

You are a trainee accountant and your manager has asked you to correct a corporation tax computation which has been prepared by the managing director of Naive Ltd.

The corporation tax computation is for the year ended 31 March 2022 and contains a significant number of errors:

### **Naive Ltd – Corporation tax computation for the year ended 31 March 2022**

	<b>£</b>
Trading profit (working 1)	372,900
Loan interest received (working 2)	32,100
	405,000
Corporation tax (405,000 at 19%)	76,950

### **Working 1 – Trading profit**

	<b>£</b>
Profit before taxation	274,530
Depreciation	15,740
Donations to political parties	400
Qualifying charitable donations	900
Accountancy	2,300
Legal fees in connection with the issue of loan notes (the loan was used to finance the company's trading activities)	5,700
Entertaining suppliers	3,600
Entertaining employees	1,700
Gifts to customers (pens costing £40 each and displaying Naive Ltd's name)	920
Gifts to customers (food hampers costing £45 each and displaying Naive Ltd's name)	1,650
Capital allowances (working 3)	65,460
Trading profit	372,900

### Working 2 – Loan interest received

	£
Loan interest receivable	32,800
Accrued at 1 April 2021	10,600
Accrued at 31 March 2022	(11,300)
Loan interest received	32,100

The loan was made for non-trading purposes.

### Working 3 – Capital allowances

	Main pool £	Motor car £	Special rate pool £	Allowances £
Written down value (WDV) brought forward	12,400		13,600	
Additions				
Machinery	42,300			
Motor car [1]	13,800			
Motor car [2]		14,000		
	68,500			
Annual investment allowance (AIA)	(68,500)			68,500
Disposal proceeds			(9,300)	
			4,300	
Balancing allowance			(4,300)	(4,300)
Writing down allowance (WDA) – 18%		(2,520) x 50%		1,260
WDV carried forward	0	11,480		
Total allowances				65,460

(1) Motor car [1] has a CO2 emission rate of 42 grams per kilometre.

(2) Motor car [2] has a CO2 emission rate of 79 grams per kilometre. This motor car is used by the sales manager and 50% of the mileage is for private journeys.

(3) All of the items included in the special rate pool at 1 April 2021 were sold for £9,300 during the year ended 31 March 2022. The original cost of these items was £16,200.

**(a) Prepare a revised version of Naive Ltd's corporation tax computation for the year ended 31 March 2022.**

Note: Your calculations should commence with the profit before taxation figure of £274,530, and you should indicate by the use of zero (0) any items in the computation of the trading profit for which no adjustment is required. (12 marks)