



Learning

# Level 4 IFA unit descriptions

Valid from December 2015 exams

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<b>Unit title</b>	<b>SME Financial Accounting (International Standards)</b>	
<b>Unit aim</b>	<p>The aim of this unit is to develop the financial accounting knowledge and how to apply it in a way is relevant to small and medium enterprises (SMEs) and small and medium practices (SMPs). SME is the inclusive acronym used to describe both types of organisation.</p> <p>The unit provides an understanding of the nature and purpose of financial accounting, what constitutes the financial reporting and regulatory framework, and requires the ability to prepare and analyse financial statements.</p> <p>The unit will develop the ability to prepare financial statements according to the International Accounting Standard for Small and Medium-Sized entities (IFRS for SMEs).</p>	
<b>Level</b>	4	
<b>GLH</b>	72	
<b>Credit value</b>	12	
<b>IFA Code</b>	4FA	
<b>In IFA qualifications</b>	IFA Level 4 Award for SME Financial Accounting (International Standards) IFA Level 4 Diploma for SME Financial Accountants	
<b>Learning outcomes</b> <b>The learner will...</b>	<b>Assessment criteria</b> <b>The learner can...</b>	<b>Underpinning knowledge</b>
<b>1. Understand the purpose of financial accounting</b>	1.1 Explain the nature and purpose of financial accounting 1.2 Describe what constitutes financial reporting and its regulatory framework 1.3 Identify stakeholders and their interest in financial statements.	IFRS for SMEs IASB
<b>2. Identify and rectify errors made before and during the preparation of financial statements</b>	2.1 Explain how control accounts and reconciliations may be used to prevent accounting errors before the trial balance stage 2.2 Use the trial balance to detect and correct errors 2.3 Correct accounting records where errors have occurred using journal entries 2.4 Correct accounting records where errors have occurred using a suspense account 2.5 Prepare ledger entries to reflect transactions that require corrections	Double entry bookkeeping system

<p><b>3. Understand the effect that the ownership of an organisation has upon the nature of the financial statements that are produced</b></p>	<p>3.1 Describe the capital structures of sole traders, partnerships, limited liability partnerships, limited companies, , manufacturing companies, not for profit organisations, and combinations of companies</p> <p>3.2 Explain the reasons a capital structure is selected</p> <p>3.3 Explain the effect of capital structures on the preparation of their financial statements.</p>	
<p><b>4. Be able to prepare financial statements for different types of organisation</b></p>	<p>4.1 Use the trial balance to produce figures to be incorporated into financial statements</p> <p>4.2 Identify the treatment of non-current assets</p> <p>4.3 Calculate and record period-end adjustments involving:</p> <ul style="list-style-type: none"> <li>• current assets</li> <li>• inventories</li> <li>• accruals and prepayments</li> <li>• bad debts</li> <li>• non-current assets</li> </ul> <p>4.4 Prepare financial statements for sole traders, partnerships, limited companies, or parts thereof, suitable for external users such as shareholders, owner managers, creditors, employees and public</p> <p>4.5 Outline the characteristics and uses of accounting software in the preparation of accounting information.</p>	

**Recommended reading:**

4FA Financial Accounting International Standards, IFA

**Current Editions of the following textbooks are also recommended:**

Augustine Benedict and Barry Elliott; *Financial Accounting: An Introduction*; FT Prentice Hall

Bruce Mackenzie, Allan Lombard, Danie Coetsee, Tapiwa Njikizana, Raymond Chamboko; *Applying IFRS for SMEs*; Wiley

David Alexander, Christopher W. Nobes; *Financial Accounting: An International Introduction*; FT Prentice Hall

Roger Hussey; *Fundamentals of International Financial Accounting and Reporting*; World Scientific Publishing

