

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

YEAR II SEMESTER II
END SEMESTER EXAMINATION – AUGUST 2015

AFM 20830 Taxation

Date : 12th August 2015
Time : 9.00 a.m. - 12.00 p.m.
Duration : Three (03) Hours

Instructions to Candidates:

- Answer **ALL** questions.
- This paper consists of three sections (A, B and C).
- Section A – Answer **ALL** questions in the separate sheet provided.
Section B – Answer **ALL** questions.
Section C – Answer **ALL** questions.
- The total marks for the paper is 100.
- This is a closed book examination.
- Non programmable calculators are allowed.
- Answers should be written neatly and legibly.

Section A

Please mark the correct answer.

Question No. 01

1. Which one of the following set represents reasons to impose tax.
 - a. Equity in income distribution, decrease savings & capital formation, Directing investments, Demand management.
 - b. Equity in income distribution, Increase savings & capital formation, Directing investments, supply management.
 - c. Equity in income distribution, Increase savings & capital formation, Directing investments, Demand management.
 - d. Equity in income distribution, Increase savings & capital formation, Directing investments, supply management.

2. Which one of the following is not a Principle of Taxation?
 - a. Equity
 - b. Progressivity
 - c. Productivity
 - d. Certainty

3. The only employment income which is not subject to tax on Accrual basis;
 - a. Rental value of any residence provided
 - b. Interest income
 - c. Bonus
 - d. Vehicle allowance

4. Mr. Anuradha stayed in Sri Lanka from 2009 January. He visits England on his business tours then & there. The dates of his arrival in & departure from Sri Lanka are as follows.

Arrival	Departure
Resident since January 2009	15.03.2011
15.04.2011	15.07.2012
29.11.2012	05.02.2013
01.04.2013	31.05.2013

Residency or Non residency of Mr. Anuradha for year of assessment 2010/2011 and 2011/2012 respectively were,

	2010/2011	2011/2012
a.	Resident	Resident
b.	Non Resident	Resident
c.	Resident	Non Resident
d.	Non Resident	Non Resident

5. Mr. Y has a monthly remuneration of Rs. 120,000. Company owned house is provided to him. Rating Assessment is Rs. 250,000 & Rates payable is @30%. Value of the benefit is;
- Rs. 120,000
 - Rs. 320,000
 - Rs. 180,000
 - None of above

6. Which one of the following is not an obligation of an employer on Pay As You Earn (PAYE).
- a. Deduct income tax according to the tables provided by Inland Revenue (IR) Subject to the Directions if available.
 - b. Maintains pay sheets in prescribed form for each employee and remit the tax before 15th of the following month.
 - c. Issue directions relating to "PAYE"
 - d. Issues certificates of tax deductions (T 10) to employees before 30th April.
7. Which one of the following is not treated as Interest Income
- a. Interest arising out of systematic lending
 - b. Interest arising out of investments
 - c. Interest arising out of unpaid debts
 - d. Interest arising out of mortgages
8. Which is not a function of income tax.
- a. Primary functions of taxation
 - b. Economic functions of taxation
 - c. Environmental development function of taxation
 - d. Social functions of taxation
9. The With Holding Tax (WHT) rate on interest of bank deposit of an individual who is having an assessable income of Rs. 1,600,000 is;
- a. Nil
 - b. 8%
 - c. 10%
 - d. 2.5%

10. Mr. Hasala has assessed his interest income during the year from the following for the year of assessment 2014/2015 as follows,

	Rs
Sampath Bank-Fixed Deposit (Net)	280,000
UB Finance –Fixed Deposit (receivable) (FD matured on 01.06.2015)	86,000
NSB-Savings A/C (WHT not deducted)	40,000
NTB-RFC Account	45,000
HNB-Treasury Bills	30,000
Personal loan to Mr. Chamara (Gross)	150,000

Taxable income on interest is,

- Rs. 150,000
- Rs. 190,000
- Rs. 210,000
- Rs. 276,000

11. Dividend which is liable for dividend tax is;

- Dividend paid to a unit trust or a mutual fund
- Dividend received on shares held abroad, if full amount is remitted to Sri Lanka through a bank
- Dividend paid by a resident company
- Dividend paid by a company out of exempt profits

12. Which one of the following tax will not become final tax at any circumstance?

- Tax on Dividends
- PAYE
- WHT
- VAT

13. Subscriptions are disallowable under Section 25 & 26 when;

- a. Subscriptions to trade associations
- b. Subscriptions to non-professional bodies for training.
- c. Subscriptions to professional bodies for membership
- d. Purchases of professional journals

Question No 14 to 15 are on the information given below.

