

Eastern University, Sri Lanka

Faculty of Commerce and Management

Second Year First Semester Examination in Bachelor of Business Administration/
Bachelor of Commerce – 2016/2017 (July/August 2018)

DAF 2032 Taxation and Auditing (Taxation Part)

Answer All Questions

Time: 01 Hour

Any assumption should be stated clearly.

No of Pages: 05

Question No-01

Prof. Jayawardane is a resident individual, also a famous orthopedic surgeon. On retirement from the University he has been re-employed at a private Medical college in Colombo. And also, has established a business from 01.04.2013 (Managed by his wife Dr. Sutheshna Jayawardane) called “Ceylon Chemist” in Colombo, which import and sale of all medical equipments. Following information of Prof. Jayawardane is provided in respect of the year of assessment 2016/2017.

1. Employment income

Government pension - Rs; 1,320,000/-

Commuted pension - Rs; 850,000/-

He received salary of Rs.650, 000/- (as per T-10) per month.

He was paid Rs.25, 000/- per month as an entertainment allowance.

Vehicle allowance – (85,000 x 12) 1,020,000/-

2. Agriculture income

Net agriculture income Rs: 2,500,000/- (adjusted for tax purposes), however there was a unabsorbed agriculture loss brought forward from the Y/A 2015/2016 of Rs: 950,000/-.

3. Profit from Business

Net profit from “Ceylon Chemist” of Rs.6, 380,000/- (Refer the notes)

Note:

3.1) Summary of P & L A/C

	Rs.	Rs.
Gross Profit		17,656,000
Add: Other Income		
Lorry hiring income	80,000	
Shop building Rental income	600,000	

Profit on sale of lorry	160,000	840,000
		18,496,000
Less: Administration, Finance and all other Expenses		(12,116,000)
Net profit		<u>6,380,000</u>

(3.2) Balance Sheet as at 31.03.2017

Assets Employed

Non Current Assets

Land and Buildings		3,500,000
Motor Vehicles		3,800,000
Furniture		<u>180,000</u>
		<u>7,480,000</u>

Current Assets

Stock		5,478,000
Debtors	540,000	
Less: Bad debt provision	<u>(40,000)</u>	500,000
Cash at Bank		500,000
Cash in hand		<u>70,000</u>
		<u>6,548,000</u>
		<u>14,028,000</u>

Equity and liabilities

Capital		6,700,000
Net Profit	6,380,000	
Less: Drawings	<u>(1,558,000)</u>	4,822,000
		11,522,000

Non-Current Liabilities

Long Term Loan – HNB		1,500,000
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Current Liabilities

Trade Creditors		<u>1,006,000</u>
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14,028,000

Notes

3.3) Fixed Assets

<u>Assets</u>	<u>Op/Balance</u> <u>at cost (Rs)</u>	<u>Additions</u> <u>(Rs.)</u>	<u>Disposals</u> <u>(Rs.)</u>	<u>C/Balance</u> <u>(Rs.)</u>
Land & Building	2,500,000	1,000,000	-	3,500,000
Motor Vehicles	4,000,000	1,600,000	1,800,000	3,800,000
Furniture	120,000	60,000	-	180,000

3.4) Provision for Depreciation

<u>Assets</u>	<u>Op/ Balance</u> <u>(Rs.)</u>	<u>Provisions</u> <u>(Rs.)</u>	<u>Disposal</u> <u>(Rs.)</u>	<u>Balance</u> <u>(Rs.)</u>
Land and Building	600,000	120,000	-	720,000
Motor Vehicles	1,020,000	500,000	480,000	1,040,000
Furniture	70,000	20,000	-	90,000

3.5) The opening balance of land and buildings represents the business was constructed by his father in the year of Assessment 2007/2008. During the Y/A 2016/2017, he has constructed a shop building and the same has been rented out from **01.10.2016** for a monthly rent of Rs: 100,000/-.

