



UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level II – Semester VI) Examination - December 2017

FIN 2308– Taxation

Three (03) Hours

Answer All Questions

You are required to state your own assumptions (if any) clearly

Answers for PART “I” and PART “ II” should be provided in two separate booklets

Use of Calculators is allowed

PART - I

1. Mr. Fernando, a consultant working for Solutions (Pvt) Ltd as Head of Advisory since 2000.
 - i. The following payments and benefits were provided during the Y/A 2016/17.
 - Gross salary - Rs. 200,000/- per month.
 - Vehicle allowance - Rs. 75,000/- per month.
 - A bonus payment of Rs.150,000/- was made out of the profits for the year 2015/16.
 - Private telephone bills amounting to Rs. 80,000/- were reimbursed by the employer during the above year of assessment.
 - Medical reimbursement received in respect of surgery of his child is Rs. 350,000/-
 - As the employer does not provide a house, Mr. Fernando lives in a rented house. He pays Rs.20,000/- per month and the total amount is reimbursed by his employer.
 - PAYE deduction - Rs. 255,000/-
 - ii. Mr. Fernando’s bank investments information is as follows:
 - Received AUS \$ 2,170 as annual interest on deposit at a bank in Australia out of his foreign currency earned when he was working abroad. Total interest was remitted to his Sri Lankan bank account.
 - One AUS dollar is equal to Sri Lankan rupees 120.
 - Interest received from the savings account in a local private commercial bank is Rs.72,000/- and no withholding tax has been deducted.
 - iii. Dinithi Fernando (15 years old), daughter of Mr.Fernando received an interest amounting to Rs.96,000/- during the year for her savings account where no withholding tax has been deducted.

- iv. He has made investments in public listed companies. One such company has distributed dividend amounted to Rs 68,000/- without deducting dividend tax even though it is required to deduct dividend tax within the law.
- v. Mr. Fernando lives with her daughter in an apartment purchased by him. The rating assessment of that apartment is Rs.300,000/- and rates are paid at 30%.
- vi. A house which has a floor area of 3000 sq.ft. and constructed by him in 2009, has been let to a company to be used as a residence of one of the directors, at a monthly rent of Rs.60,000/- Rating assessment is Rs. 200,000/- and the rates paid is Rs. 60,000/- The rates are paid by the owner.
- vii. He received a prize of 300,000/- from Development Lottery Board during the Y/A 2016/2017.
- viii. He has an audit firm and provides management and consultancy services. Tax adjusted business profit for the year ended 31 March 2017 was Rs 2,924,000/-
- ix. Mr. Fernando has made the following payments:
- As he got divorced from his wife 10 years back. As per the court order, Rs.15,000/- per month payable to his ex-wife. During the year, he has paid Rs.180,000/-.
 - He has paid Rs. 58,000/- as interest on a loan taken from a bank to purchase a motor car. Capital repayment is Rs.34,000/-
 - The payment made during this year of assessment (2016/2017) to the Insurance company on a life policy is Rs. 86,000/-
 - Rs. 100,000/- has been donated to the University of Colombo and Rs 50,000/- elder's home during the year.
 - Tax paid on self-assessment is Rs. 350,000/-

Based on the above information you are required to compute Mr Fernando's Total Statutory Income, Assessable income, Taxable Income, Gross Tax Payable, Balance tax payable/refund and Exempt income if any for the year of assessment 2016/2017.

(30 Marks)

2. Rajarata Importers (Pvt) Ltd. was incorporated on 01st April 2016, and it is engaged in the business of importing agricultural equipment and selling in the local market both whole sale and retail. The following information has been extracted from the financial statements for the year ended 31st March 2017:

- 1) Net profit before tax for the year ended 31st March 2017 is Rs.12,847,325/-.
2)

| <i>Other Income</i> | <i>Rs.</i> |
|--|----------------|
| Dividend income - net of withholding tax 10% | 90,000 |
| Interest income from Treasury Bills-Net | 243,000 |
| Gain on disposal of Furniture | 5,000 |
| Total | 338,000 |

3)

| <i>Expenses Charged when arriving at the Profit Before Tax</i> | <i>Note</i> | <i>Rs.</i> |
|--|-------------|------------------|
| Administration Expenses | 1 | 8,632,200 |
| Selling and Distribution Expenses | 2 | 550,000 |
| Finance and Other Expenses | 3 | 95,275 |
| Total | | 9,277,475 |

