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

YEAR II SEMESTER II – INTAKE V/VI (GROUP B)
END SEMESTER EXAMINATION – AUGUST 2017

AFM 20830 Taxation

Date : 6th August 2017
Time : 9.00 a.m. - 12.00 p.m.
Duration : Three (03) Hours

Instructions to Candidates:

- Write the Index Number in the space provided at the top of this sheet. Do not write **your name** anywhere in this question paper.
- Answer **ALL** questions.
- The paper consists of three parts (A, B and C)
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Use of scientific calculator is allowed.
- Answers should be written neatly and legibly

PART A

Answer **ALL** Questions

Question No. 01

1. The Return of Income of an individual for the year of assessment 2015/16 should have been submitted to the Department of Inland Revenue on or before;
 - a. 30th of April 2015
 - b. 15th of May 2016
 - c. 30th of November 2016
 - d. 30th of September 2016

2. Sithumina advanced solution is a newly registered business that offers consultancy services. The total turnover of the business for the quarter ended 31st March 2017 is Rs. 5,740,000. In order to obtain registration for Nation Building Tax, the turnover of the business needs to exceed;
 - a. Rs. 3 million per quarter
 - b. Rs. 12 million per quarter
 - c. Rs. 12.5 million per quarter
 - d. Rs. 7.5 million per quarter

3. Which of the following qualify for capital allowance?
 - (1) A Water Dispenser owned by the business, but used at the residence of a Director.
 - (2) The motor coach used by the business to transport employees from their residences to office.
 - (3) Rs.80,000/- worth of tools purchased for use at factory.
 - (4) A lorry used solely for business transports.
 - a. (1) and (2) only.
 - b. (2) and (4) only.
 - c. (4) only.
 - d. None of the above.

4. The following statements are given for your review:

A. Mr. Sudarshan has been in Sri Lanka for 190 days from 1st April 2016 to 31st March 2017. According to the provision of the Inland Revenue Act, He should be considered as Non resident person.

B. The determination by the Commissioner General must be made within two years from the date of acknowledgement or receipt of a valid appeal.

According to the **tax administration**, which of the above statements is/are **correct**?

- a. Both (A) and (B) are correct.
- b. Both (A) and (B) are incorrect.
- c. Only (A) is correct.
- d. Only (B) is correct.

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. The allowance for depreciation can't be claimed for motor coach used to transport employees from their residences to office.	T/ F
b. A valid appeal must be made within thirty days from the date of notice of the assessment.	T/ F
c. The penalty that could be imposed for making an incorrect return is a sum not exceeding Rs. 50,000/-.	T/ F
d. Depreciation allowance can be claimed for a car used solely for business travelling.	T/ F

(Total 10 Marks)

PART B

Answer **ALL** Questions

Question No. 02

You are required to provide short answers to all questions with attention given to action verbs.

- a. Mrs. Himalka has made quarterly instalment payments based on the income tax liability of the previous year of assessment. In finalizing of Return of Income she has found that the income tax payable in relation to the current year is less than what she has already paid.

Explain how Mrs. Himalka can make a valid claim for the excess tax paid.

- b. **Nation Building Tax (NBT)** has been imposed through Nation Building Tax Act No 09 of 2009.

List down the activities chargeable with Nation Building Tax (NBT), according to the provisions of the Nation Building Tax Act.

- c. Mr. Wickrama, a citizen of Sri Lanka, is the Country Head of Superman (Pvt) Ltd. He has travelled abroad several times during the year and details are given below,

Departure from Sri Lanka	Arrival to Sri Lanka
24.03.2016	07.05.2016
28.07.2016	17.09.2016
11.11.2016	07.01.2017
01.03.2017	29.04.2017

Identify the resident status of Mr. Wickrama for taxation purposes in Sri Lanka for year of assessment 2016/17.

- d. Mr. Sumadha was divorced from his wife in June 2015. His daughter Nethuli who is 15 years old lives with her mother and all her expenses are borne by mother.

