

# Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

**THIRDYEAR SECOND SEMESTER EXAMINATION –DECEMBER/JANUARY 2017**

**EMG 313-2 Taxation**



### Instructions to candidates:

No. of pages : Seven (07)  
No. of questions : Six (06) Essay  
Time : Two (02) Hours  
Marks allocated : 100 Marks  
Answer any four (04) questions.

Index No:

01.

- i) Explain what taxation means and the importance of imposing tax? (07 Marks)
- ii) Analyze the importance of Direct tax and Indirect tax by referring three advantages and three disadvantages of each (10 Marks)
- iii) Describe the general principles that should be considered when introducing a tax policy (08 Marks)

(Total Marks -25)

02. Mr. Aravinda is a businessman who visits Sri Lanka from time to time. His dates of arrivals to Sri Lanka and departures from Sri Lanka were as follows:

Arrived to Sri Lanka	Departure from Sri Lanka
01/04/2010	15/04/2010
06/07/2010	09/10/2010
10/11/2010	02/02/2011
01/05/2011	02/05/2011
19/08/2012	15/02/2013



01/01/2014	01/09/2014
10/11/2014	02/02/2015
02/10/2015	29/10/2016

Using the above information,

- i) Calculate the number of days Mr. Aravinda physically presented in Sri Lanka and absent from Sri Lanka for the year of assessment 2010/2011, 2011/2012, 2012/2013, 2013/2014, 2014/2015 and 2015/2016. (10 Marks)
- ii) Decide the residence status of Mr. Aravinda for the year of assessment 2010/2011, 2011/2012, 2012/2013, 2013/2014, 2014/2015 and 2015/2016. Justify your answer giving reference to relevant rules applicable in deciding the residency status of a person. (15 Marks)

(Total Marks -25)

03.

- i) A house in Colombo which the Rating Assessment is Rs.200,000 has let at a rent of Rs.30,000 per month. The house is occupied for the whole year but the rent could not be recovered for two months. The rates are paid by the owner at 30%. Calculate the Income from rent. (05 Marks)
- ii) A house in Welimada which the Rating Assessment is Rs.100,000 has let at a rent of Rs.15,000 per month. The house is occupied for the whole year. Tenet paid the rent for 13 months. Calculate the rent income if the rate are calculated at 15%. (08 Marks)
- iii) Calculate the Income from property of Mr. Amal considering following information.
- Mr. Amal constructed his house in Monaragala which has a Rating Assessment of Rs.150,000. Rates are calculated at 10%. He has rented out this house for

Rs.8,000 per month. The house is occupied for the whole year but the rent could not be recovered for two months.

- He has another house in Galle and the rating assessment of that house is Rs.250,000. The rate applicable to the area is 15%. He has rent out this house as well at Rs.12,000 per month.

(12 Marks)

(Total Marks - 25)

04.

i) Mr. Anuradha is a manager of a Company. His details of income for the Year of Assessment 2015/16 are as follows;

- Basic Salary per month is Rs.40,000 and cost of living is Rs.20,000. Company pays him Rs.10,000 per month as other allowances.
- Company has provided a car to Mr. Anuradha for office and personal use. The engine capacity of the car is 1600 CC. Both the Fuel expenses and the salary for driver is borne by Mr. Anuradha.
- Mr. Anuradha is living in his own house. But company also has provided a furnished house in Colombo to Mr. Anuradha. Rating Assessment of the house is Rs.200,000 and rates are paid at 30%.
- Company pays Rs.20,000 per month to Mr. Anuradha for telephone bill.
- Mr. Anuradha received the annual bonus of Rs.150,000 in January 2016 in respect of the year of assessment 2014/15.
- Company is maintaining a special insurance scheme for Mr. Anuradha. Annual contribution is Rs.100,000
- Within the period company has paid Rs.50,000 to Mr. Anuradha as reimbursement of medical bills.



- Company charges Rs. 30,000/- in each month form Mr. Anuradha for distance loan given by the company.

Calculate the Employment income of Mr. Anuradha for the year of assessment 2015/16.