4) Note 01 -Administration Expenses:

| <i>Description</i> | <i>Note</i> | <i>Rs</i> |
|-------------------------------------|-------------|-----------|
| Salaries and Wages | | 4,228,000 |
| Employees' Provident and Trust Fund | | 634,200 |
| Provision for gratuity | 1.1 | 136,000 |
| Depreciation | | 294,000 |
| Entertainment | 1.2 | 38,000 |
| Local Travelling | | 68,000 |
| Foreign travelling | 1.3 | 184,000 |
| Company formation expenses | 1.4 | 285,000 |
| Donation | 1.5 | 100,000 |
| Legal expenses | 1.6 | 228,000 |

| | | |
|---------------------------------|-----|------------------|
| Rent | | 420,000 |
| Utilities | | 136,000 |
| Research & Development expenses | 1.7 | 125,000 |
| Other expense | | 1756,000 |
| Total | | 8,632,200 |

- Note 1.1 – Provision for gratuity

Movement of gratuity provision is as follows

| | |
|-----------------------------|-------------------------|
| Balance as at 1 April 2016 | 1,250,000 |
| During the year provision | 136,000 |
| Payment of gratuity | <u>(250,000)</u> |
| Balance as at 31 March 2017 | <u>1,136,000</u> |

- Note 1.2 – Entertainment

This includes Rs.12,000 expense of providing lunch for office employees.

- Note 1.3 – Foreign Travelling

Travelling expenses includes air ticket fees of travelled to China by CEO to design & develop a new product

- Note 1.4 – Company Formation Expenses

Company formation expenses include the following:

| <i>Description</i> | <i>Rs.</i> |
|---|----------------|
| Legal charges in connection with the formation of the Company | 235,000 |
| Share issue expenses | 50,000 |
| Total | 285,000 |

- Note 1.5 – Donation

During the year, the company has donated Rs.100,000/- to "Disaster Relief Fund of Sri Lanka".

- Note 1.6 – Legal Expenses

During the year, the company has been sued by the Customs due to manipulation of custom duty. Rs.128, 000/- has been paid to a lawyer to defend the company and Rs 40,000/- was paid as stamp duty relating to purchase of the land during the year.

- Note 1.7 – Research & Development Expenditures

During the year company has carried out a product development with Coconut Research Institute in Srilanka amounted to Rs 125,000.

5) Note 2 – Selling and Distribution Expenses

| Description | Note | Rs. |
|-------------------------------|----------|----------------|
| Advertising | Note 2.1 | 475,000 |
| Bad & doubtful debt provision | Note 2.2 | 75,000 |
| Total | | 550,000 |

- Note 2.1 - Advertising

The company has incurred the following expenses for advertising:

| Description | Rs |
|--|----------------|
| Paper advertisement to recruit workers | 25,000 |
| Advertisement on electronic media | 450,000 |
| Total | 475,000 |

- Note 2.2 - Bad & doubtful debt provision

| Description | Rs |
|----------------------|---------------|
| Anura & Company | 50,000 |
| 5% General provision | 25,000 |
| Total | 75,000 |

6) Note 3 – Finance and Other Expenses

| Description | Notes | Rs |
|----------------|----------|---------------|
| Lease interest | Note 3.1 | 14,325 |
| Loan interest | Note 3.2 | 68,200 |
| Bank charges | | 12,750 |
| Total | | 95,275 |

- Note 3.1 - Lease Interest

On 01st July 2016, two laptop computers were obtained under a finance lease agreement for a period of 24 months. Monthly installment of the lease was Rs.7,600/-. The company has paid 9 installments during the year.

- Note 3.2 - Loan Interest

The company purchased a plot of land to build a warehouse obtaining a loan from a commercial bank. Interest paid on that loan was charged to income statement.

7) The following additional information relating to Property, Plant and Equipment is also provided as at 31st March 2017 are as follows:

| <i>Type of Asset</i> | <i>Cost</i> |
|--|------------------|
| Land | 1,000,000 |
| Office Equipment | 78,000 |
| Lorry | 2,500,000 |
| Motor Car | 1,500,000 |
| Furniture | 30,000 |
| Computer equipment | 280,000 |
| Computer Software - Developed in Sri Lanka | 65,000 |
| Laptop Computers - leased assets | 160,000 |
| Total | 5,613,000 |

8) The company has paid income tax of Rs.1,500,000/- on the self-assessment basis during the year.

9) Other information:

Other income includes a gain of disposal of wooden table which was purchased at the beginning of the year at a cost of Rs.20,000. Sales proceed was Rs 23,000. This has been replaced with another table during the year for Rs.30,000.

You are required to assess Adjusted Business Income, Total Statutory Income, Assessable Income, Taxable Income, Gross Income Tax Payable, Balance Tax Payable/Refund due and Exempt Income for the year of assessment 2016/2017.

N.B: The reasons for allowing or disallowing any expenses should be clearly stated.

