

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
SPECIAL REPEAT EXAMINATION-2010

DAF 2222 INTRODUCTION TO TAXATION

Time: 2 Hours

Number of questions: 03

Instruction: Answer all the questions

Number of pages: 04

Notes: Any assumption should be stated clearly

Question (1)

Mr. LAL is the owner of a grocery shop at Uppuvely. The profit & loss account prepared for the year of assessment 2008/2009 is given below.

Salaries & wages	960000	Gross profit	3 600000
EPF contribution	96000	profit on sale of	
Legal expenses	20000	computer	50000
ETF	25200	Insurance receipt	100000
Bonus	126000		
Stock loss	120000		
Lease rent	216000		
Rates	18000		
Electricity	56400		
Water	7800		
Telephone	29400		
Postage	1300		
Motor vehicle maintenance	142000		
Advertising	100000		
Bad debt and provision	45700		
Depreciation	564000		
Building repairing	125000		
Interest	65000		
Donations	72400		
Insurance	36000		
Turnover Tax	120900		
Income Tax	48000		
Sundry expenses	22500		
Net profit	<u>732400</u>		
	<u>3750000</u>		<u>3750000</u>

Notes: 1.

The movements of fixed assets are as follows:

Assets	Balance as at 01.04.2008	Additions	Disposals	Balance as at 31.03.2009
Motor vehicle	2300,000	720,000	--	3,020,000
Furniture	120,000	-	-	120,000
Computer	240,000	-	(80,000)	160,000
Office equipment	<u>220,000</u>	<u>-</u>	<u>-</u>	<u>220,000</u>
	2,880,000	720,000	80,000	3,520,000

Depreciation:

Motor vehicle	920,000	460,000	-	1,380,000
Furniture	96,000	48,000	48,000	96,000
Computer	54,000	12,000	30,000	36,000
Office equipment	<u>88,000</u>	<u>44,000</u>	<u>-</u>	<u>132,000</u>
	1,158,000	564,000	78,000	1,644,000

(a) The fixed assets as at 01.04.2008 have been purchased at the beginning of the business

(b) Motor vehicle include a car cost at 900,000/= that was used for business traveling

2. No provision have been made to Business Turn over Tax payable at 1% on the total sale 19,655,900/=

3. Donation made as follows:

Approved charity (Home for elders) food items	42,400
Donation made to a school sports club	5,000
Government cancer hospital	<u>25,000</u>
	72,400

4. Bad debt and provision made as follows:

General provision	20,000
Bad debt written off	<u>25,700</u>
	45,700

5. The insurance receipt is a compensation received from insurance company in respect of loss of stock due to fire.
6. The life insurance premium paid 24,000/= for Mr. Lal 's life insurance policy is included in the insurance.
7. The repairing expenditure in respect of building rented out is 50,000/=
8. The interest shown is the total of interest Rs: 30,000/= and Rs: 35,000/= paid to Bank of Ceylon in respect of business loan and a housing loan obtained to construct the building which is rented out respectively. The capital repayment for the building construction loan was 72,000/=.

Compute the Income tax payable by Mr. Lal for the Y/A 2008/2009.

(45 Marks)

Question (2)

Compute the **Statutory income** and the **Tax payable** for the Year of Assessment 2008/2009 of **Mr.Kobi** who is the Managing Director of VCC (pvt) Ltd.

Receipts

1. Managing Director's salary (after the deduction of EPF contribution)	588,800/=
2. Bonus 2006/2007	80,000/=
2007/2008	100,000/=
3. Payments received from another company for consultation	45,000/=
4. Directors fees	100,000/=
5. Travelling allowance	128,000/=
(Payment for the private driver of Mr.Kobi , paid by the company included in this allowance amounted 48,000/=.	
His driver is not an employee of the company)	
6. Entertainment allowance	60,000/=
7. Net dividend	90,000/=

8. Rental value of the house provided rent free for Mr.Kobi 's father
by the company 140,000/=
- (Company paid Rs: 20,000/= per month to the owner of the house)
9. Income of the Rubber estate 47,000/=
- (This include sale of old rubber trees amounting to Rs; 32,000/=)
10. Rent received from a house rented out 36,000/=
- (Rates at 30% on a value of Rs 60,000/=)
- 11.Sale of shares of XY Ltd Received free of charge in1992 103,000/=

Payments

- Entertainment expenses 70,000/=
- (Expenses incurred by Mr.Kobi over the allowance has been reimbursed
By the company.

EPF contribution is 8% of the salary. Contribution by the company is 12% PAYE
deduction amounted to 40,000/=

Donation to an approved charity 25,000/=

(35 Marks)

Question (3)

Write **short notes only for four** of the followings:

1. Value Added Tax (VAT)
2. With Holding Tax (WHT)
3. Economic Service Charge (ESC)
4. Social Responsibility Levy (SRL)
5. what are the important aspects of a **valid appeal**

(5X 4 = 20 Marks)