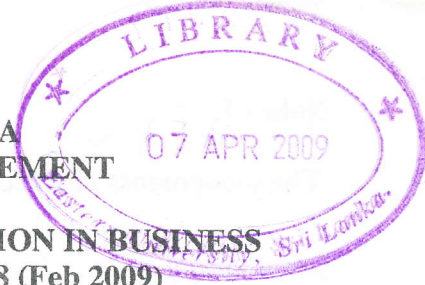


**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**  
**SECOND YEAR- SEMESTER-2**  
**SECOND YEAR – SECOND SEMESTER EXAMINATION IN BUSINESS**  
**ADMINISTRATION / COMMERCE – 2007/2008 (Feb 2009)**



**DAF 2222 Introduction to taxation**

**Answer only for 3 Questions (1, 2 & 3 or 1, 2 & 4)**

**Time: 2 Hours**

**Q.1**

**Mr. Obama** is the owner of a Hardware shop at **Akurana** from 1990. The profit & loss account prepared for the year of assessment **2007/2008** is given below.

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

Salaries & wages	2,040,000	Gross profit	7,658,385
EPF & ETF contribution	428,000	Profit on sale of lorry	250,000
Legal expenses	20,000	Insurance receipt	100,000
Bonus	126,000	Interest on loan	300,000
Lease rent	250,000	Net Dividend	180,000
Transport	495,000	Lorry hiring income	120,000
Rates	18,000		
Electricity (with VAT at 15%)	56,400		
Water	7,800		
Telephone (with VAT at 15%)	29,400		
Postage	2,400		
Motor vehicle maintenance	652,000		
Advertising	400,000		
Bad debt and provision	45,700		
Loss of stock	150,000		
Depreciation	894,000		
Building repairing	175,000		
Interest	65,000		
Donations	72,400		
Insurance	136,000		
Turnover Tax	620,900		
Income Tax	70,000		
Loss on sale of computer	15,000		
Sundry expenses	12,500		
<b>Net profit</b>	<b><u>1,826,885</u></b>		
	<b><u>8,608,385</u></b>		<b><u>8,608,385</u></b>

Notes: 1.

The movements of fixed assets are as follows:

Cost	Balance as at 01.04.2007	Additions	Disposals	Balance as at 31.3.2008
Land & building	1,500,000	-	-	1,500,000
Motor vehicle	4,300,000	1,500,000	1,000,000	4,800,000
Furniture	120,000	-	-	120,000
Computer	240,000	-	80,000	160,000
Office equipment	220,000	-	-	220,000
	<b>6,380,000</b>	<b>1,500,000</b>	<b>1,080,000</b>	<b>6,800,000</b>
<b>Depreciation:</b>				
Building	500,000	-	-	500,000
Motor vehicle	920,000	790,000	760,000	950,000
Furniture	96,000	48,000	-	144,000
Computer	54,000	12,000	30,000	36,000
Office equipment	88,000	44,000	-	132,000
	<b>1,658,000</b>	<b>894,000</b>	<b>790,000</b>	<b>1,762,000</b>

(a) The lorry disposed during the year was purchased on 15<sup>th</sup> Feb. 2004.

(b) Motor vehicle include a car cost at 900,000/=, that was used for business Traveling

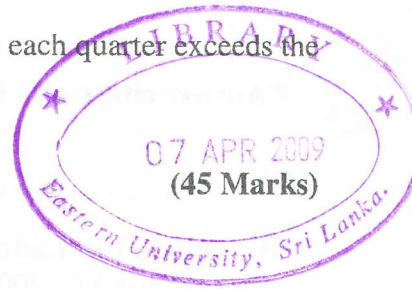
2. Lease rent paid to a van purchased under four year lease, monthly lease rent payable is Rs: 24,000/= .
3. All other assets at the opening balance have been purchased at the beginning of the business
4. No provision have been made to turn over Tax payable at 1 % on the total sale Rs:76,080,500/=
5. Donation made as follows:

Approved charity (saratha iIlam) bed sheets	42,000
Donation made to a sports club at swish kiramam	5,000
Govt. cancer hospital	<u>25,000</u>
	<u>72,000</u>
6. Bad debt and provision made as follows:

