

Example 3

In April 2006 Ms Pierson buys 1,000 Lobster plc shares for 400p per share plus dealing costs of £150 including VAT. This is her first acquisition of Lobster plc shares.

In September 2007 she buys an additional 500 Lobster plc shares for 410p per share plus dealing costs of £80 including VAT.

In May 2012 she sells 700 Lobster plc shares for 480p per share (£3,360 disposal proceeds), incurring dealing costs of £100 including VAT.

In February 2014 she sells 400 Lobster plc shares for 520p per share (£2,080 disposal proceeds), incurring dealing costs of £105 including VAT.

Step 1

	Number of shares	Pool of actual cost
April 2006 The Section 104 holding is formed	1,000	£4,150

Step 2

September 2007

Add the allowable expenditure on the new shares to the pool of cost

Add cost of more shares	500	£2,130
	1,500	£6,280

Step 3

May 2012

To calculate the gain or loss:

First, calculate the amount of allowable expenditure by multiplying the pool of cost by:

Number of shares sold	=	700
Total number of shares in the holding		1,500

Cost	$\frac{£6,280 \times 700}{1,500}$	=	£2,931
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Second, calculate the gain or loss:

Disposal proceeds		£3,360
Minus allowable cost	£2,931	
Costs	£100	£3,031
Chargeable gain		£329

Note on calculation

Fractions of actual cost have been calculated by reference to the number of shares held. Alternatively, you can use the fraction:

$$\frac{\text{Disposal proceeds}}{\text{Disposal proceeds} + \text{value of shares not sold}}$$

Example 3 continued

Third, adjust the Section 104 holding

	Number of shares		Pool of actual cost
Brought forward	1,500		£6,280
	minus 700		minus £2,931
Carried forward	<u>800</u>		<u>£3,349</u>

Step 4

February 2014

First, calculate the amount of allowable expenditure. Multiply the pool of cost by:

Number of shares sold	=	400
Total number of shares in the holding		<u>800</u>

Cost	$\frac{£3,349 \times 400}{800}$	=	£1,675
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Second, calculate the gain or loss

Disposal proceeds		£2,080
Minus allowable cost	£1,675	
Costs	£105	£1,780
Chargeable gain		<u>£300</u>

Third, adjust the Section 104 holding

Brought forward	800		£3,349
	minus 400		minus £1,675
Carried forward	<u>400</u>		<u>£1,674</u>