Frank Wood's Business Accounting: Volume 1; Financial Times/ Prentice Hall

<b>Unit title</b>	<b>SME Cash and Working Capital</b>	
<b>Unit aim</b>	The aim of this unit is to develop knowledge and ability in identifying and evaluating sources of finance, managing and improving working capital, preparing budgets for functional departments and understand the importance of budgetary control for small and medium enterprises (SMEs) and small and medium practices (SMPs).	
<b>Level</b>	4	
<b>GLH</b>	82	
<b>Credit value</b>	14	
<b>IFA Code</b>	4CW	
<b>In IFA Qualifications</b>	IFA level 4 Diploma for SME Financial Accountants	
<b>Learning outcomes</b> <b>The learner will...</b>	<b>Assessment criteria</b> <b>The learner can...</b>	<b>Underpinning knowledge</b>
<b>1. Be able to advise on the different financing options available to SMEs and SMPs.</b>	<p>1.1 Describe the main forms of short-term and long term financing available to SMEs and SMPs.</p> <p>1.2 Explain how financing options can be accessed by a business.</p> <p>1.3 Advise on the most efficient financing options available to a business.</p>	<ul style="list-style-type: none"> <li>• The ability to state advantages and disadvantages of differing financing methods, explain their main features and make recommendations to a business on the most suitable financing method based on their situation.</li> <li>• The ability to discuss different ways in which businesses can access finance and explanations of the difficulties that business can face in accessing finance.</li> <li>• The ability to use the CAMPARI model or similar and relate the model to a scenario.</li> </ul>

<p><b>2. Understand how SMEs and SMPs can manage cash balances and key components of their working capital.</b></p>	<p>2.1 Use internal and external sources of information to evaluate the credit status of customers.</p> <p>2.2 Identify the factors affecting the granting of credit to customers.</p> <p>2.3 Explain the importance of liquidity management for businesses.</p> <p>2.4 Analyse different inventory control methods.</p> <p>2.5 Prepare inventory control calculations to help manage the inventory control process.</p> <p>2.6 Compare the options for investing surplus cash balances.</p> <p>2.7 Use performance ratios analysis to assess an SME's and SMPs working capital cycle.</p> <p>2.8 Advise management on efficiency and effectiveness of current cash and working capital positions and suggest methods for improvement.</p>	<ul style="list-style-type: none"> <li>• The ability to explain the different factors that a business will consider before it allows credit to a customer including credit checks and referencing. You will need to differentiate between the factors that are available within the business (internal) such as past orders and external such as credit referencing by an agency.</li> <li>• The ability to use the CAMPARI model or similar and relate the model to a scenario.</li> <li>• The ability to measure how effective a business is measuring its liquidity position within a business with the calculation and interpretation of performance ratios.</li> <li>• The ability to control stock effectively so that stock outs do not occur. Knowledge of Just in Time (JIT) along with costs associated with stock holding and implications of stock outs.</li> <li>• The ability to perform stock calculations and explain the purpose:             <ul style="list-style-type: none"> <li>○ Economic order quantity</li> <li>○ Re-order levels</li> </ul> </li> <li>• The ability to apply investment knowledge to a scenario to discuss the alternative options for investing surplus cash including subscribing for shares in other companies to acquiring fixed assets.</li> <li>• The ability measure the working capital cycle of a business considering inventory (stock) days, receivable (debtor) days and payables (creditor) days.</li> <li>• The ability to interpret financial information including balance sheet and profit and loss account figures with practical, relevant methods of improving a business. The ability to compare a business to a competitor/industry averages or track performance over a period of time is key.</li> </ul>
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<p><b>3. Understand the needs for effective budgetary control and the need for budgets in an SME and SMP environment.</b></p>	<p>3.1 Explain the behavioural aspects of budgeting in a SME and SMP environment.</p> <p>3.2 Justify the use of budgetary control for:</p> <ul style="list-style-type: none"> <li>• Co-ordination</li> <li>• Responsibility allocation</li> <li>• Motivation</li> <li>• Planning/Evaluation</li> <li>• Communication.</li> </ul> <p>3.3 Calculate actual to budget variances and give explanations for these variances to management.</p> <p>3.4 Set targets to enable budgets to be monitored.</p> <p>3.5 Describe the factors influencing forecast data.</p>	<ul style="list-style-type: none"> <li>• The ability to distinguish between manufacturing businesses and service businesses from a budget perspective and preparing calculations for the functional budgets.</li> <li>• The ability to demonstrate the use and benefits of preparing budgets.</li> <li>• The ability to set clear targets which are specific, measurable, achievable, realistic with a time period specified for which the target should be achieved.</li> <li>• The ability to demonstrate the drawbacks of using forecasted data such as uncertainty and changes in demand.</li> </ul>
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<p><b>4. Be able to prepare budgets for an SME and SMP and report on variances.</b></p>	<p>4.1 Prepare the budgets of an SME and SMP from forecasted data</p> <ul style="list-style-type: none"> <li>• Sales /Production</li> <li>• Material</li> <li>• Labour</li> <li>• Overheads.</li> </ul> <p>4.2 Prepare master budgets of an SME and SMP from forecasted data</p> <ul style="list-style-type: none"> <li>• Cash budgets</li> <li>• Forecasted income and expenditure (income statement)</li> <li>• Forecasted balance sheet (statement of financial position).</li> </ul> <p>4.3 Apply cost behaviour knowledge to forecast costs and revenues for a forecasted volume with reference to</p> <ul style="list-style-type: none"> <li>• Fixed and variable costs</li> <li>• Stepped and semi-variable costs</li> </ul> <p>4.4 Prepare a flexed budget and calculate period end variances for all cost behaviors.</p> <p>4.5 Prepare material, labour and overhead cost variances reconciling actual costs to standard costs.</p>	<ul style="list-style-type: none"> <li>• The ability to prepare budgets for each area detailed.</li> <li>• The ability to prepare budgets for each area detailed.</li> <li>• The ability to manipulate cost figures using the different cost behaviours. The high low method will be required for isolating the fixed and variable elements of semi-variable costs.</li> <li>• The ability to compare actual sales and revenue to flexed standards and calculate meaningful variances with relevant and logical reasoning</li> <li>• The ability to prepare the following variances:             <ul style="list-style-type: none"> <li>○ Materials price</li> <li>○ Material usage</li> <li>○ Labour rate</li> <li>○ Labour efficiency</li> <li>○ Fixed overhead expenditure</li> <li>○ Fixed overhead capacity, efficiency and volume</li> </ul> </li> </ul> <p>The ability to split a variance between controllable and uncontrollable elements and make valid arguments as to why they have occurred and suggest realistic improvements.</p>
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**Recommended reading**

