



UNIVERSITY OF KELANIYA - SRI LANKA

Centre for Distance and Continuing Education

FACULTY OF COMMERCE & MANAGEMENT STUDIES

Bachelor of Commerce (Special) Degree Third Year Examination (External) – 2014/15

August 2020

**BCOME 3063 – Taxation**

**No. of Questions: Five (05)**

**Time : Three Hours (03)**

**Answer all questions.**

**Question No. 01**

You are given with the information of Mr. Perera related to his personal income tax computation for the year of assessment 2018/2019. He engages in a buying and selling business as the sole proprietor which was started in 2014/15.

**1. Details on Business**

- a). Net profit before taxes for the year ended 31<sup>st</sup> March 2019 was Rs. 5,400,000. Profit of the previous period was recorded as Rs. 4,590,000.
- b). Depreciation expense of the business was Rs. 570,000. A building constructed for Rs. 2,000,000 in 2017/2018 and a Motor van purchased in 2016/2017 for Rs. 1,800,000 are to be considered for capital allowances.
- c). Interest income of Rs. 150,000 from fixed deposits (net) received with the WHT certificates from the bank.
- d). Discount received - Rs. 100,000.
- e). Following expenses are deducted in arriving at the net profit of the business.

	<b>Rs.</b>
Advertising expenditure	67,500
Salary, EPF & ETF	1,350,000
Donations to a government school	75,000
Legal fee ( <b>Note 1</b> )	105,000
Foreign travelling ( <b>Note 2</b> )	300,000
Provision for doubtful debt	150,000
Provision for gratuity ( <b>Note 3</b> )	150,000
Fines	30,000
Professional charges ( <b>Note 4</b> )	330,000

**Note 1**

<b>Legal fee</b>	<b>Rs.</b>
On debt recovery	75,000
On non-compliance with an environmental regulation	<u>30,000</u>
	<u>105,000</u>

**Note 2**

**Foreign travelling**

Incurred for a family trip of Mr. Perera to Bangkok.

**Note 3**

**Provision for gratuity**

Opening and closing balances of gratuity provision account were Rs.75,000 and Rs. 165,000 respectively.

**Note 4**

**Professional charges**

	<b>Rs.</b>
Paid for accounting services	180,000
Audit fee	<u>150,000</u>
	<u>330,000</u>

**2. In addition to the above details related to the business of Mr. Perera, you are provided with the details of his personal transactions.**

- Mr. Perera received dividends of Rs. 40,500 (net) during the year from Kotadara PLC.
- He has given one of his houses for a monthly rent of Rs. 45,000. He has also incurred Rs.67,500 as repair and maintenance expense. Tenant has duly settled all rents related to the year under concern.
- Mr. Perera won a lottery amounting Rs 600,000

You are required to compute the income tax liability of Mr. Perera for the year of assessment 2018/19.

**(Total 35 marks)**

**Question No. 02**

Mr. Gamage is working as the Accountant of Xerox PLC. He has received the following benefits during the year of assessment 2018/2019 from his employment.

- Monthly salary – Rs.225,000
- Allowances – Rs.30,000 per month
- Telephone bill reimbursement by the company – Rs. 45,000
- Medical bills reimbursement through a medical scheme available to all employees in equitable terms – Rs. 50,000.
- Company has given him a hybrid motor car with 1300 cc engine capacity with fuel.

- Mr. Gamage has been provided with an unfurnished house by the company and he has resided there during the year ended 31<sup>st</sup> March 2019. This house was located in a rated area. Mr. Gamage has paid Rs. 7,500 per month as the rent to the company.
- Mr. Gamage has obtained a loan of Rs. 1,000,000 from the company at a concessionary rate of 5% on 1<sup>st</sup> April 2018.
- Company has paid a bonus of Rs. 225,000 during this year. This was attributable to the bonus paid from previous year profit.

You are required to calculate the taxable employment income of Mr. Gamage for the year of assessment 2018/2019.

**(Total 20 marks)**

**Question No. 03**

Mr. Tenuwara has retired from his job by the end of February 2019 after completing 30 years of his service in Dora PLC. He has received the following retirement benefits during the March 2019.

- Retiring Gratuity – Rs.6,750,000
- Employee Provident Fund (EPF)
 

Own Contribution	– Rs 9,900,000
Employer contribution	– Rs.6,600,000
Investment Income	– Rs.1,875,000
- Employee Trust Fund (ETF)
 

Employer Contribution	– Rs.1,400,000
Investment Income	– Rs. 330,000
- Mr. Tenuwara received the car which has been used by him during his employment as a gift from the company at his retirement. Market value of the vehicle was Rs. 3,000,000

You are required to calculate;

- The taxable amount of retirement benefits at lower rates. (07 marks)
  - The non-taxable amount of retirement benefit. (05 marks)
  - Tax payable for retirement benefits at lower rate. (03 marks)
- (Total 15 marks)**

**Question No. 04**

- a). Define 'investment income' as per the Inland Revenue act number 24 of 2017.  
(03 marks)
- b). The following information is related to Mr. Fernando during 2018/19 period.
- i). On 25<sup>th</sup> January 2019, Mr. Fernando has sold 75% of shares of his 1.5 million share investment in Zera PLC to another investor for Rs. 30 each and transferred the balance to his wife. He purchased these shares four years ago at Rs. 20 each.
  - ii). He sold an apartment for Rs.9 million on 30<sup>th</sup> October 2018. This apartment received by him due to the death of his father on 01.12.2017. Father acquired that apartment on 30.10.2017 at Rs.6 million and the market value of that apartment at the time of death was Rs.6.75 million.
  - iii). Mr. Fernando has bought shares of Mihidu (Pvt.) Limited for Rs.750,000. He sold these shares for Rs.900,000 on 01.02.2019.

You are required to advise Mr. Fernando about his tax liabilities attributable to the above transactions in relation to the year of assessment 2018/2019.

(12 marks)

**(Total 15 marks)**

**Question No. 05**

- a) List out the principles of income taxation and explain two principles.  
(05 marks)
- b) Differentiate the income tax liability of a resident person from a non-resident person.  
(05 marks)
- c) Define a 'person' as per the Inland Revenue act No 24 of 2017.  
(05 marks)

**(Total 15 marks)**