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ACCA – Paper F6 Taxation June 2015 Revision Mock

Instructions

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Marking Report

Notice to Markers

- 1 When commenting about the script performance, please ensure on individual questions and on overall assessment your comments cover areas of examination technique including:

• Time management	• Handwriting	• Presentation and layout	• Use of English
• Points clearly and concisely made	• Relevance of answers to question	• Coverage and depth of answer	• Accuracy of calculations
• Calculations cross-referenced to workings	• All parts of the requirement attempted	• Length of answers equates to marks available	• Read the question carefully

- 2 For each question, please provide suitable constructive comments

Question Number	General Comments	Exam Technique Comments

ACCA REVISION MOCK

Taxation (United Kingdom)

June 2015

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted.

Section B – ALL SIX questions are compulsory and **MUST** be attempted.

Rates of tax and tables are printed on pages 3 – 6.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

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Paper F6 (UK)

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TAX RATES AND ALLOWANCES

Throughout this assessment:

- 1 **Calculations and workings need only to be made to the nearest £.**
- 2 **All apportionments should be made to the nearest month.**
- 3 **All workings should be shown in Section B.**

INCOME TAX

		<i>Normal rates</i>	<i>Dividend rates</i>
		%	%
Basic rate	£1 – £31,865	20	10
Higher rate	£31,866 – £150,000	40	32.5
Additional rate	£150,001 and above	45	37.5

A starting rate of 10% applies to savings income where it falls within the first £2,880 of taxable income.

Personal allowances

Personal allowance

Born on or after 6 April 1948	£10,000
Born between 6 April 1938 and 5 April 1948	£10,500
Born before 6 April 1938	£10,660

Income limit

Personal allowance	£100,000
Personal allowance (born before 6 April 1948)	£27,000

Residence status

Days in UK	Previously resident	Not previously resident
Less than 16	Automatically not resident	Automatically not resident
16 to 45	Resident if 4 UK ties (or more)	Automatically not resident
46 to 90	Resident if 3 UK ties (or more)	Resident if 4 UK ties
91 to 120	Resident if 2 UK ties (or more)	Resident if 3 UK ties (or more)
121 to 182	Resident if 1 UK tie (or more)	Resident if 2 UK ties (or more)
183 or more	Automatically resident	Automatically resident

PAPER F6 (UK): TAXATION (FA2014)

Child benefit income tax charge

Where income is between £50,000 and £60,000, the charge is 1% of the amount of child benefit received for every £100 of income over £50,000.

Car benefit percentage

The relevant base level of CO₂ emissions is 95 grams per kilometre.

The percentage rates applying to petrol cars with CO₂ emissions up to:

75 grams per kilometre or less	5%
76 to 94 grams per kilometre	11%
95 grams per kilometre	12%

Car fuel benefit

The base level figure for calculating the car fuel benefit is £21,700.

New Individual Savings Accounts (NISAs)

The overall investment limit is £15,000.

Pension scheme limits

Annual allowance – 2014–15	£40,000
– 2011–12 to 2013–14	£50,000

The maximum contribution that can qualify for tax relief without evidence of earnings is £3,600.

Authorised mileage allowance: cars

Up to 10,000 miles	45p
Over 10,000 miles	25p

Capital allowances: rates of allowance

Plant and machinery

Main pool	18%
Special rate pool	8%

Motor cars

New cars with CO ₂ emissions up to 95 grams per kilometre	100%
CO ₂ emissions between 96 and 130 grams per kilometre	18%
CO ₂ emissions above 130 grams per kilometre	8%

Annual investment allowance

Rate of allowance	100%
Expenditure limit	£500,000

Cap on income tax reliefs

Unless otherwise restricted, reliefs are capped at the higher of £50,000 or 25% of income.

