- ○ £16,108
- ○ £15,548

**(2 marks)**

## QUESTION 52

**Which TWO of the following statements about the use of the capital loss in the year ended 31 March 2018 are correct?**

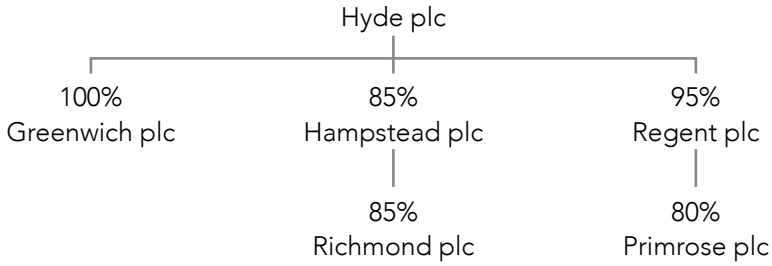
- ☐ The capital loss can be carried back against chargeable gains made in the year ended 31 March 2017
- ☐ The capital loss can be set against chargeable gains made in the year ended 31 March 2018
- ☐ The capital loss can be set against total profits in the year ended 31 March 2018
- ☐ The capital loss can be carried forward and set against the first available chargeable gains

**(2 marks)**

**(TOTAL: 10 marks)**

## THE FOLLOWING SCENARIO RELATES TO QUESTIONS 53 – 57.

The Hyde plc group has the following structure:




All the group companies prepared accounts to 31 March 2017. However, Greenwich plc intends to change its accounting date to 31 December and will prepare accounts to 31 December 2017.

Hyde plc and Greenwich plc are in a group relief group.

In the year ended 31 March 2017, Greenwich plc had the following results:

| | £ |
|---|---|
| Trading loss | (68,000) |
| Capital loss | (4,000) |
| Interest income | 5,000 |
| Qualifying charitable donations | (3,000) |

Greenwich plc will surrender the maximum amount possible for the year ended 31 March 2017 to Hyde plc under group relief.

In the year ended 31 March 2017, Hyde plc had the following results:

| | £ |
|---|---|
| Trading loss | (8,000) |
| Chargeable gain | 48,000 |
| Interest income | 12,000 |
| Qualifying charitable donations | (1,500) |

Hyde plc will make a claim to carry back its trading loss to the year ended 31 March 2016.

Greenwich plc will make a trading loss in the period ended 31 December 2017 and will surrender the maximum amount possible to Hyde plc under group relief.

Regent plc and Primrose plc are in a chargeable gains group. In the year to 31 March 2017, Regent plc sold a factory to Primrose plc for £250,000. The market value of the factory at that date was £300,000. Regent plc had acquired the factory for £100,000. The indexation factor between the date of acquisition and the date of disposal is 0.200.

## QUESTION 53

**Identify, by clicking on the relevant boxes in the table below, which of the following companies are also members of the Hyde plc group for group relief purposes.**

| | |
|---|---|
| **Hampstead plc** ☐ | **Regent plc** ☐ |
| **Richmond plc** ☐ | **Primrose plc** ☐ |

**(2 marks)**

## QUESTION 54

**What is the maximum amount that Greenwich plc could surrender as group relief of the year ended 31 March 2017?**

- ○ £68,000
- ○ £70,000
- ○ £71,000
- ○ £75,000

**(2 marks)**

## QUESTION 55

**What are the maximum available taxable total profits of Hyde plc that could be group relieved for the year ended 31 March 2017?**

Select: £58,500

**(2 marks)**

## QUESTION 56

**Which TWO of the following statements about group relief claims between Hyde plc and Greenwich plc are correct?**

- ☐ A claim for group relief will be ineffective unless Greenwich plc gives a notice of consent
- ☐ If Hyde plc pays Greenwich plc an amount up to the amount of the loss surrendered, the payment will be deducted from the group relief
- ☐ A claim for group relief between Greenwich plc and Hyde plc will be available against the whole of the taxable total profits of Hyde plc for the year to 31 March 2018
- ☐ The claim for group relief would be made on Hyde plc's corporation tax return

**(2 marks)**

## QUESTION 57

**What is base cost of the factory acquired by Primrose plc in August 2016?**

- ○ £100,000
- ○ £120,000
- ○ £250,000
- ○ £300,000

**(2 marks)**

**(TOTAL: 10 marks)**

## QUESTIONS 58 & 59

See related spreadsheet file for constructed response questions

# Topic 10 – Value added tax

## THE FOLLOWING SCENARIO RELATES TO QUESTIONS 60 – 64.

Anne runs a retail clothing shop. She is registered for value added tax (VAT) and is in the process of completing her VAT return for the quarter ended 30 November 2016.

The following information is available (all figures are exclusive of VAT):

(1) Cash sales amounted to £42,000, of which £28,000 was in respect of sales of adult clothing (standard rated) and £14,000 was in respect of sales of children's clothing (zero rated).

(2) Sales invoices totalling £12,000 were issued in respect of credit sales. These sales were all standard rated. Anne states on her invoice that there is a 5% discount for payment within one month of the date of the sales invoice. 90% of the customers pay within this period. The sales figure of £12,000 is stated before any deduction for the 5% discount.

(3) Purchase and expense invoices totalling £19,200 were received from VAT registered suppliers. This figure is made up as follows:

| | £ |
|---|---|
| Standard rated purchases and expenses | 11,200 |
| Zero rated purchases | 6,000 |
| Exempt expenses | 2,000 |
| | 19,200 |

Anne pays all of her purchase and expense invoices two months after receiving the invoice.

