

Eastern University, Sri Lanka

**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**

**Second Year / First Semester Examination in Business Administration / Commerce**

**2008/2009 (April / May 2010) (Proper / Repeat)**

**DAF 2212 Introduction to Taxation**

**Answer All Questions**

**Time: 02 hours**

**Notes: Any assumption should be stated clearly**

**Question (1)**

**Mr. Suman** is the owner of a SM cool bar in Batticaloa. The profit & loss account prepared for the year of assessment 2008/2009 is given below.

Salaries & wages	700000	Gross profit	3,913,975
EPF contribution	66000	Profit on sale of	
Legal expenses	20000	Fridge	50000
ETF	25200	Rental income	60,000
Bonus	100000		
Lease rent	216000		
Rates	10000		
Electricity	120000		
Water	10000		
Telephone	29400		
Postage	900		
Refrigerators maintenance	142000		
Advertising	100000		
Bad debt and provision	45700		
Depreciation	564000		
Building repairing	125000		
Interest	65000		
Donations	72400		
Insurance	36000		
Turnover Tax	120900		
Income Tax	48000		
Sundry expenses	12500		
<b>Net profit</b>	<b><u>1,394,975</u></b>		
	<b><u>4,023,975</u></b>		<b><u>4,023,975</u></b>

**Notes: 1.**

The movements of fixed assets are as follows:

Assets	Balance as at 01.04.2008	Additions	Disposals	Balance as at 31.03.2009
Land and Building	2,000,000	--	--	2,000,000
Motor vehicle	1300,000	--	--	1,300,000
Furniture	120,000	-	-	120,000
Refrigerators	1240,000	720,000	(80,000)	1880,000
Office equipment	<u>220,000</u>	<u>-</u>	<u>-</u>	<u>220,000</u>
	4,880,000	720,000	80,000	5,520,000

**Depreciation:**

Land and Building	60,000	--	--	60,000
Motor vehicle	620,000	460,000	-	1,380,000
Furniture	96,000	48,000	48,000	96,000
Refrigerators	354,000	12,000	30,000	336000
Office equipment	<u>88,000</u>	<u>44,000</u>	<u>-</u>	<u>132,000</u>
	1,218,000	564,000	78,000	2,004,000

(a) The fixed assets at the opening balance have been purchased at the beginning of the business( In 1990)

(b) Motor vehicle include a car cost at 600,000/= that was used for traveling

2. Lease rent paid for a Refridgerator purchased under three years lease , Monthly installment is Rs;15,000/= .

3. Total sale for the year Rs; 11,655,900/= and the BTT payable to the Provincial Revenue at 5%

4. Donation made as follows:

Approved charity -food items	30,400
Donation made to aHindu temble	20,000
Government cancer hospital	<u>22,000</u>
	<u>72,400</u>

5. Bad debt and provision made as follows:

General provision	20,000
Bad debt written off	<u>25,700</u>
	<u>45,700</u>

7. The life insurance premium paid 24,000/= for Mr. Suman's life insurance policy is included in the insurance.
8. The repairing expenditure in respect of building rented out is 50,000/=
9. The interest shown is the total of interest Rs: 30,000/= and Rs: 35,000/= paid to Bank of Ceylon in respect of business loan and housing loan obtained to construct the building which is rented out respectively. The capital repayment for the building construction loan was 50,000/=.
10. Monthly rent on the building rented out is Rs;8000/=

**Compute the Income tax payable by Mr. Suman for the Y/A 2008/2009.**

**(50 Marks)**

**Question (2)**

Mr. Sarangan is a Government Doctor. He is engaged in private practice as well. The incomes of Dr. Sarangan for the period from 01.04.2008 to 31.03.2009 are as follows.

**Income for the Y/A 2008/2009**

	Rs:
Government official emoluments	425,000
Net income (adjusted for Tax purposes) from private practice	750,000
Interest income (WHT at 10% has been deducted)	<u>35,000</u>
<b>Total</b>	<b>1,210,000</b>

**Expenses**

Interest paid on the car loan	45,000
Interest paid on Housing loan	35,000

Calculate the Tax payable by Mr. Sarangan for the year of assessment 2008/2009.

**30 Marks**

**Question (3)**

Write **short notes only for Two** of the followings:

- (a) The importance of Taxation in Sri Lanka  
(10 Marks)
- (b) Direct Taxes and Indirect Taxes  
(10 Marks)
- (c) What are the important aspects of a **valid appeal?**  
(10 Marks)

10x2=20 marks