



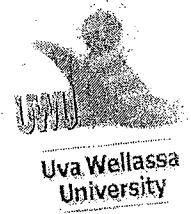
Uva Wellassa University

Faculty of Management

Bachelor of Business Management in Entrepreneurship and Management

3rd YEAR SEMESTER II - EXAMINATION - JUNE / JULY 2010

EMG 332-2 TAXATION



Index No:

- Instructions**
- No. of pages : Eight (08)
- No. of questions : Part B - 05
Part C - 04
- Time : One hour and Forty Minutes
- Total marks allocated : 85

Part C – Essay questions

Total marks for part C : 50

Answer three questions including question number one

- 01) M/S Rathna Entertainment is a Partnership engaged in Entertainment Business carried on by Chamara and Namal. From the following accounts and other information for the year of assessment 2008/2009, calculate the divisible profit / loss and other income of the Partnership and show the distribution of such profit / loss and other income among partners.

Profit and Loss Account 01.04.2008 to 31.03.2009

Importation of Films	1,300,000	Exhibition of films	8,900,000
Purchase of Musical Instruments	700,000	Rent Received	200,000
Salaries and Wages	900,000	Interest Received (Net)	100,000
Advertisement	300,000	Disposal of Machinery	100,000
Turnover Tax	60,000	Sale of Musical instrument	600,000
Electricity	500,000	Other Income	75,000
Telephone	200,000		
Rent on cinema halls	1,200,000		
Bad debts	100,000		
Royalty paid	800,000		
Legal expenses	75,000		
Travelling	350,000		
Depreciation	1,600,000		
Donation	100,000		
Bank charges and Interest	50,000		
Miscellaneous Expenses	250,000		
Interest on capital	350,000		
Loss on disposal of vehicles	100,000		
Net Profit	1,040,000		
	9,975,000		9,975,000

Balance Sheet as at 31.03.2009

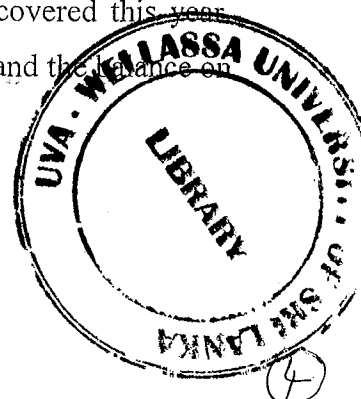
Capital Balances			Land & Building	2,000,000	
-Chamara	4,000,000		Addition	<u>1,000,000</u>	
-Namal	3,000,000	7,000,000		3,000,000	
			Less: Depreciation	(300,000)	2,700,000
Current Accounts			Machinery	3,400,000	
-Chamara	250,000		Addition	<u>2,500,000</u>	
-Namal	150,000	400,000		5,900,000	
			Disposal	(900,000)	
			Less: Depreciation	(1,000,000)	4,000,000
			Vehicles	1,000,000	
			Addition	<u>800,000</u>	
				1,800,000	
			Disposals	(100,000)	
			Less: Depreciation	(400,000)	1,300,000
Creditors		1,800,000	Debtors	850,000	
			Less: Provisions	(300,000)	550,000
Bank OD		800,000	Cash at Bank		800,000
			Cash in Hand		650,000
		10,000,000			10,000,000

Notes

a) Bad debt account

Debtors	400,000	B/F - Specific	100,000
		-General	300,000
Balance C/F		Recoveries	200,000
-Specific	150,000	P / L	100,000
-General	150,000		
	700,000		700,000

Opening specific reserve was for Mr. Silva who has brought Musical instruments. The amount due from him was Rs. 200,000 and this year the reserve was increased to Rs. 150,000. Loan given to Mr. Perera which was written off 2007 recovered this year. Debts written off include employees loans amounting to Rs. 100,000 and the balance on Musical instruments sold to customer Mr. Gayan.



- b) Salaries includes partners salaries of Chamara 200,000 Namal 150,000
- c) Interest on capital accounts has been paid at 5% per annum.
- d) Royalty has been paid to foreign film companies which own the copyright of films imported.
- e) Buying and selling of Musical instruments, opening stock Rs. 400,000 and closing stock Rs.500,000 have not been accounted for.
- f) Restaurants in cinema halls have been out sourced on commission basis. This has been considered rent received.
- g) New office building constructed during the year.
- h) Machinery purchased in June 2004 for Rs.1,000,000 was sold during the year for Rs. 1,000,000
- i) A motor car purchased in 2002 for Rs. 200,000 was included in the Motor Vehicle account, this was sold during the year for Rs. 100,000
- j) Travelling expenses include Mr. Chamara's travelling expenses to India amounting Rs. 200,000 and the balance for the business related activities.

(30 Marks)

02) Mr. Ranathunga is a Government Executive Officer. Details of his employment income, other income and payments for the Y/A 2008/2009 are as follows.

Income	Rs.
Government Employment -Salary	800,000
-Incentive	300,000
NSB- interest – own (Gross)	8,000
Son's under 18 years (Gross)	5,000
Wife's income from rubber estate	50,000
Dividends (after deducting WHT)	11,000
Business profit (Adjusted for tax purposes)	90,000
Interest on NRFC A/C	60,000

Other information

- Paid a sum of Rs. 3,000 during the year as interest to a bank on a housing loan, and another Rs. 5,000 as credit card interest.
- Business loss carried forwarded from the last year Rs. 225,000
- Donation to approved charity Rs. 25,000
- Rating assessment of the house provided by the government Rs. 60,000 (Rates at 30%)
- Sale of land in June 2008 for Rs. 400,000 which was purchased in 2003 for Rs. 100,000.
- Rent received Rs. 25,000 per month. Rating assessment Rs. 40,000 and rates 30% was paid by him.(Inherited property from his parents)

Calculate the income tax payable by Mr. Ranathunga for the year of assessment 2008/2009.

(10 Marks)



03) Write Short notes on the following with examples where necessary.

- i) Explain the self-assessment payment system under Inland Revenue Act No.10 of 2006.
- ii) Explain briefly the rationale of an Income Tax.
- iii) Explain briefly the operation of PAYE Scheme under the Inland Revenue Act No.10 of 2006.
- iv) If you are not satisfied with an income tax assessment received by you under the Inland Revenue Act, What action you can take to obtain relief. Explain the requirements briefly.

(10 Marks)

04) Mr. Ashoke is engaged in manufacture and import and export business. He is registered for VAT for monthly basis. He do local buying and selling which is not liable for VAT. The following transaction taken place during the month of April 2009.

Timber sale

Exports – Direct	Rs. 700,000
Indirect exports	Rs. 300,000
Local market sales	Rs. 600,000
Buying and selling	Rs. 350,000
Sale of machinery which is used in factory	Rs. 350,000

Expenses

Import of machinery	Rs. 200,000 + VAT
Raw material - Imported CIF	Rs. 100,000, duty 12%, VAT 12%
Electricity bill:-	Factory Rs. 35,000 + VAT
	Shop Rs. 5000 + VAT
	House Rs. 9000 + VAT
Telephone :-	Shop Rs. 4000 + VAT
	House Rs. 2000 + VAT
Other Expenditure (No tax invoice)	Rs. 6,000 + VAT

You are required to calculate VAT payable amount by Mr. Ashoke.

(10 Marks)