

12 FEB 2018

EASTERN UNIVERSITY, SRILANKA
FACULTY OF COMMERCE AND MANAGEMENT

**THIRD YEAR SECOND SEMSTER EXAMINATION IN BACHELOR OF COMMERCE/
BACHELOR OF COMMERCE SPECIALISATION IN ACCOUNTING AND FINANCE 2014/2015
(OCTOBER 2017) (PROPER/REPEAT)
DAF 3072 - ADVANCED TAXATION**

Time: 02 Hours

Number of question: 04

Answer all the questions

Number of pages: 06

Note: Any assumption, Allowing or disallowing any expenditure should be stated clearly
more implications of VAT, NBT and tax on under – distributed profits)

01.

Green Farm (pvt) Ltd is a resident company incorporated in April 2011, and engaged in the
business of manufacturing composed fertilizer. The company is having its registered office and the
factory at Batticaloa.

The net profit before tax of Green farm (pvt) ltd for the year ended 31st march 2016 after
charging all expenses and crediting all income, was Rs. 20,750,000/- . Total turnover for the
year was Rs. 598,500,000/-.

Following information has been extracted from the financial statement of Green farm (pvt) ltd for
year ended 31st march 2016.

Refer to the accounts:

Table 1

Some of the expenses charged in arriving at the net profit for the year ended 31st March were as
follows:

- (1) The company has made a general provision of Rs. 850,000/- for doubtful debts.
- (2) The provision for gratuity made in the financial statements amounted to Rs. 1,750,000/- ,
further Rs. 900,000/- was paid as gratuity for retired Employees during the year.
- (3) The company bears the income taxes of Directors and Rs. 450,500/- has been incurred
during the year.

- (4) Advertisement cost of T.V commercial of Rs.1, 650,000/-, and the cost of Rs .25, 00, 00/- paper notices published to recruit new workers were included in advertising expense
- (5) During the year production manager of the company has travelled to Japan to study production techniques in order to improve the quality of products. Cost of his trip was Rs. 600,000/-
- (6) Legal fees of Rs: 60,750/- has been incurred for a labor case in the district court.
- (7) During the year the company has carried out an industrial research for the upgrading of business and Rs. 200,000/- was paid to a private research institution in this regard.
- (8) The company has paid Rs: 175,000/- as fines for violating environmental regulations during the year.
- (9) Donation made in cash to the Singing fish sports club, which is not an approved club was Rs . 20,000/-.
- (10) Financial expenses were as follows:

Lease interest	Rs . 82,500/-
Overdraft interest	Rs . 245,000/-

Note 2

Summary of other income:

- Net interest income on Fixed Deposits (10% WHT has been deducted) Rs . 360,000/-
- Rent income (provided the additional space in the office building to an Indian Co) Rs . 700,000/-

Property, plant and Equipment

Cost

Particulars	Balance as at 01.04.2015 (Rs.)	Addition (Rs.)	Diposals (Rs)	Balance as at 31.03.2016 (Rs)
Freehold Assets				
Land	14,500,000	-	-	14,500,000
Building	17,875,000	-	-	17,875,000
Furniture	1,150,000	-	-	1,150,000
Plant and machinery	3,850,000	1,500,000	1,300,000	4,050,000
Office Equipment	700,000	450,000	-	1,150,000
Computer Hardware	900,000	-	-	900,000
Motor Vehicles	3,000,000	-	-	3,000,000
Computer Software	-	500,000	-	500,000
Leased Assets:				
Motor Vehicles	-	2,850,000	-	2,850,000
Total	41,975,000	5,300,000	1,300,000	45,975,000

