

# [Example of essay on taxation](https://assignbuster.com/example-of-essay-on-taxation/)

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## Adjustments to the accounts

In the computation of the income tax of the client, depreciation is allowed as an expense in the income statement. Instead, capital allowances on the capital investments are allowed. The taxpayer computes the capital allowances as per the prescribed rates by the commissioner of income tax. These include investment deduction, wear and tear allowance as well as the industrial building deduction. In the case of Andrew, the capital allowances can be computed as below:

## Computation of the writing down allowance on general pool for the year 2012/2013 was at 18%.

Balance brought forward on General pool = £2500
Add: New equipment purchased = £5000
Less: Old Machine sold = (£600)
Net value of general pool for capital allowance = £ 2500 + £5000 - £600 = £6900
Writing down allowance for the year = £6900 X 18% = £1242
The capital allowance rate on motor vehicle is also 18% for cars, which emit CO2 at the rates of between 110g/km and 160g/km since this car emits CO2 at the rate of 140g/km. Only 50% of the car is related to the use in business. Therefore, only this proportion will be applied in the computation of capital allowances as follows:
Value of car spent in the business = 50% X £6500 = £3250
The writing down allowance on motor vehicle = £3250 X 18%
Writing down allowance on car = £585
Total writing down allowance = £585 + £1242 = £1827
Andrew will thus be permitted to allow £1827 in relation to the writing down allowance instead of the depreciation charge earlier allowed during his personal assessment.
The motor expenses will also be apportioned accordingly. This is because only 50% of the expenses relate to the business. It is calculated as:
Motor expenses = 50% X £2500
Motor expenses = £1250
The loss on the sale of equipment is not an allowable expense during income tax computation. In taxation, only trading loss on disposal of asset in a business that is a going concern is allowed or balancing deduction for a business that is winding up.

## With the above adjustments, the adjusted taxable business income is thus calculated as below:

Since this business is a sole proprietorship, the tax liability will be imposed on Mr. Andrew. This liability can be computed as follows:

Since this income is within the first tax bracket of less than £32010, the income tax rate will thus be 20%, which is the basic rate.
Interest on loan is not allowed as an expense in the computation of the income tax of a business hence overdraft interest is added back to the income and taxed. The payment of rent will be recognized based on the duration to which it is related. In case of the hire purchase agreement, the cash price of the equipment will be considered in the computation of the capital allowances for the product.