The Financial information of Saman Ltd for Y/A 2014/15 is as follows.

- Net Profit - Rs 8000 Mn
- Following Fixed Assets were acquired during the year.
 - Machinery Rs. 200 Mn
 - Motor Vehicle Rs. 75 Mn
- Depreciation charged to P&L is Rs. 50 Mn. This includes depreciation of Rs. 35 Mn in respect of the assets acquired during the year.
- Income tax liability for Y/A 2014/15 is Rs 1,100 Mn.

14. Minimum Dividends to be distributed before 30th September 2015 is. (Rs.)

- a. 666
- b. 766
- c. 999
- d. 746

15. The liability of deemed dividend tax when dividend distributed is Rs.260 Mn.

- a. Rs.294 Mn
- b. Rs.196 Mn
- c. Rs.456 Mn
- d. Rs.345 Mn

(Total 30 Marks)

Section B

Question No. 02

a. Nilan is a Civil Engineer and works at a Private Company. He provides professional services to his clients from his house. The following information relating to Nilan is provided in respect of the year of assessment 2014/2015.

i. He received the following benefits from his employment for the year of assessment 2014/2015.

	Rs.
Salary Rs. 200,000 per month X 12	2,400,000
Bonus (paid in December 2014)	100,000
Leave pay	150,000
Incentives	1,500,000
Commission	630,000
Payment of life insurance premium per annum	45,000

ii. He was provided with a rent free furnished house by the company in Wanduramba which is an unrated area.

iii. The company has provided two vehicles, car, 2000 cc with fuel and without driver and van, 1400 cc provided with fuel and driver. The company does not maintain running records of this car.

iv. The company bears his mobile phone bills and the company has reimbursed Rs.26,500/- during the year to Naleen.

v. PAYE deducted for the year of assessment was Rs.21,400

vi. From his private practice he has earned an income of Rs. 1,000,000 income for the year of assessment 2014/2015 and expense incurred for the year of assessment 2014/2015 was Rs. 450,000 which includes the salary paid to his sister who works as Secretary, amounting to Rs. 80,000, depreciation on his car (he had purchased his car on 01st April

2013 for his personal use) – amounting to Rs. 75,000 and Book keeping charges, to his wife - Rs.10,000/- per month.

- vii. Mr. Nilan is living in a house constructed by him in year 2010, the floor area of which is 2500 sq.ft.
- viii. He has another house which is given on rent for a monthly rent of Rs. 25,000. The rate is paid as Rs. 2,500 per quarter. He has incurred Rs. 20,000 maintenance expenses. In 1st September 2014, he has renewed the rent agreement for further 2 years with the monthly rent of Rs. 30,000.
- ix. He has a two children, son, whose age is 16 years, earned rent income of Rs. 120,000 during the year of assessment from a house he has been gifted by his Grandparents, and daughter Sumudu (20 years old) who is unmarried, and looked after by Naleen. She has received an interest income of Rs.14,000/- on which no tax has been deducted.
- x. 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.
- xi. During the year his wife has earned Rs. 600,000 net income from self employment.
- xii. Mr. Nilan received dividend income from following companies.
 - From A Ltd out of taxable profit Rs. 20,000 (Net dividend)
 - From D Ltd a dividend of Rs.40,000. D Ltd has paid dividend out of dividend received from another company.
- xiii. He has a fixed deposit of Rs. 150,000 in a commercial bank which earn interest at the rate of 10%. WHT has been deducted by the bank.
- xiv. He has made following payments during the year.
 - Donations to approved charity in money Rs. 20,000 and in goods Rs. 50,000.
 - Payment of housing loan to Commercial Bank amounting to Rs. 25,000 per month which includes an interest of Rs. 10,000. He has constructed this house in year 2010.
 - Self assessment tax payment Rs.50, 000.

You are required to compute Mr. Nilan's:

- i. Statutory Income from each source of income,
- ii. Total Statutory Income,
- iii. Assessable Income,
- iv. Taxable Income,
- v. Gross Income Tax payable,
- vi. Balance Income Tax Payable / Refund Due, and,
- vii. Exempt income, if any for the Year of Assessment 2014/2015.

(Total 30 Marks)

Section C

Question No. 03

- a. Malee and Lalee are partners who are carrying on a business of buying and selling garments. Profit sharing ratio of Malee and Lalee are 2:3 respectively. The Profit and Loss account for the year ended 31st March 2015 is as follows.