Depreciation

Particulars	Balance as at 01.04.2015 (Rs.)	Addition (Rs.)	Diposals (Rs)	Balance as at 31.03.2016 (Rs)
Freehold Assets				
Building	5,365,000	960,000	-	6,325,000
Furniture	685,200	140,600	-	825,800
Plant and machinery	2,046,790	903,680	500,500	2,449,970
Office Equipment	516,000	130,000	-	646,000
Computer Hardware	564,000	160,000	-	724,000
Motor Vehicles	2,350,000	585,200	-	2,935,200
Computer Software	-	75,000	-	75,000
Leased Assets:				
Motor Vehicles	-	600,000	-	600,000
Total	11,526,990	3,554,480	500,500	14,580,970

(1) Construction of the office building was completed and used in the year of Assessment 2013/2014, and the cost of construction was Rs. 9,250,000/- . Construction of other buildings had been completed and used in the year of Assessment 2011/2012

- (2) The Company has sold a machine for Rs. 675,000/- on 01st June 2015 and this machine purchased during the year of assessment 2013/2014. The Company had purchased machine in August 2015 for Rs. 1,500,000/- as replacement.
- (3) Motor vehicles consist of trucks used in the farm to transport disposable garbage composed fertilizer.
- (4) During the year, the company purchased a locally developed Software system 500,000/-.
- (5) A truck was acquired under a finance lease agreement for a period of 4 years commencing from 05th April 2015. Monthly installment of the lease is Rs. 68,000/- and 12 installments were paid during the year.

Note:

Unless stated otherwise, all items of property, plant and equipment as at 01st April 2012 have been acquired in the year of assessment 2011/2012

Note 4

- (1) Taxable business loss brought forward from the year of assessment 2014/2015
Rs. 3,600,000/-
- (2) Self-Assessment Income Tax payments for the year of assessment 2015/2016
Rs. 800,000/-.

You are required to compute followings:

- I. Statutory Income from each source of income
- II. Total Statutory Income
- III. Assessable Income
- IV. Taxable Income
- V. Gross Income Tax Payable
- VI. Balance Income Tax payable, of Green farm (pvt) Ltd for the year of assessment 2015/2016

(Total 50)

Q.02.

Organic Vegi (Pvt) Ltd. is a company engaged in the business of manufacturing Vegetables for the Foreign & Local Market.

Following information for the quarter ended 31st March 2017 were extracted from the books of the company.

(1) Value of supplies (excluding Value Added Tax [VAT]) made by the company during the quarter ended 31st March 2017

Supplies Made	Value
Direct Exports (US \$ 1 = Rs.154)	US \$ 13,000
Sales made to Exporters as Suspended Supplies	Rs.1,015,000/-
Sales to the Local Market	Rs. 3,660,000/-

(2) The company has paid Rs. 176,000/= as input VAT on local purchases.

(3) The company has received a tax credit note from a local supplier which shows a VAT amount of RS.26, 100/=

(4) The excess input VAT brought forward from the previous quarter amounted to Rs.122,000/=

(5) Suspended VAT Credit Vouchers (SVCV) amounting to Rs.107, 600/= were received on suspended supplies.

(6) VAT of Rs.120, 000/= for the quarter ended 31st March 2017 has been paid as installments.

You are required to, Compute the balance amount of VAT payable for the quarter ended 31st March 2017.

(Total 25 Marks)

Q.03

East Lanka (Pvt) Ltd. is a leading seed paddy production company. The company produces seed paddy in Sri Lanka as well as imports seeds from India, and the following information is relevant to the quarter ended 30th June 2017.

Sale of Seed paddy produced by the company	Rs. 67,500,000/-
Sale of Seeds – imported	Rs. 14,100,000/-
Sale proceeds of used motor vehicles	Rs. 2,225,000/-
Net rental income	Rs. 750,000/-

You are required to Assess Economic Service Charge (ESC) payable by the East Lanka (Pvt) Ltd. for the quarter ended 30th June 2017.

(Total 15 Marks)

Q. 04

Usually “Trade” includes every Trade and Manufacture and every Adventure and Concern of the nature of trade.

Explain the meaning of an “An Adventure in the Nature of Trade” and “Isolated transaction”. Illustrate your answer by reference to the decided case - “Mahavitharana vs. CIR”.

(Total 10 Marks)