



No. of Pages - 07
No of Questions - 05

SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE
PROGRAMME

YEAR II SEMESTER II
END SEMESTER EXAMINATION – APRIL 2015

AFM 20830 Taxation

Date : 29th April 2015
Time : 5.30 p.m. - 8.30 p.m
Duration : Three (03) hours

Instructions to Candidates:

- Answer **ALL** questions.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- You are **not permitted** to bring any material other than the prescribed text book into the examination.
- Answers should be written neatly and legibly.

Question No. 01

The following information is provided in respect of Tight Cement PLC for the Year of Assessment 2012/2013.

- Profit before tax for the year ended 31st March 2013 was Rs.22,500,000/=
- Details of Property, Plant and Equipment acquired during the year of assessment 2012/2013 are as follows:

Type of Property	Cost (Rs.)	Accounting depreciation (Rs.)	Tax depreciation (Rs.)
Land	3,000,000	-	-
Office Equipment	600,000	200,000	120,000
Motor Vehicles	3,500,000	700,000	700,000
Furniture	200,000	50,000	40,000
Total	7,300,000	950,000	860,000

- Taxable income of the company for Year of Assessment 2012/2013 was Rs.17,500,000/= and Income tax liability was Rs.1,750,000/=.
- The company has declared and paid dividend of Rs.700,000/= on 30th August 2013 using the profit for Year of Assessment 2012/2013 and dividend tax was also paid on that.

Required

Based on the above Information **Compute**,

- Distributable profit of the company for the Year of Assessment 2012/2013,
- Minimum dividend to be declared to avoid tax on under distributed profit for the Year of Assessment 2013/2014,
- The tax payable on under distributed profit (Deemed Dividend Tax Liability) for the Year of Assessment 2013/2014 if any

(Total 15 Marks)

Question No. 02

Ajith Kumara retired from the government service on 31st December 2012 and joined Agri Farms (Pvt.) Ltd. on 01st January 2013 as a Farm Manager. Ajith Kumara who is 56 years of age, is a resident individual for the purpose of income tax.

The following information relating to Ajith Kumara is provided in respect of the year of assessment 2013/2014 (hereinafter referred to as the 'year').

1. Pension received from the government of Sri Lanka was Rs.40,000/- per month.
2. Gross salary received from Agri Farms (Pvt) Ltd. was Rs.140,000/- per month. A bonus of one month salary was paid to him in January 2014.
3. He was sent to China for three days training on farm management and he was paid US\$ 200 per day for accommodation by the company. The air ticket was also provided by the company and the cost of air ticket was Rs.102,000/-.
[US\$ 1 = Rs.133/-]
4. He was provided with a rent free furnished house by the company in Kandy which is an unrated area.
5. A car with fuel and a driver has been provided by the company for his official and private use. The company does not maintain running records of this car.
6. The company has paid his life insurance premium of Rs.46,000/- during the year.
7. PAYE deducted by Agri Farms from his salary for the year 2013/2014 was Rs.85,600/-
8. House owned by Ajith located in Horana was rented out for Rs.50,000/- per month from January 2013. The construction of this house was completed in June 2004 and floor area of the house is 2,500 square feet. Rating assessment of this house is Rs.200,000/- and rates paid for the year were Rs.60,000/-. During the year, he had incurred Rs.80,000/- for repairs of the house.

9. He has obtained a housing loan in respect of construction of the house from a commercial bank for which he has paid Rs.67,000/- and Rs.85,750/- during the year as interest and capital repayments respectively.
10. Credit card interest paid during the year was Rs.8,500/-. He used this credit card for the payment of repairs of the house only.
11. He has a fixed deposit of Rs.500,000/- in the People's bank for which the bank has credited Rs.35,000/- as interest during the year. No withholding tax was deducted on such interest. Further, he has given a loan of Rs.100,000/- to a friend and he received Rs.115,000/- as the repayment of loan during the year.
12. Summary of dividends received during the year was as follows:

	Rs.
Dividend received from a unit trust	12,600
Dividend received from AB PLC which has been subject to Dividend Tax at 10%	29,370

13. He has donated Rs.5,000/- to the village temple. Further, he has sponsored a child in AAC children house in Pollonnaruwa by paying Rs.24,000/- during the year.