4CW Cash and Working Capital online learning material, IFA

**Current Editions of the following textbooks are also recommended:**

Alan Dixie; *Implementing Successful Credit Control*; Management Books 2000 Ltd

John W Toomey; *Inventory Management: Principles, Concepts and Techniques*:  
Kluwer Academic Publishers

Malcolm Secrett; *Brilliant Budgets and Forecasts- Your Practical Guide to Preparing and  
Presenting Financial Information (Brilliant Business)*: Pearson Business

<b>Unit title</b>	<b>Creating Value and Measuring Performance for SMEs</b>	
<b>Unit aim</b>	<p>The aim of this unit is to develop the knowledge and ability of individuals to enable them to measure performance and assess the financial position of small and medium enterprises (SMEs) and small and medium practices (SMPs).</p> <p>Individuals will have the skills to provide relevant information for short term and long term decision making; costing and pricing whilst ensuring that employees are motivated to achieve individual objectives and the objectives of the business as a whole.</p>	
<b>Level</b>	4	
<b>GLH</b>	70	
<b>Credit value</b>	15	
<b>IFA Code</b>	4VP	
<b>In IFA qualification</b>	IFA Level 4 Diploma for SME financial accountants	
<b>Learning outcomes</b> The learner will...	<b>Assessment criteria</b> The learner can...	<b>Underpinning knowledge</b>

