

**Eastern University, Sri Lanka**  
**Faculty of Commerce and Management**

**Year Second Semester Examination in Bachelor of Business Administration**  
**A) BBA (Specialization in Marketing Management)/BBA (Specialization in**  
**Human Resource Management)**  
**2015/2016 (July/August 2018)**  
**(Proper/Repeat)**

**MGT3053 Advanced Taxation and Auditing (Part I – Taxation)**

**Answer all the questions**

**Time: 1 1/2 Hours**

**Assumption should be stated clearly**

**Pages 05**

"ABC" (Pvt) Ltd. is a resident company incorporated in February 2012, it is a sister company of "A to Z" Holdings PLC. and it carries on the business of manufacturing of Foot ware products in Sri Lanka.

Followings are the information for the period from 01.04.2015 to 31.03.2016.

Turnover for the above period was Rs. 413, 540, 750/-

The Net profit before Income Tax for the Y/A 2015/2016, after charging all the expenses and crediting all income was Rs. 47,625,000/=

**Note to the account**

**Note-1**

**Movement of Fixed Assets**

Details	Opening Balance as at 01.04.2015	Additions	Disposals	Closing Balance as at 31.03.2016
Land	14,000,000	2,000,000	-	16,000,000
Buildings	18,000,000	3,500,000	-	21,500,000
Plant, Machinery & Equipment	25,000,000	4,000,000	-	29,000,000
Motor Vehicles	16,000,000	3,000,000	2,500,000	16,500,000
Computer Hardware	1,000,000	750,000	-	1,750,000
IT Software	1,000,000	-	-	1,000,000
Furniture & Fittings	2,000,000	750,000	-	2,750,000
<b>Total</b>	<b>77,000,000</b>	<b>14,000,000</b>	<b>2,500,000</b>	<b>88,500,000</b>

## Depreciation

Details	Opening Balance as at 01.04.2015	Additions	Disposals	Closing Balance as at 31.03.2016
Building	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	225,000	500,000	-	725,000
<b>Total</b>	<b>7,735,000</b>	<b>7,275,000</b>	<b>625,000</b>	<b>14,385,000</b>

- (a) Unless stated otherwise all items of property, plant & equipment as at 01.04.2015 have been acquired in the Year of Assessment 2011/2012 when the company started its operations.
- (b) The company has constructed a 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 | 10,500,000        |
| One Motor Car      | <u>5,500,000</u>  |
|                    | <b>16,000,000</b> |
- (d) One old lorry was disposed on 28.02.2016 and a new lorry was purchased on 30<sup>th</sup> March 2016 and used in the business on the **same day**.
- (e) Computer hard ware at the opening balance was obtained under a finance leasing Agreement commencing from 01.02.2015. The term of the lease 48 months and each month installment amounted to Rs. 30,000/-. Other computer was purchased during the year 2015/2016.
- (f) The IT in use as at 01.04.2015 has been developed by a local software house for a financial controlling system.

### Note-2

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

Profit on sale of lorry	Rs: 200,000
Interest on Treasury Bills (Net)	450,000
Dividend received from an associate company (Net)	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:

		Rs:
Depreciation		7,275,000
Interest on finance lease		120,000
Bank O.D. Interest		100,000
Foreign travelling expenditure	(Note 4)	925,000
Management fee	(Note 5)	5,000,000
Entertainment fee		175,000
Bad debts	(Note 6)	525,000
Legal expenses	(Note 7)	125,000
Advertisement	(Note 8)	3,175,000
Repair & Maintenance of the vehicles	(Note 9)	795,000
Donations	(Note 10)	750,000
Stamp duty paid	(Note 11)	100,000
Research and Development expenses	(Note 12)	1,000,000
Other expenses	(Note 13)	315,000

**Note-4**

During the year, Production Manager of the company has travelled to Japan to study new production techniques which can be used to improve the Quality of Production. Cost of his tour was Rs. 925,000/=.

**Note-5**

Management fee paid to **A to Z 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 labour tribunal case Rs. 25,000/-

Lawyer's fee for an appeal case in relation to a payment of defaulted VAT for the Y/A 2014/2015 was Rs. 100,000/-.



**Note-8**

Paper advertisement to recruit staff for the factory and to sell a motor vehicle was Rs. 50,000/- and Rs. 25,000/- respectively.

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

Cost of launch of a new product during the cricket match held at Dhambulla cricket stadium Rs. 1,250,000/-.

**Note-9**

Fuel expenses to the car used by the Managing directors	Rs. 160,000
---	-------------

Fuel expenses to the Lorries	Rs. 360,000
------------------------------	-------------

Repairs & maintenance to the car	Rs. 40,000
----------------------------------	------------

Repairs & maintenance to the Lorries	Rs. 235,000
--------------------------------------	-------------

Non cash benefits of free transportation provided to the Managers has been considered for PAYE Tax.

**Note-10**

During the year, company has donated book shelves worth of Rs. 600,000/- to the State University.

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**

During the year a research was carried out by a research institution with an aim of improving the Quality of Products. The company has paid Rs. 1,000,000/- for this purpose to the research institution.

**Note-13**

Damaged tools discarded	Rs. 45,000/-
-------------------------	--------------

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

**Note-14**

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

ote-15

absorbed loss brought forward from the year of assessment 2014/2015 Rs. 1,154,000/-

there was a trade loss in the previous year (2013/2014), E.S.C. paid for the year 2014/2015 as Rs. 1,750,000/-

Income Tax was paid under self-assessment basis, as there was a Tax loss in the previous

ar.

during the year the company has paid a royalty of Rs. 1,000,000/- to its parent company.

question:

you are required to compute the Income tax payable by the ABC Pvt Ltd. for the Y/A 2015/2016.

(Total 60 Marks)

briefly explain on the followings:

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

(08 Marks)

b) Nation Building Tax (NBT)

(08 Marks)

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

(08 Marks)

d) Value Added Tax (VAT)

(08 Marks)

e) "Adventure in the Nature of Trade"

(08 Marks)

(Total 40 Marks)