CORPORATION TAX

Financial year	2012	2013	2014
Small profits rate	20%	20%	20%
Main rate	24%	23%	21%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	1/100	3/400	1/400

Marginal relief

$$\text{Standard fraction} \times (U - A) \times N/A$$

VALUE ADDED TAX

Standard rate	20%
Registration limit	£81,000
Deregistration limit	£79,000

INHERITANCE TAX: tax rates

£1 – £325,000	Nil
Excess – Death rate	40%
– Lifetime rate	20%

PAPER F6 (UK): TAXATION (FA2014)

Inheritance tax: taper relief

Years before death	Percentage reduction
	%
Over 3 but less than 4 years	20
Over 4 but less than 5 years	40
Over 5 but less than 6 years	60
Over 6 but less than 7 years	80

CAPITAL GAINS TAX

Rates of tax	– Lower rate	18%
	– Higher rate	28%
Annual exempt amount		£11,000
Entrepreneurs' relief	– Lifetime limit	£10,000,000
	– Rate of tax	10%

**NATIONAL INSURANCE CONTRIBUTIONS
(not contracted out rates)**

			%
Class 1 Employee	£1 – £7,956 per year		Nil
	£7,957 – £41,865 per year		12.0
	£41,866 and above per year		2.0
Class 1 Employer	£1 – £7,956 per year		Nil
	£7,957 and above per year		13.8
Class 1A			13.8
Class 2	£2.75 per week		
	Small earnings exception limit		£5,885
Class 4	£1 – £7,956 per year		Nil
	£7,957 – £41,865 per year		9.0
	£41,866 and above per year		2.0

RATES OF INTEREST (assumed)

Official rate of interest:	3.25%
Rate of interest on underpaid tax:	3%
Rate of interest on overpaid tax:	0.5%

SECTION A

ALL 15 questions are compulsory and MUST be attempted

Please indicate your chosen correct answer for each section A question on a separate sheet of paper and hand this in with your written section B answers for marking.

Note that in the real ACCA F6 exam you will be provided with a Candidate Answer Booklet, the first page of which is specifically designed for providing answers to section A of the exam.

- 1 Tamsin was born on 1 June 1936. In the tax year 2014/15 she had taxable income of £108,200 and made a donation of £1,000 (gross) to a charity under the Gift Aid scheme.

What is the amount of personal allowance that Tamsin will be entitled to for the tax year 2014/15?

- A £10,000
- B £6,400
- C £7,060
- D £10,660

- 2 Joe provides cleaning services to A Ltd.

Which of the following facts will be useful to Joe in agreeing with HM Revenue & Customs that he provides the cleaning services on a self-employed basis?

- (i) Joe used to be employed by A Ltd as the company's cleaner
 - (ii) Joe provides cleaning services to A Ltd for a fixed monthly fee
 - (iii) A Ltd provides the cleaning materials and equipment for Joe to use
 - (iv) Joe has recently been ill and his brother carried out the work on Joe's behalf
- A (ii) and (iv)
 - B (i) and (iv)
 - C (ii) and (iii)
 - D (iii) and (iv)

- 3 For the duration of the tax year 2014/15, Carlos has been letting his nephew Emilio stay in his furnished spare room in return for £95 a week in rent. Carlos and Emilio share the kitchen and bathroom facilities and Carlos has calculated that his household expenses are £60 a month higher now compared with before Emilio moved in.

Assuming Carlos makes any favourable elections, what is his amount of taxable property income for 2014/15?

- A £690
- B £4,250
- C £4,220
- D £1,820

PAPER F6 (UK): TAXATION (FA2014)

- 4 Abisola is provided with a petrol engine company car by his employer which is used for both private and business purposes throughout the tax year 2014/15. The car was second hand and cost his employer £18,500. It had a list price when new of £24,000. The CO₂ emissions of the car are 144 grams per kilometre.

What is the amount of Abisola's car benefit for 2014/15?

- A £5,280
- B £3,885
- C £4,070
- D £5,040

- 5 Sharp Ltd has the following results for year ended 31 December 2014:

	£
Tax adjusted trading profit	800,000
Dividends received	72,000

The dividends were received from Blunt Ltd, a wholly owned subsidiary of Sharp Ltd. Sharp Ltd is not associated with any other companies for corporation tax purposes.

What is the amount of corporation tax payable by Sharp Ltd in respect of the year ended 31 December 2014?