(25 Marks)

05. Namal and Sunimal are partners sharing profits and losses in the ratio of 3:2. Their income statement for the financial year 2015/16 and additional information are as follows;

Gross profit	4,698,000	
Interest – Investments	750,000	
Interest income (net)	60,000	5,508,000
<b>Less; Expenses</b>		
Administration expenses	1,500,000	
Selling and Distribution	900,000	
Salaries for Namal’s wife	150,000	
Salary paid to Sunimal’s daughter (born in 1992)	180,000	
Interest on loan taken from Namal	40,000	
Approved donation to the government	80,000	
Ground rent paid	140,000	
		(2,990,000)
Operating Profit for the year		2,518,000

Additional information

- Monthly salary for partners;
  - Namal Rs.20,000
  - Sunimal Rs.10,000
- Monthly interest on capital;
  - Namal Rs.3,000

- Sunimal Rs.2,000

- Sunimal's daughter work as a sales manager of the partnership

You are required to compute;

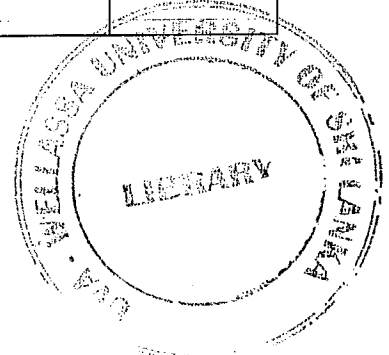
- Divisible profit of Namal and Sunimal partnership for the year of assessment 2015/16 (10 Marks)
- Partnership tax for the year of assessment 2015/16 (05 Marks)
- Share of profit of the partners for the year of assessment 2015/16 (05 Marks)
- Tax credit for each partner for the year of assessment 2015/16 (05 Marks)

(Total Marks- 25)

06.

- Explain how you determine the time of Supply of good and time of supply service when charging VAT (10 Marks)
- List out four item that can identify in a VAT invoice (04 Marks)
- Sirithunga Co. Ltd is a Vat registered trading organization. The transactions happened in the organization for the quarter ending 31<sup>st</sup> of March 2016 were as follows;

Sale of Manufactured goods	5,000,000
Sale of Purchased goods	1,500,000
Purchase of raw materials from the persons Registered for VAT	600,000
Purchase of finished goods from persons Registered for VAT	400,000
Purchase of Motor cars for Managing Director from a VAT registered person	3,000,000
Insurance of Motor car (Use by Managing Director)	70,000
Purchase of a lorry for transport of goods and raw materials	2,500,000



Insurance of Lorry	60,000
Purchase of equipment for trading	25,000
Office transport charges paid to person Registered for VAT	60,000
Payment made to Registered person for Repairing the office furniture	50,000
Rent paid to warehouse (owner is a Registered person)	60,000

Carried forward unabsorbed input tax from the previous period Rs. 60,000

You are required calculate the Vat Liability.

(05 Marks)

iv) Mr. Nandipala is a sole proprietor sales garments for both local and foreign markets. He sells garments both which are produced in his own factory and are purchased from outsiders. The transactions occurred in quarter ending June 2016 were as follows.

	Rs
<b><u>Sales</u></b>	
Manufactured Items	6,000,000
Exports (0% rate supply)	2,000,000
Purchased Items (Local buying & selling)	1,000,000
<b><u>Purchases</u></b>	
Buttons, thread, labels for manufacture of garments	1,500,000
Ready-made garments (from persons not registered)	620,000
Ready-made garments from VAT registered person	1,000,000
<b><u>Other expenses</u></b>	
Repairing of motor car	90,000

Purchase of sewing machines	1,800,000
Lorry (purchase for transport of goods)	1,000,000
Repairs of building (office)	725,000
Repairs of factory machinery / equipment	535,000
Purchase of Air conditioner for office	580,000
Rent paid to factory building	360,000

Brought forward unabsorbed input credit from previous quarter was Rs.80,000

You are required calculate the Vat Liability.

(06 Marks)  
(Total Marks -25)

