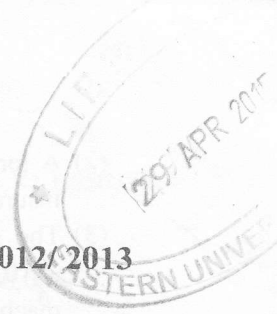


Eastern University, Sri Lanka
Faculty of Commerce and Management
Third Year First Semester Examination in Bachelor of Commerce 2012/2013
(February 2015)
(Proper / Repeat)
DAF 3072 Advanced Taxation



Answer all Question
Any assumption should be stated clearly

Time: 02 Hours
No of Question: 04
No of Pages: 03

01. Luxmi (Pvt) Ltd. Which is a subsidiary of Saraswathy PLC is a resident company incorporated in April 2005. The company is in the business of importing & selling goods for printing industry.

The net profit before income tax of Luxmi (Pvt) Ltd. for the year ended 31st march 2014 after charging all expenses and crediting all income was Rs.9,450,000/= . Total turnover of the company for the year of Assessment was Rs. 665,500,000/=.

Notes to the accounts:

Note 1

Assets

Cost

Particulars	Balance as at 01.04.2013 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31.03.2014 (Rs.)
Land	20,000,000	1,000,000	-	21,000,000
Building	5,000,000	2,200,000	-	7,200,000
Plant, Machinery and Equipment	4,000,000	1,500,000	-	5,500,000
Motor Vehicle	5,500,000	-	2,500,000	3,000,000
Computer Hardware	900,000	750,000	-	1,650,000
Computer Software	1,000,000	-	-	1,000,000
Furniture	800,000	500,000	-	1,300,000
Photocopy machine	600,000	-	600,000	-
Total	37,800,000	5,950,000	3,100,000	40,650,000

Depreciation

Particulars	Balance as at 01.04.2013 (Rs.)	Charge for the Year (Rs.)	Disposals (Rs)	Balance as at 31.03.2014 (Rs.)
Building	3,600,000	630,000	-	4,230,000
Plant, Machinery and Equipment	4,000,000	300,000	-	4,300,000
Motor Vehicle	5,500,000	-	2,500,000	3,000,000
Computer Hardware	900,000	200,000	-	1,000,000
Computer Software	800,000	200,000	-	800,000
Furniture	700,000	100,000	-	900,000
Photocopy machine	600,000	-	500,000	-
Total	16,100,000	1,430,000	3,000,000	14,230,000

(1) A New building has been constructed and used in this business from March 2014 on the land purchased during the year.

- (2) A lorry acquired in February 2010 had met with an accident and it was fully condemned. The insurance company paid the market value of the lorry.
- (3) The photocopy machine which was obtained under a finance lease agreement in February 2010, for a period of 36 months has been disposed on 20th march 2014. Lease rentals of photocopy machine were fully settled on the due dates.
- (4) The IT software at the opening balance had been imported from Singapore in November 2009.
- (5) Unless stated otherwise, all Assets as at 01st April 2013 have been acquired in April 2005.

Notes 2

Details of some of the expenses charged and income credited to income Statement in arriving at the net profit for the year ended 31st march 2014. were as follows.

- (1) Detail of other Income:

	Rs
Insurance receipt on condemned lorry	150,000
Dividend received from an Associate Company	60,000
Profit on sale of Photocopy machine	290,000

- (2) Details of bad debts charged to Income Statement are as follows:

	Rs.
Recovery of staff loan written off last year	(45,000)
Specific Provision	95,000
General Provision for Bad Debts	273,000
Total	323,000

- (3) Details of Advertisement

	Rs.
Paper notices for supplier registrations	50,000
Cost of hoardings	1,050,000
Advertisements in electronic media	2,700,000
Total	3,800,000

- (4) Details of Interest expenses

- (i) Over draft interest was Rs.1,750,000/=
- (ii) Interest payment for a bank loan of Rs.5,000,000/=obtained by the managing director was Rs.500,000/=
- (5) Foreign travelling expenses of the Managing Director to participate at the convocation of his daughter, Who is an Accountant of the company, was Rs. 475,000/=
- (6) The company has made a provision for gratuity of Rs.1,200,000/= for the year and a payment of Rs.250,000/= was made during the year as gratuity.
- (7) Company had to pay Rs.960,000/= as the lawyer fee to Mr.A.Pathirana for the recovery of bad debts Rs.400,000/= and for an appeal case for late payment of NBT Rs.560,000/= receptivity.
- (8) Management Fee paid to Saraswathy PLC was Rs.1, 750,000/=, for the services provided during the Year.
- (9) Payment of ground rent for the year was 535,000/=
- (10)The company has made donations to the Maharagama cancer hospital Rs.750,000/=

- (3) Economic Service Charge (ESC) paid for the year of Assessment 2012/2013 was Rs.1,650,000/= and Losses brought forwarded Rs.3,000,500/=
- (4) Self Assessment tax payments for the year of assessment 2013/2014 were Rs.2,800,000/=

From the foregoing information, **You are required to compute The tax payable by the Luxmi (pvt) Ltd for the Year of assessment 2013/2014.**

(45 Marks)

02. Mr Vinoth is a precedent partner of a Partnership who has few doubts in Taxation. He knows that you are a final year student at the B Com stream of a University. What is your answer to his following questions?

I. Does profit and income received by one spouse for services rented to partnership of the other spouse is to be considered as the income of the other spouse?

(06 Marks)

II. Are the salaries and interest (on capital) paid for partners of a partnership allowable when computing the tax liability of a Partnership.

(06 Marks)

III. (a) Can share of partnership tax be deductible from the individual (partners') tax as a credit?

(06 Marks)

(b) If the share of partnership tax is greater than the individual (Partners) tax, can it be refundable or carry forward to the subsequent year of Assessment?

(07 Marks)

(Total 25 Marks)

03. Explain the meaning of an "Adventure in the nature of trade" and 'Isolate transaction' illustrate your answer by reference to decided cases.

(20 Marks)

(Total 20 Marks)

04. I. What you mean by "cascading effect" and how it was mitigated by the Value Added Tax (VAT)

(05 Marks)

II. State advantages of filing the return of income on or before the due date

(05 Marks)

(Total 10 Marks)