- A £168,000
- B £172,000
- C £166,591
- D £189,200

- 6 **Which one of the following is NOT an exempt employment benefit?**

- A One mobile smart phone used solely for private purposes
- B Car parking space in the public car park next to the workplace
- C An annual dinner dance costing £160 per head
- D Interest free loan of £9,000

- 7 **Which one of the following statements does NOT apply to the VAT annual accounting scheme?**

- A Normally, nine payments on account are made at the end of months 4 to 12 of the year
- B The return must be filed within two months of the end of the return period
- C To use the scheme, the business must be up-to-date with its VAT returns
- D To join the scheme the expected taxable turnover of the business (excluding VAT) for the next 12 months must not exceed £150,000

- 8 Polly was born on 1 August 1961. She has carried on a business as a sole trader since 1990. Her tax adjusted trading profits/(losses) for recent years are:

	£
y/e 31 March 2014	25,000
y/e 31 March 2015	(153,000)

Polly also has property income of £58,000 (gross) each tax year.

What is the maximum amount of trading loss that can be offset against Polly's income in the tax year 2013/14?

- A £25,000
B £75,000
C £50,000
D £83,000
- 9 A Ltd provides each of its sale representatives with a company car that is used for both business and private purposes. Its other employees are not provided with a company car. Instead they are paid a 45p allowance for each business mile driven in their own car.
- Which of the following statements concerning A Ltd's National Insurance position in 2014/15 is/are true?**
- (i) A Ltd can claim a £2,000 deduction from their total National Insurance liability
(ii) A Ltd will not have a National Insurance liability in respect of an employee that drives 20,000 business miles in 2014/15
- A Neither
B (i) only
C (ii) only
D Both
- 10 **Which of the following are qualifying disposals for the purposes of capital gains tax gift relief?**
- (i) The gift of an acre of land, by a company to one of its employees.
(ii) The sale, for less than market value, of a 2% shareholding in an unquoted trading company, by an individual to their daughter.
(iii) The gift of a shop, used by an individual in their sole trader business, to a friend.
(iv) The sale, for less than market value, of a 5% shareholding in a quoted trading company by an individual who is not an employee of the company, to their mother-in-law.
- A (iii) and (iv)
B all of them
C (ii), (iii) and (iv)
D (i) and (ii)

PAPER F6 (UK): TAXATION (FA2014)

- 11** On 1 June 2014 Sahil sold his only UK home. He had owned the property for exactly eight years and realised a gain (before reliefs) of £64,000 on the disposal. He lived in the house from the date of purchase until 1 June 2010 when he went to live with his sister. He did not return to live in the house.

What is the amount of principal private residence relief available in respect of the disposal of the house?

- A £64,000
- B £44,000
- C £56,000
- D £32,000

- 12** Amy acquired 5,300 shares in Doyle plc for £63,600 in 2009. On 1 October 2014 Amy gave 2,000 of her shares in Doyle plc to her daughter.

Doyle has 10,000 issued shares which were valued on 1 October 2014 as follows:

<i>Holding</i>	<i>Value per share</i>
	£
Up to 25%	6
26% to 50%	9
51% to 74%	15
75% or more	25

What is the value of the transfer for inheritance tax purposes on the gift of the shares?

- A £24,000
- B £12,000
- C £30,000
- D £49,800

- 13** Herb Ltd owns 90% of Basil Ltd. Basil Ltd owns 75% of Sage Ltd. On 1 March 2015 Herb Ltd transferred a property with a market value of £300,000 to Sage Ltd. Herb Ltd had originally acquired the asset for £180,000 in July 2008. The indexation allowance from July 2008 to March 2015 is £35,820.

What is the deemed acquisition cost for chargeable gains purposes for Sage Ltd?

- A £215,820
- B £300,000
- C £180,000
- D £84,180

- 14** Brooke Ltd was incorporated on 1 May 2014. The directors opened an interest bearing bank account on 1 June 2014. On 1 July 2014 the company started to trade. It prepared its first set of accounts to 30 April 2015.

What is Brooke Ltd's first chargeable accounting period for corporation tax purposes?

