

EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

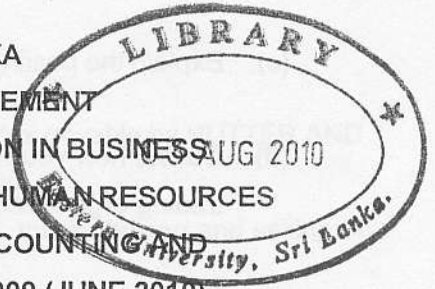
THIRD YEAR-SECOND SEMESTER EXAMINATION IN BUSINESS

ADMINISTRATION/COMMERCE/SPECIALIZATION IN HUMAN RESOURCES

MANAGEMENT/MARKETING MANAGEMENT/ACCOUNTING AND

FINANCE/ENTERPRISE DEVELOPMENT-2008/2009 (JUNE 2010)

(PROPER/REPEAT)



DAF 3223 AUDITING & TAXATION

Answer All Questions

Time: Three Hours

**PART I: AUDITING**

- (1) (a) State briefly the importance of good Corporate Governance to the companies. (05 Marks)
- (b) "Auditors should review the corporate governance statement before it is published". What are the items to be reviewed by the auditors in the corporate governance statement? (05 Marks)
- (c) State the role and functions of the Audit Committees. (04 Marks)
- (d) Briefly explain provisions of Cadbury report/ contents of corporate governance code. (06 Marks)
- (e) What are the auditor's duties with regard to Laws and Regulations outlined in SLAUS considering the Laws and Regulations in an audit of Financial Statements. (05 Marks)
- (Total 25 Marks)
- (02) (a) State how you would verify the following material items appearing in the accounts of a limited liability company.
- (i) Free hold land acquired during the year
- (ii) Motor vehicle
- (iii) Plant and machinery (03 X 02 = 06 Marks)
- (b) State the factors needed to be considered in selecting sample of debtors to circularize. (03 Marks)

(c) Explain the positive and negative methods of circularization of debtors

(03 Marks)

(d) Outline how you would verify the stock-in-trade when you attend a stock count in a trading organization.

(04 Marks)

(e) Explain the following types of audit opinion and state each situation in which these opinions are expressed.

- Unqualified opinion
- Disclaimer of opinion
- Adverse opinion

(03 X 03 = 09 Marks)

(Total 25 Marks)

## PART II: TAXATION

01. Using the following information, compute the Income tax payable by BUTTER AND NAAN (Pvt.) Ltd for the Year of assessment 2008/2009.

(The nature of business of this company is importing, locally buying and selling of edible Oil in the local market)

### Profit & loss A/C for the year ended 31<sup>st</sup> March 2009

|                            |                   |                         |                   |
|----------------------------|-------------------|-------------------------|-------------------|
|                            |                   | Gross profit            | 20,000,000        |
| Salary wages               | 1,050,000         | Add:                    |                   |
| EPF & ETF                  | 157,500           | Dividends received      | 50,000            |
| Depreciations              | 2,460,000         | Rental income           | 180,000           |
| Repairs                    | 200,000           | Bad debts collected     | 24,000            |
| Electricity                | 110,000           | Profit on sale of lorry | 175,000           |
| Advertisement              | 600,000           |                         |                   |
| Training of Employees      | 300,500           |                         |                   |
| Foreign Traveling          | 1,000,000         |                         |                   |
| Lease rent                 | 186,000           |                         |                   |
| Donation                   | 550,000           |                         |                   |
| Insurance                  | 776,000           |                         |                   |
| Transport Traveling        | 360,000           |                         |                   |
| Provision for gratuity     | 1,200,000         |                         |                   |
| Loss on sale of Machinery  | 75,000            |                         |                   |
| Research expenses          | 113,000           |                         |                   |
| Rates                      | 80,000            |                         |                   |
| Legal expenses             | 140,000           |                         |                   |
| Entertainment              | 320,000           |                         |                   |
| Bad & doubtful debt        | 264,000           |                         |                   |
| Annuity paid for the year  | 80,000            |                         |                   |
| Telephone                  | 65,000            |                         |                   |
| Penalty for income tax     | 22,000            |                         |                   |
| Value Added tax paid (VAT) | 750,000           |                         |                   |
| Goods clearing charges     | 314,000           |                         |                   |
| BTT paid                   | 450,000           |                         |                   |
| OD interest & Bank charges | 332,000           |                         |                   |
| Management fees            | 1,300,000         |                         |                   |
| Proposed dividends         | 360,000           |                         |                   |
| Balance net profit         | <b>6,814,000</b>  |                         |                   |
|                            | <b>20,429,000</b> |                         | <b>20,429,000</b> |

Notes 01.

