

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)

- 2011/2012(August 2014)

(Proper/Repeat)

DAF 3072 Advanced Taxation

Answer all 04 questions

Time: Two Hours

Any assumption should be stated clearly

01. RAINBOW (Pvt) Ltd is a company incorporated on 01.04.2010 and commenced its business on the same day. The nature of business of this company is manufacturing and selling organic vegetable and curt in the local market. The information pertaining to the year of Assessment 2012/2013 is given hereunder from which you are required to compute Income Tax payable by the company.

Profit & Loss Account for the year ended 31<sup>st</sup> March 2013

	Rs.		Rs.
Salary and wages	1,650,000	Goss Profit	28,800,000
EPF & ETF	247,500	Dividends received	60,000
Depreciations	2, 520,000	Rental income	240,000
Repairs	207,000	Bad debts collected	24,000
Electricity	140,000	Profit on sale of Lorry	185,000
Advertisement	800,000		
Training of Employees	400,500		
Foreign Traveling	1,000,000		
Lease rent	186,000		
Donation	500,000		
Insurance	876,000		
Transport Traveling	360,000		
Provision for gratuity	1,100,000		
Loss on sale of Machinery	70,000		
Research expenses	183,000		
Rates	80,000		
Legal expenses	120,000		
Entertainment	420,000		
Bad & Doubtful debt	386,000		
Annuity paid for the year	100,000		

Telephone	85,000		
Penalty for Income tax	22,000		
Value Added Tax paid (VAT)	800,000		
Goods clearing charges	315,000		
NBT	550,000		
OD interest & Bank charges	342,000		
Management fees	1,000,000		
Proposed dividends	310,000		
<b>Net profit</b>	<b>17,059,000</b>		
	<b>29,309,000</b>		<b>29,309,000</b>

### Note 1

	Balance at 01.04.2012	Addition	Disposal	Balance at 31.03.2013
	Rs	Rs	Rs	Rs
Land & Building *	6,500,000	-	-	6,500,000
Machinery	5,000,000	5,000,000	2,000,000	8,000,000
Motor vehicle	9,000,000	2,000,000	1,500,000	9,500,000
Computer H/Ware	1,400,000	-	100,000	1,300,000
Furniture	250,000	300,000	-	550,000
Software	-	800,000	-	800,000
	<b>22,150,000</b>	<b>8,100,000</b>	<b>3,600,000</b>	<b>26,650,000</b>

Depreciation	Balance at 01.04.2012	For the year	Removal	Balance at 31.03.2013
	Rs	Rs	Rs	Rs
Land & Building	300,000	100,000	-	400,000
Machinery	1,800,000	600,000	1,100,000	1,300,000
Motor vehicle	3,100,000	1,150,000	900,000	3,350,000
Computer H/Ware	100,000	200,000	80,000	220,000
Furniture	30,000	70,000	-	100,000
Software	-	400,000	-	400,000
	<b>5,330,000</b>	<b>2,520,000</b>	<b>2,080,000</b>	<b>5,770,000</b>

\*Land and building as at 01.04.2012 consists a building at a value of Rs.1,500,000

### Further Information:

- Part of the building (half portion) was given on rent to another business to be used as an office. The monthly rent received Rs.50,000

2. A lorry and a packing machine which were purchased during the Year of Assessment 2010/2011 were sold during the Year of Assessment 2012/13.
3. Repair expenses include Rs.200,000 was spent to the building which was given on rent for renovation and colour washing.
4. Directors traveling (personal) expenses of Rs.51,000 is included in Transport and Traveling.
5. A delivery van has been taken on lease at a monthly lease rent of Rs.40, 000 on 03.04.2012 and the whole rent payable in two years.
6. Total sales (both liable for VAT and exempt sale) Rs.95, 150,000 this company pays
7. Electricity was paid for the whole building.
8. During the year two directors went to South Korea with an idea to commence import & Export business in the subsequent years.
9. Donation:
  - Donation made to the Government 200,000
  - Goods worth of Rs.300, 000 donated to an approved charity
11. Insurance includes a personal life insurance premium of Rs.350, 000 paid for the Managing Directors' Insurance policy.
12. Legal Expenses:
  - Fees Rs.75,000 paid to a lawyer for the recovery of a trade debts.
  - Balance RS.45,000 paid for attending a case filed by the Department of Inland Revenue for nonpayment of VAT in time for the quarter ending 2012 December.
13. Details of Bad and doubtful debt of Rs.386,000:

	Rs.
General Provision	150,000
Specific provision ( for trade debts)	40,000
Bad debt written off of a trade debt for which Provision has not been made previously	80,000
Staff loans written off	116,000
	<b>386,000</b>

(45 Marks)



02. Usually "Trade" includes every trade and manufacture and every adventure or concern in the nature of trade. Explain the meaning of an "An Adventure in the Nature of Trade" and "Isolated transaction" Illustrate your answer by reference to decided cases.

(15 Marks)

03. A provision to section 163 (3) of the Inland Revenue Act, No 10 of 2006 reads as follows "Provided that where the Assessor does not accept the return made by any person for any year of assessment and *make an assessment or an additional assessment* on such person for that year of assessment he shall **communicate to such person in writing the reason/s for not accepting the return**".

What do you mean by "reason" in this context? What are the consequences of failure to give reason/s? Explain by reference to cases decided by the superior Courts of Sri Lanka.

(15 Marks)

04. (a) What particulars should a valid "Tax Invoice" contain according to the provisions of the Value added Tax Act?

(15 Marks)

(b) Does profit and income received by one spouse for services rendered to a partnership of the other spouse is to be considered as the income of the other spouse?

(10 Marks)