

Eastern University, Sri Lanka
Faculty of Commerce and Management

Third Year Second Semester Examination in Bachelor of Commerce (B.Com)/

B.Com Specialization in Accounting and Finance

2016/2017 (July/August 2019)

Proper/Repeat

DAF 3072: Advanced Taxation

Answer all the questions

Time: 02 Hours

Any assumption should be stated clearly

Pages: 05

01. "Clay plates (Pvt) Ltd" is a resident company incorporated in February 2014, a sister company of "Ceramic Holdings PLC", and it carries on the business of manufacturing of Foot wear products in Sri Lanka.

Followings information relates for the period from 01.04.2017 to 31.03.2018.

Turnover for the above period was **Rs. 162, 250, 434/-**

The Net profit before Income Tax for the Y/A 2017/2018, after charging all the expenses and crediting all income was **Rs. 37,317,600/-**

Notes to the account

Note-1

Movement of Non-Current Assets

| Details | Opening Balance as at 01.04.2017 | Additions | Disposals | Closing Balance as at 31.03.2018 |
|---------------------------------|-------------------------------------|------------------|------------------|-------------------------------------|
| Land | 12,000,000 | 1,000,000 | - | 13,000,000 |
| Buildings | 14,000,000 | 2,500,000 | - | 16,500,000 |
| Plant, Machinery & Equipment | 20,000,000 | 2,000,000 | - | 22,000,000 |
| Motor Vehicles | 15,000,000 | 3,000,000 | 1,500,000 | 16,500,000 |
| Computer Hardware | 750,000 | 750,000 | - | 1,500,000 |
| IT Software | 800,000 | - | - | 800,000 |
| Furniture & Fittings | 1,500,000 | 500,000 | - | 2,000,000 |
| Total | 64,050,000 | 9,750,000 | 1,500,000 | 72,300,000 |

Depreciation

| Details | Opening Balance as at 01.04.2017 | Additions | Disposals | Closing Balance as at 31.03 |
|---------------------------------|-------------------------------------|------------------|----------------|--------------------------------|
| Building | 950,000 | 650,000 | - | 1,600,000 |
| Plant, Machinery & Equipment | 1,000,000 | 1,250,000 | - | 2,250,000 |
| Motor Vehicles | 2,650,000 | 1,600,000 | 625,000 | 3,625,000 |
| Computer H/ware | 1,000,000 | 550,000 | - | 1,550,000 |
| IT Software | 400,000 | 200,000 | - | 600,000 |
| Furniture & Fittings | 500,000 | 225,000 | - | 725,000 |
| Total | 6,500,000 | 4,475,000 | 625,000 | 10,350,000 |

- (a) Unless stated otherwise, all items of property, plant & equipment as at 01.04.2017 acquired in the Year of Assessment 2013/2014.
- (b) The company has constructed a store on the land purchased during the year. This construction carried out during the year.
- (c) The motor vehicles at the opening balance consists followings,
- | | |
|--------------------------------|-------------------|
| Three Motor Lorries | 9,000,000 |
| One Defender model Jeep | <u>6,000,000</u> |
| | 15,000,000 |
- (d) One old lorry was disposed on 28.02.2018 and a new lorry was purchased on 30th and used in the business on the **same day**.
- (e) Computer hardware at the opening balance was obtained under a finance leasing commencing from 01.02.2017, the term of the lease consists of 48 months and each installment of lease rent was Rs.30,000/-. The other computer was purchased during 2017/2018.
- (f) The IT software in use as at 01.04.2017 has been developed by a local software stock controlling system.

Note-2

Other incomes which are included in the net profit for the year are as follows.

Profit on sale of lorry

Interest on Treasury Bills (Net)

Note-3

The expenses charged in arriving at the net profit for the year include the following:

| | Rs: |
|---|-----------|
| Depreciation | 4,475,000 |
| Interest on finance lease | 96,000 |
| Bank O.D. Interest | 105,000 |
| Foreign travelling expenditure (Note 4) | 715,000 |
| Management fee (Note 5) | 4,500,000 |
| Bad and doubtful debts (Note 6) | 375,000 |
| Legal expenses (Note 7) | 125,000 |
| Advertisement (Note 8) | 1,045,000 |
| Motor vehicle expenses (Note 9) | 515,000 |
| Donations (Note 10) | 600,000 |
| Stamp duty paid (Note 11) | 450,000 |
| Research and development expenses (Note 12) | 1,500,000 |
| Other expenses (Note 13) | 315,000 |

Note-4

During the year, Production Manager of the company has travelled to Italy to study new production techniques which can be used to improve the Quality of Production. Cost of his tour was Rs 715,000.

