

Eastern University, Sri Lanka

Faculty of Commerce and Management

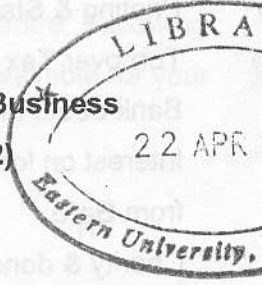
Third Year Second Semester Examination in Bachelor of Business

Administration 2009/2010 (January / February 2012)

(Proper)

MGT 3053 Advanced Taxation and Auditing

(Taxation Part)



Answer all questions

Time: 1 ½ Hours

Any assumption should be stated clearly

1. Two brothers **Balu** and **Mahendra** are the partners of **BaluMahendra&co**, a partnership carrying on the business of a pharmacy and grocery.

The partnership agreement provided for the following;

- 1) The profits and losses are to be shared in the ratio of one is to one (1:1)
- 2) Mahendra is to receive a salary of Rs. 10,000 per month.
- 3) The partners are to receive interest at 6% per annum on their fixed Capital accounts. The Capital Accounts of the partners are: Balu Rs. 1,000,000 and Mahendra Rs. 750,000.
- 4) Any loans from the partners would receive interest at 10% per annum.

The trading and profit & Loss Account of Balu Mahendra for the year ended 31st march 2011 is as follows:

	Rs.		Rs.
Cost of sales	7,840,000	Sales	10,80,000
Gross Profit c/d	2,960,000		
	<u>10,800,000</u>		<u>10,800,000</u>
Salaries (staff)	420,000	Gross profit b/f	2,960,000
Salaries (partners)	120,000	Discounts received	12,000
EPF& ETF	63,000		
Electricity	54,000		
Rent	144,000		
Telephone	78,000		
Water	15,000		

Printing & Stationery	25,000	
Turnover Tax (1%)	98,000	
Bank debts tax	9,000	
Interest on loan of Rs.600,000 from Balu	60,000	
Charity & donations	45,000	
Bad debt written off (all allowable)	26,000	
Travelling	57,000	
Depreciation (note 1)	53,000	
Interest on partners Capital	105,000	
Net profit	1,600,000	
	<u>2,972,000</u>	<u>2,972,000</u>

Note-1

No Tax depreciation is available for the year of assessment 2010/2011 since has been fully claimed previously.

You are required to compute:

- The divisible profit of Balu Mahendra for the year of assessment 2010/2011
- The apportionment of the divisible profit between Balu and Mahendra.
- The partnership tax payable by Balu Mahendra for the year of assessment 2010/2011
- The apportionment of the Partnership tax between Balu and Mahendra.

(45 marks)

02. **Vijaya Motors (pvt) Ltd** carries on business as a vehicle repairing centre. Following details of the company for the quarter endings 31st March 2011 are available for your review.

(All the figures are excluding VAT where applicable)

	Rs
Out put	
Turnover for the quarter	2,900,000
Input	
Salaries & wages	480,000
Spare parts purchased from local suppliers who are not registered for VAT	300,000
Cost of imported Vehicle lifting machine	900,000
Cost of imported Vehicle Towing machine	1,100,000
Building rent paid to a VAT registered person	180,000
Telephone charges	40,000
Unabsorbed input Tax brought forward from last quarter	60,000
VAT paid for the months of January & February 2011	45,000

You are required to:

- a) Compute Value Added Tax payable for the Quarter endings 31st March 2011.
- b) When is the VAT Return for the above quarter due?

(25 marks)

03. "The Reasons for rejection of the return given by an Assessor to an assessee (Tax payer) should be adequate and intelligible. But general reasons (conclusions) are inadequate".

Explain the above statement by reference to statutory provisions & the decisions by quoting any decided cases

(15 marks)

04. Write short notes on:

- a) Nation Building Tax (NBT)
- b) Valid appeal
- c) With Holding Tax (WHT)



(15 marks)