You are required to compute Ajith Kumara's:

- a. Statutory Income from each source of income,
 - b. Total Statutory Income,
 - c. Assessable Income,
 - d. Taxable Income,
 - e. Gross Income Tax payable,
 - f. Balance Income Tax Payable / Refund Due, and,
 - g. Exempt income, if any
- for the Year of Assessment 2013/2014.

(Total 35 Marks)

Question No. 03

Sarath Silva owns a printing business and the following is the extract of his profit and loss account for the year ended 31 March 2014.

	Rs.		Rs.
Salaries and wages	932,000	Gross profit	4,345,000
Delivery cost	170,000	Rent income	1,060,000
Maintenance of machinery	244,000	Profit on sale of a graphic computer	25,000
Rates for the building	120,000		
Repairs to Building	450,000		
Royalty	825,000		
Depreciation – computer	200,000		
Water	108,000		
Postage	45,000		
Advertisement – business	416,000		
Other expenses	330,000		
Net profit	1,590,000		
	5,430,000		5,430,000

- After paying a royalty, he obtained right from some writers for publishing their books. During the year of assessment, Rs. 650,000 was paid as royalty to authors on this basis.
- Allowance for depreciation has already been granted on all assets used in the business except on new graphic computer purchased during the year.
- The graphic computer which was purchased during the year of assessment 2008/2009 was sold during the year for Rs. 25,000. The cost of the computer was Rs. 356,000. This computer sold was replaced by a similar graphic computer during the year of assessment 2013/2014, and it was purchased for Rs. 400,000.

You are required to:

Compute statutory income for year of assessment of the business

(Total 20 Marks)

Question No. 04

Wasantha, Sarath and Hemantha are the partners carrying on a business of manufacturing packing materials for local market under the name and style of “Sun Pack Enterprises”. The partners share profits and losses equally. The profit and loss account for the year ended 31 March 2014 is as follows:

	Rs.	Rs.
Turnover		67,475,000
Less: cost of sales		(53,980,000)
Gross profit		<u>13,495,000</u>
Add: other income		
Interest on a fixed deposit – net		<u>540,000</u>
Total income		14,035,000
Administration expenses		
Salaries paid to partners		
Wasantha	600,000	
Sarath	500,000	
Hemantha	<u>400,000</u>	1,500,000
Salaries to other staff		6,295,000
Expenses on training		142,000
Depreciation – New Building		450,000
Other expenses		662,000
Selling and distribution expenses		
Bad debts written off		541,000
Entertainment		214,000
Delivery charges		316,000

Financial cost

Interest paid to a partner on a loan taken	100,000
Overdraft interest	732,000
Net profit	3,083,000

Notes

1. Expenses on training: This represents expenditure incurred on sending Marketing executive for overseas training (This includes air passage expenses of Rs. 48,000).
2. Profits and income from the business for the previous year of assessment was (2013/2014) Rs. 3,546,000.
3. During the current year of assessment, a building was purchased for Rs. 4,500,000 from another partnership.
4. A breakup of bad debts written off is as follows:

	Rs.
Loan given to a partner	250,000
Loan given to suppliers	150,000
Trade debt	141,000

5. All “other expenses” shown under administration expenses are allowable for the purpose of taxation.

You are required to compute

- a. Divisible profit/loss of the business for the year of assessment 2013/2014
- b. Partnership tax payable for the year of assessment 2013/2014

(Ignore other taxes)

(Total 20 Marks)

Question No. 05

- I. State five (05) circumstances under which an individual will be exempt from income tax arising from Interest Income.

(5 Marks)

- II. Mr. Srilal is going to make following investment in USA (America).

Purchase Ordinary shares from New York stock market worth US\$ 1mn.

Deposit US\$ 1.25 mn in a bank situated at Washington.

You are required to advise Mr. Srilal about his income tax liability arising from the above investment based on the Sri Lankan income tax rulings.

(5 Marks)

(Total 10 Marks)