	Rs.	Rs.	Rs.
Sales			6,000,000
<i>Less: Cost of sales</i>			<u>(1,000,000)</u>
Gross Profit			5,000,000
Dividend received (Net)			<u>50,000</u>
			5,050,000

Administration Expenses		2,000,000	
Selling and Distribution Expenses		200,000	
Interest on Loan		100,000	
Rent paid to Malee		500,000	
Accounting and audit fee		50,000	
Salaries paid to partners			
Malee	600,000		
Lalee	600,000	1,200,000	
Interest on capital			
Malee	200,000		
Lalee	300,000	500,000	(4,550,000)
Net Profit			500,000

Following additional information is available.

Administration expenses include

- Foreign travelling to meet suppliers Rs.125,000
- Salary paid to Malee's husband Rs.360,000
- Rent was paid to Malee for business premises.
- Interest on loan was paid to Lalee on loan given.

You are required to compute,

- i. Divisible profit / loss of the partnership,
- ii. Partnership tax of the partnership
- iii. Apportionment of the divisible profit / loss between the partners, for the year of assessment 2014/2015.

(6 Marks)

b. Define "Precedent Partner" as per the section 217 of the partnership Act.

(2 Marks)

c. "Working partner is considered as a partner for tax purpose". Comment on the statement

(2 Marks)

(Total 10 Marks)

Question No 04

a. Kalyan Ltd. is a VAT registered company engaged in manufacturing toy items for local market and foreign market. The following financial information of the company is given for the month ended 31st March 2015.

- All the figures given below are exclusive of VAT, unless otherwise stated:

	Rs. '000'
Revenue:	
Sales to local market	14,200
Direct Exports	12,800
Sale proceeds on sale of a machine (inclusive of VAT)	9,990
Sales made to exporters as suspended supplies	8,640

- Input VAT

	Rs. '000'
On material purchases from local suppliers registered for VAT	1,585
On imports	640
On lease rentals paid for car used for travelling	94

- The company has received Simplified VAT Credit Vouchers (SVCV) amounting to Rs. 946,000/- in respect of suspended supplies made.

You are required to compute the Value Added Tax (VAT) payable for the month ended 31st March 2015.

(6 Marks)

- b. State the circumstances where a person or company requires to register under one month taxable period rather than three month taxable period.

(2 Marks)

- c. List the factors which should be included in the tax invoice under the section 20 of VAT Act.

(2 Marks)

(Total 10 Marks)

Question No 05

- a. Following information was extracted from Mr. Nirmal about his houses for the year of assessment 2014/2015.

	NAV (Rs)
House @ Galle Purchased in 2013 (Sq.ft-1,400)	1,300,000
House @ Colombo Constructed in Apr.2010 (Sq.ft-500)	500,000
House @ Kandy Constructed in May 2009 (Sq.ft- 450)	750,000
House @ Matara Converted to a Hotel (Sq.ft-3400)	1,300,000
House @ Kalutara Constructed in Dec.2012 (Sq.ft-1,400)	600,000
House @ Kalutara is occupied by Mr. Nirmal's mother.	

Calculate the taxable NAV of Mr. Nirmal for year of assessment 2014/2015.

(3 Marks)

- b. A house with a rating assessment of Rs. 80,000 (rates 25%) is rented to Mr. Jagath. Calculate the owner's income and occupier's rent income at each of following circumstances.
- Rented at Rs. 120,000 per annum.
 - Rented at Rs. 50,000 per annum.

(3 Marks)

- c. A house at Malmbe rated by Municipality at Rs.100,000 was rented out to a friend at Rs. 7,000 per month. Friend occupied the premises for 8 months and Municipality waived off the rates for the unoccupied period. Rates and repairs were borne by the owner. Rates payable at 30%. Assess the rent income.

(2 Marks)

- d. Mrs. Namalee who resides in Hambanthota inherits a house in Galle. She occupied in this house in April-May for 2 months. During March (2015) the house was kept vacant for cleaning and for the rest of the period it was given on rent for Rs. 8,000. p.m. Agent's commission was Rs.1,000. Furniture upkeep was Rs.2,000.

The rating assessment of the house is Rs. 50,000. The rates applicable is at 20%.

Compute the profits from furnishing.

(2 Marks)

(Total 10 Marks)

Question No. 06

Write short notes on following.

- a. Furnishing of return as per the section 106 of the Act of Inland Revenue
(3 Marks)
 - b. Penalty for failure to furnish a return
(2 Marks)
 - c. Appeals according to section 165 to 170, 194.
(2 Marks)
 - d. Total Statutory Income and Assessable income
(3 Marks)
- (Total 10 Marks)**