



THIRD YEAR-SECOND SEMESTER EXAMINATION IN BUSINESS
ADMINISTRATION/COMMERCE/SPECIALIZATION IN HUMAN RESOURCES 2010
MANAGEMENT/MARKETING MANAGEMENT/ACCOUNTING AND
FINANCE/ENTERPRISE DEVELOPMENT-2008/2009 (JUNE 2010)
(PROPER/REPEAT)

DAF 3213 ADVANCED TAXATION

Answer All Questions

No. of Questions-04

Calculator permitted

No. of Pages-05

Any Assumptions should be stated clearly

1. Using the following informations, compute the Income tax payable by **PRM-Liverpool (Pvt.)Ltd** for the Year of Assessment 2008/2009.
(The nature of business of this company is *import, locally buying and selling* of cellular phones and it's accessories in the local market)

Profit & loss A/c for the year ended 31st March 2009

		Gross profit	28,800,000
Salary wages	1,650,000	Add:	
EPF & ETF	247,500	Dividends received	60,000
Depreciations	2,460,000	Rental income	240,000
Repairs	207,000	Bad debts collected	24,000
Electricity	140,000	Profit on sale of lorry	185,000
Advertisement	800,000		
Training of Employees	400,500		
Foreign Traveling	1,000,000		
Lease rent	186,000		
Donation	500,000		
Insurance	876,000		
Transport Traveling	360,000		
Provision for gratuity	1,100,000		
Loss on sale of Machinery	70,000		
Research expenses	183,000		
Rates	80,000		
Legal expenses	120,000		
Entertainment	420,000		
Bad & doubtful debt	386,000		
Annuity paid for the year	100,000		
Telephone	85,000		
Penalty for income tax	22,000		
Value Added Tax paid (VAT)	800,000		
Goods clearing charges	315,000		
BTT Paid	550,000		
OD interest & Bank charges	342,000		
Management fees	1,000,000		
Proposed dividends	310,000		
Balance net profit	<u>14,479,500</u>		
	<u>29,309,000</u>		
			<u>29,309,000</u>

Notes 1.

	<u>Balance</u> <u>1.4.2008</u>	<u>Addition</u>	<u>Disposal</u>	<u>Balance</u> <u>31.03.2009</u>
Land & Building	6,500,000	-	-	6,500,000
Machinery	5,000,000	5,000,000	2,000,000	8,000,000
Motor vehicle	9,000,000	2,000,000	1,500,000	9,500,000
Computer H/ware	1,400,000	-	100,000	1,300,000
Furniture	250,000	300,000	-	550,000
Software	-	<u>800,000</u>	-	<u>800,000</u>
	<u>22,150,000</u>	<u>8,100,000</u>	<u>3,600,000</u>	<u>26,650,000</u>

<u>Depreciation</u>	<u>1.4.2008</u>	<u>For the year</u>	<u>Removal</u>	<u>Balance</u> <u>31.03.2009</u>
Land & Buildings	300,000	100,000	-	400,000
Machinery	1,800,000	600,000	1100,000	1300,000
Motor vehicle	3,100,000	1150,000	900,000	3350,000
Computer H/ware	100,000	200,000	80,000	220,000
Furniture	30,000	70,000	-	100,000
Software	-	<u>400,000</u>	-	<u>400,000</u>
	<u>5,718,000</u>	<u>2,460,000</u>	<u>1,280,000</u>	<u>2,550,000</u>

* Land and building as at 01.04.2008 consists a building at a value of Rs. 1,500,000/-

2. Part of the building (half Portion) was given on rent to another business to be used as office. monthly rent received Rs. 20,000/-
3. A lorry and a Packing machine which were purchased during the Year of Assessment 2000/2001 were sold during the Year of Assessment 2008/2009
4. Repair expenses includes Rs. 200,000/= was spent to the building which was given rent for renovation and colour washing. 2