Explain to whose income Nethuli's income should be aggregated for tax purpose.

- e. **Briefly State** the meaning of "Time of Supply" in respect of goods, according to the provisions of Value Added Tax Act.

(Total 10 Marks)

PART C

Answer **ALL** Questions

Question No. 03

Mr. Wijesuriya is an executive director of a private company. The following information relating to him is provided in respect of the year of assessment 2016/17 (here in after referred to as the 'year').

1. Following benefits were received from company,

- Gross monthly salary Rs.100,000/- per month
- Bonus received of Rs.250,000/- out of the profit related to year of assessment 2015/16.
- Travelling allowance of Rs.80,000/- per month
- Reimbursement of expenses
 - Medical bill Rs. 250,000/-
 - Electricity bills Rs. 75,000/-
 - Telephone bills Rs. 80,000/-
- A car 1,700cc 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.

- Rent free house provided by the company in wattala of which rating assessment is Rs. 200,000/- and rates paid at 30%. Monthly rent of Rs. 50,000/- was paid by the company.
2. He lives with his family in a house inherited from his parents. Floor area of the house is 3,000 Square feet and rating assessment is Rs.160,000/-. The House was entirely renovated in the year 2016.
 3. Construction of his new house in Gampaha was completed in January 2016, and it was rented for Rs.80,000/ per month from April 2016. Rating Assessment is Rs.200,000/- and rates are paid at 30%.
 4. (i) Interest received by him on an investment in Treasury Bills was Rs.180,000/-.
 - (ii) Interest Income on a fixed deposit in a finance company was Rs.150,000/-.
WHT was not deducted on this Interest.
 - (iii) Gross Interest Income on a daughter's fixed deposit was Rs.10,000/-.
 5. Summary of dividends received during the year was as follows,

	Rs.
Net Dividend received from AB PLC	90,000
Dividend received from a tax exempted company	150,000

6. He received a prize of Rs.1,000,000/- from the National Lottery on which withholding tax of Rs.100,000/- was deducted.
7. He has obtained a housing loan in respect of construction of the house from a commercial bank for which he has paid Rs.85,000/-and Rs.70,000/- during the year as interest and capital repayments respectively.
8. He donated Rs.550,000/- to Government hospital for furnishing a ward and certificate obtained from the director of the hospital.

9. Annual premium paid on a policy of life insurance was Rs.105,000/-.

10. Self-assessment income tax payment for the year was Rs.100,000/-.

11. PAYE deducted from his income for the year was Rs.50,000/-.

Required:

For the year of assessment 2016/17, calculate the following for Mr. Wejesuriya

- 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 or Refund due,

(Total 30 Marks)

Question No. 04

- a. Dispur International (Pvt) Ltd is a VAT registered person and engage in manufacturing and Distribution of goods in Sri Lanka.

The following is a breakup of the supply and purchases **exclusive of VAT**, wherever applicable, for the above taxable period.

Supply:

Taxable supply	Rs. 27,000,000
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Local Purchases:

Furniture from VAT registered persons	Rs. 5,400,000
Photo Copy Machine from VAT not registered persons	Rs. 320,000
Expenditure incurred from VAT registered persons	Rs. 4,100,000
Expenditure incurred from persons not registered for VAT	Rs. 2,400,000

Imports:

Input tax on import of Machinery Rs. 700,000

Sum of Rs. 150,000/- was available as unabsorbed brought forward input tax and amount of Rs. 300,000/- was made as instalment payment during the first two months of the quarter.

Required:

Calculate the output tax of the company and the input tax that could be claimed against the output tax for the quarter ended 31.03.2017.