|                 | Balance<br>01.04.2008 | Addition         | Disposal         | Balance<br>31.03.2009 |
|-----------------|-----------------------|------------------|------------------|-----------------------|
| Land & Building | 8,500,000             | -                | -                | 8,500,000             |
| Machinery       | 5,000,000             | 5,000,000        | 2,000,000        | 8,000,000             |
| Motor vehicle   | 9,000,000             | 2,000,000        | 1,500,000        | 9,500,000             |
| Computer H/ware | 1,400,000             | -                | 100,000          | 1,300,000             |
| Furniture       | 250,000               | 300,000          | -                | 550,000               |
| Software        | -                     | 800,000          | -                | 800,000               |
|                 | <b>22,150,000</b>     | <b>8,100,000</b> | <b>3,600,000</b> | <b>28,650,000</b>     |

| Depreciation     | Balance<br>01.04.2008 | For the year     | Removal          | Balance<br>31.03.2009 |
|------------------|-----------------------|------------------|------------------|-----------------------|
| Land & Buildings | 300,000               | 100,000          | -                | 400,000               |
| Machinery        | 1,800,000             | 600,000          | 1100,000         | 1300,000              |
| Motor vehicle    | 3,100,000             | 1150,000         | 900,000          | 3350,000              |
| Computer H/ware  | 100,000               | 200,000          | 80,000           | 220,000               |
| Furniture        | 30,000                | 70,000           | -                | 100,000               |
| Software         | -                     | 400,000          | -                | 400,000               |
|                  | <b>5,718,000</b>      | <b>2,460,000</b> | <b>1,280,000</b> | <b>2,550,000</b>      |

\*Land and building as at 01.04.2008 consists a building at a value of Rs.1,500,000/-

02. Part of the building (half portion) was given on rent to another business to be used as an office. Monthly rent received Rs. 18,000/-
03. A lorry and a packing machine which were purchased during the Year of Assessment 2000/2001 were sold during the Year of Assessment 2008/2009
04. Repair expenses includes Rs. 100,000/= was spent to the building which was given on rent for renovation and color washing.
05. Directors traveling (Personal) expenses of 54,000/- is included in Transport and Travelling.
06. A Delivery van has been taken on lease at a monthly lease rent of Rs. 25,000/- on 03.04.2008 and the whole rent payable in two years.
07. Total sales (both liable for VAT and exempt sale) Rs. 95,150,000/- This

company pays BTT at 1% to the western Provincial council on its 75% of turnover (buying and selling of accessories at whole sale market in Pettah.)

08. Electricity was paid for the whole building
09. During the year two directors went to Malaysia with an idea to commence Import & Export business in the subsequent years
09. Donation
- Donation made to the Government 200,000/-
  - Goods worth of Rs. 350,000/- donated to the displaced people at Kilinochchi.
10. Insurance includes a personal life insurance premium of Rs. 360,000/- paid for the Managing Directors' Insurance Policy.
11. Legal Expenses
- Fees Rs. 75000/- paid to a lawyer for the recovery of a trade debts.
  - Balance Rs.45,000/- paid for attending a case filed by the Department of Inland Revenue for non payment of VAT in time for the quarters ending 2008 December and 2009 March.
12. Details of Bad and doubtful debt of Rs. 264,000/-
- |   |                |
|---|----------------|
| ➤ General Provision   | 100,000        |
| ➤ Specific Provision (for trade debts)  | 40,000         |
| ➤ Bad debt written off of a trade debt for which provision has not been made previously | 8,000          |
| ➤ Staff loans written off   | <u>116,000</u> |
|   | <u>264,000</u> |

#### Note

This Company has been registered for ESC and the ESC Payable at 0.25% on its import, buying & selling. The relevant turnover for each quarter exceeds the threshold (7.5M/=)

(45 Marks)

02. You are required to compute the VAT liability of ABC Ltd. (a VAT registered company) for the quarter ended 31<sup>st</sup> March 2010 from the following information:

The under mentioned "expenditure" and "sales" are stated at values excluding VAT where applicable. Assume that the rate of VAT, where payable, is 12% (the standard rate)

| Expenditure:                  | Rs.       |
|-------------------------------|-----------|
| Salaries and wages            | 560,000   |
| Electricity                   | 42,000    |
| Telephone                     | 38,000    |
| Purchase of Plant & Machinery | 1,280,000 |
| <b>Sales</b>                  |           |
| Supplies at standard rate     | 2,100,000 |
| Exempt supplies               | 525,000   |

(25 Marks)

03. Prisca is an under graduate student at a University in Sri Lanka. She wanted to clarify that, "**how an issue between a tax payer and the assessor become a tax case**" Assume that, you are a practicing Tax consultant. And Explain to Prisca:
- How an appeal leads to a Tax case.
  - Quote at least three cases in relation to **Income from Employment** and briefly explain one of them.

(20 Marks)

04. Briefly explain only two of the followings:
- Withholding Tax (WHT)
  - Taxes are paid under "**Self Assessment basis**" what is Self Assessment?
  - Economic Service Charge (ESC)

(05 X 03=10 Marks)