

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) 2009/2010 (January /

February 2012)

(Proper)

DAF 3072 Advanced Taxation

Answer all questions

Time: Two Hours

Question No: 01

Milco (Pvt) Ltd. is a resident company, which was in operation in the local market from the year 2008/2009. The Income Statement for the year ended 31<sup>st</sup> March 2011 is as follows:

	Rs.	Rs.
Income from sale of Milk & other milk products		37,000,000
Other Income		900,000
		37,900,000
<b>Expenses:</b>		
Depreciation	840,000	
Salaries	6,700,000	
EPF & ETF	737,000	
Office maintenance	1,000,000	
Training Expenses	170,000	
Foreign traveling	200,000	
Electricity	150,000	
Telephone	100,000	
Provision for bad debt	460,000	
Donations	560,000	
Penalties paid for late payment of ESC	15,000	
Vehicle maintenance Expenses	80,000	
Entertainment	75,000	
Legal Fees	260,000	
Interest paid	75,000	
Lease installments Paid	510,000	
Provision for gratuity	140,000	
Advertisement	50,000	
Insurance	50,000	12,172,000
<b>Net Profit for the Year</b>		<b>25,728,000</b>
Less: Loss B/F		(700,000)
Profit after the loss		<b>25,028,000</b>



**Notes:****1. Particulars of Fixed Assets**

Item	Balance B/F	Additions	Disposals	Balance as at 31/03/2011
	Rs.	Rs.	Rs.	Rs.
Land and Building	4,000,000	2,100,000	-	6,100,000
Motor Truck	800,000	-	800,000	-
Office furniture	150,000	-	-	150,000
Canter	-	2,000,000	-	2,000,000
Air Conditioner	100,000	-	-	100,000
<b>Leased Assets</b>				
Van	3,600,000	-	-	3,600,000
	<b>8,650,000</b>	<b>4,100,000</b>	<b>800,000</b>	<b>11,950,000</b>

Depreciation	Rs.	Rs.	Rs.	Rs.
Land and Building	-	400,000	-	400,000
Motor Truck	-	200,000	(200,000)	-
Office furniture	-	15,000	-	15,000
Canter	-	-	-	-
Air Conditioner	-	25,000	-	25,000
<b>Leased Assets</b>				
Van -	-	200,000	-	200,000
	-	<b>840,000</b>	<b>(200,000)</b>	<b>640,000</b>

2. Trade losses brought forward from the year 2009/2010 amounting to Rs. 700,000 is available to claim.

**3. Details of Sundry Income**

Particulars	Rs.
Profit on sale of Truck	500,000
Interest income (WHT deducted)	90,000
Profit on sale of shares bought from another company	110,000
Bad debt written off last year, recovered this year	200,000
	<b>900,000</b>

4. Training Expenses include International School fees of Rs. 40,000 paid for the managing Director's son.

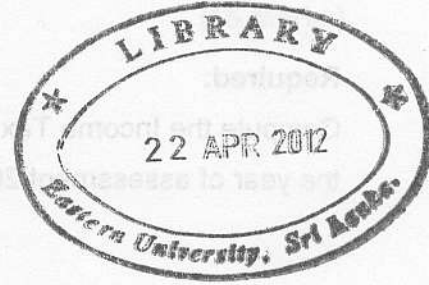
### 5. Foreign travelling

This is the cost incurred by the Managing Director and the CEO for a business promotional trip to Singapore.

6. A van was purchased under a lease; monthly lease rent Rs. 60,000 payable within 5 years.

7. Provisions for bad debts of Rs. 460,000 are as follows:

Particulars	Rs.
General provision	240,000
Specific Provision( for trade debts)	50,000
Bad debts written off	90,000
Staff loans written off	80,000
	<b>460,000</b>



### 8. Donation consists of:

Particulars	Rs.
Cash donation made to an approved Charity	440,000
Value of food items given to poor people	20,000
	<b>460,000</b>

9. Vehicle running expenses includes Rs.25, 000 paid to the Managing Director as reimbursement of fuel cost for his car. The Managing Director uses this car for his private travelling in addition to official travelling. However, he does not reimburse for his private travelling. This has not been taken into account for PAYE purposes.

### 10. Legal Fees were incurred for:

Particulars	Rs.
Labour Tribunal case	45,000
Recovery of bad debts	25,000
Legal consultancy fees paid with regard to a land for which and advance was paid and the land will be purchased in the subsequent year.	190,000
	<b>260,000</b>

11. Interest paid included the following:

Particulars	Rs.
Overdraft interest for working capital	45,000
Loan Interest	30,000
	<b>75,000</b>

12. Gratuity paid during the year amounted to Rs. 75,000.

**Required:**

Compute the Income Tax Liability and the Balance Tax Payable of Milco (Pvt) Ltd for the year of assessment 2010/2011.

**(45 marks)**

**Question No: 02**

(a) State whether the following persons are liable to pay ESC and give reasons for your answer:

1. ABC (PVT) Ltd is carrying on business of wholesale and retail sale. Turnover of the company for the quarter ending 31<sup>st</sup> March 2010 is Rs. 8 million.
2. XYZ (PVT) Ltd is engaged in the supply of passenger transport services. Turnover of the business is Rs. 6 million for the quarter ending 30<sup>th</sup> June 2010.
3. MN (PVT) Ltd is a BOI approved company which has been exempted from Income Tax. Turnover of the company for the quarter ending 30<sup>th</sup> June 2010 is Rs. 12 million.
4. LINSO (PVT) Ltd is engaged in manufacture of garments for the local market. Turnover for the quarter ending 31<sup>st</sup> March 2010 is Rs. 16 million.

(b) What is the due date for filing of ESC return after 01<sup>st</sup> April 2011?

(c) What is the turnover limit for liability for Nation Building Tax (NBT) of a manufacturer or a service provided?

**(25 Marks)**

**Question No: 03**

"The reasons for rejection of the return given by and assessor to an assessee (Taxpayer) should be adequate and intelligible. But general reasons (conclusions) are inadequate".

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

**(15 Marks)**

**Question No: 04**

Write short notes on:

- (a) Optional VAT
- (b) Valid Appeal
- (c) "Official Assessments" and "Self Assessment".

**(15 Marks)**



Cost of sales	7,940,000		10,850,000
Gross Profit	2,860,000		
	10,800,000		10,800,000
Salaries (staff)	430,000	Gross profit net	2,990,000
Salaries (partners)	620,000	Discounts received	12,000
EPF & JF	65,000		
Electricity	54,000		
Rent	144,000		
Telephone	78,000		
Water	15,000		