- A 1 May 2014 to 30 June 2014
- B 1 July 2014 to 30 April 2015
- C 1 June 2014 to 30 April 2015
- D 1 June 2014 to 30 June 2014

- 15** Farrah Ltd receives an order for goods on 12 May 2014. The goods are delivered to the customer on 15 June 2014. Farrah Ltd raises an invoice for the goods on 15 July 2014, which is paid on 21 August 2014.

What is the actual tax point for VAT purposes?

- A 12 May 2014
- B 15 June 2014
- C 15 July 2014
- D 21 August 2014

SECTION B

ALL SIX questions are compulsory and MUST be attempted

- 1** Roland died on 13 December 2014. He made the following lifetime gifts.
- (1) On 1 May 2010 he made a cash gift to his nephew Kevin. The chargeable amount (after exemptions) was £293,000.
 - (2) On 31 October 2010 he made a cash gift to a trust. The chargeable amount (after exemptions) was £400,000.

Roland agreed to pay any inheritance tax arising from his lifetime gifts.

At the date of his death Roland owned the following:

- (1) His house worth £650,000. A repayment mortgage of £110,000 was still outstanding on this.
- (2) His car worth £30,000

Under the terms of his will Roland left £300,000 to his civil partner, Errol and the residue of his estate to Kevin.

The nil rate band for 2010/11 was £325,000.

Reggie, a friend of Errol, believes he understands how inheritance tax works and has told them the following:

- (1) Inheritance tax is a tax on death and therefore there will only be tax payable on certain assets Roland has given to Errol and Kevin on his death.
- (2) The inheritance tax that arises on Roland's death will be due on 31 January 2016.
- (3) The tax payable on Roland's death will be as follows:

	£
House	650,000
Less: Debts and liabilities	(1,500)
	<hr/>
Chargeable estate	648,500
Nil rate band at death	(325,000)
	<hr/>
Taxable amount	323,500
	<hr/>
IHT (£323,500 × 40%)	129,400
	<hr/>

Required:

- (a) Calculate any inheritance tax payable on Roland's lifetime gifts during his lifetime and as a result of his death. (4 marks)
- (b) (i) Explain any errors in statements (1) and (2) made by Reggie. (3 marks)
- (ii) Show the correct calculation of the tax due on Roland's death. (3 marks)

(Total: 10 marks)

- 2 Liz Sipla, a UK resident individual born on 1 February 1960, made the following disposals of assets in 2014/15:

- (i) On 26 April 2014 Liz sold 3,000 £1 preference shares in Chase plc, a quoted trading company, for £47,570 before paying stockbroker's fees of 1%.

Liz originally purchased 5,000 ordinary shares in Deal Ltd on 8 July 2008 for £18,600. On 23 November 2012 Deal Ltd was taken over by Chase plc. Liz received four ordinary shares and two preference shares in Chase plc for each £1 ordinary share in Deal Ltd.

Immediately after the takeover, each £1 ordinary share in Chase plc was quoted at £3.50 and each £1 preference share was quoted at £1.25.

Liz never worked for either company.

- (ii) On 10 September 2014 Liz sold an office building for £280,000. Liz purchased the office building in May 2007 for £80,000. Liz had made a claim to rollover the gain on the office building against the replacement cost of a new freehold office building that was purchased on 18 December 2013 for £210,000.

Both office buildings have always been used entirely for business purposes in a wholesale business run by Liz as a sole trader.

Liz's net income for 2014/15 is £40,000.

Required:

Calculate Liz's capital gains tax liability for 2014/15 clearly identifying the effect of reliefs claimed in respect of disposal (ii). (10 marks)

- 3 Evan ceased trading on 30 September 2014, having been self-employed since 1 July 2005.

- (1) Evan's trading profits for the final two periods of trading were as follows:

	£
Year ended 30 June 2013	61,200
Fifteen-month period ended 30 September 2014	72,000

Both these figures are before taking account of capital allowances.

- (2) The capital allowances for the year ended 30 June 2013 were £2,100.

The tax written down value of the capital allowances general pool at 1 July 2013 was £6,300. On 15 November 2013 Eue purchased a motor car with CO₂ emissions of 112 grams per kilometre for £2,400. All of the items included in the general pool were sold for £4,300 on 30 September 2014.

