



EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
SECOND YEAR FIRST SEMESTER EXAMINATION IN BACHELOR OF
BUSINESS ADMINISTRATION/BACHELOR OF COMMERCE 2015/2016
PROPER/REPEAT (OCT/NOV 2017)
DAF 2032 Auditing and Taxation (Taxation Part)

Answer both questions
Any assumption should be stated clearly.

Time: 01 Hour
Pages: 05

11 Mr. Sothinathan is the owner of a Textile shop in Batticaloa. The Profit & Loss Account for the year ended 31.03.2017 and the Balance Sheet as at 31.03.2017 are as follows:

| | Rs. | Rs. |
|------------------------------------|---------|--------------------------|
| Gross Profit | - | 7,656,000 |
| Less: NBT | - | <u>650,000</u> 7,006,000 |
| Add: Other Income | | |
| Rent | 120,000 | |
| Lorry hiring income | 680,000 | |
| Profit on sale of lorry | 160,000 | <u>960,000</u> |
| | | 7,966,000 |
| Less: Expenses | | |
| Salaries | | 1,350,000 |
| Bonus | | 120,000 |
| EPF | | 112,000 |
| Rates | | 12,000 |
| Repairs | | 65,000 |
| Electricity | | 60,000 |
| Insurance | | 175,000 |
| Telephone | | 25,000 |
| Loan Interest | | 475,000 |
| Motor vehicle maintenance | | 350,000 |
| Provision for depreciation (Total) | | 640,000 |
| Bad debt Provision | | 10,000 |
| Entertainment | | 160,000 |
| Donation | | 150,000 |
| Lease Rental | | 250,000 |
| Advertisement | | 50,000 |
| Income Tax-SA payments | | <u>60,000</u> |
| Net profit | | <u>3,902,000</u> |

Balance Sheet as at 31.03.2017

Assets Employed

Non Current Assets

| | | |
|--------------------|--|-----------------|
| Land and Buildings | | 3500,000 |
| Motor Vehicles | | 3800,000 |
| Furniture | | <u>180,000</u> |
| | | <u>7480,000</u> |

Current Assets

| | | |
|--------------------------|-----------------|-------------------|
| Stock | | 3,500,000 |
| 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>4570,000</u> |
| | | <u>12,050,000</u> |

Equity and liabilities

| | | |
|----------------|-------------------|-----------------|
| Capital | | 6,700,000 |
| Net Profit | 3902,000 | |
| Less: Drawings | <u>(1558,000)</u> | <u>2344,000</u> |
| | | 9044,000 |

Non Current Liabilities

| | | |
|-------------------------------|--|------------------|
| Long Term Loan – Sampath Bank | | <u>1,500,000</u> |
| | | 1,500,000 |

Current Liabilities

| | | |
|-------------------------------|----------------|-------------------|
| Trade Creditors | 1,006,000 | |
| Loan from Sriram – short term | <u>500,000</u> | |
| | | <u>1506,000</u> |
| | | <u>12,050,000</u> |

Notes

(01) Fixed Assets

| <u>Assets</u> | <u>Op/Balance</u> <u>At cost</u> <u>(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 | 1000,000 | - | 3500,000 |
| Motor Vehicles | 4000,000 | 1600,000 | 1800,000 | 3800,000 |
| Furniture | 120,000 | 60,000 | - | 180,000 |

(02) 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 | 1020,000 | 500,000 | 480,000 | 1040,000 |
| Furniture | 70,000 | 20,000 | - | 90,000 |

- (03) The opening balance of land and buildings represents the shop building that was constructed by his father in the year of Assessment 2007/2008. In the year of assessment 2016/2017 he has constructed a shop building and the same has been rent out from 01.10.2016.
- (04) The motor vehicle opening balance includes a van that was purchased on 01.10.2012 for Rs. 1200, 000/- , A lorry was purchased on 01.06.2013 and a car was purchased during the year of assessment 2015/2016. The lorry was sold in November 2016 and a new lorry was purchased in February 2017.
- (05) All the assets in the opening balance were purchased by his father in 2007/2008.
- (06) Total sales for the year was Rs. 71,600,500/-.
- (07) Rates of Rs. 12,000/- was paid in respect of both buildings.
Repair expenditure incurred for the old building.
- (08) Insurance - Shop - 50,000/-
Life - 125,000/-
- (09) Motor Vehicle Maintenance
- | | |
|-------|---------------|
| Lorry | Rs. 255,000/- |
| Van | Rs. 75,000/- |
| Car | Rs. 20,000/- |
- (10) Loan Interest
- | | |
|-----------|-------------|
| Bank Loan | Rs. 400,000 |
| Sriram | Rs. 75,000 |

| | | | | |
|-----------------------------|---------------|---------------|-------------------------|---------------|
| (11) 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> |

(a) Specific Provisions

| | <u>Opening Balance</u> | | <u>Closing Balance</u> |
|--------|------------------------|--------|------------------------|
| | (Rs.) | | (Rs.) |
| Kamala | 5,000 | Kamala | 5,000 |
| Ajwath | 3,000 | Kaleel | 2,000 |

(b) Written off

Aruna (Trade debtor) Rs. – 4,000/-

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

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

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

(13) Donations

To the President fund Rs. 75,000/-

To an approved charity by goods Rs. 25,000/-

To the Bt/St' Michael's college Basket ball team- cash Rs. 50,000/-

(14) He has obtained a lorry on a lease agreement for 04 years from 01.06.2016. The monthly rental payable was Rs. 25,000/-

(15) All four quarterly IT payments were made **one month ahead** to the due date of each quarter. Hence, he is entitling for 10% discount.

You are requested to calculate Mr. Sothinathan's

I. Total Statutory Income

II. Total Assessable Income

III. Taxable Income

IV. Income tax payable by him for the year of assessment for the year 2016/2017.

(50 marks)

Q.02 (Answer only for two questions from Q.02)

2.1. State what is “Self-Assessment” and “Volunteer Compliance” (Tax & Return)
(25 Marks)

2.2. Outline (make a summary of significant features) “Tax invoice” in relation to VAT
(25 Marks)

2.3. Write short notes: “Capital allowances on capital assets” (Depreciation) and
“Disallowable expenses”
(25 Marks)

2.4. Brief PAYE Tax and Economy Service Charge (ESC)
(25 Marks)

(25 x 2 = 50 Marks)