



Eastern University, Sri Lanka

Faculty of Commerce and Management

Third Year Second Semester Examination in Bachelor of Commerce/Specialization in

Accounting and Finance - 2013/2014 (September/ October 2016) Proper/Repeat

DAF 3072 Advanced Taxation

Answer all the questions

Time: 02Hours

Note: Any assumption should be stated clearly

Q 01.

ABC (Pvt) Ltd. was incorporated on 01st April 2014, and is engaged in the business of importing & selling electronic equipment's in the local market. Following information have been extracted from the financial statements for the year ended 31st March 2015:

1. Net profit before tax for the year ended 31st March 2015 is **Rs.21, 847,325/-**

2. Other Income	Rs
Dividend income- net of withholding tax	180,000
Interest received from Treasury bills	<u>243,000</u>
Total	<u>423,000</u>

3.

Expenses charged when arriving at the Profit before Tax	Note	Rs.
Administration Expenses	1	9,010,200
Selling and Distribution Expenses	2	950,000
Finance and Other Expenses	3	<u>95,275</u>
Total		<u>10,055,475</u>

4. Note 01 – Administration Expenses

	Note	Rs.
Salaries & Wages		4,728,000
EPF& ETF		664,200
Provision for gratuity		136,000
Depreciation		294,000
Entertainment		52,000
Local Travelling		58,000
Foreign Travelling	1.1	175,000
Company formation expense	1.2	290,000
Donation	1.3	150,000
Legal expenses	1.4	140,000
Rent		420,000
Utilities		147,000
Other expenses		<u>1,756,000</u>
Total		<u>9,010,200</u>

Note 1.1 – Foreign Travelling

The Managing Director visited Japan to meet the suppliers; expenses incurred on his tour were recorded under foreign travelling.

Note 1.2 – Company formation expenses

Company formation expenses include the following:

	Rs.
Legal charges incurred in connection with the formation of the company	240,000
Share issues expenses	<u>50,000</u>
Total	<u>290,000</u>

Note 1.3 – Donation: During the year, the company has donated Rs. 150,000/- to “Maharaja Cancer Hospital”.

Note 1.4 – Legal Expenses

During the year, the company has been assessed by the IRD due to manipulation of VAT on import Rs.140, 000/- has been paid to a lawyer to defend for the company.

5. Note 2 – Selling and Distribution Expenses

	Rs.
Advertising Note 2.1	500,000
Sales Commission	450,000
Total	950,000

Note 2.1 Advertising

The company has incurred following expenses for advertising:

	Rs.
Paper advertisement to recruit workers	50,000
Advertisement on electronic media	<u>450,000</u>
Total	<u>500,000</u>

6. Note 3 – Finance and other Expenses

	Rs.
Lease interest Note 3.1	14,325
Loan Interest Note 3.2	68,200
Bank Charges	<u>12,750</u>
Total	<u>95,275</u>

Note 3.1 Lease interest

On 01st July 2014 a generator was obtained under a Finance lease agreement for a period of 24 months. Monthly installment of the lease was Rs.7, 600/-. The company has paid 9 installments during the year.

Note 3.2 Loan Interest

The company purchased a plot of land to build a warehouse. For this purpose, a loan was obtained from the commercial bank. Interest paid on that loan was charged to income statement.

7. The following additional information relating to Property, plant and equipment is also provided.

Details of property, plant and equipment as at 31st March 2015 are as follows:

Type of Asset	Cost (Rs.)
Land	1,500,000
Office Equipment	90,000
Lorry	3,000,000
Furniture	30,000
Computer Equipment	310,000
Computer Software – Developed in Sri Lanka	140,000
Generator – leased asset	<u>160,000</u>
Total	<u>5,230,000</u>

All the assets, except leased assets have been purchased at the time of incorporation of company.

8. The company has paid income tax of Rs.1, 750,000/- on the self-assessment basis.

You are required to compute following for the year of assessment 2014/2015:

- Total statutory Income,
- Assessable Income,
- Taxable Income,
- Gross Income Tax Payable
- Balance Tax Payable.

(50 Marks)

Q 02

You are required to compute the VAT liability of **ABC (Pvt) Ltd.** (is a VAT registered company) for the quarter ended **31.March 2016** from the following information.

The under mentioned “expenditure” and “sales” are stated at values excluding VAT where applicable. The VAT rate applicable at 11%

Expenditure	
Salaries and wages	560,000
Electricity	42,000
Telephone	38,000
Purchase of plant & machinery	1,280,000
Sales	
Supplies at normal rate	2,100,000
Exempt supplies	525,000

(25 Marks)

Q 03

- (a) "The reasons for rejection of an Income Tax return given by an Assistant Commissioner to an assessee (Taxpayer) should be **adequate and intelligible**. But general reasons (*conclusions*) are **inadequate**".

Explain the above statement by reference to statutory provisions & the decision by quoting any decided cases.

(15 Marks)

- (b) Mr. Babu has been a taxpayer for the couple of years. Hence, he was awarded by giving a gold card (Privilege card) as he was one of the good taxpayers in the year of assessment 2013/2014.

However, he failed to submit his return of income in time (Before 30th November 2014) for the year of assessment 2014/2015, as he had to be in Singapore for his only daughter's medical treatment.

He was imposed penalty Rs: 50,000/- for non-submission of return in time for the Y/A 2014/2015.

What is your advice to Mr. Babu in relation to return and payment compliance?

(10 Marks)