## Accrual versus Cash Accounting

Introduction
Accounting from the common definition defined as a mathematical subject planned to gather, show and then finally collect financial data into more approachable formats proposed for its users at the final stage. Generally, accounting is proposed to be a language that can sometimes be used to communicate financial data to its users in a more efficient and effective manner.
On the side of the accrual basis, it is a set of guideposts planned to lead some important conceptions in accounting field, in special cases when to record deals. It is worth noting that the fundamentals of the major two principal ways of keeping track of the business’s income and expenses do have only some slight differences on the side of the timing by which the different kind of transactions are made. When purchases are credited or at some points they are debited to ones’ account. On the side of the cash basis, the income is in form of cash or even check, which is normally received. This study is all about giving the business people some insights on the two types of the accounting and make the correct choices in when need arises for the accounting purposes. There are two major types of the accounting bases. These are accrual and cash accounting and both have different features, merits and demerits. This topic is going to help the business people make the correct decision on the kind of the accounting option they can opt for in case they are faced with a challenge of making decision depending on their business size.
The cash basis for accounting is normally used by sole traders or small businesses with a turnover of less than £79, 000. However this new system of accounting in the UK has a list of its pros and cons, which ought to be considered before filing the first tax returns. This is because once the first returns. The cash basis records incomes once the cash has been received regardless of when the transaction was made. Likewise, the cash based system of accounting for tax purposes record expenses not when the transaction is made but when the actual payment is made.
This means that when credit purchases are made, the accounts payables are not considered in the cash basis and will not feature in the books of account on the cash basis. When credit sales are made the accounts receivables are not recorded on the books of account since there was no actual cash received. For both instances, the entries will be made into the books of account when the actual payments and the actual receipts are made regardless of the accounting period.
At some points, the basis of the accrual accounting does depend on the position of the basis itself. When one wants to get the altered value of the accrual basis, it lies between the correct value of the accrual accounting and the correct value of the cash accounting. The altered at sometimes may lead to some biased results of the analysis as compared to the correct value of the accrual accounting basis.
The focus of the two forms of accounting bases is on the amount of cash in the bank, while the minor focus is based on ensuring that all available bills are paid at the right time possible without any failure in order not to jeopardize the business in general. Some negligible efforts are being made to try to match revenues for the correct time period to b reached in which they are finally earned, or at some points to match disbursals to the time in which they are obtained.
On the other hand, the accrual method of accounting allows entries to be made into the books of account once the transactions have been made regardless of whether or not the actual payments or receipts have been made. This means that accounts payable and accounts receivables will feature in the books of account in the period the transaction was made.
For it to be meaningful to its end users, accounting must be present in a format, which manages to convey the relevant financial information to them in an efficient and effective way. In addition, the financial detail must be the appropriate financial information. This implies that it is much less useful if it is inaccurate and not in faithful depiction of the real circumstances. Under most circumstances, the financial information needs to also be compiled to ensure that it is relevant to decision-making concerning financial matters
The new method of keeping cash based accounts can be used for income tax purposes on instances where there have been many credit sales made. This method of bookkeeping will allow the business not to be charged excess taxes on incomes that it is yet to receive.
At some points, for accounting to be useful to its end immediate users, it must be demonstrated in a data format that deals to transmit the applicable fiscal data to them in an in force and effective manner. Moreover, the financial data must be always at the right financial data, that is, it is much less practicable if it is wrong and not a faithful portrayal of actual considerations. Under some common situations, the fiscal data must also be collected in time for it is presumed relevant to making decision on fiscal subjects.
On the other hand, accrual basis accounting fits majorly the revenues to that period of time in which they were made and matches disbursements to the time in which they are got. While at sometimes it might be a bit composite than cash basis accounting, it provides much more information about individual business as compared to the accrual accounting basis. The accrual basis grants one to track receivables and some, which are payables after some period. At some points, it is beneficial using this type of an accounting basis since it allows one to couple of revenues to the expenses obtained in making them, hence giving one more significant financial accounts.
At some point, the expenses entered on the accrual basis may at times be wrote in code to the thoroughly at a good time by ensuring that bills are in the accounts which are payable account. By using accounts which are payable they provide reports that shows amounts owed to marketers, that finally makes it more easy to coordinate and at the same time prioritize the bills and deal with one’s cash flow in a smooth manner. The case of the accrual basis affords a more exact image of benefit or loss since it includes all the taxations and disbursements, whether paid or unpaid.
At some points, it is evident from the results the accrual and cash bases are the most popular accounting bases even though accrual basis is largely beneficial and so in that regard more popular than its main contender regards. The main deviation amongst the two accounting bases tends to lie in when they choose to show a deal.
The main merit of the cash basis is that it is quick and easy and more efficient. In case of a business that does not sell on credit, and at some points pays bills as they are incurred, it may be that important for the business owner that he or she cannot afford to forfeit. The cash basis is believed to be recording only cash deals, creating the cash bill a primitive measurement of how the business could be performing generally.
Despite all these, when a business creates sales or purchases on credit without paying for the assets, the cash basis do not accurately reflect the results of operations. The cash basis does not necessarily provide a system for dealing with the unpaid bills or for crossing customer assets.

## Conclusion

In conclusion, the accrual basis will always do in case the business is that simple, and in this case the accrual basis will definitely go through, while in most cases, one will need to give some more exact image of the solutions of the business and its procedures. Between the two stated types of the accounting bases, accrual is of many benefits to small business people since it helps them to get the best understanding of their business by creating some highlights on the correct financial position their business is at. More importantly, it highlights the main-cash flow effects of mostly collecting debtors and paying creditors. Most importantly, it with accrual accounting, one can still claim tax deductions by the end of a given year irrespective of the business size at the end of a given year of operation. This clearly shows that accrual accounting will pose more benefits to the businessperson as compared to the cash accounting which will not enable the person to get tax deductions as in the case of the accrual.

## Appendix

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