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

YEAR II SEMESTER II – INTAKE V/VI (GROUP A)
END SEMESTER EXAMINATION – JULY 2017

AFM 20830 Taxation

Date : 24th July 2017
Time : 1.00 p.m. - 4.00 p.m.
Duration : Three (03) hours

Instructions to Candidates:

- This 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
- Total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Answers should be written neatly and legibly

PART A

Answer **ALL** questions

Question No. 01

Select the most suitable answer for question No.1 to 5 and mark the number of the selected answer in your answer booklet.

1. What is the closing date for the submission of income tax return for the year of assessment 2015 / 2016?
 - I. 30th November 2017
 - II. 30th November 2016
 - III. 31st May 2016
 - IV. 30th September 2016

2. First quarterly installment of Rs.2,500,000 for the year of assessment 2015/2016 has been defaulted by a company. It was paid late on 17th November 2015. What is the penalty to be paid by the company due to delay in the above payment?
 - I. Rs.450,000
 - II. No Penalty
 - III. Rs.400,000
 - IV. Rs.250,000

3. Which one of the following is **incorrect** for partnerships?
 - I. Salary paid to a spouse of a partner can be deducted in the calculation of divisible profit.
 - II. Salaries of partners cannot be deducted in the calculation of divisible profit.
 - III. A partnership is entitled to deduct the payment of Annuity, Ground rent, Royalty or Interest in computing the divisible profit.
 - IV. Interest income received for the partnership is a part of divisible profit.

4. Mr. Perera is a person who has taxable income of Rs. 1,700,000. He has paid tax on self-assessment basis amounting to Rs.21,000 and PAYE deducted on his income was Rs.15, 000. What is the amount to be paid as balance income tax for the year of assessment 2015/2016
- I. Rs.152,000
 - II. Rs.116,000
 - III. Rs.131,000
 - IV. Rs.137,000
5. For an individual who is not in the category of professionals, which of the following is not a Qualifying payment for the year of assessment 2015/2016?
- I. Capital repayment of housing loan for construction of houses
 - II. Premium for life insurance
 - III. Donation to University of Colombo
 - IV. Maximum of Rs.100,000 on employment income

(Total 10 marks)

PART B

Answer any **FOUR (04)** questions

Question No. 02

- a. Briefly explain the general conditions to be satisfied in order to claim an expenditure as a deductible expenditure.
(03 marks)
- b. Describe the purpose of introducing Withholding Taxes (WHT) and give three (03) income sources from which the WHT is deducted
(03 marks)
- c. The total statutory income of Mr. Sumanadasa is Rs. 2,500,000 for the year of assessment 2015/2016. He has donated Rs. 250,000 to a government project. He has paid Rs. 120,000 as interest for a housing loan to a commercial bank. Calculate the Income tax liability of Mr. Sumanadasa for the year of assessment 2015/2016.
(04 marks)
- d. Name two (02) services not liable to the Nation Building Tax (NBT)
(02 marks)
- e. State whether the following statements are **true or false**. Justify your answers with relevant statutory provisions for year of assessment 2015/2016.
- I. A person engaged in the sale of imported articles is liable for NBT only for his imports.
 - II. A Commercial building acquired in May 2013 is qualified for depreciation allowances in the year of assessment 2015/2016 at a rate of 10%.
 - III. An individual who is having a statutory income of Rs.1,560,000 and Assessable income of Rs.1, 372,000 is allowed to claim an amount of Rs.675,200 as business loss when it has a brought forward loss of Rs.700,000.

(03 marks)

(Total 15 marks)

Question No. 03

Gagana & Vihanga are the partners of G & V Enterprises, a retail business and have provided you the following information with regard to their partnership for the year of assessment 2015/2016.

Net profit for the year ended 31st March 2016 is Rs.10,000,000.

In computing the net profit it has credited the following income in addition to the revenue from trading activities.

- Profit on disposal of computer Rs.20,000 (This computer was purchased on 2009/2010 for Rs.75, 000 and disposed during the year for Rs.50,000.)
- Interest on fixed deposit Rs. 195,000 (net)

Following expenses were also deducted in arriving at the net profit.

- Salaries to Partners
Gagana - Rs. 300,000
Vihanga - Rs.300,000
- Salary to Gagana's wife (working as the Accountant)- Rs.140,000.
- Interest on capital of;
Gagana- Rs.200,000
Vihanga- Rs.180,000
- Interest on loan given by Vihanga- Rs.90,000
- Legal expenses (capital nature)- Rs.15,000
- Donation to Api Wenuwen Api fund Rs.120,000 and to Sri Naga Viharaya Rs.20,000.
- Depreciation- Rs.180,000.
- Advertising- Rs.75,000
- Ground rent- Rs.130,000
- Audit fee- Rs.30,000

Other Information

- i. The Gagana & Vihanga share profit and losses at the ratio of 3:2.
- ii. All the assets have been given the full amount of depreciation allowances in prior years.

Required:

Compute the partnership tax payable by partnership for the year of assessment 2015/2016.

(Total 15 marks)

Question No. 04

- a. Mr. Silva is a VAT registered supplier and has made following supplies and purchases during the quarter ended 31st March 2017

	Rs
Taxable supplies (Without VAT)	6,000,000
Zero rated supplies	750,000
Exempted supplies	1,500,000

Expenses (Without VAT)

Purchases of Taxable supplies	3,000,000
Telephone	60,000
Electricity	30,000
Other General expenses liable for VAT	50,000

VAT paid for the months of January & February 2017 were Rs.35,000 and Rs.55,000 respectively.