<p>1. Understand the techniques required to measure performance and assess the financial position of an SME and SMP.</p>	<p>1.1 Calculate the performance indicators to assess and monitor the financial position, performance and efficiency of an SME and SMP.</p> <p>1.2 Create and develop relevant key performance indicators relevant to the business of an SME and SMP including the application of:</p> <ul style="list-style-type: none"> <li>• Benchmarking</li> <li>• Balanced scorecard</li> </ul> <p>1.3 Explain the rationale for using quantitative and qualitative measures to assess SME performance and position</p> <p>1.4 Interpret and report on the results of performance indicators, identifying trends, and suggestions for improvements</p> <p>1.5 Discuss the importance of quality improvement</p>	<ul style="list-style-type: none"> <li>• The calculation of: <ul style="list-style-type: none"> <li>○ liquidity ratios</li> <li>○ profitability ratios,</li> <li>○ working capital ratios,</li> <li>○ efficiency and resource utilisation ratios</li> </ul> </li> <li>• The ability to develop and calculate relevant performance indicators for a business measuring profitability and performance and apply benchmarking and balance scorecard as a method of appraisal</li> <li>• The ability to distinguish between qualitative and quantitative measures and apply this to a case study.</li> <li>• The ability to distinguish between qualitative and quantitative measures and apply this to a case study</li> <li>• The ability to explain why quality and continuous improvement is important with knowledge of the different testing and sampling methods/total quality management and internal and external quality costs.</li> </ul>
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<p>2. Be able to use a range of cost accounting techniques and pricing strategies effectively to achieve competitive advantage for an SME and SMP</p>	<p>2.1 Apply costing approaches to provide information for management:</p> <ul style="list-style-type: none"> <li>• Traditional absorption costing</li> <li>• Marginal costing</li> <li>• Target costing</li> </ul> <p>2.2 Discuss the purpose of contribution and its relationship with cost volume profit analysis.</p> <p>2.3 Use indexation factors to forecast information for costing purposes</p> <p>2.4 Explain the purpose of responsibility accounting.</p> <p>2.5 Apply a range of market based pricing strategies</p> <p>2.6 Explain how pricing can help an SME achieve advantage over their competitors</p>	<ul style="list-style-type: none"> <li>• The ability to perform calculations for 'cost per unit' under the different methods and explain the differences between each of the costing methods with recommendations of suitability for a particular business.</li> <li>• The ability to perform calculations, apply marginal costing principles, explaining the term contribution and its importance in preparing a range of short term decision making calculations (breakeven point, margin of safety, contributions/sales ratio).</li> <li>• The ability to use different indexation factors e.g. retail price index for forecasting purposes.</li> <li>• The ability to explain different types of responsibility such as cost centres, profit centres, revenue centres etc.</li> <li>• The ability to perform calculations and explain the theory for the following pricing strategies:             <ul style="list-style-type: none"> <li>○ Marginal pricing, cost plus pricing, customer based pricing, competitive pricing (skimming and penetration), mark up and margins</li> </ul> </li> <li>• The ability to relate pricing theory to a case study stating relevant methods that a business can achieve advantage over its competitors.</li> </ul>
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<p>3. Understand the different methods that an SME can use to appraise the financial viability of an investment</p>	<p>3.1 Apply relevant appraisal techniques for long term investments.</p> <p>3.2 Explain the advantages and disadvantages of different investment appraisal techniques.</p> <p>3.3 Calculate a discount factor for discounted cash flows using a given cost of capital percentage.</p> <p>3.4 Explain the difference between cashflows and profit, applying relevant costing techniques.</p>	<ul style="list-style-type: none"> <li>• The ability to perform calculations and explain the theory for the following investment appraisal techniques             <ul style="list-style-type: none"> <li>○ Accounting rate of return (ARR), discounted cash flows, Internal rate of return (IRR), payback periods</li> </ul> </li> <li>• The ability to explain the advantages and disadvantages of the different investment appraisal techniques stated in 3.1.</li> <li>• Explain the difference between cashflows and profit applying relevant costing techniques.</li> </ul>
<p>4. Be able to explain successful employee management techniques as a method of improving quality</p>	<p>4.1 Identify general motivational methods for management to improve staff performance.</p> <p>4.2 Identify different methods of rewarding staff for good performance.</p> <p>4.3 Explain the key factors in setting appropriate personal targets for employees.</p>	<p>Assesses the ability to motivate employees to meet personal and business objectives. Questions on this learning outcome will be based around a case study. Reference to motivational theories such as Herzberg, Mazlow will be awarded credit but are not required to achieve full marks.</p>

<p><b>Recommended reading:</b></p>
<p>4VP Creating Value and Measuring Performance online learning material, IFA</p> <p><b>Current Editions of the following Textbooks are also recommended:</b></p> <p>Key Performance Indicators: Developing, Implementing and Using Winning KPIs (By David Parmenter)</p> <p>Management Accounting (elements of business series) (By Leslie Chadwick)</p> <p>Pricing Strategies: A Marketing Approach (By Robert M Schindler)</p> <p>Issues in Management Accounting (By Trevor Hopper)</p>

