

Uva Wellassa University
Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management
THIRD YEAR SECOND SEMESTER EXAMINATION – AUGUST/SEPTEMBER 2014

EMG 313 -2 Taxation

Instructions to candidates:

No. of pages : Six (06)
No. of questions : Five (05) Essay
Time : Two (02) hours
Marks allocated : 100 Marks

Index No:

Answer only four (04) questions including question number 01.

01. You are provided with the following financial information of Mr. Senaka Cooray who is a resident individual for the year of assessment 2012/13.

- Mr. Senaka Cooray is working as the Chief Financial Officer (CFO) of Namunukula (Pvt) Ltd. since 1/4/2005. His monthly salary is Rs.150,000 (Gross). He has received the following benefits from his employment for the year of assessment 2012/13 other than the monthly salary.
 - Bonus lump sum paid in April 2012 is Rs. 175,000. The company paid this bonus out of the profits earned for the year ended 31/03/2012.
 - Reimbursement of the private telephone bill- Rs.70,000
 - A company maintained vehicle with engine capacity of 2000 CC. (Both the fuel cost and drivers salary are borne by the company)
 - A furnished estate bungalow
 - Employer's contribution to a provident fund -12% of gross salary. This provident fund has been approved by the Commissioner General of Inland Revenue.
- He has made investment in ordinary shares of ABC PLC. He received Rs.75,000 (net) dividend income from this investment in the year 2012/13.
- Mr. Senaka Cooray has received following interests during the year 2012/13.
 - Rs.50,000 from the Commercial Bank on the Savings Account. No withholding tax has been deducted.
 - Net interest received Rs.276,000 for the fixed deposit in National Savings Bank

- Mr. Senaka Cooray owns a house in Rajagiriya with a floor area of 2,500 sq.ft. This house has given on rent for a monthly rent of Rs.60,000. Rating assessment of the house is Rs.200,000 and the rates paid by the owner at 30%. This house was constructed by him in 2009.
- He has paid Rs.60,000 being interest and Rs.100,000 being repayment of capital during the year on a loan obtained from a registered finance company to construct a commercial building.
- Mr. Cooray has a 16 years old son. His grandmother has gifted a house situated in Borella to him and it was given on rent for Rs.15,000 per month. The rating assessment of the house is Rs.300,000 and the rates at 30% per annum.
- He has made following donations during the year
 - Donations made to an approved Charity are Rs.150,000 in money and Rs.200,000 worth of goods
 - Donation to Api Wenuwen Api Fund is Rs.50,000
- He has paid Rs.50,000 tax on self-assessment basis.

Based on the above information you are required to prepare the following computations of Mr. Senaka Cooray for the year of assessment 2012/13

- | | |
|------------------------------|--------------------|
| i) Total statutory income | (20 Marks) |
| ii) Assessable income | (06 Marks) |
| iii) Taxable income | (06 Marks) |
| iv) Gross income tax payable | (03 Marks) |
| v) Applicable tax credit | (03 Marks) |
| vi) Balance tax payable | (02 Marks) |
| | (Total – 40 Marks) |

02. Mr. Amal Perera is conducting a business of manufacturing certain commodity for the local market. He has commenced his business on 1st June 2010 and his income statement for the year ended 31/03/2013 is given below.

Sales		21,563,000
Less: Cost of Sales		(14,921,000)
Gross profit		6,642,000
Other Income		
Interest on deposit (Net)		750,000
Dividend (net)		440,000
Profits on sale of assets		160,000
		7,992,000
Less: Expenses		
Administrative Expenses	3,758,000	
Selling and Distribution Expenses	1,700,000	
Finance Expenses	604,000	(6,062,000)
Net Profit for the year		1,930,000

The following additional information are given to you

- Total depreciation charged in arriving at the net profit is Rs.1,000,000
- He has acquired following capital assets during the initial year for the use of his business

Machinery	Rs.5700,000
Equipment	Rs.790,000
Lorry	Rs.2,500,000
Locally developed Software	Rs.100,000



- Machinery acquired during the initial year amounting to Rs.2,000,000 has been disposed during the year 2012/13 for Rs.1,600,000. The written down value at the time of disposal amounts to Rs.1,440,000.
- Administrative expenses include the following.
 - Salary paid to his wife is Rs.240,000
 - Legal expenses on sale of land is Rs.75,000
- Selling and distribution expenses include the following
 - Entertainment expenses of Rs.100,000, comprising of Rs.30,000 for cost of tea and refreshments for the staff, Rs.60,000 for entertainment of customers and Rs.10,000 for entertaining family members.
 - Advertisement expense of Rs.200,000
- He has obtained premises on rent from inception on 01/06/2010 for a monthly rent of Rs.30,000 for a period of five years. At the time of agreement he has paid a lump sum payment (Key money) of Rs.250,000 and such amount had been charged to the income statement at the time of paying money.

You are required to compute the profits from Trade or Business for the year of assessment 2012/13.

(20 Marks)

03. You are required to state the tax treatments of Child's income as set out in the section 31 of the Inland Revenue Act, under the following circumstances for the year of assessment 2012/13

- i) The marriage of the parents subsists throughout the year of assessment and the Child reach 18 years on 01/09/2012.
- ii) Non subsistence of marriage of the parents occurred during the year of assessment (on 10/12/2012).
- iii) Marriage of the parents subsists during the year of assessment, but the father is a non-resident for income tax purpose
- iv) The marriage subsists during the year of assessment and the father is a resident person, but the child is residing abroad for his studies and consequently he is nonresident and he receives income outside Sri Lanka.

(05 x 04 = 20 Marks)



04.

- i) The details of arrivals and departures of Mrs. Sumithrani, being a non citizen of Sri Lanka are given below.

Date of Arrival	Date of Departure
10 th May 2010	15 th July 2010
15 th August 2010	30 th December 2010
15 th January 2011	20 th March 2011
12 th April 2011	15 th November 2011
15 th January 2013	10 th February 2013
15 th December 2013	

You are required to decide the residence status of Mrs. Sumithrani for the year of assessment 2010/2011, 2011/2012 and 2012/2013.

(09 Marks)

- ii) Taxable income of Mr. Rodrigo for the year of assessment 2012/13 is Rs.15,000,000. Such taxable income includes retirement benefits taxable at lower rate under the period of employment more than 20 years amounting to Rs.10,500,000.

You are required to compute gross income tax payable of Mr. Rodrigo for the year of assessment 2012/13

(11 Marks)

(Total -20 Marks)

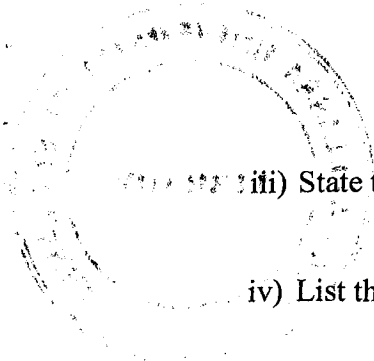
05.

- i) List the persons who are liable to file returns of income with the Department of Inland Revenue?

(04 Marks)

- ii) What are the information to be disclosed in the return of income?

(04 Marks)



iii) State the time Bar for assessments

(04 Marks)

iv) List the conditions to be satisfied for an Appeal to be valid

(04 Marks)

v) State the due dates for the payment of income tax installment under self assessment for the year of assessment 2012/13.

(04 Marks)

(Total – 20 Marks)