

**Eastern University, Sri Lanka**  
**Faculty of Commerce and Management**  
**Second Year First Semester Examination in Bachelor of Business**  
**Administration/Bachelor of Commerce – 2017/2018 (July 2019)**  
**Repeat**  
**DAF 2032 Auditing and Taxation (Taxation Part)**

**Answer both questions**  
**Any assumption should be stated clearly.**

**Time: 01 Hour**  
**Pages: 04**

**Q.1** Mr. Dilan Perera is the owner of a Textile shop in Badulla.  
The Profit & Loss Account for the year ended 31.03.2018 and the Balance Sheet as at 31.03.2018 are as follows:

	Rs.	Rs.	
Gross Profit	-	8,989,000	
Less: NBT	-	<u>400,000</u>	8,589,000
<b>Add: Other Income</b>			
Rent		240,000	
Lorry hiring income		840,000	
Profit on sale of lorry		160,000	<u>1,240,000</u>
			9,829,000
<b>Less: Expenses</b>			
Salaries		1,350,000	
Bonus		120,000	
EPF		112,000	
Rates		12,000	
Repairs		90,000	
Electricity		85,000	
Insurance		264,000	
Telephone		35,000	
Loan Interest		475,000	
Motor vehicle rep. & maintenance		211,000	
Provision for depreciation (Total)		675,000	
Bad debt Provision		20,000	
Entertainment		200,000	
Donation		200,000	
Lease Rental		600,000	
Advertisement		100,000	
Income Tax-SA payments		<u>80,000</u>	
Net profit		<u>5,200,000</u>	

## Balance Sheet as at 31.03.2018

### Assets Employed

#### Non-Current Assets

Land and Buildings		4,000,000
Motor Vehicles		3,800,000
Furniture		<u>250,000</u>
		<u>8,050,000</u>

#### Current Assets

Stock		2,950,000
Debtors		495,000
Less: Bad debt provision	<u>(60,000)</u>	435,000
Cash at Bank		750,000
Cash in hand		<u>55,000</u>
		<u>4,190,000</u>
		<u>12,240,000</u>

#### Equity and liabilities

Capital		7,000,000
Net Profit		5,200,000
Less: Drawings	<u>(3,058,000)</u>	<u>2,142,000</u>
		9,142,000

#### Non-Current Liabilities

Long Term Loan – Seylan Bank		<u>1,500,000</u>
		1,500,000

#### Current Liabilities

Trade Creditors	998,000	
Loan from Sriram – short term	<u>600,000</u>	
		<u>1,598,000</u>

12,240,000

#### Notes

##### (01) Fixed Assets

<u>Assets</u>	Op/ Balance at cost (Rs)	Additions (Rs.)	Disposals (Rs.)	C/Balance (Rs.)
Land & Building	3,000,000	1,000,000	-	4,000,000
Motor Vehicles	4,000,000	1,600,000	1,800,000	3,800,000
Furniture	<u>150,000</u>	<u>100,000</u>	-	<u>250,000</u>
	<u>7,150,000</u>	<u>2,700,000</u>	<u>1,800,000</u>	<u>8,050,000</u>

(02) Provision for Depreciation

<u>Assets</u>	<u>Op/ Balance</u> (Rs.)	<u>Provisions</u> (Rs.)	<u>Disposal</u> (Rs.)	<u>Balance</u> (Rs.)
Land and Building	600,000	150,000	-	750,000
Motor Vehicles	1020,000	500,000	480,000	1,040,000
Furniture	85,000	25,000	-	110,000
	<u>1,705,000</u>	<u>675,000</u>	<u>480,000</u>	<u>1,900,000</u>

(03) The opening balance of land and buildings represents the shop building which was constructed by him in the year of Assessment 2004/2005. During the year of assessment 2017/2018, he has constructed a shop building and the same has been rented out for another business for a monthly rent of Rs.400,000/-from 01.10.2017.

(04) The opening balance of the motor vehicle includes a van that was purchased on 01.10.2013 for Rs. 1200, 000/- , A lorry was purchased on 01.06.2014 and a car was purchased during the year of assessment 2016/2017. The lorry was sold in November 2017 and a new lorry was purchased in February 2018.

(05) All othe assets in the opening balance were purchased by him in 2004/2005.

(06) Total sales for the year was Rs. 65,945,200/-.

(07) Repair expenditure incurred for the **old building**.

(08) Insurance - For the shop - 139,000/-  
Life insurance - 125,000/-

(09) Motor Vehicle Repairs & Maintenance

Lorry	Rs. 120,000/-
Van	Rs. 80,000/-
Car	Rs. 11,000/-

(10) Loan Interest

Bank Loan	Rs. 400,000
Sriram	Rs. 75,000

(11) **Bad debt provision A/c**

	Rs.	Rs.		Rs.	Rs.
Debtors		5,000	Bal.B/F		
Balance C/F			Spec Prov.	8,000	
			Gen Prov.	<u>31,000</u>	39,000
Specific Prov.	17,000		Cash		6,000
General Prov.	<u>43,000</u>	<u>60,000</u>	P & L A/C		<u>20,000</u>
		<u>65,000</u>			<u>65,000</u>

(a) Specific Provisions			
	<u>Opening Balance</u>		<u>Closing Balance</u>
	(Rs.)		(Rs.)

Supun	5,000	Supun	5,000
Mohamad	3,000	Raja	12,000

- (b) Written off  
 Amal (Trade debtor) Rs. – 4,000  
 Naveen (Cash loan given to an Ex. Employee) Rs. 1,000

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

- (12) Entertainment expenses represents Rs. 85,000/- incurred for the yearend in Nuwaraeliya by the staff and the balance for his daughter's birthday party.

- (13) Donations  
 To the Peradeniya teaching hospital Rs. 125,000  
 To an approved charity **by goods** Rs. 25,000  
 Cash donation to the football club of the Uwa wellasa Campus Rs. 50,000

- (14) He has obtained a lorry on a lease agreement for 04 years from 01.06.2017. The monthly rental payable was Rs. 75,000

- (15) All four quarterly IT ( SA) payments were made **one month ahead** to the date for each quarter. Hence, he is entitling for **10%** discount.

You are requested to compute Mr. Dilan Perera's

- i. Total Statutory Income
- ii. Total Assessable Income
- iii. Taxable Income and the Income tax payable by him for the Y/A 2017/2018  
 (Total: 50 marks)

### Q.02

Answer **only for TWO** questions from the followings:

- i. State what is "Self-Assessment"? (25 Marks)
- ii. Write short note on "Qualifying Payments" (25 Marks)
- iii. Write short note on "Capital allowances on capital assets" (25 Marks)

(Total: 25 x 2 = 50 Marks)