

## EASTERN UNIVERSITY, SRI LANKA

## FACULTY OF COMMERCE AND MANAGEMENT

## PART - III EXAMINATION IN BACHELOR OF COMMERCE/ BUSINESS ADMINISTRATION

2002/ 2003 (REPEAT)

## BBA/ COM 401 (B) TAXATION

Answer All Questions

Time : 02Hours

Any assumptions should be stated clearly

01. Mr. Kumaran is a wholesale hardware dealer in Colombo. The profit and loss account for the year ended 31.03.2002 and the balance sheet as at 31.03.2002 are given below.

## Profit and Loss Account for the year ended 31.03.2002.

	Rs.	Rs.	Rs.	Rs.
Salaries		900,000	Gross Profit	4,500,000
Bonus		120,000	Less	
Provident fund		90,000	Turnover Tax	450,000
Rates		40,000		4,050,000
Repairs		60,000	Ret	240,000
Telephone		47,000	Interest (Net)	63,000
Electricity		22,000		
Depreciation				
Building	240,000			
Motor Vehicle	760,000			
Machinery	20,000			
		1020,000		
Maintenance of vehicle		450,000		
Travelling		60,000		
Interest		150,000		
Donation		50,000		
Entertainment		30,000		
National Security Levy		144,000		
Lease Rental		250,000		
Bad debt provision		20,000		
Loss and sale of lorry		50,000		
Other expenses		40,000		
Net Profit		810,000		
		<u>4,353,000</u>		<u>4,353,000</u>

Balance Sheet as at 31.03.2002.

	Rs.	Rs.		Rs.	Rs.
Capital		3,500,000	Land & buildings		1,670,000
Current Account	500,000		Motor vehicle		2,520,000
Net Profit	810,000		Machinery		120,000
	1,310,000		Debtors	500,000	
Drawings	310,000	1,000,000	Bad debt Provision	30,000	470,000
Bank Loan		1,000,000	Stock		2,000,000
Bank overdraft		2,000,000	Savings A/C		600,000
			Cash in hand & bank		120,000
		<b>7,500,000</b>			<b>7,500,000</b>

**Notes :**

1. Fixed Assets

<u>Assets</u>	<u>Opening balance</u> at cost	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u>
Land & building (Rs.)	2,900,000	--	--	2,900,000
Motor vehicle (Rs.)	3,000,000	1,800,000	1,000,000	3,800,000
Machinery (Rs.)	120,000	80,000	--	200,000

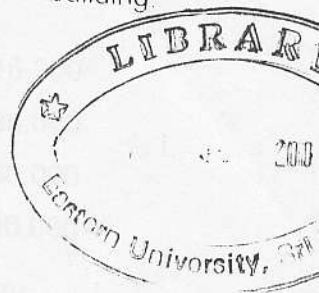
2. Depreciation Provision

<u>Assets</u>	<u>Opening balance</u>	<u>Provision</u>	<u>Disposals</u>	<u>Balance</u>
Land & building (Rs.)	990,000	240,000	--	1,230,000
Motor vehicle (Rs.)	1,120,000	760,000	600,000	1,280,000
Machinery (Rs.)	60,000	20,000	--	80,000

3. The opening balance of land and building represents the cost of land purchased for Rs. 500,000/- during 94/95 and the cost of construction of the shop building at 1,500,000/- during 95/96. The balance Rs. 900,000/- represents a new building that was constructed during 2000/01 and given an rent for commercial purpose.

4. The Motor vehicle opening balance represents 02 lorries and a van. The lorry that was sold during the year was purchased an 01 04 1998, and the other one was purchased on 01.04.2000 for Rs. 1,400,000/-. The van was purchased in 99/00 and used for business travelling. He has purchased a new lorry after the sale of the old one.

5. Purchase of machinery represents a computer that was purchased on 01.10.2001. Other machineries were purchased before 98/99.
6. Salary includes Rs. 120,000/- paid to his son aged 21.
7. Out of rates and repairs 25% was incurred in respect of the rented out building.
8. His total turnover for the year was Rs 50,000,000/-
9. Motor vehicle maintenance expenses.



	Rs
Own lorries	- 280,000
Lorry obtained an lease	- 130,000
Van	- 40,000

It is estimated that 50% of the van maintenance is attributable to his private use.

10. Travelling expense includes Rs. 40,000/- for his foreign trip in connection with the importation of goods.

11. Donation.

	Rs.
To an approved charity by goods	- 20,000
University of Colombo	- 30,000

12. National Security levy was paid on import of goods.
13. He has obtained a lorry from a leasing company on lease agreement for 03 years from 01.06.2001. The monthly rental payable was Rs. 25,000/-

14. Bad debt provisions

	Rs.
General provisions made	- 30,000
Less - Recoveries out of debts written off in the previous year	- 10,000
Profit and Loss A/C	<u>- 20,000</u>

You are requested to compute the taxable income of Mr. Kumaran for the year of assessment 2001/02.

(55 marks)

Q2. Mr. Mansoor is an Accountant of a private company Ltd. The details of his remuneration and other income for the year-ended 31.03.2002 are given below. You are requested to compute the tax payable by him for the Y/A 2001/02.

	Rs.	Rs.	Rs.
a. Salary		360,000	
Les – Provident fund	28,800		
PAYE	15,000	43,800	316,200
Leave pay			36,000
Travelling allowance			60,000
Entertainment Allowance			30,000

- b. His employer's contribution to the provident fund was Rs. 43,200/-.
- c. Out of the travelling allowance 15,000/- was spent to travel from his home to workplace and the balance was spent for his official travelling.
- d. He claims that 50% of the entertainment allowance was spent to entertain the customers.
- e. He lives in a house provided rent-free by the company. Rating assessment of the house was Rs. 60,000/- and the rates at 20%. The company pays Rs. 9,000/- monthly rent to the owner of the house.
- f. Net interest received from a joint fixed deposit held by him with his daughter born on 25.02.1983 was Rs. 45,000/-.
- g. He has received a net dividend of Rs. 91,000/- from AB Company Ltd. The details are as follows.

	Rs.
Out of the companies liable profit	40,000
Out of the companies Exempt profit	10,000
Received from a quoted public company	30,000
Received from another resident company	17,000
	97,000
Less - Tax	6,000
	<b>91,000</b>

h. During this year he has sold Rs. 3,000 shares held in AB Company Ltd. at Rs. 50/- a share. Par value of these shares was Rs. 10/- and he has purchased them at Rs. 25/- per share in April 92. Brokerage was paid at Rs. 1/- per share sold



i. He claims the following expenses.

	Rs.
Interest paid on loan taken to invest in shares	30,000
Donation to an approved charity	28,000
Life insurance premium paid	32,000
Donation to a sports club	15,000

(30 marks)

03. Write short notes on three of the following topics.

- Definition of a child under the Inland Revenue Act.
- PAYE Tax system.
- The characteristics of a valid appeal.
- Value Added Tax (VAT)

(15 marks)