

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

**YEAR II SEMESTER II (INTAKE III/IV – GROUP A)
END SEMESTER EXAMINATION – JULY 2016**

AFM 20830 Taxation

Date : 26th July 2016
Time : 9.00 a.m. – 12.00 p.m.
Duration : Three (03) hours

Instructions to Candidates:

- The paper consists of three parts (A, B and C)
- Part A – Answer **ALL** questions
Part B – Answer any **Four (04)** questions
Part C – Answer **ALL** questions
- You are **not permitted** to bring any material other than the prescribed text book into the examination.
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Begin each answer on a separate page.
- Clearly state assumption and working, if any
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly.

PART A

Answer **ALL** questions

Question No. 01

Select the most suitable answer for question No. 1.1 to 1.5. Write the number of the selected answer in your answer booklet.

- 1.1 What is the responsibility of the employer regarding Pay As Your Earn (PAYE) scheme:
- a. Deduct income tax from gross remuneration of all liable employees.
 - b. Remit the deducted tax to Department of Inland Revenue on or before 15th of next month.
 - c. Maintain the proper record on prescribed forms in respect of each employee liable to tax.
 - d. All the above
- 1.2 Mr. Henadeera is a tax payer who has taxable income of Rs. 1,200,000/-, available PAYE deducted amounting to Rs. 12,000/ and Self-assessment payment of Rs. 15,000/. What is the amount to be paid as balance income tax for the year of assessment 2015/16
- a. Rs.100,000/-.
 - b. Rs.57,000/-.
 - c. Rs.63,000/-.
 - d. Rs.70,000/-.
- 1.3 Mr. Perera is a tax payer whose tax liability for the year of assessment 2014/15 was Rs. 200,000/- .What is the minimum amount to be paid on 15th August 2015 as first quarterly instalment for avoiding the impose of penalty for delay payment?
- a. Rs.200,000/-.
 - b. Rs.25,000/-.
 - c. Rs.60,000/-.
 - b. Rs.50,000/-.

1.4 Mr. Sumeda is a Chief Manager of the reputed company. He has been provided a house on free of charge where the rent is paid by the company at Rs. 40,000 per month to the owner of the house. Rating assessment of the house is Rs. 200,000/- and rates paid at 30%. Monthly remuneration of the Sumeda is Rs. 200,000/-. What is the house benefit to be declared for tax purpose.

- a. Rs.180,000/-.
- b. Rs.200,000/-.
- c. Rs.480,000/-.
- d. Rs.120,000/-.

1.5 State whether each of the following statements are TRUE or FALSE. Write the selected answer (True / False) in your answer booklet with the number assigned to the question.

- a. Tax free allowance is only applicable to the charitable Institution.
- b. If there is a divisible loss on partnership, no need to consider loss for calculating the partnership tax.
- c. Maximum amount of Rs. 250,000/- can be deducted as Qualified payment when the amount of salary is more than Rs. 500,000/-
- d. All citizen people in Sri Lanka shall be treated as resident person for tax purpose.

(Total 10 Marks)

PART B

Answer any **FOUR (04)** questions

Question No. 02

Answer to all questions

- A. **Mr. Surash** is working for a Sri Lankan company for several years. He was promoted as country manager of the company's branch located in Malaysia from 01.12.2014 for four years. However, several times he has come to Sri Lanka during his employment in Malaysia. Details are as follows,

Date of Arrival	Date of Departure
08.02.2015	15.02.2015
10.08.2015	21.08.2015
20.11.2015	27.01.2016
25.02.2016	07.08.2016

You are required to **evaluate** the residency of Mr. Surash for year of Assessment 2015/2016.

(05 Marks)

- B. Following information was extracted from the income tax file of Mr. Dilan Meepage for the year of assessment 2014/2015.

He has received an estimated assessment two weeks ago due to not submitting return of income and no any prior notice was received. In addition, penalty amounting to Rs. 50,000/- has been imposed due to non-submission of the return for the same period. He is yet to submit the return.

You are required to **advise** him how to resolve the tax matter mentioned above.

(05 Marks)

C. Write short notes on following;

- i. Return of Income
- ii. Additional Assessment
- iii. Notice of Assessment
- iv. Letter of Appeal
- v. Notice of Defaulter

(05 Marks)

(Total 15 Marks)

Question No. 03

Prime Technology is a partnership selling electrical equipment and tools. Raman and Jagan are the partners of the partnership sharing the profit equally. The profit and loss account for the year of assessment 2015/2016 is as follows,

		Rs
Gross Profit		10,550,000
Add: Other Income		
Net Dividend Income	180,000	
Gross Interest Income	220,000	
Interest on drawings- Jagan	125,000	525,000
		11,075,000
Less: Administration Expenses	(4,525,000)	
Selling and Distribution Expenses	(2,340,000)	
Finance Expenses	(540,000)	(7,405,000)
Net profit		3,670,000
Salaries to partners		
Raman	(250,000)	
Jagan	(225,000)	(475,000)
Interest on capital		
Raman	(100,000)	
Jagan	(120,000)	(220,000)
Share of profit		
Raman	(1,707,500)	
Jagan	(1,707,500)	(3,415,000)
		-

Following additional Information is also provided,

A. Administration expenses included following,

- Donation made to the Government Rs. 100,000/-
- Salary paid to the Raman's son Rs. 180,000/-
- Rent paid to the Jagan for building used for the business Rs. 240,000/-

B. Loan was taken from Raman and paid the Interest of Rs. 200,000/- that was included in Finance Expenses.

C. During the year of assessment, Rs. 150,000 was paid to the tax consultant in respect of an appeal made against an additional assessment on Value Added Tax. This has been included under the administration expenses.

