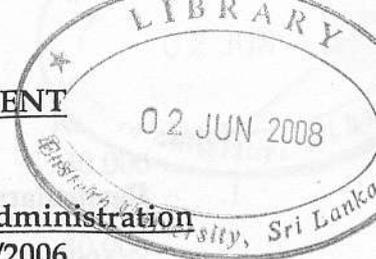


EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
DEPARTMENT OF COMMERCE



Third Year Second Semester Examination in Business Administration
Specialization in Enterprise Development-2005/2006

DAF- 3213- Advanced Taxation

Answer all questions.

Time: 2 Hours

Note: Any assumption should be stated clearly

Question No.: (01)

Micro (pvt) Ltd is a software development company, which was in operation in the local market from the year 2005/2006. Income Statement for the year ended 31st March 2007 is as follows:

	Rs.	Rs.
Software development income		27,000,000
Other income		800,000
		27,800,000
<u>Expenses</u>		
Depreciation	700,000	
Salaries	2,700,000	
EPF & ETF	405,000	
Office Maintenance	1,000,000	
Training expenses	70,000	
Foreign Travelling	200,000	
Electricity	150,000	
Telephone	100,000	
Provision for Bad debts	260,000	
Donations	60,000	
Penalties paid for late payment of ESC	15,000	
Vehicle maintenance expenses	80,000	
Entertainment	75,000	
Legal Fees	160,000	
Interest paid	75,000	
Lease Instalments paid	110,000	
Provision for Gratuity	40,000	
Advertisement	50,000	
Insurance	<u>50,000</u>	
		6,300,000
Net profit for the year		21,500,000
Less: Loss B/F		<u>(200,000)</u>
Profit after the loss		<u>21,300,000</u>

Notes:**1. Particulars of Fixed Assets**

Item	Balance b/f	Additions	Disposals	Balance as at
	Rs.	Rs.	Rs.	31,03,2007 Rs.
Computers	4,000,000	2,100,000	-	6,100,000
Motor Car	600,000	-	(600,000)	-
Office furniture	150,000	-	-	150,000
Staff Van(Motor Coach)	-	2,000,000	-	2,000,000
Air conditioner	100,000	-	-	100,000
Leased Assets				
MD's Car	<u>2,000,000</u>			<u>2,000,000</u>
	<u>6,850,000</u>	<u>4,100,000</u>	<u>(60,000)</u>	<u>10,350,000</u>
Depreciation				
Computers	-	400,000	-	400,000
Motor Car	-	60,000	(60,000)	-
Office Furniture	-	15,000	-	15,000
Staff Van (MotorCoach)	-	-	-	-
Air Conditioner	-	25,000	-	25,000
Leased Assets				
MD's Car	-	<u>200,000</u>	-	<u>200,000</u>
		<u>700,000</u>	<u>60,000</u>	<u>640,000</u>

2. Trade losses brought forward from the year 2005/2006 amounting to Rs. 200,000 is available to claim.

3. Details of Sundry Income

	Rs.
Profit on sale of car	300,000
Interest Income (WHT deducted)	90,000
Profit on sale of quoted company shares	110,000
Specific BADE Debt Written-off last year, recovered this year	<u>100,000</u>
	<u>600,000</u>

4. Training expenses include international school fees of Rs. 40,000 paid for the Managing Director's son.

5. Foreign Travelling

This is the cost incurred by the Managing Director and the CEO for a Software Development Training Programme.



6. Provision for Bad Debts of Rs 260,000 are as follows:

	Rs.
General Provision	140,000
Specific Provision (for trade debts)	50,000
Bad Debts written off of a trade debt previously	40,000
Staff Loans written-off	<u>30,000</u>
	<u>260,000</u>

7. Donation consists of:

	Rs.
Cash donation made to an approved charity	40,000
Value of food items given to poor people	20,000

8. Vehicle running expenses includes Rs. 25,000 paid to the Managing Director as reimbursement of fuel cost for his car. The Managing Director uses this car for his private travelling in addition to official travelling. However he does not reimburse for his private travelling. This has not been taken into account for PAYE purposes.

9. Legal fees were incurred for:

	Rs.
i. Labour tribunal case	40,000
ii. Recovery of Bad Debts	20,000
iii. Legal consultancy fees paid with regard to a land for which an advance was paid and the land was purchased in the subsequent year	100,000

10. Interest paid included the following:

	Rs.
Overdraft Interest for Working Capital	45,000
Loan Interest	30,000

11. Gratuity paid during the year amounted to Rs. 20,000/=

Compute the Income Tax liability and the Balance Tax payable of Micro (Pvt) Limited for the year of assessment 2006/2007.

(45 marks)

Question No :(02)

Unique (Pvt) Ltd is a registered person for import and supply of Motor Spare parts. It does manufacturing of break liners and local buying & selling as well. Occasionally it exports break liners to Maldives. The company is submitting VAT returns **monthly** and **has not opted to charge VAT on local buying and selling**. Transactions of the company for two months are given below.

	April 2007	May 2007
	Rs.	Rs.
Sale of spare parts (imported)	6Mn.	7Mn.
Sale of break liners (manufactured)	2Mn.	2.5 Mn.
Sale of spare parts (local buying & selling)	5Mn.	4Mn.
Exports	1Mn.	1.5 Mn.
Sale value of a machine used in the factory (VAT inclusive price)	---	230,000
Imports - Spare parts	6Mn.	3Mn.
Purchase of raw materials (factory-VAT paid)	1Mn.	2Mn.
Purchase of spare parts locally with V AT	4Mn.	3Mn.
VAT paid on purchase of a motor car	175,000	---
VAT paid on common expenses	280,000	150,000
Excess input tax b/f from previous month	100,000	

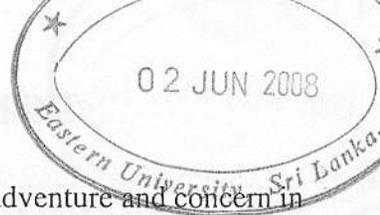
For each taxable period

You are required to calculate

- Value of total taxable supply, Zero rated supply, V AT liable supply (subject to output tax) and Total output tax.
- Total allowable input tax, Deductible input tax, and Payable tax and carried forward excess input tax if any.
- Total sales liable to Turnover tax and Tax payable.

(20 Marks)

Question No: (03) * Answer only (a) or (b)



(a)

Usually "**Trade**" includes every trade and manufacture and every adventure and concern in the nature of trade.

Explain the meaning of "**An Adventure in the Nature of Trade**" and "**Isolated transaction**" Illustrate your answer by reference to decided cases.

(b)

Proviso to section 163(3) of the Inland Revenue Act, No. 10 of 2006 reads as follows:

"Provided that where the Assessor does not accept the return made by any person for any year of assessment and make an assessment or an additional assessment on such person for that year of assessment he shall **communicate to such person in writing his reasons** for not accepting the return".

What you mean by "**reasons**" in this context? What are the consequences of failure to give reasons? Explain by reference to cases decided by the superior Courts of Sri Lanka.

(15 marks)

Question No: (04)

Write **short notes** on the followings:

- i. Optional VAT
- ii. With Holding Tax (WHT) on VAT
- iii. Valid Appeal
- iv. Economic Service Charge

(5 x 4 = 20 marks)