- (3) Until the final period of trading Evan had always prepared accounts to 30 June. His overlap profits for the period 1 July 2005 to 5 April 2006 were £19,800.

Required:

- (a) **Calculate the amount of trading profits that will be assessed on Evan for each of the tax years 2013/14 and 2014/15. (5 marks)**

- (b) (i) **State the date that Evan must file his tax return for 2014/15. (1 mark)**

- (ii) **State the date that Evan must retain the records to support his 2014/15 return and the penalty for not doing so. (1 mark)**

- (iii) **Calculate the maximum late filing penalty that Evan can be charged for submitting his 2014/15 tax return, which shows tax due of £2,000, nine months late. (3 marks)**

(Total: 10 marks)

PAPER F6 (UK): TAXATION (FA2014)

- 4** Seaview Ltd.'s outputs and inputs for the first two months of trading from 1 February 2014 to 31 March 2014 were as follows:

	<i>February</i>	<i>March</i>
	£	£
<i>Outputs</i>		
Sales	13,200	18,800
<i>Inputs</i>		
Goods purchased	94,600	193,100
Services incurred	22,300	32,700

All outputs and inputs are standard rated supplies and the above figures are stated exclusive of value added tax (VAT).

On 1 April 2014 Seaview Ltd realised that its sales for April 2014 were going to exceed £100,000, and therefore immediately registered for VAT. On that date the company had inventory that had cost £108,600 (exclusive of VAT).

During September 2014 Seaview Ltd discovered that a number of errors had been made when completing its VAT return for the quarter ended 30 June 2014. As a result of these errors the company will have to make an additional payment of VAT to HM Revenue and Customs (HMRC).

The directors of Seaview Ltd are considering incorporating a wholly-owned subsidiary of Seaview and are interested in the possibility of registering the two companies as a group for VAT purposes.

Required:

- (a) Explain why Seaview Ltd was required to compulsorily register for VAT from 1 April 2014, and state what action the company then had to take as regards notifying HM Revenue and Customs of the registration. (3 marks)

- (b) Calculate the amount of input VAT that Seaview Ltd was able to recover in respect of inputs incurred prior to registering for VAT on 1 April 2014.

Your answer should include an explanation as to why the input VAT is recoverable.

(4 marks)

- (c) Explain who can apply for a group VAT registration and state two advantages of a group VAT registration. (3 marks)

(Total: 10 marks)

- 5 On 30 March 2014 Harry Higgins resigned as an employee of Plumbers4u Ltd. On 1 October 2014 Harry commenced self-employment running his own plumbing business, preparing accounts to 30 June.

The following information is available for 2014/15:

Self-employment

- (1) Harry has an accountant who has advised him not to use the cash basis. The accountant has produced the following statement of profit or loss for the nine months ended 30 June 2015:

	<i>Note</i>	£	£
Sales revenue			124,100
Less: Expenses			
Depreciation		6,200	
Gifts	2	8,680	
Lease of motor car	3	8,360	
Travel expenses	4	6,770	
Other expenses	5	21,690	
		(51,700)	
Net profit			72,400

- (2) Gifts and donations are as follows:

	£
Gifts to customers (digital clocks costing £110 each and displaying Harry's name)	3,300
Gifts to customers (bottles of champagne costing £40 each, displaying Harry's name)	2,480
Donations to political parties	2,900
	8,680

- (3) The lease commenced on 1 October 2014, and is in respect of a motor car with CO₂ emissions of 139 grams per kilometre. There is no private use of the motor car.
- (4) The figure of £16,770 for travel expenses includes £520 for parking fines incurred by Harry.
- (5) The figure for other expenses of £21,690 includes £670 for Harry's professional subscription to the association of plumbers and £960 for his golf club membership fee.
- (6) Capital allowances for the nine month period ended 30 June 2015 are £9,014.

Other income

During the tax year 2014/15 Harry received dividends of £3,600. This was the actual cash amount received.

Other information

Harry was born on 1 July 1975.

Harry contributed £1,600 (net) into a personal pension scheme during the period 1 January 2015 to 5 April 2015.

