

Eastern University, Sri Lanka
Faculty of Commerce and Management

**3rd Year Second Semester Examination in Bachelor of Commerce (B.Com)/
B.Com (Specialization in Accounting and Finance)/ B.Com (Specialization in
Business Economics) - 2015/2016 (July/August 2018)**

(Proper/Repeat)

DAF 3072 Advanced Taxation

All 04 questions

Time: Two Hours

Assumption should be stated clearly

Number Pages 06

"ABC" (Pvt) Ltd. is a resident company incorporated in February 2012, it is a sister company of "A to Z" Holdings PLC. and it carries on the business of manufacturing of Foot ware products in Sri Lanka.

Followings are the information for the period from 01.04.2015 to 31.03.2016.

Turnover for the above period was Rs. 413, 540, 750/-

The Net profit before Income Tax for the Y/A 2015/2016, after charging all the expenses and crediting all income was Rs. 47,625,000/=

Note to the account

Note-1

Movement of Fixed Assets

Details	Opening Balance as at 01.04.2015	Additions	Disposals	Closing Balance as at 31.03.2016
Land	14,000,000	2,000,000	-	16,000,000
Buildings	18,000,000	3,500,000	-	21,500,000
Plant, Machinery & Equipment	25,000,000	4,000,000	-	29,000,000
Motor Vehicles	16,000,000	3,000,000	2,500,000	16,500,000
Computer Hardware	1,000,000	750,000	-	1,750,000
IT Software	1,000,000	-	-	1,000,000
Furniture & Fittings	2,000,000	750,000	-	2,750,000
Total	77,000,000	14,000,000	2,500,000	88,500,000

Depreciation

Details	Opening Balance as at 01.04.2015	Additions	Disposals	Closing Balance as at 31.03.2016
Building	1,100,000	780,000	-	1,880,000
Plant, Machinery & Equipment	1,060,000	1,985,000	-	3,045,000
Motor Vehicles	3,950,000	2,860,000	625,000	6,185,000
Computer H/ware	1,000,000	750,000	-	1,750,000
IT Software	400,000	400,000	-	800,000
Furniture & Fittings	225,000	500,000	-	725,000
Total	<u>7,735,000</u>	<u>7,275,000</u>	<u>625,000</u>	<u>14,385,000</u>

- (a) Unless stated otherwise all items of property, plant & equipment as at 01.04.2015 have been acquired in the Year of Assessment 2011/2012 when the company started its operations.
- (b) The company has constructed a ware house for storing purpose on the land purchased during the year.
- (c) The motor vehicles at the opening balance consists followings,
- | | |
|--------------------|--------------------------|
| Four Motor Lorries | 10,500,000 |
| One Motor Car | <u>5,500,000</u> |
| | <u>16,000,000</u> |
- (d) One old lorry was disposed on 28.02.2016 and a new lorry was purchased on 30th March 2016 and used in the business on the **same day**.
- (e) Computer hard ware at the opening balance was obtained under a finance leasing Agreement commencing from 01.02.2015. The term of the lease 48 months and each monthly installment amounted to Rs. 30,000/-. Other computer was purchased during the year 2015/2016.
- (f) The IT in use as at 01.04.2015 has been developed by a local software house for a controlling system.

Note-2

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

Profit on sale of lorry	Rs. 200,000
Interest on Treasury Bills (Net)	450,000
Dividend received from an associate company (Net)	375,000
Prize for Cooperate Social Responsibility (C.S.R.) from the Chamber of Commerce	500,000

Note-3

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

		Rs:
Depreciation		7,275,000
Interest on finance lease		120,000
Bank O.D. Interest		100,000
Foreign travelling expenditure	(Note 4)	925,000
Management fee	(Note 5)	5,000,000
Entertainment fee		175,000
Bad debts	(Note 6)	525,000
Legal expenses	(Note 7)	125,000
Advertisement	(Note 8)	3,175,000
Repair & Maintenance of the vehicles	(Note 9)	795,000
Donations	(Note 10)	750,000
Stamp duty paid	(Note 11)	100,000
Research and Development expenses	(Note 12)	1,000,000
Other expenses	(Note 13)	315,000

Note-4

During the year, Production Manager of the company has travelled to Japan to study new production techniques which can be used to improve the Quality of Production. Cost of his tour was Rs. 925,000/=.

