

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



Third Year Second Semester Examination in Commerce-2005/2006

DAF- 3253(b)- Taxation

Answer all questions.

Time: 2 Hours

Note: Any assumption should be stated clearly

Question No. (01)

"Suganthy Industries" is a Partnership involves in manufacturing of steel cupboards. Shanjan and Vivisan are the partners of that partnership and their profits sharing ratio is 1:1.

Total Turnover is Rs. 56,000,000/= (Assume quarterly turnovers 14,000,000/=). Partners do not have any other income.

The profits and loss account for 2006/2007 is as follows

	Rs.	Rs.
Gross profit	6,000,000	
Dividend (net)	20,000	
Interest (net)	40,000	
Interest on drawing – Shanjan	25,000	6,085,000
Administration expenses	2,300,000	
Selling and distribution	400,000	
Salaries for Shanjan's wife	250,000	
Salary paid to Vivisan's daughter	100,000	
Interest on loan taken from Vivisan	25,000	
Donation to the government	30,000	
Ground rent paid	10,000	
Royalty paid	60,000	
Salaries for partners		
Shanjan 250,000		
Vivision 250,000	500,000	
Interest on capital		
Shanjan 45,000		
Vivisan 21,000	66,000	
Net profit	<u>2,344,000</u>	
	<u>6,085,000</u>	<u>6,085,000</u>

You are required to compute the divisible profit, partnership tax, ESC liability and its carry forwards, if any, and partner's appropriate account.

(45 Marks)

Question No.: (02)

Unique (Pvt) Ltd is a registered person for import and supply of Motor Spare parts. It does manufacturing of break liners and local buying & selling as well. Occasionally it exports break liners to Maldives. The company is submitting VAT returns **monthly** and **has not opted to charge VAT on local buying and selling**. Transactions of the company for two months are given below.

	April 2007	May 2007
	Rs.	Rs.
Sale of spare parts (imported)	6Mn.	7Mn.
Sale of break liners (manufactured)	2Mn.	2.5 Mn.
Sale of spare parts (local buying & selling)	5Mn.	4Mn.
Exports	1Mn.	1.5 Mn.
Sale value of a machine used in the factory (VAT inclusive price)	---	230,000
Imports - Spare parts	6Mn.	3Mn.
Purchase of raw materials (factory-VAT paid)	1Mn.	2Mn.
Purchase of spare parts locally with V AT	4Mn.	3Mn.
VAT paid on purchase of a motor car	175,000	---
VAT paid on common expenses	280,000	150,000
Excess input tax b/f from previous month	100,000	

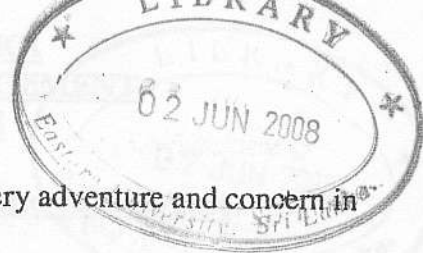
For each taxable period

You are required to calculate

- Value of total taxable supply, Zero rated supply, V AT liable supply (subject to output tax) and Total output tax.
- Total allowable input tax, Deductible input tax, and Payable tax and carried forward excess input tax if any.
- Total sales liable to Turnover tax and Tax payable.

(20 Marks)

Question No: (03) * Answer only (a) or (b)



(a)

Usually "**Trade**" includes every trade and manufacture and every adventure and concern in the nature of trade.

Explain the meaning of "**An Adventure in the Nature of Trade**" and "**Isolated transaction**" Illustrate your answer by reference to decided cases.

(b)

Proviso to section 163(3) of the Inland Revenue Act, No. 10 of 2006 reads as follows:

"Provided that where the Assessor does not accept the return made by any person for any year of assessment and make an assessment or an additional assessment on such person for that year of assessment he shall **communicate to such person in writing his reasons for not accepting the return**".

What you mean by "**reasons**" in this context? What are the consequences of failure to give reasons? Explain by reference to cases decided by the superior Courts of Sri Lanka.

(15 marks)

Question No: (04)

Write **short notes** on the followings:

- i. Optional VAT
- ii. With Holding Tax (WHT) on VAT
- iii. Valid Appeal
- iv. Economic Service Charge

(5 x 4 = 20 marks)