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**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**  
**SPECIAL EXAMINATION IN BUSINESS ADMINISTRATION/ COMMERCE**  
**2005/2006 (MAY 2009) (RE-REPEAT)**  
**COM 4023 - TAXATION**

**Answer all the questions**

**Time: 2 Hours**

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

**Question (1)**

**Mr. Martin** is the owner of a grocery shop in Kandy. The profit & loss account prepared for the year of assessment 2007/2008 is given below.

|                               |                       |                   |                       |
|-------------------------------|-----------------------|-------------------|-----------------------|
| Salaries & wages              | 840000                | Gross profit      | 3000500               |
| EPF contribution              | 96000                 | profit on sale of |                       |
| Legal expenses                | 20000                 | computer          | 50000                 |
| ETF                           | 25200                 |                   |                       |
| Bonus                         | 126000                | Insurance receipt | 100000                |
| Stock loss                    | 120000                |                   |                       |
| Lease rent                    | 216000                |                   |                       |
| Rates                         | 18000                 |                   |                       |
| Electricity (with VAT at 15%) | 56400                 |                   |                       |
| Water                         | 7800                  |                   |                       |
| Telephone (with VAT)          | 29400                 |                   |                       |
| Postage                       | 1300                  |                   |                       |
| Motor vehicle 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>262900</u></b>  |                   |                       |
|                               | <b><u>3150500</u></b> |                   | <b><u>3150500</u></b> |

**Notes: 1.**

The movements of fixed assets are as follows:

| Assets           | Balance as<br>at 01.04.2006 | Additions             | Disposals            | Balance as<br>at 31.03.2007 |
|------------------|-----------------------------|-----------------------|----------------------|-----------------------------|
| Motor vehicle    | 2300,000                    | 720,000               | --                   | 3,020,000                   |
| Furniture        | 120,000                     | -                     | -                    | 120,000                     |
| Computer         | 240,000                     | -                     | (80,000)             | 160,000                     |
| Office equipment | <u>220,000</u>              | <u>-</u>              | <u>-</u>             | <u>220,000</u>              |
|                  | <b><u>2,880,000</u></b>     | <b><u>720,000</u></b> | <b><u>80,000</u></b> | <b><u>3,520,000</u></b>     |

**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 | <u>88,000</u>           | <u>44,000</u>         | <u>-</u>             | <u>132,000</u>          |
|                  | <b><u>1,158,000</u></b> | <b><u>564,000</u></b> | <b><u>78,000</u></b> | <b><u>1,644,000</u></b> |

(a) The fixed assets 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.

3. No provision have been made to Business Turn over Tax payable at 1% on the total sale 19,655,900/=

4. Donation made as follows:

|   |                      |
|---|----------------------|
| Approved charity (Home for elders) food items | 42,400               |
| Donation made to a school sports club         | 5,000                |
| Government cancer hospital                    | <u>25,000</u>        |
|   | <b><u>72,400</u></b> |

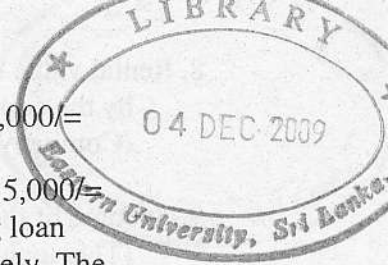
5. Bad debt and provision made as follows:

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

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

7. The life insurance premium paid 24,000/= for Mr. Mohamed'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 72,000/=.



**Compute the Income tax payable by Mr. Martin for the Y/A 2007/2008.**

**(45 Marks)**

**Question (2)**

Compute the **Statutory income** and the **Tax payable** for the Year of Assessment 2007/2008 of **Ms.Suthesna** who is the Managing Director of J J TV (pvt) Ltd.

**Receipts**

|   |           |
|---|-----------|
| 1. Managing 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. Traveling allowance  | 128,000/= |
| (Payment for the private driver of <b>Ms.Suthesna</b> , paid by the company included in this allowance amounted 48,000/=. |           |
| Her 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 Ms.Suthesna's father by the company<br>(Company paid Rs: 20,000/= per month to the owner of the house) | 140,000/= |
| 9. Income of the Rubber estate<br>(This include sale of old rubber trees amounting to Rs; 32,000/=)  | 47,000/=  |
| 10. Rent received from a house rented out<br>(Rates at 30% on a value of Rs 60,000/=)  | 36,000/=  |
| 11. Sale of shares of AB Ltd Received free of charge in1992  | 103,000/= |

### Payments

|  |          |
|--|----------|
| Entertainment expenses<br>(Expenses incurred by Ms.Suthesna 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/= |
|---------------------------------|----------|

**(Total 35 Marks)**

### **Question (3)**

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

1. Value Added Tax ( **VAT**)
2. With Holding Tax (**WHT**)
3. Economic Service Charge (**ESC**)
4. Social Responsibility Levy (**SRL**)
5. what are the important aspects of a **valid appeal**

**(5X 4 = 20 Marks)**