(4) On 30 November 2016 Anne wrote off two impairment losses that were in respect of standard rated credit sales. The first impairment loss was for £300, and was in respect of a sales invoice due for payment on 15 July 2016. The second impairment loss was for £800, and was in respect of a sales invoice due for payment on 10 April 2016.

Anne does not use the cash accounting scheme but she is considering using the scheme.

## QUESTION 60

**What is the amount of output tax on cash sales payable by Anne for the quarter ended 30 November 2016?**

£ ☐ **(2 marks)**

## QUESTION 61

**What is the amount of output tax on credit sales payable by Anne for the quarter ended 30 November 2016, taking into account impairment loss relief?**

- ○ £1,910
- ○ £2,400
- ○ £2,280
- ○ £2,292

**(2 marks)**

## QUESTION 62

**What is the amount of input tax recoverable by Anne for the quarter ended 30 November 2016?**

£ ☐ **(2 marks)**

## QUESTION 63

**Which TWO of the following statements about the cash accounting scheme are correct?**

- [ ] Anne will be permitted to join the scheme if her expected taxable turnover for the next 12 months does not exceed £1,350,000
- [ ] Anne must pay her 90% of the previous year's net VAT liability during the year by means of nine monthly payments commencing at the end of the fourth month of the year
- [ ] Anne will be permitted to join the scheme if she is up-to-date with her VAT payments but not necessarily up-to-date with her VAT returns
- [ ] If the value of Anne's taxable supplies exceeds £1,600,000 in the 12 months to the end of a VAT period she must leave the scheme immediately

**(2 marks)**

## QUESTION 64

**Which TWO of the following are the advantages of Anne using the cash accounting scheme?**

(1) Reduced amount of output VAT payable

(2) Automatic impairment loss relief (bad debt relief)

(3) Only one VAT return each year

(4) Output VAT on 10% of credit sales will be accounted for up to one month later than at present

- [ ] 1 and 2
- [ ] 2 and 3
- [ ] 1 and 4
- [ ] 2 and 4

**(2 marks)**

**(TOTAL: 10 marks)**

## THE FOLLOWING SCENARIO RELATES TO QUESTIONS 65 – 69.

**Starfish Ltd**

Starfish Ltd, a retailing company, ceased trading on 31 March 2017 and deregistered from value added tax (VAT) on that date.

The following information relates to the company's final VAT return for the quarter ended 31 March 2017:

(1) Cash sales revenue amounted to £41,160, of which £38,520 was in respect of standard rated sales and £2,640 was in respect of zero-rated sales.

(2) Sales invoices totalling £2,000 were issued in respect of credit sales revenue. This figure is exclusive of VAT, and the sales were all standard rated. Starfish Ltd states on its invoices that it offers all of its credit sale customers a 4% discount for payment within 14 days of the date of the sales invoice. 60% of the customers paid within this period.

(3) In addition to the above sales revenue, Starfish Ltd sold its remaining inventory on 31 March 2017 for £28,800.

(4) There were no purchases of inventory during the period.

(5) Standard rated expenses amounted to £69,960, of which £4,320 was in respect of entertaining UK customers.

(6) Starfish Ltd wrote off an impairment loss on 31 March 2017 in respect of a sales invoice (exclusive of VAT) that was due for payment on 8 August 2016. Output VAT of £384 was originally paid in respect of this sale.

(7) On 31 March 2017 the company sold all of its machinery for £31,200 and a motor car for £9,600. The motor car was used 30% privately by a director of Starfish Ltd.

Unless otherwise stated, all of the above figures are inclusive of VAT where applicable.

Starfish Ltd did not use the cash accounting scheme for VAT.

## QUESTION 65

**What is the amount of output tax on credit sales payable by Starfish Ltd for the quarter ended 31 March 2017?**

- ○ £384
- ○ £480
- ○ £390
- ○ £325

**(2 marks)**

## QUESTION 66

**What is the amount of output tax, other than on credit sales, payable by Starfish Ltd for the quarter ended 31 March 2017?**

- ○ £16,420
- ○ £11,620
- ○ £11,220
- ○ £10,000

**(2 marks)**

## QUESTION 67

**What is the amount of input tax recoverable by Starfish Ltd for the quarter ended 31 March 2017?**

- ○ £12,744
- ○ £11,324
- ○ £10,940
- ○ £11,276

**(2 marks)**

## QUESTION 68

**From which date would default interest be payable if Starfish Ltd is late in paying the VAT for the quarter ended 31 March 2017?**

- ○ 30 April 2017
- ○ 7 May 2017
- ○ 14 May 2017
- ○ 31 March 2017

**(2 marks)**

## QUESTION 69

**Which of the following would be the consequences for VAT if Starfish Ltd had instead sold its entire business as a going concern to a single VAT registered purchaser?**

- ○ Output VAT would have been due on the sale of the inventory or the sale of the non-current assets but would be payable by the purchaser.
- ○ No output VAT would have been due on the sale of the inventory but would have been due on the sale of the non-current assets.
- ○ No output VAT would have been due on the sale of the non-current assets but would have been due on the sale of the inventory.
- ○ No output VAT would have been due on the sale of the inventory or the sale of the non-current assets.

**(2 marks)**

**(Total: 10 marks)**

## QUESTION 70

See related spreadsheet file for constructed response questions