D. Legal fee incurred on recovery of trade debt of Rs. 56,000/- has been included in selling and distribution expenses.

You are required to **calculate** the following for the year of Assessment 2015/2016

- a. Divisible Profit for the partnership
- b. Partnership tax payable
- c. Profit and Income distribution among the partners

(Total 15 Marks)

Question No. 04

Wickramarachchi Brother is a registered person for VAT and sole agent in Sri Lanka for importing and distributing of "Vision" Television. They also carry on the business of buying and selling locally made "Tuner" TV Boosters. In addition the company open up a new factory in Kurunagela District to manufacture the TV antenna & Booster under brand name of "Wicki" to be sold in local market as well as the export market.

Details related to the quarter ended December 31, 2015 are given below, (All amounts are excluding VAT)

	Supply (Rs.)	Imports (Rs.)	Local Purchases (Rs.)
Vision Televisions	10,040,000	7,250,000	250,000
Tuner TV boosters	5,450,000	-	675,000
Wicki Antennas & boosters	6,500,000	1,650,000	1,750,000

Following additional information are also provided,

1. Rs.2,500,000/- worth of Wicki antenna & boosters were exported to India during this period and included in the supply of "Wicki" and Input tax related to the supply of export is Rs.255,000/-
2. Rs.5,550,000/- was incurred as overhead and other expenses. But, Tax invoices have not been received for the purchases amounting to Rs.350,000/-. The amount of Rs.580,000/- was related to traveling expenses which was incurred for both business and private purpose.
3. Rs.20,000/- and Rs.30,000/- were paid as VAT instalments payment on first two months of the quarter.
4. Unabsorbed Input tax carried forward from previous quarter is Rs.160,000 /-.
5. During the period, used machine has been disposed for Rs.3,550,000/- to VAT registered person.

You are require to **calculate** the VAT liability for the quarter ended December 31, 2015

(Total 15 Marks)

Question No. 05

Randi Intentional is a resident person in Sri Lanka that manufactures the Garment for local and overseas markets. The products are exported to USA and Australia after manufacturing them in their own factories.

According to the Income Statement of the business prepared for the year ended March 31, 2016, Net Profit has been computed as Rs.6,451,350/-, after making the adjustments for the following incomes and expenses.

1. Other income contains Net Interest Income of Rs.150,000/- and Net dividend Income of Rs.225,000/-.
2. Foreign travelling includes Rs.240,000/- being the cost of travelling by Mr. Sudarshana Silva, the Chief Manager of the business for promoting the sales in USA. Balance of the expenses incurred for an employee who has participated to the training in China.
3. Total lease payable for the delivery van, is Rs.540,000/- (within 36 instalments, starting from October, 2014). All the rentals payable for the year were paid. Rs.35,000/- has been charged to income statement as leasing Interest.
4. Residence house has been provided on free of charge to Mr. Sudarshana Silva throughout the Year. Building rent expenses includes the monthly rent of Rs.35,000/- paid to said house. Rental assessment of the house is Rs.160,000/- and rates paid at 20%. Sudharshana's gross remuneration is Rs. 200,000/ per month.
5. Details of Provision for the gratuity is as follows,

Cash	550,000	Balance as at 01.04.2015	550,000
Balance as at 31.03.2016	350,000	Profit & Loss A/C	350,000
	900,000		900,000

6. Rs.250,000/- of equipment which was purchased during the Year used exclusively for a research. Equipment is used to innovate an economic way of bleaching garments made of Denim. In addition to that, Rs.300,000/- has been incurred for material of such research. This research was carried out by Moratuwa University.
7. Details of bad & doubtful debts are as follows,

Debtors	75,000	Balance as at 01.04.2015	
		Special Provision	80,000
		General Provision	110,000
Balance as at 31.03.2016			
Special Provision	110,000	Cash	70,000
General Provision	140,000	Profit & Loss A/C	65,000
	325,000		325,000

8. Sales promotion expenses includes, Advertisement cost for recruitment of staff amounting to Rs.75,000/, promotion of the new product of Rs.350,000/- and media advertising of Rs.400,000/-.