Note-5

Management fee paid to **A to Z Holdings PLC** was Rs. 5,000,000/-

Note-6

Details of Bad debts charged to income statement are as follows

General Provision made at 5% to the balance debtors Rs. 350,000/-

Loan given to an ex-employee who left the company without settling the loan Rs. 50,000/-

A trade debt of Rs. 125,000/- from Mr. Ismail was estimated to have become doubtful during the year.

Note-7

Legal expenses incurred for a labour tribunal case Rs. 25,000/-

Lawyer's fee for an appeal case in relation to a payment of defaulted VAT for the Y/A 2014/2015 was Rs. 100,000/-.

Note-8

Paper advertisement to recruit staff for the factory and to sell a motor vehicle was Rs. 50,000 and Rs. 25,000/- respectively.

Advertisements on electronic media Rs. 1,850,000/-.

Cost of launch of a new product during the cricket match held at Dhambulla cricket stadium Rs. 1,250,000/-.

Note-9

Fuel expenses to the car used by the Managing directors	Rs. 160,000
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Fuel expenses to the Lorries	Rs. 360,000
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Repairs & maintenance to the car	Rs. 40,000
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Repairs & maintenance to the Lorries	Rs. 235,000
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Non cash benefits of free transportation provided to the Managers has been considered for PAYE Tax.

Note-10

During the year, company has donated book shelves worth of Rs. 600,000/- to the State University.

Furniture and cloths donated to an orphanage, an approved charity at Kallady Rs. 150,000/-.

Note-11

Stamp duty on lease agreement	Rs. 40,000
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Stamp duty for the land purchased	Rs. 50,000
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Cost of stamp duty affixed on receipts	Rs. 10,000
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Note-12

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

Note-13

Damaged tools discarded	Rs. 45,000/-
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Expenses for a trip made to Arugam bay as an entertainment to the staff & employees Rs. 270,000/-

Note-14

Provision for gratuity made by the company for the year Rs. 125,000/- (No gratuity payment was made during the year.)

Note-15

an absorbed loss brought forward from the year of assessment 2014/2015 Rs. 1,154,000/-
as there was a trade loss in the previous year (2013/2014), E.S.C. paid for the year 2014/2015
as Rs. 1,750,000/-
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.

Question:

Compute the Income tax payable by the ABC Pvt Ltd. for the Y/A 2015/2016.

(Total 50 Marks)

Mr. Nahamani is the owner of a business called "Antique Furniture" which manufactures furniture for the local market. He is a registered person for VAT. The transactions for the period ending 30th June 2018 are as follows.

	Rs:
Sales	
Sale of Manufactured furniture	25,000,000
<u>Purchase of Goods (Values given are without VAT)</u>	
Raw Material (from persons registered for VAT)	4,800,000
Raw Material (from persons not registered for VAT)	3,000,000
Purchase of Machines (from persons registered for VAT)	2,000,000
Purchase of a car (from persons registered for VAT)	2,800,000
<u>Purchase of Services from Registered Persons</u>	
Other Services	800,000
Rent paid to office	48,000
Brought forward input credit from previous period	100,000

Question

Compute the VAT payable by Mr. Nahamani for the quarter ended 30th June 2018.

(Total 25 Marks)

(a)

Mr. Nimal is a taxpayer and he runs a grocery shop at Chenkalady.

He already has paid the Income taxes and submitted all the Returns of Income up to the Year Assessment 2016/2017.

However, he got a notice of assessment dated 06.06.2018 for the Y/A – 2016/2017 on 11.06.2018. He is depressed that the Assessment is much higher than the income he declared in his return.

He knows that you are a Commerce stream student at the Eastern University and therefore, your advice.

What is your advice to Mr. Nimal? and what are the important aspects you would consider to validate the appeal if you would say?

(b)

Explain the stages of an appeal that, how it leads to a **tax case** at the Court of Appeal.

(Total 15 Ma

04 Give **short notes** for only two from the followings:

- a) Economic Service Charge (E.S.C)
- b) Nation Building Tax (NBT)
- c) Partnership tax and credit from partnership tax (to a partner)
- d) "Adventure in the Nature of Trade"

(5 Ma

(5 Ma

(5 Ma

(5 Ma

(Total: 10 Ma