Note-5

Management fees paid to **Ceramic Holdings PLC** was Rs. 4,500,000.

Note-6

Details of Bad and Doubtful debts charged to income statement are as follows:

General Provision made at 5% to the balance debtors Rs. 250,000.

Loan given to an ex-employee who left the company without settling the loan Rs. 25,000.

A trade debt of Rs. 100,000/- due from **House hold (Pvt) Ltd** was estimated to have become doubtful during the year.

Note-7

Legal expenses incurred for a labor tribunal case Rs. 50,000.

Lawyer's fee for an appeal case in relation to a payment of defaulted NBT for the Y/A 2016/2017 was Rs. 75,000.

Note-8

Paper advertisement to recruit staff for the factory was Rs. 45,000.
 Advertisements on electronic media Rs. 1,000,000.

Note-9

| | |
|--|-------------|
| Fuel expenses to the car used by the Managing director | Rs. 50,000 |
| Fuel expenses to the Lorries | Rs. 300,000 |
| Repairs & maintenance to the car | Rs. 27,000 |
| Repairs & maintenance to the Lorries | Rs. 138,000 |

Non cash benefits of free transportation provided to the Managers has been considered for Tax.

Note-10

During the year, the company has donated wheel chairs worth of Rs. 450,000 to the Teaching Hospital.
 Furniture and cloths donated to an orphanage, an approved charity at Kandy Rs. 150,000

Note-11

| | |
|--|-------------|
| Stamp duty on lease agreement | Rs. 42,000 |
| Stamp duty for the land purchased | Rs. 400,000 |
| Cost of stamp duty affixed on receipts | Rs. 8,000 |

Note-12

During the year, a research was carried out by a research institution with an aim of improving Quality of Products. The company has paid Rs. 1,500,000 for this purpose to the institution.

Note-13

| | |
|-------------------------|------------|
| Damaged tools discarded | Rs. 35,000 |
|-------------------------|------------|

Expenses for a trip made to Nuwara Eliya as an entertainment to the staff & employees 280,000.

Note-14

Provision for gratuity made by the company for the year Rs. 150,000 (No gratuity payable made during the year.)

Note-15

Unabsorbed loss brought forward from the year of assessment 2016/2017 Rs. 1,050,000
 E.S.C. paid for the year 2017/2018 was Rs. 1,640,000.

No income Tax was paid under self-assessment basis, as there was a Tax loss in the previous year.
 During the year, the company has paid a royalty of Rs. 1,000,000 to its parent company

You are required:

Compute the income tax payable by the Clay plates (Pvt) Ltd for the Y/A 2017/2018.

02

Milco (Pvt) Ltd is the distributor of milk food products in the Ampara District. The Company also engages in the wholesale and retail trade of other food items. Following information was extracted from the books of accounts for the quarter ended 31st March 2019.

(1) Sales of the company were as follows:

| | Rs. |
|---|--------------------------|
| Distribution of milk food items | 16,500,000 |
| Wholesale & Retail sale of other food items | <u>4,950,000</u> |
| Total | <u>21,450,000</u> |

(2) Sale proceeds from disposal of a Lorry was Rs. 1,350,000

(3) The amounts of Nation Building Tax (NBT) paid by the company are as follows:

| | Rs. |
|---------------------------------|---------|
| On purchase of milk food items | 140,000 |
| On locally purchased food items | 25,000 |

(4) Rs. 45,000 has been paid as monthly installments of NBT for the Quarter ended 31st March 2019.

You are required:

Compute the NBT Payable for the Quarter ended 31st March 2019.

(20 Marks)

03.

- (1) State what is “**Self-Assessment**” and “**Volunteer Compliance**” (Tax & Return)
- (2) Brief any **four** recovery actions against default taxes.
- (3) Brief the stages of an **appeal** that, how it leads to a **tax case** at the Court of Appeal

(3×10=30 Marks)