<b>Unit title</b>	<b>Tax for SMEs</b>	
<b>Unit Aim</b>	The aim of this unit is to enable individuals to understand taxation as it affects small and medium enterprises (SMEs) and small and medium practices (SMPs). SME is the inclusive acronym used to describe both types of organisation. To provide individuals with the skills to prepare basic tax computations and advise others of the effects of taxation on decision making.	
<b>Level</b>	4	
<b>Total hours of study</b>	150	
<b>GLH</b>	70	
<b>Credit value</b>	12	
<b>IFA code</b>	4TX	
<b>In IFA qualifications</b>	IFA level 4 Award for SME Tax Advisers IFA Level 4 Diploma for SME Financial Accountants IFA Level 5 Diploma for SME Financial Managers	
<b>Learning outcomes The learner will...</b>	<b>Assessment criteria</b>  <b>The learner can...</b>	<b>Underpinning knowledge</b>

<p><b>1. Be able to prepare income tax and national insurance computations for individuals and SMEs</b></p>	<p>1.1 Identify and compute taxable and exempt sources of income in respect of income in respect of:</p> <ul style="list-style-type: none"> <li>• Trading profits;</li> <li>• Employment income</li> <li>• Rental income</li> <li>• Interest</li> <li>• Dividends</li> </ul> <p>1.2 Identify the badges of trade.</p> <p>1.3 Determine the tax status of workers.</p> <p>1.4 Prepare a plant and machinery capital allowance computation for an unincorporated business.</p> <p>1.5 Identify and compute relief for trading losses.</p> <p>1.6 Calculate assessments for sole traders and partners.</p> <p>1.7 Calculate income tax and national insurance payable/repayable.</p> <p>1.8 Explain the nature and purpose of the tax system</p>	<ul style="list-style-type: none"> <li>• Expenditure which is allowed in calculating taxable trade profits</li> <li>• Basis of assessment for employment income.</li> <li>• Deductions for employment income – including statutory approved mileage rates.</li> <li>• P11D employees and employment benefits.</li> <li>• Dispensation from HMRC In respect of benefits received.</li> <li>• Property business profits.</li> <li>• Rent-a-room relief.</li> <li>• Premiums received from the grant of a short lease.</li> <li>• Property business loss.</li> <li>• Tax payable on savings income</li> <li>• Tax payable on dividend income.</li> <li>• Tax exempt investments</li> <li>• Compute taxable income and tax payable including adjustments to net income for pension and gfit aid payments.</li> <li>• Badges of trade.</li> <li>• Tax status of workers</li> <li>• Plant and machinery capital allowance computation including: writing down allowance, annual investment allowance, first year allowance, balancing adjustments.</li> <li>• Trading losses – carry forward and current year, terminal and early year losses.</li> <li>• Calculate trading profit assessments for opening years, current year, closing year and overlap profits (including partners in partnerships)</li> <li>• Loss restrictions that apply to partners of a limited liability partnership.</li> <li>• The purpose (economic, social, environmental) of a tax system in a modern economy.</li> <li>• Capital and revenue taxes, direct and indirect tax</li> <li>• Overall structure of the UK tax system</li> <li>• Differentiate between tax avoidance and evasion.</li> <li>• Self assessment time limits for returns, payments, calculation of payments on account.</li> <li>• The scope of national insurance</li> <li>• Calculation of classes 1,1A, 2 and 4</li> </ul>
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<p><b>2. Be able to prepare corporation tax computations for SMEs</b></p>	<p>2.1 Identify taxable and exempt sources of profits in respect of:</p> <ul style="list-style-type: none"> <li>• Trading profits</li> <li>• Property business income</li> <li>• Interest</li> <li>• Chargeable gains (linked with learning outcome 3)</li> </ul> <p>2.2 Prepare a plant and machinery capital allowance computation.</p> <p>2.3 Identify and compare relief for trading losses.</p> <p>2.4 Calculate corporation tax payable/repayable.</p>	<ul style="list-style-type: none"> <li>• Define the terms ‘period of account’, ‘accounting period’, ‘financial year’, ‘taxable total profits’ and ‘augmented profits’.</li> <li>• When an accounting period starts and ends and what determines a company’s residency.</li> <li>• Expenditure is allowable in calculating trading profits.</li> <li>• Plant and machinery capital allowance computations</li> <li>• Property business income</li> <li>• Relief for property business losses.</li> <li>• Interest under loan relationship rules.</li> <li>• Chargeable gains</li> <li>• Qualifying charitable payment</li> <li>• Trading loss relief – carried forward and current/prior period relief.</li> <li>• Calculate corporation tax payable/repayable including recognising the effects of receiving dividends, short and long accounting periods, marginal relief and associated companies.</li> </ul>