Required:

Calculate the final VAT liability for the quarter ended 31st March 2017.

(10 marks)

- b. Differentiate between the “Zero rated supplies” and “Exempted supplies” in Value Added Tax (VAT)

(05 marks)

(Total 15 marks)

Question No. 05

Siripala and Piyadasa are the partners of a partnership business from 2013. The information related to their business for the year of assessment 2015/2016 were as follows;

Accounting profit for the year ended 31st of March 2016 after deducting the following expenses was Rs 2,500,000.

- Salaries paid to partners
 - Siripala Rs300,000
 - Piyadasa Rs 200,000
- Interest on Capital
 - Siripala Rs 100,000
 - Piyadasa Rs 50,000
- Advertising Expenses Rs 200,000
- Rent paid to Siripala Rs 400,000 (Rating Assessment is Rs 1,000,000 and Rates are paid by Siripala 10%).
- Stationery Rs. 100,000
- Interest on loan paid to Siripala Rs. 50,000

In addition to the income from the partnership, Siripala has received income from other sources as follows;

- Income from Employment
Siripala is working as an executive in AST PLC and his monthly Salary is Rs. 120,000. PAYE deducted Rs. 70,000
- Dividend Income
Siripala has received a net dividend of Rs 180,000 from PQR PLC

Other information

Siripala has donated Rs 100,000 for an approved charity providing institutional care for the sick and needy people.

Siripala has paid interest on housing loan amounted to Rs 30,000 during the year of assessment 2015/2016.

Required:

- a. Calculate divisible profit on the partnership for the year of assessment 2015/2016 and distribute it among the partners.
- b. Calculate the Statutory Income, Assessable income, Taxable income and the Balance tax payable by Siripala for the year of Assessment 2015/2016.

(Total 15 marks)

Question No. 06

- a. Mr. Kumara is a person who is an owner of four (04) houses. The following information has been given regarding the houses for the year of assessment 2015/2016.

Location	Usage	Rating Assessment (Rs.)
Colombo	Let on rent	400,000
Jaffna	Occupied by Kamara's Uncle	250,000
Chilaw	Kumara and his family live	300,000
Kurunegala	Let on rent	200,000

- The house which is situated in Colombo has been given on rent and he receives a monthly rent of Rs.48,000
- Kumara's uncle is living in the houses which is situated in Jaffna by paying Rs. 6,000 monthly payment to Kumara.

- The monthly rent income of Kumara from the Kurunegala house is Rs. 13,000
- The rates for the house in Colombo is 30% and remaining houses are at 20%.

Required:

The Income from Property included in the total statutory income of Mr. Kumara for the year of assessment 2015/2016

(12 marks)

- b. In Addition to the income from property in part A, he has a business and adjusted Taxable profit from Trade, Business, and Profession & Vocation is Rs.787, 000. He has paid an annuity of Rs 50,000. Calculate his assessable income for the year of assessment 2015/2016.

(3 marks)

(Total 15 marks)

PART C

Answer **ALL** questions

Question No. 07

Mr. Kokila a Chartered Accountant, who is working at Samanala Furniture Ltd as the Finance Manager and provided you with the following particulars related to his income and expenses for the year of assessment 2015/2016.

- Monthly salary – Rs.100,000
- Fixed Allowances – Rs.60,000 per month
- Leave pay – Rs.40,000
- Bonus – Rs. 500,000
- Vehicle allowance – Rs.75,000 per month
- Electricity bill reimbursement – Rs.30,000
- Telephone bill reimbursement - Rs.30,000
- The company has made a block medical contribution of Rs.4,000,000 for its employees. Mr. Kokila has been reimbursed medical bills to the value of Rs.20, 000 during the month of October 2015.
- He has provided with a house. The rating assessment of the house is Rs.300,000 and rates paid at 30%. The company pays monthly rent of Rs.30,000 to the owner of the house.

Deductions

- PAYE tax – Rs.75,000
1. Mr. Kokila has a house in Gampaha and he has rented out that house at Rs. 50,000 per month. Rating assessment is Rs.400,000. Mr. Kokila bears the rates and cost of repairs. Rates paid at 30%.
 2. Mr. Kokila has made an investment in New Zealand and received interest on that investment amounted to Rs. 300,000 (2500 New Zealand Dollars*120 LKR) through a bank. In addition to that he has received Rs. 375,000 (Net) of interest for fixed deposits at financial institutes in Sri Lanka.

3. Mr. Kokila has investments in equity shares of “Siyapatha Ltd” and received Rs.180,000 as net dividend.
4. He has a retail business and tax adjusted profit for the year of assessment 2015/2016 of that business is Rs. 750,000. Last year there was an adjusted loss of Rs. 690,000 and that was brought forwarded to the current year.
5. Other information
 - Investment in a venture capital company Rs.600,000
 - Capital repayment for housing loan Rs. 650,000
 - Interest payment for housing loan Rs. 280,000
 - Self-assessment tax payment Rs. 22,000

Required:

Compute his Total Statutory Income, Taxable Income, Income Tax Liability, and Balance Tax /Refunds for the year of assessment 2015/2016

(Total 30 marks)