5. Directors traveling (Personal) expenses of 55,000/- is included in Transport and Traveling.
6. A delivery van has been taken on lease at a monthly lease rent of Rs. 25,000/- on 3.4.2008 and the whole rent payable in two years.
7. Total sales (both liable for VAT and exempt sale) Rs: 95,150,000/- This company pays BTT at 1% to the western Provincial council on its 75% of turnover (buying and selling of accessories at whole sale market in Pettah.)
8. Electricity was paid for the whole building
9. During the year two directors want to Malaysia with an idea to commence import & Export business in the subsequent years
9. Donation
- Donation made to the Government 200,000/-
 - Goods worth of Rs. 300,000/- donated to the displaced people at Kilinochchi.
10. Insurance include a personal life insurance premium of Rs. 360,000/- paid for the Managing Directors' Insurance Policy.
11. Legal Expenses
- Fees Rs. 75000/- paid to a lawyer for the recovery of a trade debts.
 - Balance Rs. 45,000/- paid for attending a case filed by the Department of Inland Revenue for non payment of VAT in time for the quarters ending 2008 December and 2009 March.
12. Details of Bad and doubtful debt of Rs. 386,000/-
- | | |
|---|----------------|
| ➤ General Provision | 150,000 |
| ➤ Specific provision (for trade debts) | 40,000 |
| ➤ Bad debt written off of a trade debt for which provision has not been made previously | 8,000 |
| ➤ Staff loans written off | <u>116,000</u> |
| | <u>386,000</u> |

Note

This Company has been registered for ESC and the ESC Payable at 0.25% on its import, buying & selling. The relevant turnover for each quarter exceeds the threshold (7.5M/=)

2.

MAMA & Co. is a partnership. Manjula and Mani are the partners, sharing profits/losses in the ratio of **2:1**. Statement of income and expenditure for the year ended 31.03.2009 is given below.

	Rs.	Rs.	Rs.
Total sales			9,655,500
Less: - Expense			
Partner's salaries			
- Manjula		200000	
- Mani		100000	
Interest on Partners' capital			
- Manjula	120,000		
- Mani	80,000	200,000	
Salaries (Staff)		950,000	
EPF & ETF (Staff)		142,500	
Weighing Machine		600,000	
Rent paid		240,000	
Electricity		95,000	
Telephone		143,000	
Interest paid on Bank loan & Over draft		225,000	
Entertainment- Hotel Bills		40,000	
Water		24,000	
Printing & Stationary		11,000	
BTT at (1%)		100,000	
Charity & Donations		45,000	
Transport		17,000	
Insurance		40,000	
Bad debt written off (all allowable)		<u>26,000</u>	<u>3,198,500</u>
Net profit			<u>6,457,500</u>

Note

1. Rent is paid to Manjula's wife, who is the owner of the business premises, which was taken for two years period from 01.04.2008. Monthly rent is Rs. 10,000/-

You are required to compute:

- The divisible profit of MAMA & Co. for the year of assessment 2008/2009.
- The apportionment of divisible profit between Manjula and Mani
- The partnership tax payable by MAMA & Co. for the Y/A 2008/2009 (No ES liability since the Total turnover per quarter is less than 7.5 m/=).
- The apportionment of the partnership tax between Manjula and Mani.

3.

Shanthi is an under graduate student at a University in Sri Lanka. She wanted to clarify that, "**how an issue between a tax payer and the Assessor become a tax case**" Assume that, you are a practicing Tax consultant. And Explain to Shanthi

- a. How an **appeal** leads to a **tax case**.
- b. Quote at least three **cases** in relation to **income from Employment** and briefly explain one of them.

(Marks - 15)

4.

Briefly explain **only three** of the followings:

- i. Value Added Tax (VAT)
- ii. "**Valid appeal**" and "**Time bar**" under the IRD Act No. 10 of 2006
- iii. **Allowable** expenditures and **disallowable** expenditures under the IRD Act no 10 of 2006.
- iv. Economic Service Charge (ESC)

(Marks 5 x 3 =15)