

Answer only for 03 Questions

Time : 02 Hours

Assumption should be stated clearly.

01. (Compulsory)

Mr. Clinton is the owner of a grocery shop. The Profit & Loss account prepared for the year of assessment 2006/ 2007 is given below.

Salaries wages	840,000	Gross Profit	2,948,385
Share contribution	180,000	Profit on sale of	
Legal expenses	20,000	Computer	50,000
ETF	25,200	Insurance receipt	100,000
Bonus	126,000	Gross rent	440,000
Stock loss	120,000		
Lease rent	216,000		
Rates	18,000		
Electricity (with VAT at 15%)	56,400		
Water	7,800		
Telephone (with VAT at 15%)	29,400		
Postage	1,300		
Motor vehicle maintenance	142,000		
Advertising	100,000		
Bad debt and provision	45,700		
Depreciation	564,000		
Building repairing	125,000		
Interest	65,000		
Donations	72,400		
Insurance	36,000		
Turnover Tax	120,900		
Income Tax	48,000		
Sundry expenses	12,500		
<b>Net Profit</b>	<b>556,785</b>		
	<u>3,538,385</u>		<u>3,538,385</u>

The movements of fixed assets are as follows :

Costs	Balance as at 01.04.2006	Additions	Disposals	Balance as at 31.03.2007
Motor vehicle	2,300,000	720,000	--	3,020,000
Furniture	120,000	--	--	120,000
Computer	240,000	--	80,000	160,000
Office equipment	220,000	--	--	220,000
	<b>2,880,000</b>	<b>720,000</b>	<b>80,000</b>	<b>3,520,000</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	88,000	44,000	--	132,000
	<b>1,158,000</b>	<b>564,000</b>	<b>78,000</b>	<b>1,644,000</b>

- (a) The fixed asset as at 01.04.2006 have been furnished at the beginning of the business.
- (b) Motor vehicle include a car cost at 900,000/-, that was used for business traveling.
- (2) No record for the goods taken by the owner.
- (3) Lease rent paid to his son who is 20 years of age.
- (4) No provision have been made to Turn over Tax payable at 1% on the total sale 19,655,900/-
- (5) Donation made as follows :

Approved charity (Home for elders) bed sheets	42,400
Donation made to a sports club at Chenkalady	5,000
Govt. Cancer hospital	25,000
	<b>72,400</b>

- (6) Bad debt and provision made as follows :

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

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- (7) The gross rent declared in the Profit and Loss Account is received from renting out a building belongs to Mr Clinton. The rating assessment of this building is 300,000/- of which rate is 30%. The monthly rent is 40,000/- the date of construction is 01.04.2003, which floor area is 2500 square feet. The building was closed during the month of April for repairing. The rates and repairing are borne by Mr Clinton.
- (8) The insurance receipt is a compensation received from insurance company in respect of loss of cement due to the flood.
- (9) The Life Insurance premium paid 24,000/- for Mr Clinton's Life Insurance policy is included in the Insurance.
- (10) The repairing expenditure in respect of building rented out is 50,000/-.
- (11) 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 for the Y/ A 2006/ 2007.

(45 marks)

2. Ms R Shobana is a resident individual working in a multinational company as a computer engineer. The receipts and benefits from employment and from other sources during the year of assessment 2006/ 2007 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) He uses his own car, but fuel and repair cost is undertaken by the company.
- (v) His 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) He 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) He 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) He has received the following interest during this year of assessment

Interest @ 18.5% per annum on a Fixed Deposit of Rs. 500,000 at Sampath Bank. Withholding tax has been deducted.

Interest on NRFC account US dollars 100, the exchange rate is one dollar equals to Sri Lankan Rs. 108.

Interest from savings account Rs. 50,000. No withholding tax been deducted.

(ix) He has two houses. One is occupied by him and it is located at Moratuwa. Rating assessment of this house is Rs. 140,000/- 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 him were Rs. 20,000/- and it is 10% of the rating assessment.

(x) He has made following payments.

His 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 R Shobana for 2006/ 2007.

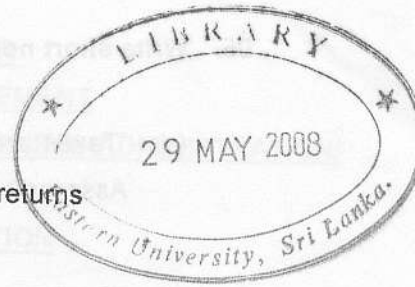
(35 marks)

**Note : Answer one from Questions : 03, 04 & 05**

03. Mr Mayuran started a new business "Mayura Furniture Shop" engaged in buying and selling in medium scale the commercial operation commenced on 01.04.2007.

For the quarters ended 30.06.2007 and 30.09.2007 the total turnover of the business was Rs. 6,000,000/- and Rs. 9,000,000/- respectively. With regard to statutory requirement under the Economic Service Charge Act No. 13 of 2006, amended by (amendment) Act No. 15 of 2007.

Advise Mr Mayuran on the following issues.



- (a) Registration for ESC
- (b) Applicable ESC rate, payments and submission of returns
- (c) Set – off of ESC for income tax or any other taxes
- (d) Claim of refunds on over payment of ESC

(20 marks)

OR

04. "X" Co. Ltd. is a registered company in respect of Value Added Tax. Following sales and expenditure have been shown at the VAT exclusive price where necessary. Please note the Value Added Tax rate is standard rate of 15%.

**Sale**

Taxable supply under the standard rate	4,000,000
Exempt supplied	1,000,000
Supplies under Zero rate	2,000,000

**Expenses**

Salary and wages	660,000
Electricity	32,000
Telephone	68,000
Purchase of Lorry	750,000
Value of interest	2,000,000
Security fees	56,000
Accounting fees	20,000

Based on the above information you are required to compute the VAT payable by "X" Co. Ltd. For the quarter ended 31<sup>st</sup> December 2007.

(20 marks)

OR



05. Write short notes (Compulsory)

(a) "Taxes are paid under self assessment basis". In this concept. What is 'Self Assessment Tax' and 'Quarterly Installment'?

(05 marks)

(b) Requirements of a 'Valid Appeal'.

(05 marks)

(c) Circumstances in which an assessor is empowered to issue an assessment additional assessment. (Explain the difference between an assessment and additional assessment)

(05 marks)

(d) 'Resident and Non – Resident' as per the IRD Act No. 10 of 2006.

(05 marks)

(Total 05 x 04 = 20 marks)