

EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE & MANAGEMENT

THIRD YEAR SECOND SEMESTER EXAMINATION IN BBA/ B.COM 2004/ 2005

COM 3023 TAXATION

Answer all questions

Time : 02 Hours

Any assumptions should be stated clearly.

01. Mr Samarapala is the owner of a furniture shop in Moratuwa. The Profit & Loss Account for the year ended 31.03.2005 and the Balance Sheet as at 31.03.2005 are as follows :

	Rs.	Rs.
Gross Profit		4,400,000
Less : Business Turn Over Tax		(300,000)
		<u>4,100,000</u>
Add : Other income		
Rent	120,000	
Lorry hiring income	580,000	
Profit on sale of lorry	160,000	860,000
		<u>4,960,000</u>
Less : Expenses :		
Salaries	1,300,000	
Bonus	140,000	
EPF	172,000	
Rates	40,000	
Repairs	45,000	
Electricity	60,000	
Insurance	75,000	
Telephone	40,000	
Interest	475,000	
Motor Vehicle maintenance	400,000	
Provision for depreciation		
Buildings	120,000	
Motor vehicles	500,000	
Furniture	20,000	640,000

Bad debt Provision :	10,000	
Entertainment	60,000	
Donation	100,000	
Lease Rental	250,000	
Income Tax	95,000	(3,902,000)
Net profit		<u>1,058,000</u>

Balance sheet as at 31.03.2005

Assets employed

Non current assets

	Rs	Rs
Land & building		1680,000
Motor vehicle		2160,000
Furniture		90,000
		<u>3930,000</u>

Current assets

	Rs	Rs
Stock		3,500,000
Debtors	540,000	
Less : Bad debt provision	40,000	500,000
Cash at Bank		500,000
Cash in hand		70,000
		<u>4570,000</u>
		<u>8,500,000</u>

Equity and liabilities

	Rs	Rs
Capital		3700,000
Net profit	1058,000	
Less : Drawings	(558,000)	500,000
		<u>4200,000</u>

Non Current Liabilities

Long term loan – Seylan Bank		2200,000
		<u>2200,000</u>

Current Liabilities

Trade Creditors		1,600,000
Loan from Sripala – short term		500,000
		<u>2,100,000</u>
		<u>8,500,000</u>

Notes :

1. Fixed Assets

Assets	Opening balance at cost (Rs)	Additions (Rs)	Disposals (Rs)	Balance (Rs)
Land & Building	1,500,000	900,000	--	2,400,000
Motor Vehicle	2,400,000	1,600,000	800,000	3,200,000
Furniture	120,000	60,000	--	180,000

2. Provisions for depreciations

Assets	Opening Balance (Rs)	Provisions (Rs)	Disposals (Rs)	Balance (Rs)
Land & Building	600,000	120,000	--	720,000
Motor Vehicle	1,020,000	500,000	480,000	1,040,000
Furniture	70,000	20,000	--	90,000

- The opening balance of land and buildings represents the shop building that was constructed by his father and gifted to him in the year of assessment 1995/ 1996. During the year of assessment 2004/ 2004 he has constructed a shop building and given it on rent from 01.10.2004.
- The motor vehicle opening balance includes a van that was purchased on 01.10.2000 for Rs. 900,000/-. A lorry was purchased on 01.06.2001 and a car was purchased during the year of assessment 2003/ 2004. The lorry was sold in November 2004 and a new lorry was purchased in February 2005.
- All the furniture including in the opening balance were gifted to him by his father in 1998/ 1999.
- Total sales for the year was Rs. 31,600,500/-
- Out of the rates Rs. 12,000 was paid in respect of the building given on rent. Repair expenditure relates only to the old building.
- Insurance - Shop - 50,000/-
Life - 25,000/-

9. Motor Vehicle Maintenance :

	Rs.
Lorry	255,000
Van	95,000
Car	50,000

10. Interest

	Rs.
Bank Loan	400,000
Sripala	75,000

11. Bad debt provision A/ C

	Rs.	Rs.	Rs.	Rs.
Debtors		5,000	Balance B/ f	
P & L A/ C			S. Provision	8,000
Balance c/ f			G. Provision	21,000
S. Provision	7,000		Cash	6,000
G. Provision	33,000	40,000	P & L	10,000
	<u> </u>	<u>45,000</u>		<u>45,000</u>

a) Specific provisions:

Opening Balance

	Rs.
Karunadasa	5,000
Ajith	3,000

Closing Balance :

	Rs.
Karunadasa	5,000
Kelum	2,000

b) Written off :

Anura (Trade debtor)	Rs. 4,000
Bandara (Cash loan given to an Ex. Employee)	Rs. 1,000

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

12. Entertainment expenses include Rs. 24,000 incurred for his daughter's birthday party.

13. Donations – President fund 75,000/-
 – To an approved charity by goods 25,000/-

14. He has obtained a lorry on a lease agreement for 03 years from 01.06.2004.
 The monthly rental payable was Rs. 25,000.

You are requested to compute the tax payable by Mr. Samarapala for the Y/ A 2004/ 2005.

(50 marks)

2. (i) Mr. A. Silva engaged in import and sale of Bathroom Fittings at Maradana.

The activity of Mr. Silva is liable for VAT at **15%** and he furnishes VAT return on an quarterly basis.

The taxable supplies for the 4th quarter in the year of assessment 2005/ 2006 was Rs. 29,000,000/-

He has paid Rs. 2,800,000 as VAT to the customs department on the import of Bathroom Fittings in January 2006. And Rs. 250,000 was paid as VAT on the local purchase, electricity and telephone.

He admits that out the VAT paid on his local purchase Rs. 50,000 is related to his personal (Private) purchases.

Required :

On the basis of the above information you are requested to calculate the VAT liability for the quarter ended 31.03.2006. (From 01.01.2006 to 31.03.2006)

(14 marks)

- (ii) In relation to the VAT you are requested to briefly explain the following terms.

- (a) Requirements for "VAT registration"
- (b) "Tax Invoices"
- (c) VAT – "Refund"
- (d) "Tax Rates" (VAT) applicable in the year 2006.

(04 x 04 = 16 marks)

03. Write short notes on the followings :

- (i) "Stamp Duty"
- (ii) With Holding Tax (WHT)
- (iii) Capital allowances on capital assets (Depreciation)
- (iv) Disallowable Expenses

(05 x 04 = 20 marks)