(30 Marks)

PART - II

3.

- i. Mr. Nimal and Mr. Sunil are the partners of NS Associates (An Audit Firm) who share profit/loss in the ratio of 2:1, respectively. The income statement of NS Associates for the year ended March 31, 2017 is as follows;

| <i>Description</i> | <i>Rs</i> | <i>Rs</i> |
|--|-----------|-------------------------|
| Service Income | | 2,500,000 |
| Interest Income on fixed deposit (Net) | | 400,000 |
| Interest on drawings (Net) | | <u>100,000</u> |
| | | 3,000,000 |
| Less: | | |
| Administration Expenses | 250,000 | |
| Depreciation – 2 Motor Cars | 55,000 | |
| Annuity Payment | 12,000 | |
| Salaries to Sunil's wife | 180,000 | |
| Finance Expenses | 55,000 | |
| Donation to an Approved Charity | 40,000 | |
| Annual Subscription to CASL | 30,000 | |
| | | |
| Salaries for partners | | |
| Nimal | 150,000 | |
| Sunil | 150,000 | 300,000 |
| Interest on capital | | |
| Nimal | 100,000 | |
| Sunil | 50,000 | <u>150,000</u> |
| | | (1,072,000) |
| Net Profit for the year | | <u>1,928,000</u> |

You are required to:

- (a) Compute Divisible Profit/Loss of NS Associates and Partnership Tax thereon for the Year of Assessment 2016/2017.

(10 Marks)

- (b) Prepare a statement to allocate the above profit/loss and tax credits between partners. (assuming that the Associate has settled the entire tax liability as per the computation prepared for 2016/2017).

(08 Marks)

ii. Kenki World is a (Pvt) Ltd, engages in manufacturing of food items to local and export market. *The Company is registered for VAT w.e.f November 01, 2016.* The following information were extracted from the books of the company for the quarter ended March 31, 2017 (1710).

1) Value of supplies (*excluding Value Added Tax [VAT]*) made by the company during the quarter March 31, 2017;

- Sales to the Local Market Rs. 5,650,000/-
- Direct Exports (US \$ 1 = Rs.155) US \$ 10,500
- Deem Exports under SVAT Scheme Rs. 945,000/-

2) During the period, the company has incurred Rs. 156,500/- as input VAT on raw material purchased, Rs. 5,000/- on motor car insurance and Rs. 125,600/- on packing materials imported (CIF – Rs. 1 Mn).

3) The excess input VAT brought forward from the previous quarter (1640) amounts to Rs. 55,000/-

4) Suspended VAT Credit Vouchers (SVCV) amounting to Rs. 141,750/- were received on suspended supplies.

5) VAT of Rs. 100,000/- & NBT of Rs. 15,000/- have been paid for the quarter ended March 31, 2017 as installments.

(a) You are required to assess the balance VAT payable for the quarter ended March 31, 2017 (1710).

(05Marks)

(b) State the due date for making the Final VAT payment for the taxable period ended March 31, 2017 (1710).

(01 Mark)

(c) State the due date of submitting the VAT Return for the taxable period ended March 31, 2017 (1710).

(01Mark)

(Total 25 marks)

4.

- i. Following information was extracted from the records of Space Craft (Pvt) Ltd (a resident company engaged in manufacturing of electrical items and buying and selling & distribution of home appliance and registered for VAT & NBT w.e.f November 01, 2016) for the period ended March 31, 2017 (1710).

| Description | Rs |
|---|-------------|
| Sale of manufactured items (with VAT) | 7,479,600/- |
| Receipts from buying and selling | 2,200,000/- |
| Receipts from distribution | 1,400,000/- |
| NBT paid on raw material purchased (to a local manufacturer, who registered for NBT as well) | 75,100/- |
| NBT paid on home appliance procured locally | 10,100/- |
| NBT on factory maintenance expenses | 8,500/- |
| NBT paid in monthly installments | 55,000/- |
| Excess payment credit brought forward from the previous quarter | 8,000/- |

- (a) You are required to assess the balance NBT payable for the quarter ended March 31, 2017 (1710).
(05Marks)
- (b) State the due date of submitting the NBT Return for the taxable period ended March 31, 2017 (1710).
(02 Marks)
- ii. Mr. Kamal is a sole proprietor who engages in mechanical works. He has several other sources of income and opt to file the Annual Return of Income for 2016/2017;
- (a) State the due date for submitting the Return of Income for the Y/A 2016/2017.
(02 Marks)
- (b) Explain the 2 benefits of submitting a return of income on or before the due date.
(04 Marks)
- (c) State the due dates of making the self-assessment payments for the Y/A 2017/2018.
(02 Marks)

(Total 15 marks)