He did not make any payments on account of income tax in respect of the tax year 2014/15.

PAPER F6 (UK): TAXATION (FA2014)

Required:

- (a) Calculate Harry's tax adjusted trading profit for the nine-month period ended 30 June 2015.

Your computation should commence with the net profit of £72,400, and should also list all of the items referred to in Notes (2) to (6) indicating by the use of zero (0) any items that do not require adjustment. (5 marks)

- (b) (i) Calculate the income tax payable by Harry for the tax year 2014/15. (5 marks)
- (ii) Calculate the Class 4 National Insurance Contributions payable by Harry in respect of his self-employment for the tax year 2014/15. (2 marks)
- (iii) Calculate Harry's balancing payment for the tax year 2014/15 and his payments on account for the tax year 2015/16, stating the relevant due dates. (3 marks)

(Total: 15 marks)

- 6 Expansion Ltd is a UK resident company that manufactures in-car security systems. The company has provided the following information for the fifteen months ended 30 June 2015.

Trading profit

The company has prepared a draft tax adjusted trading profit calculation and notes on how it has been calculated, as set out below.

	£	£
Operating profit		1,369,871
Disallowable expenses (Note 1)	493,869	
Capital allowances (Note 2)	(203,848)	
	<u> </u>	290,021
Draft tax adjusted trading profit		<u>1,659,892</u>

Note 1 – Disallowable expenses

Disallowable expenses include a premium of £72,000 which was paid on 1 April 2014 for the grant of a 15-year lease on an office building. The only tax adjustment made has been to disallow the cost of the premium.

Note 2 – Capital allowances

Capital allowances have been computed as follows:

£	<i>General Pool</i> £	<i>Total allowances</i> £
15 m/e 30.6.15		
TWDV b/f	149,280	
Additions (no AIA or FYA)		
22.6.14 Car	11,760	
Additions (with AIA)		
1.3.15 Equipment	40,800	
1.6.15 Machinery	130,000	
Less: AIA	(170,800)	170,800

	Nil	
Disposal		
15.10.14 Lorry	(14,160)	

	146,880	
Less: WDA (18% × 15/12)	(33,048)	33,048

TWDV c/f	113,832	

Total allowances		203,848

The motor car purchased on 22 June 2014 has a CO₂ emission rate of 122 grams per kilometre. The lorry sold on 15 October 2014 for £14,160, originally cost £13,000.

Investment income

In addition to trading income the company had the following income from investments in the fifteen months ended 30 June 2015.

	£
Dividend received (Note 3)	7,200
Bank interest (Note 4)	19,920
Profit on disposal of shares (Note 5)	275,000

Note 3 – Dividend received

The dividend was received from a UK resident company, which is not connected with Expansion Ltd, on 1 April 2015.

Note 4 – Bank interest received

The bank deposits are held for non-trading purposes. Interest of £13,000 was received on 31 December 2014 and £6,920 on 30 June 2015. At 1 April 2014, interest receivable accrued was nil and at 31 March 2015 was £3,000.

Note 5 Profit on disposal of shares

On 18 December 2014, Expansion Ltd sold 10,000 £1 ordinary shares in Navigation plc for £290,000. Expansion Ltd had originally purchased 15,000 shares in Navigation plc on 21 June 2012 for £18,000.

Expansion Ltd's holding in Navigation plc represents a less than 1% interest in the company.

PAPER F6 (UK): TAXATION (FA2014)

The relevant indexation factors are as follows:

June 2012	241.8
December 2014	258.4

Other information

Expansion Ltd has no associated companies and until 2015 it has always prepared accounts to 31 March.

Required:

- (a) Prepare a revised version of Expansion Ltd's tax adjusted trading profits for the 15 month period ended 30 June 2015 after making any necessary corrections arising from your review of Notes (1) and (2).

Your computation should commence with the draft tax adjusted trading profit figure of £1,659,892, and should list all of the necessary corrections to arrive at a revised tax adjusted trading profit figure. (9 marks)

- (b) Calculate Expansion Ltd's corporation tax liabilities for the 15 month period ended 30 June 2015. (6 marks)

(Total: 15 marks)