(10 Marks)

- b. Marka Enterprise is a leading manufacturing company. The following information is relevant for the year ended 31st March 2017,

1. Turnover of the Year

Sale of manufacturing products Rs.64,450,000/-

Sale of imported items Rs.10,150,000/-

Sale proceeds on Machinery Rs.2,250,000/-

2. Other sources of income

Interest income Rs.850,000/-

Dividend Income Rs.180,000/-

3. Rs. 125,000/- has been paid as quarterly instalment of ESC for year ended 31st March 2017

Required:

Calculate Balance of Economic Service Charge (ESC) payable by Marka Enterprise for the year ended 31st March 2017.

(05 Marks)

- c. Following information for the quarter ended 31st March 2017 were extracted from the records of “Regal Traders”. A business engaged in manufacturing of electrical products,

	Rs.
Sales	4,570,000
NBT on raw material purchased	33,400
NBT on Overhead expenses	28,100
NBT paid in monthly instalments	30,000
Excess input Nation Building Tax (NBT) brought forward from previous quarter	22,000

Required:

- Calculate the balance amount of Nation Building Tax (NBT) payable for the quarter ended 31st March 2017.
- State the time period in which return of NBT have to be submitted with the Department of Inland Revenue

(05 Marks)

(Total 20 Marks)

Question No. 05

After completion of degree in Business Management, Hemalka commenced his own business on August 2015. He has prepared the following income statement for the year ended 31st March 2017.

	Rs.	Rs.
Income		
Gross Revenue		15,600,000
Net Interest Income		<u>150,000</u>
		15,750,000
Expenses		
Cost of sales	6,560,000	
Salaries and wages	510,000	
Stationery	120,000	
Depreciation	260,000	
Provision for Gratuity	355,000	
EPF Penalty	27,000	
Legal Fee	60,000	
Donation	50,000	
Purchase of a Machine	450,000	
Purchase of a Local Developed Software	250,000	
Lease Interest	210,000	
Rent Expenses	550,000	
Advertising Expenses	200,000	
Entertainment Expenses	75,000	<u>9,677,000</u>
Net Profit		<u>6,073,000</u>

Additional information are as follows,

1. During the year, Sum of Rs. 210,000/- was paid as payment of gratuity.
2. Legal expense was incurred for consultancy fee paid to settling the tax appeal matter.
3. The Operational Manager, who was employed throughout the year was paid a salary of Rs.200,000/- per month and given a rent-free residence by the company. The company has

paid Rs.318,000/- for the year as rent in respect of the rent-free residence provided and it was included in rent expense.

4. Allowance for depreciation to assets available as at April 1st 2016 for the year of assessment was Rs. 560,500/-.
5. On May 2015, machine was obtained under a finance lease agreement for a period of 60 months. Monthly installment of the lease was Rs.44,000/- including interest. The company has paid installments as required.

Required:

Assess the Statutory Income (profit or loss) of the business for tax purposes for the year of assessment 2016/17.

(Total 15 Marks)

Question No. 06

“Jayaweja” Traders is a partnership carrying on a business of importing and selling industrial tools and equipment to domestic market.

Jaye and Weja are the partners who have introduced the capital and sharing profits and losses equally.

After deducting the following expenses, the net profit before income tax of the partnership for the year ended 31st March 2017 was Rs.3,300,500/- including gross interest income Rs. 200,000/-.

1. Administration expenses include salaries paid to partners as follows:

	Rs.
Jaye	400,000
Weja	200,000

2. During this year of assessment, Rs.80,000/- was paid to a tax consultant in respect of an appeal made against an additional assessment of income tax.

3. Finance cost includes the following:

	Rs.
Interest paid to Jaye for loan taken from him	150,000
Interest paid on partners' Capital	600,000

4. The partnership has purchased furniture on June 2016 for Rs.400,000/-. Depreciation of Rs.80,000/- has been charged on that furniture. All other assets are fully depreciated for both accounting and tax purposes.

Required:

- i. The divisible profit / loss of the partnership.
- ii. Gross partnership tax payable by the partnership.
- iii. Apportionment of the divisible profit / loss between partners and the statutory income from business of each partner.

(Total 15 Marks)