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<p><b>3. Prepare chargeable gains computations for individuals and SMEs</b></p>	<p>3.1 Identify chargeable and exempt assets.</p> <p>3.2 Prepare computations for chargeable gains or allowable losses including part disposals and chattels.</p> <p>3.3 Identify and calculate relevant reliefs and exemptions.</p> <p>3.4 Calculate gains or allowable losses on disposals of shares including where there have been bonus or rights issues.</p> <p>3.5 Calculate the capital gains tax payable on the same amount to be included in taxable total profits.</p>	<ul style="list-style-type: none"> <li>• Identify chargeable and exempt assets, persons and disposals.</li> <li>• Prepare computation of chargeable gains or allowable losses for individuals and companies.</li> <li>• Indexation relief for companies</li> <li>• Relief of capital losses for individuals and companies</li> <li>• Treatment of transfers of assets between spouses and civil partners.</li> <li>• Part disposal computation</li> <li>• The treatment where an asset has been damaged or destroyed and insurance proceeds are received or not received.</li> <li>• Wasting assets</li> <li>• Chattels (wasting and non-wasting)</li> <li>• Principle private residence exemptions including letting relief.</li> <li>• Shares including where there have been bonus or rights issues.</li> <li>• Calculate the value of quoted shares where market value is required (gift)</li> <li>• Share matching rules for individuals and companies.</li> <li>• Exempt shares and securities (gifts and corporate bonds).</li> <li>• Prepare a simple share pool for individuals and companies (indexed).</li> <li>• Calculate the capital gains tax payable by an individual and the chargeable gain to be included in taxable total profits of a company.</li> <li>• Replacement of business assets relief (roll-over) for individuals and companies.</li> </ul>
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<p><b>4. Prepare VAT computations for individuals and SMEs</b></p>	<p>4.1 Advise when an SME should voluntarily or compulsorily register/deregister for VAT.</p> <p>4.2 Describe the types of supply and recognise their affects on input tax claims.</p> <p>4.3 Identify and compute tax due under VAT schemes for small businesses.</p> <p>4.4 Calculate VAT payable/repayable</p>	<ul style="list-style-type: none"> <li>• The scope of VAT and it falls as tax on the final consumer.</li> <li>• List the principle zero-rated, exempt, reduced-rate supplies.</li> <li>• Understand how input tax claims are affected by the type of supply.</li> <li>• Registration for VAT and the advantages of voluntary registration.</li> <li>• Pre-registration input tax claims.</li> <li>• Deregister for VAT and advantages of voluntary deregistration.</li> <li>• Deregistration output tax on capital assets and inventories.</li> <li>• VAT accounting and administration</li> <li>• The tax point</li> <li>• VAT invoices.</li> <li>• Valuation of supplies.</li> <li>• Non-deductible input tax.</li> <li>• Relief that is available for impairment losses on trade debts.</li> <li>• Special schemes for SMEs – cash accounting, annual accounting and flat rate</li> </ul>
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**Recommended reading:**

4TX Tax for SMEs online learning material

**Current Editions of the following Textbooks and Journals are also recommended:**

Taxation by Melville A, FT Prentice Hall,

“UK Tax Guide” , Tiley & Collison, Butterworths Law Revised edition

Tolley’s Tax Guide, Butterworths Law

Tolley’s Tax Digest (12 issues per year),

Taxation Policy and Practice, Fiscal Publications

Finance Act - [www.legislation.gov.uk](http://www.legislation.gov.uk)