



University of Kelaniya – Sri Lanka

External Examinations Branch

Bachelor of Commerce (Special) Degree Third Examination (External)- 2010 December 2011/ January 2012

Faculty of Commerce and Management

BCOME 3063 - Taxation

No. of Questions: Five (05)

Time: 03 hours

Answer all questions.

(01) Mr. Nadun Weerakoon the Finance Manager of Lanka Finance PLC has provided with you the following information relating to his income for the year of assessment 2010/2011.

- a) His gross salary per month is Rs. 110,000. The PAYE tax paid by him during the year was Rs. 120,000.
- b) He received followings in addition to the salary from his employment.

	Rs.
a. Bonus	330,000
b. Entertainment allowance	120,000
c. Telephone bill reimbursement	25,000
d. Medical bill reimbursement	
i. To pay for his son's injury	15,000
ii. To pay his hospital bill	20,000 (for a injury occurred at working place)
e. Car with 1600 cc engine capacity	
f. A house for his residential purposes free of charge. (Company paid Rs. 35,000 monthly for this house. Rating assessment of the house is Rs. 120,000 and rates are paid at 30%)	
g. EPF deducted by the employee was Rs.105,600 during the year.	
- c) He has investments in few quoted public companies and received Rs.745,000 as net dividends during the year.
- d) He received Rs. 90,000 as net interest from a Commercial Bank for the fixed deposits made by him.
- e) Mr. Nadun has a house in Negambo and he has rented out that house to an outsider for a monthly rental Rs.12,000. Rating assessment of the house is Rs.90,000 and rates are paid at 20%.
- f) His wife works at Pivituru Company Ltd and she has received Rs.30,000 monthly as gross salary.
- g) Mr. Nadun has 16 year old son and received Rs.45,000 net interest for fixed deposits made under son's name.
- h) Mr. Nadun obtained a housing loan from NDB Bank on 01st September, 2006 and paid Rs.35,000 monthly as the capital installment and Rs.4,900 monthly as interest for the loan.
- i) During the year he paid Rs.6,000 under self assessment basis to The department of Inland Revenue.

Using above information you are required to prepare, Mr. Nadun Weerakoon's,

- I. Total Statutory Income
- II. Assessable Income
- III. Taxable Income
- IV. Net Tax liability

for the year of assessment 2010/11.

(Total 30 marks)

- (02) The details of New Way Business, a sole proprietorship, for the year ending 31st March, 2011 is as follows.

The Income Statement for the year ended 31.03.2011.

	Rs.
Gross profit	9,437,500
Dividend Income (Gross)	162,000
Interest Income (Net)	<u>182,250</u>
	9,781,750
<u>Less</u>	
Administration Expenses (Note 01)	6,895,000
Selling and Distribution Expenses (Note 2)	250,500
Financial Expenses	340,000
Drawings	<u>482,000</u>
	<u>(7,967,500)</u>
Net Profit	<u>1,814,250</u>

Note 01: Administration expenses

	Rs.
Depreciation (Note I)	1,990,000
Salaries and wages	1,350,000
Salaries to wife	540,000
Staff welfare	1,575,000
Entertainment Expenses (Note ii)	186,750
Legal Expenses (Note III)	225,000
Rent	175,500
Telephone and Electricity (Note IV)	184,500
Travelling Expenses (Note V)	157,500
Donations (Note VI)	45,000
Other expenses	465,750
	<u>6,895,000</u>

Additional information

I. Property, Plant and Equipment

Asset	Year of acquisition/constructed	Cost (Rs.)
Land	2006/2007	4,500,000
Motor car	2006/2007	1,800,000
Building	2006/2007	900,000
Office furniture	2007/2008	425,000
Computer	2008/2009	60,000

II. Entertainment expenses has incurred for a function organized to customers and the suppliers.

III. Legal Expenses include the followings.

	Rs.
To recover bad debts	100,000
For a labour tribunal inquiry	<u>125,000</u>
	<u>225,000</u>

IV. Rs. 80,000 of the Electricity and telephone bill is on proprietor's personal bills.

V. Travelling Expenses includes an estimated cost of Rs. 57,500 for proprietor's travelling from his business premises to residence.

Vi. Donations are as follows.

	Rs.
To an approved charity	30,000
To J.R Jayawardana Foundation	<u>15,000</u>
	<u>45,000</u>

Note 2: Selling and Distribution expenses

	Rs.
Provision for Bad and doubtful debts	150,500
Advertising Expenses	<u>100,000</u>
	<u>250,500</u>

You are required to calculate the taxable profits of the business for the Y/A 2010/2011

(Total 30 marks)

(03) a). Mr. Silva has a house at Kiribathgoda which is rented out for Rs.8,000/- per month to one of his friends. Rating assessment of the house is Rs.120,000 and rates paid at 30%.

Compute Mr. Silva's rent income for the year of assessment 2010/2011 and occupier's income if any.

(07 marks)

b). Mr. Fernando has a business in Singapore. His arrivals and departures during the year were as follows.

Arrival	Departures
01.05.2010	30.06.2010
15.08.2010	30.10.2010
01.01.2011	20.02.2011

Identify whether Mr. Fernando is a resident for 2010/2011.

(08 marks)
(Total 15 marks)

(04) a). Failure to furnish a return within the prescribed time will render a person liable to a penalty by the Commissioner General of Inland Revenue (CGIR).

i). What is the maximum penalty that could be imposed by the CGIR for failure to furnish a return?

(02 marks)

ii). Under which grounds such penalty may be reduced or waived?

(05 marks)

b). Mr. Tharuka Perera, a taxable person, has paid Rs.150,000/- as his final tax for the year of assessment 2010/2011. Indicate the amounts and due dates of the taxes to be paid under self assessment basis for the year of assessment 2010/2011.

(08 marks)
(Total 15 marks)

(05) a). What are the principles of income taxation?

(04 marks)

b). Distinguish resident from non resident under income tax law.

(06 marks)
(Total 10 marks)