



**Uva Wellassa University**  
**Faculty of Management**



Degree of Bachelor of Business Management in Entrepreneurship and Management  
**THIRD YEAR SECOND SEMESTER EXAMINATION – SEPTEMBER/OCTOBER 2012**

**EMG 313 - 2 / EMG 332 - 2 Taxation**

**Part C – Essay Questions**

Answer **only three (03) questions** including question No. 01.

Marks allocation: 50 Marks

01. Mr. Somasiri Jayathilaka, was a government employee, he retired 28.03.2011 from the government service at the age of 57. On 01.04.2011 he joined ABC (Pvt.) Ltd as finance manger. He received the following profits and income for the year of assessment 2011/2012.
- Mr. Jayathilaka is drawing his monthly pension from the month of April 2012. His monthly pension is Rs. 45,000.
  - He received the following payments from ABC (Pvt.) Ltd.
    - Gross salary Rs. 140,000 per month
    - Health insurance premium – Rs. 1,500 per month (The company has agreed to bear the insurance premium from the date he joined the company on his insurance policy which was obtained in the year 2001 by Mr. Jayathilaka).
    - PAYE tax deducted (per month) Rs. 11,750
    - A house has been provided by ABC (Pvt.) Ltd at Colombo 05. The company paid monthly rental of Rs.25,000 to the owner of the house. Rating assessment of the house is Rs. 250,000 and the rates are paid at 18%.
    - A motor car with engine capacity over 1500 CC has been provided by the ABC (Pvt.) Ltd for both private and official travelling. The Company also provides unlimited fuel with a driver for the whole year of assessment 2011/2012.
  - The details of two houses inherited by Mr. Jayathilaka are as follows.

***House at Panadura***

House located at Panadura was given on rent since June 2010. Monthly rent was Rs. 11,000. Rating assessment of the house was Rs. 160,000. Maintenance expenses and rates borne by him amounted Rs.18,000 and Rs. 60,000 respectively.

***House at Badulla***

He and his family reside in the upper floor of the house located in Badulla. The ground floor of the house was furnished and given on rent at Rs. 14,500 per month. Rating assessment was Rs.210,000 and the rates are payable at 30%. The ground floor and the upper floor have the same floor area. Repairing expenses for the entire house was paid by Mr. Jayathilaka. Furniture

upkeep expenses are Rs. 32,000 for the ground floor apartment during the year of assessment 2011/2012.

- iv) The interest on a savings account maintained in PQR Bank Ltd. was credited to his bank account and it is Rs. 186,000 for the above year of assessment. Withholding tax has been deducted on that interest.
- v) Mr. Jayathilaka has obtained a loan from a commercial bank to finance the house constructed for rent. He has paid Rs. 72,000 being the capital and Rs. 198,000 being the interest.
- vi) During the year he has paid Rs. 80,000 to an approved charity which has been established for the provision of institutionalized care for sick or needy people.
- vii) Mr. Jayathilaka has paid a premium of Rs. 90,000 for his policy of life insurance in relation to year of assessment.

**You are required to:**

Compute the total statutory income, assessable income, taxable income and balance tax payable by Mr. Somasiri Jayathilaka for the year of assessment 2011/2012.

*(Note: Any assumptions should be clearly stated)*

(Total – 30 Marks)

02.

- a) Explain the **discount system** for early payment of income tax offered by the Commissioner General of Inland Revenue. (04 marks)
  - b) What **information** mainly comprised in a return of income of an individual. (03 marks)
  - c) Describe the **self assessment scheme** under the Inland Revenue Act No. 10 of 2006. (03 marks)
- (Total -10 Marks)

03. Pay as you earn (PAYE) scheme is a system of withholding tax for the payment of profits from employment.

**You are required to:**

Discuss the followings in relation to PAYE scheme.

- An employer obligations;
- Special scheme for any payment to a director;
- Special scheme for second employment;
- Treatment of PAYE deduction

(10 Marks)

04. Anil, Basil and Sisil are performing a partnership with 2:2:1 profit sharing ratio. As they agreed, Anil receives Rs. 6000 per month and Basil receives Rs. 5,000 per month as salary. Sisil's wife works as the manager of the firm and she receives Rs. 3,000 per month as salary. Profit and loss account for the year ended 31.03.2012 of the partnership as follows.

**A, B & C Industries**

**Profit and Loss Account For the year ended 31<sup>st</sup> March 2012**

	Rs.	Rs.
Gross profit		900,000
Interest		40,000
Rent		60,000
		<u>1,000,000</u>
<b>(-) Expenses</b>		
Salaries	300,000	
Salaries for partners	132,000	
Salary (Sisil's wife)	36,000	
Rent for Anil's house	120,000	
Repairs	17,000	
Legal expenses	5,000	
Depreciations	122,000	
Interest on bank overdraft	30,000	
Interest on loan – Anil	30,000	
Income tax	60,000	(852,000)
<b>Net Profit</b>		<u>148,000</u>