You are required to **calculate** the Adjusted Business Profit for the year of assessment 2015/16

(Total 15 Marks)

Question No. 06

Q & Q Associates is trading organisation that has earned a net profit of Rs. 4,562,000/- for the year ended 31st March 2016. Details of the asset movement are as follows;

Cost

Particulars	Balance as at 01.04.2015 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31.03.2016 (Rs.)
Land	12,000,000	-	-	12,000,000
Building	9,500,000	750,000	-	10,250,000
Motor Vehicle	10,200,000	3,000,000	2,500,000	10,700,000
Computer Hardware	2,100,000	750,000	-	2,850,000
IT Software	2,800,000	500,000	-	3,300,000
Furniture	1,000,000	400,000	-	1,400,000
Tool	350,000	300,000	100,000	550,000
Total	37,950,000	5,700,000	2,600,000	41,050,000

Depreciation

Particulars	Balance as at 01.04.2015 (Rs.)	For the year (Rs.)	Disposals (Rs.)	Balance as at 31.03.2016 (Rs.)
Building	3,400,000	1,300,000	-	4,700,000
Motor Vehicle	3,850,000	1,060,000	2,015,000	2,895,000
Computer Hardware	1,050,000	712,500	-	1,762,500
IT Software	1,400,000	600,000	-	2,000,000
Furniture	250,000	400,000	-	650,000
Tool	275,000	150,000	75,000	350,000
Total	10,225,000	4,222,500	2,090,000	12,357,500

1. Rs.5,500,000/- of Buildings which includes under opening balance were constructed and balance was purchased. A new store was constructed during the year. But, the company started to use it on May 2016, due to non-availability of the electricity connection.
2. The Motor Vehicle that existed as at 01st April 2015 were used for transport of goods.
3. A new Motor lorry was purchased for transport on 01st November 2015 and an old Motor lorry was disposed on 31st August 2015 for Rs. 1,250,000/-.
4. Furniture acquired during the year was obtained under a finance lease agreement for 4 years commencing from 01st May 2015. Monthly instalment of the lease is Rs.12,000/- and first and last Instalments were paid as advance payment. Rs.26,000/- was charged to Income Statement as Leasing interest for the year. Further, all instalments due for the year were paid.
5. All the IT software which consists of on opening balance has been imported from Singapore. But, software acquired during the year was taken from the Sri Lankan developer.
6. Depreciation allowances have not been taken for tools which are used for the computer repairs. Part of the tools disposed during the year for Rs.35,000/- and 50% of replaced tools were taken as new.
7. All the items of Property, Plant and Equipment as at 01st April 2015, have to be considered as acquired on 2012/13, unless specifically mentioned otherwise.

You are required to **calculate** the **Adjusted Business Profit based** on assets movement related to the year of assessment 2015/16.

(Total 15 Marks)

PART C

Answer to **ALL** questions

Question No. 07

Mr. Palihawadena is a retired government officer and last year he joined as General Manager of Universal exporter (Pvt) Ltd. the following information revealed to the year of assessment 2015/16 is available for you.

1. Mr. Palihawadena received a sum of Rs. 2,000,000/- as Commuted pension during the year of assessment and his monthly pension is Rs. 60,000/-
2. The following benefits were benefits received by him from Private Company
 - Gross salary received Rs. 175,000/- per month.
 - Travelling allowance of Rs. 35,000/- per month
 - Overtime received for the year Rs. 145,000/-
 - A bonus of Rs.275,500/- was paid to him on December 2015, based on the previous year's profit of the company.
 - He has been provided a motor car (2,000 CC) with a driver and fuel for his official and private use.
 - The company has a medical scheme and he has reimbursed an amount of Rs.82,000/- for medical check-up bills.
 - PAYE was deducted amounting to Rs. 116,000/-
3. He won a cash prize of Rs.2,000,000/- from the Mahajana Sampatha Lottery during the year and 10% of WHT deducted.
4. A house, the construction of which was completed on January 2014, has been rented out for Rs.60,000/- per month from June 2014. The rating assessment of the house is Rs.160,000/-. Rates are paid at 30% and the floor area of the house is 2,200 sq. feet.
5. Rs. 210,000/- of Interest Income on fixed deposit from Commercial Bank was credited to the bank account. In addition Interest Income of Rs. 350,000/- was received from Senior Citizen account in People's Bank. No WHT was deducted for both receipts.

6. He is a shareholder of the City Hotel Ltd and from which investment he received a net dividend of Rs. 72,000/-
7. He has a daughter Sumudu, who is 16 years old. She has received an interest income of Rs.54,000/- and no tax has been deducted on this interest income.
8. During the year of assessment, he has made the following payments,
 - Interest payment for housing loan is Rs. 234,000/- and capital payment is Rs. 208,000/-
 - Cash donation made to the approved charity which is providing the institutional care of parentless Childs was Rs. 56,000/-
 - Premium paid for Life Insurance Agreement was Rs. 60,000/-
9. Self-assessment payment was made amounting to Rs. 40,000/-

You are required to **calculate** Mr. Palihawadena's Balance Income Tax Payable / Refund Due, for the year of assessment 2015/2016.

Note: If any expense is allowed as a deduction, any income considered as exempted income that you should state clearly reasons and relevant assumption for such adjustment.

(Total 30 Marks)