3.6) The motor vehicle opening balance includes: (i) A van that was purchased on 01.04.2013 for Rs. 1,200, 000/- , (ii) A lorry was purchased on 01.06.2014 and (iii) A car was purchased during the Y/A 2015/2016. The lorry was sold in November 2016 and a new lorry was purchased in February 2017.

3.7) All other assets in the opening balance were purchased by him in 2013/2014.

3.8) Total sales for the year was Rs. 71,600,500/- (NBT deducted at the P&L A/C was Rs: 195,000/-)

Some of the information from the Expenses

4.1) Insurance - Shop - 50,000/-

Life - 125,000/- (It is a policy for which the premium is payable annually over a period of ten years).

4.2) Motor Vehicle Maintenance

Lorry Rs. 155,000/-

Van Rs. 65,000/-

Car Rs. 50,000/-

- (4.3) Loan Interest: Bank Loan Rs. 400,000/-
 Personal Rs. 850,000/-

(4.4) Bad debt provision A/C

	Rs.	Rs.		Rs.	Rs.
Debtors		5,000	Bal.B/F		
Balance C/F			Spec. Prov.	8,000	
			Gen Prov.	<u>21,000</u>	29,000
Specific Prov.	7,000		Cash		6,000
General Prov.	<u>33,000</u>	<u>40,000</u>	P & L A/C		<u>10,000</u>
		<u>45,000</u>			<u>45,000</u>

(4.4.a) Specific Provisions

	<u>Opening Balance</u>		<u>Closing Balance</u>
	(Rs.)		(Rs.)
Sunil	5,000	Kaleel	5,000
Ahamad	3,000	Caderl	2,000

(4.4.b) Written off

- Amal (Trade debtor) Rs. - 4,000/-
 Basker (Cash loan given to an Ex. Employee) Rs. 1,000/-

(4.4.c) Recoveries represent trade debt. Written off in the previous years

- (4.5) Entertainment expenses include Rs. 124,000/- incurred for his daughter's birthday party.

(4.6) Donations

- To the President fund Rs. 75,000/-
 To an approved charity **by goods** Rs. 25,000/-
 To the Royal college Basket ball team- cash Rs. 50,000/-

- (4.7) He has obtained a Packing machine on a lease agreement for 04 years from 01.06.2016.

The monthly rental payable was Rs. 15,000/-

- (4.8) All four quarterly IT payments were made **one month ahead** to the due date for each quarter. Hence, he is entitling for **10% discount**. (Total S/A payments Rs: 90,000/-)

Assumed all other expenses and out goings are allowable for tax purpose, and deducted already.

PAYE deducted for the year was Rs. 305,520/-

He is living in a house inherited from his parents. Net Annual Value of this house is Rs.180,000/-

Prof. Jayawardane has another house at Peradeniya and the same was rented out for Rs.80, 000/- per month from April 2016. Rating assessment of this house is Rs.140, 000/- and rates are paid at 20%.

During the year 2016/2017, he has received FD interest (WHT deducted) Rs.276, 000/-.

Prof. Jayawardane has obtained a housing loan from National Savings Bank to construct the house at Peradeniya. During the year he has paid Rs.600, 000/- and Rs.750, 000 as interest on this loan and capital repayments respectively.

From the above information, you are required to assess followings of **Prof. Jayawardane** for the year of assessment 2016/2017.

- i. Taxable income,
- ii. Gross income tax payable, and,
- iii. Balance tax payable.

(60 Marks)

Question No – 02

Answer **only** any of **two** of the following questions.

- i. State what is “Self-Assessment” and “Volunteer Compliance” (Tax & Return)
- ii. Short note – Qualifying payments and kind of limitations (with two examples)
- iii. What is the due date to submit the IT return? And what are the consequences for **not Submitting** the above return in time?
- iv. List out the **circumstances** that an assessment to be made for a Taxpayer

(20 x 2=40 Marks)