



Eastern University, Sri Lanka

Faculty of Commerce and Management

Third Year Second Semester Examination in Bachelor of Commerce/ Bachelor of
Commerce (Specialization in Accounting and Finance)

- 2010/2011(June 2013)

(Proper/Repeat)

DAF 3072 Advanced Taxation

Answer all 03 questions

Time: Two Hours

Any assumption should be stated clearly

01. Samuthra (Pvt) Ltd. is a resident company incorporated in February 2009, it is a sister company of Thaj Samuthra Holdings PLC. and it carries on the business of manufacturing of bottled water in the Eastern Province.

Followings are the information for the period from 01.04.2012 to 31.03. 2013.

Turnover for the above period was Rs.315,000,000/=

The Net profit before Income Tax for the Y/A 2012/2013, after charging all the expenses and crediting all income was Rs.27,625,000/=

Notes to the account

Note-1

Movement of Fixed Assets

Details	Opening Balance as at 01.04.2012	Additions	Disposals	Closing balance as at 31.03.2013
Land	13,500,000	2,000,000	-	15,500,000
Buildings	17,000,000	3,500,000	-	20,500,000
Plant, Machinery & Equipment	25,000,000	4,000,000	-	29,000,000
Motor vehicles	15,500,000	3,000,000	2,500,000	16,000,000
Computer Hardware	1,000,000	750,000	-	1,750,000

IT Software	1,000,000	-	-	1,000,000
Furniture & fittings	<u>1,000,000</u>	750,000	-	<u>1,750,000</u>
Total	<u>74,000,000</u>	<u>14,000,000</u>	<u>2,500,000</u>	<u>85,500,000</u>

Depreciation

Details	Opening Balance As at 01.01.2010	Charges for the year	Disposals	closing balance as at 31.03.2011
Buildings	1,100,000	780,000	-	1,880,000
Plant, machinery & Equipment	1,060,000	1,985,000	-	3,045,000
Motor vehicles	3,950,000	2,860,000	625,000	6,185,000
Computer H/ware	1,000,000	750,000	-	1,750,000
IT Software	400,000	400,000	-	800,000
Furniture & fittings	<u>225,000</u>	<u>500,000</u>	-	<u>725,000</u>
Total	<u>7,735,000</u>	<u>7,275,000</u>	<u>625,000</u>	<u>14,385,000</u>

- (a) Unless stated otherwise all items of property, Plant & Equipment as at 01.04.2012 have been acquired in the Year of Assessment 2009/2010 when the company started its Operations.
- (b) The company has constructed ware house for storing purpose on the land purchased during the year.
- (c) The motor vehicles at the opening balance consists followings,

Four motor Lorries	10,000,000
One motor car	<u>5,500,000</u>
	<u>15,500,000</u>
- (d) One old lorry was disposed on 28.02.2013 and a new lorry was purchased on 30th March.2013 and the same was used in the business on the following day.

(e) Computer hard ware at the opening balance was obtained under a finance lease Agreement. Commencing from 01.02.2012. The term of the lease 48 months and each monthly installment amounted to Rs.30, 000/-. Other computer was purchased during the y/A 2012/2013.

(f) The IT in use as at 01.04.2012 has been developed by a local software house for a stock controlling system.

Note No-2

Other incomes which are included in the net profit for the year are as follows

Profit on sale of lorry	200,000
Interest on Treasury Bonds under Repurchase agreement	368,000
Dividend received from an associate company	375,000
Prize for Cooperate Social Responsibility (C.S.R.) from the Chamber of Commerce	500,000

Note-3

The expenses charged in arriving at the net profit for the year include the following:

Depreciation		7,275,000
Interest on finance lease		120,000
Foreign travelling expenditure	(Note 4)	925,000
Management fee	(Note 5)	5,000,000
Entertainment expenses		1 75,000
Bad debts	(Note 6)	525,000
Legal expenses	(Note 7)	125,000
Advertisement	(Note 8)	3,175,000
Repair & Maintenance for the vehicles	(Note 9)	795,000
Donations	(Note 10)	750,000
Stamp duty paid	(Note 11)	100,000
Other expenses	(Note 12)	315,000

Note-4

Foreign travelling expenditure of Rs.925,000/- has been incurred by the production Manager for a visit to South Korea to inspect a new manufacturing machine.

Note-5

Management fee paid to **Thaj Samuthra Holdings PLC** was Rs.5,000,000/-

Note-6

Details of Bad debts charged to income statement are as follows

General Provision made at 5% to the balance debtors Rs.350,000/-

Loan given to an ex employee who left the company without settling the loan Rs.50,000/-

A trade debt of Rs 125,000/- from Mr. Ismail was estimated to have become doubtful during the year.

Note-7

Legal expenses incurred for a labor tribunal case Rs.25,000/-

Lawyer's fee for an appeal case in relation to a payment of defaulted VAT for the Y/A 2011/2012 was Rs.100,000/-

Note-8

Paper advertisement to recruit staff for the factory Rs.75,000/-

Advertisements on electronic media Rs.1,850,000/-

Cost of launch of a new product during the cricket match held at Weber ground in Batticaloa Rs.1,250,000 /-

Note-9

Fuel expenses to the car used by the Managers Rs.160,000

Fuel expenses to the lorries Rs.360,000

Repairs & maintenance to the cars Rs.40,000

Repairs & maintenance to the lorries Rs.235,000

Non cash benefit of free transportation provided to the Managers has been considered for PAYE tax.



Note-10

Donation made to the Government Rs.600,000/-

Furniture and cloths donated to an orphanage, an approved charity at Kallady Rs.150,000/-

Note-11

Stamp duty on lease agreement Rs.40,000

Stamp duty for the land purchased Rs.50,000

Cost of stamp duty affixed on receipts Rs.10,000

Note-12

Damaged tools discarded Rs.45,000/-

Expenses for a trip made to Arugam bey as an entertainment to the staff & employees Rs.270,000/-

Note-13

Provision for gratuity made by the company for the year Rs.125,000/- (No gratuity payment was made during the year)

Note-14

Un absorbed loss brought forward from the year of assessment 2011/2012 Rs.1, 154,000/-

As there was a trade loss in the previous year (2011/2012), E.S.C paid for the year 2012/2013 was Rs.1, 750,000/-

No income Tax was paid under self assessment basis, as there was a Tax loss in the previous year.

Question:

You are required to compute the income tax payable by the company for the Y/A 2012/2013

(50 Marks)

02. **Mr.Nimal** is a taxpayer as he runs a grocery shop at Chenkalady.

He already has paid the taxes and submitted all the Returns of Income up to the year of Assessment 2011/2012. However, he got a notice of assessment dated 06.06.2013 for the Y/A-2011/2012 on 10.06.2013. He is depressed that the Assessment is much higher than the income he declared in his return. He needs your advice.

How you advise to Mr.Nimal and what are the important aspects you would consider to validate the appeal?

Explain the stages how it leads to a **case** at the Court of appeal

(25 Marks)

03. Give short note on the following:

a) Economic Service Charge (E.S.C.)

(5 Marks)

b) Nation Building Tax (NBT)

(5 Marks)

c) Partnership tax and credit from partnership (to a partner)

(5 Marks)

d) Value Added Tax (VAT)

(5 Marks)

e) Adventure in the Nature of Trade

(5 Marks)

(Total 25 Marks)