General provision	20,000
Bad debt written off	<u>25,700</u>
	<u>45,700</u>
7. Part of the stock has been burnt by electrical short connection, he could recover only Rs: 100000/= as the insurance cover.
8. The life insurance premium paid 36,000/= for Mr.Obama's life insurance policy is included in the insurance.
9. The building repairing expenditure includes Rs: 75,000/= incurred for his own house.
10. The interest shown is the total of Rs: 30,000/= and Rs: 35,000/= paid to Bank of Ceylon in respect of business loan and housing loan obtained to construct the house.  
The capital repayment for the building construction loan was 72,000/=.
11. Legal expenses was the payment to a lawyer for an appeal case on a late payment of ESC

12. He is also liable for ESC. (Assume that the quarterly turnover in each quarter exceeds the threshold)

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



**Q.2**

**Ms. Hilary** is a resident individual working in a Garment Factory as an Accountant. The remuneration from employment and from other sources during the year of assessment 2007/2008 are as follows.

- (i) Gross salary **per month** is Rs. 60,000/= , tax deducted Rs. 21,000/=
- (ii) Bonus (net) Rs. 100,000/= tax deducted Rs. 11,500/=
- (iii) Entertainment allowance paid per month Rs. 5,000/=
- (iv) She uses his own car, but fuel and repair cost is undertaken by the Company.
- (v) Her contribution to Provident Fund is 8% and employer's contribution is 12%. This is a provident fund approved by the Commissioner General of Inland Revenue.
- (vi) She lives in a house provided rent free by the employer. The rating assessment of this house is Rs. 100,000/= and municipal rates are payable at 30% of the rating assessment. The monthly rent paid by the employer to the Land Lord is Rs. 20, 000/=.
- (vii) She has received dividends from resident companies as follows
  - Dividends out of exempt profits - Rs.15, 000/=
  - Dividends (net of 10% withholding tax) - Rs. 20,000/=
- (viii) She has received following interest during this year of assessment
  - Interest @18.5% per annum on a fixed Deposit of Rs. 500,000 at Sam path bank with holding tax has been deducted.
  - Interest on NRFC account US dollars 100, the exchange rate is one dollar equals to Sri Lankan RS.114/=.
  - Interest from savings account Rs. 50,000. No withholding tax been deducted
- (ix) She has two houses. One is occupied by her and it is located at Akurana. Rating assessment of this house is Rs140,000/= and rates payable is 20% of the rating assessment.

The other one was rented out at a rent of Rs. 15,000/= per month and it was constructed during the year of assessment 2002/2003 at a cost of Rs. 3,000,000/=. The floor area of the house is 2200 square feet. Rates paid by her were Rs. 20,000/= and it is 10% of the rating assessment.
- (x) She has made following payments
  - Her life insurance premium is Rs. 30,000/=per annum
  - Donation to the government Rs.25,000/=
  - Donation to an approved charity Rs.15, 000/=.

**You are required to compute income tax liability of Ms. Hilary for 2007/2008.**

**(35 Marks)**

\* Answer either Q-3 OR Q-4

Q.3

Mr. Osama Bill Laden carries out following activities in his business, the Turnover for the 4<sup>th</sup> quarter of the Y/A 2007/2008 is given below.

<b>As a dealer for Nestle products</b>	
Sale of Nestle product (as a dealer)	46,000,000/=
<b>Agent for IOC</b>	
Fuel (Petrol, Diesel & Ceresin oil)	50,000,000/=
Vehicle service income	400,000/=
<b>Grocery</b>	
Buying & selling of provisionary items	10,000,000/=
<b>Vehicle sale</b>	
Sale of motor vehicle	75,000,000/=
<b>Estate income</b>	
Sale of coconut from his estate	400,000/=

Assume that he has registered for ESC.

Calculate the ESC payable by Mr. Osama under the Economic Service Charge Act No. 13 of 2006, amended by (amendment) Act No. 15 of 2007 (20 marks)

Q.4

Write short notes

- "Nation Building Tax-(NBT)" (5 marks)
- Requirements of a "valid appeal". (5 marks)
- Taxes are paid under "Self Assessment basis" What is Self Assessment? (5 marks)
- Value Added Tax -VAT (5 marks)

(4 x 5 = 20 marks)