

**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**  
**SPECIAL EXAMINATION FOR FINAL YEAR**  
**BUSINESS ADMINISTRATION/ COMMERCE 2005/ 2006**  
**COM 3023 TAXATION & COM 4023 TAXATION**



Answer 03 Questions only

Time : 02 Hours

- Notes :
- (1) Any assumption should be stated clearly
  - (2) \*Student who takes COM 3023 Taxation as a subject should answer the Question No. 1, 3 and 4.
  - \*Student who takes COM 4023 Taxation as a subject should answer the Question No. 2, 3 and 4.

01. Two friends Roomil and Musammal are the partners of R & B Partnership carrying on the business of a pharmacy and grocery.

The partnership agreement provided for the following :

- (1) The profit and loss are to be shared in the ratio one is to one (1 : 1).
- (2) Musammal is to receive a salary of Rs. 10,000/- per month.
- (3) The partners are to receive interest at 6% per annum on their fixed Capital accounts. The capital accounts of the partners are Roomil Rs. 2,000,000 and Musammal Rs. 1,000,000.
- (4) Any loans from the partners would receive interest at 10% per annum.
- (5) The trading and Profit and Loss Account of R & M for the year ended 31<sup>st</sup> March 2007 is as follows.

Cost of sales	8,000,000	Sales	10,000,000
Gross profit	2,000,000		
	10,000,000		10,000,000
Salaries - staff	450,000	Gross profit B/ F	2,000,000
Salaries (Partners)	130,000	Discount received	15,000
EPF & ETF (Staff)	63,000		
Electricity	50,000		
Rent	144,000		
Telephone	75,000		
Water	15,000		
Printing and Stationary	30,000		
Turnover Tax (1%)	100,000		

Interest on loan 800,000	80,000	
Charity & Donation	45,000	
Bad debt written off (all allowance)	20,000	
Travelling	50,000	
Depreciation (Note – 1)	53,000	
Interest on partners capital	180,000	
Net profit	520,000	
	2,015,000	2,015,000

**Note : 1**

No Tax depreciation available for the year of assessment 2006/ 2007 since this has been fully claimed previously.

**You are requester to compute :**

- 1) The divisible profit of R & M partnership for the year of assessment 2006/ 2007.
- 2) The partnership Tax payable R & M for the year of assessment 2006/ 2007.
- 3) The appointment of the divisible profit between Roomil and Musammal.
- 4) The apportionment of partnership Tax among the partners.

**(40 marks)**

02. Mr Arul is the owner of a grocery shop. The profit & loss account prepared for the year of assessment 2006/ 2007 is given below.

Salaries & wages	840,000	Gross profit	2,948,385
EFP contribution	96,000	Profit on sale of compute	50,000
Legal expenses	20,000	Insurance receipt	100,000
ETF	25,200		
Bonus	126,000		
Stock Loss	120,000		
Lease rent	216,000		
Rates	18,000		
Electricity (with VAT at 15%)	56,400		
Water	7,800		
Telephone (with VAT)	29,400		
Postage	1,300		
Motor vehicle maintenance	142,000		
Advertising	100,000		
Bad debt and provision	45,700		

Depreciation	564,000
Building repairing	125,000
Interest	65,000
Donations	72,400
Insurance	36,000
Turnover Tax	120,900
Income Tax	48,000
Sundry expenses	12,500
Net Profit	210,785
	<u>3,098,385</u>



3,098,385

**Note : 1**

The movements of fixed assets are as follows :

Cost 01.04.2006	Balance as at 31.03.2007	Additions	Disposals	Balance as
Motor vehicle	2,300,000	720,000	--	3,020,000
Furniture	120,000	--	--	120,000
Computer	240,000	--	(80,000)	160,000
Office equipment	220,000	--	--	220,000
	<u>2,880,000</u>	<u>720,000</u>	<u>80,000</u>	<u>3,520,000</u>

**Depreciation :**

Motor vehicle	920,000	460,000	--	1,380,000
Furniture	96,000	48,000	48,000	96,000
Computer	54,000	12,000	30,000	36,000
Office equipment	88,000	44,000	--	132,000
	<u>1,158,000</u>	<u>564,000</u>	<u>48,000</u>	<u>1,644,000</u>

(a) The fixed asset as at 01.04.2006 have been purchased at the beginning of the business.

(b) Motor vehicle include a car cost at 900,000/- that was used for business traveling.

2) Lease rent paid to his son who is 20 years of age.

No provision have been made to Turnover Tax payable at 1% on the total sale 19,655,900/-

3) Donation made as follows :

Approved charity (Home for elders) bed sheets	42,400
Donation made to a school sports club	5,000
Government cancer hospital	25,000
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	72,400

4) Bad debt and provision made as follows.

General provision	20,000
Bad debt written off	25,700
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	45,700

5) The insurance receipt is compensation received from insurance company in respect of loss of stock due to fire.

6) The life insurance premium paid 24,000/- for Mr Arul's life insurance policy is included in the insurance.

7) The repairing expenditure in respect of building rented out is 50,000/-.

8) 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 then building which is rented out respectively. The capital repayment for the building construction loan was 72,000/-.

Compute the Income tax payable for the Y/ A 2006/ 2007.

(40 marks)

03. Compute the **statutory income** and the **Tax payable** for the year of assessment 2006/ 2007 of **Mr Bradly** who is the Managing Director of Priority Lanka (PVT) Ltd.

**Receipts**

1. Meaning Director's salary (after the deduction of EPF contribution)	588,800/-
2. Bonus 2005/ 2006	80,000/-
2006/ 2007	100,000/-
3. Payments received from another company for consultation	45,000/-
4. Directors fees	100,000/-
5. Transport allowance	128,000/-
(Payment for the private driver of Mr Bradly, paid by the company included in this allowance amounted 48,000/-. His driver is not an employee of the company)	



6.	Entertainment allowance	60,000/-
7.	Net dividend	90,000/-
8.	Rental value of the house provided rent free for Mr Bradly's father by the company (Company paid Rs. 20,000/- per month to the owner of the house)	140,000/-
9.	Income of the Rubber estate (This include sale of old rubber trees amounting to Rs. 32,00/-)	47,000/-
10.	Rent received from a house rented out Rs. 36,000/- (Rates at 30% on a value of Rs. 60,000/-)	
11.	Sales of shares of XY Ltd. Received free of charge in 1992	103,000/-

**Payments**

Entertainment expenses (Expenses incurred by Mr Bradly over the allowance has been reimbursed by the company)	70,000/-
EPF contribution is 8% of the salary. Contribution by the company is 12% PAYE deduction amounted to	40,000/-
Donation to an approved charity	25,000
	<b>(30 marks)</b>

04. Write **Short notes** to the followings :

- (a) Value Added Tax (VAT)
- (b) With Holding Tax (WHT)
- (c) Economic Service Charge (ESC)
- (d) Social Responsibility Levy (SRL)

**(7.5 x 04 = 30 marks)**