

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/B.Com
Specialization in Business Economics – 2017/2018 (January 2020)
(Proper/Repeat)

DAF 3072 Advanced Taxation

Answer all the questions

Time: 02 Hours

Any assumption should be stated clearly

Pages: 06

Question 01

“Bare Foot (Pvt) Ltd” is a resident company incorporated in February 2000, and it carries on the business of manufacturing of foot wares in Sri Lanka for the foreign and local markets. As at 31.03.2019, issued capital and total reserves of the company were Rs. 15,000,000/- and Rs.2, 000,000/- respectively.

Notes to the Accounts

Note 1

The summarized income statement of the “Bare Foot (Pvt) Ltd” for the year ended 31st March 2019 is given below.

Details	Note	Rs.
Export Sales		700,000,000
Local sales		<u>90,000,000</u>
		790,000,000
Less: Cost of sales		(500,000,000)
Gross profit		290,000,000
Add: Other income	2	7,000,000
Less Expenses:		
Administrative expenses	3	150,000,000
Sales and distribution	4	60,000,000
Finance cost	5	<u>8,000,000</u>
Net profit		<u>79,000,000</u>

Note 2 Other income

Gross interest on fixed deposit	500,000
Profit on sale of Quoted shares	468,000
Profit on sale of a land	5,317,000
Net dividend received	215,000
Gross rent received	<u>500,000</u>

Note 3 Administrative expenses:

3. i. Accounting depreciation for the year was Rs.5, 500,000/-
3. ii. Accounting loss incurred on the sale of a lorry Rs.150, 000/- during the year
3. iii. Director fees paid during the year was Rs.2,500,000/- and the same has not been considered for PAYE purposes.
3. iv. Provision for gratuity for the year was Rs.1, 800,000/-.
3. v. The company has incurred an expense of Rs.75, 000/- for minor repairs of the building given rent.
3. vi. During the year, the 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.800, 000/-.
3. vii. A research was carried out by the company to improve the quality of their products by incurring a cost of Rs.2, 500,000/-. This cost includes laboratory equipment worth Rs.900, 000/-, which was purchased for the purpose of carrying out the research.
3. viii. During the year, the company has donated Rs 800,000/- worth of medical equipment to a Teaching Hospital. Further, walking sticks and cloths were donated to the Home for elders (a charity) in Batticaloa for Rs. 200,000/-.
3. ix. Expenses for a trip made to Yapana Padduna as an entertainment to the staff & employees was 280,000/-
3. x. 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 VAT for the year was Rs. 100,000/-.

Note 4 Sales and distribution expenses:

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

General Provision Rs. 200,000/-

Loan given to an ex-employee who left the company without settling the loan Rs. 100,000/- became unrecoverable.

A trade debt of Rs. 75,000/- due from Shoes & Shocks (Pvt) Ltd was estimated to be doubtful during the year.

- ii. Cost of TV commercials of Rs.1, 500,000/- and the cost of Rs.40, 000/- for paper notices published to recruit new workers were included in the advertising expenses.

Note 5 Finance cost

- i. Interest paid on a bank loan obtained for working capital purposes was Rs.6,500,000/-.
- ii. Economic Service Charge written off due to lapse of claimable period for tax credit was Rs.1, 000,000/-.
- iii. Five Computers were obtained on 01st July 2018, under a finance lease agreement for a period of 36 months. Monthly instalment of the lease was Rs.40, 000/-. The company has paid **nine** (9) instalments during the year. Lease Interest charged to Income statement was Rs.114, 000/-.

Note No 6: Movement of Non-Current Assets

Assets acquired (Purchased) during the year 2018/2019:

Type of assets	Cost (Rs)
Machineries	2,000,000
Office furniture	500,000
Motor Car for the Managing Director	3,500,000
Motor Lorry	5,500,000
Locally developed software	500,000
Computers (obtained under finance lease)	1,000,000

Opening balance as at 01.04.2018

	Acquired Y/A	Cost (Rs)
Buildings	2015/16	12,500,000
Machineries	2016/17	2,500,000
Motor Lorries	2016/17	5,500,000
Office Equipment	2017/18	300,000

Disposal made during the year:

- (i) A motor lorry which was purchased in Y/A 2016/2017 for Rs.2, 800,000/- has been sold for Rs.1, 750,000/- on 30th March 2019. A new lorry was purchased at a cost of Rs.4, 500,000/- on 31st March 2019 to replace the old one and it has been used in the business on the same day.
- (ii) The company owned a land in Rathmalana. This land was purchased in 2014 for Rs.25,000,000/- with an old building at no cost. The management retained the land as an investment asset in order to gain from capital appreciation in the long run.

The building was rented out until such time the land is sold. Rent received during the year has been recorded under other income. This land was sold for Rs.30, 317,000/- on 31st December 2018. The market value as at 30th September 2017 was Rs.28, 000,000/-.

All other assets have been fully depreciated for tax purposes, other than those specifically mentioned above.

Note No 7

The liabilities as per the books of accounts as at 31st March 2019 are as follows:

Bank loan	Rs. 45,000,000/-
Lease creditor	Rs. 680,000/-

Note No 8

Gratuity payment of Rs.1, 345,000/- has been paid for retired employees during the year.

Note No 9

Taxable business loss brought forward from the year of assessment 2017/2018 was Rs.15, 000,000/-.

Note No 10

Economic Service Charge (ESC) payments for the year of assessment 2018/2019 was Rs.3, 580,000/-.

Note No 11

The company has paid Rs.1, 000,000/- as quarterly instalments for the Y/A 2018/2019.

Note No 12

Withholding tax (WHT) has been deducted on income from **interest, rent and dividend** at relevant rates.

Note No 13

As per the return of income for the 2017/2018, Notional tax credit carried forward was Rs.560,000/-.

You are required to:

Compute the income tax payable by Bare Foot (Pvt) Ltd for the Y/A 2018/2019.

(50 Marks)

On repairs to the car used by Managing Director 100,000
1,400,000

- (3) The company has collected (SVAT) credit vouchers of Rs. 445,000/- relevant to quarter.

You are required to:

Compute the VAT payable/ overpaid by the A to Z Company (Pvt) Ltd for the quarter ended 31st December 2018.

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Question 04

- 4.1. Mention any **four** recovery actions against default taxes.
- 4.2. Brief the stages of an **appeal** that, how it leads to a **tax case** at the Court of Appeal.
- 4.3. Make a brief note of the **recent changes** to the Tax law in relation to **VAT, IIT, NBT and ESC**

(8x3=24 Mar