



UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE

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Total Marks :70

247

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

2000 LEVEL SECOND SEMESTER END EXAMINATION - FEB/MAR 2023

Three Hours

ACC 22123/MGT 22623 - Taxation

Academic Year 2021/2022

Instructions

- Answer all five (05) questions
- Calculators are permitted

Question 01

Kalum, a resident individual is a Chartered Engineer by profession. He works in Green Tech Lanka (Pvt) Ltd as the Production Engineer.

You are appointed as the tax consultant of Kalum and provided the following information relating to year 2021/2022.

(1) Income from Employment

- Gross salary - Rs.400,000 per month.
- Bonus paid in March 2022 - Rs.500,000

Due to the high cost of travelling, Company has approved a travelling allowance of Rs. 40,000 per month from 01st October 2021. Before that, he lived in a house near the factory which is owned by the company. Relevant expenses of the house including rates, paid by the company and the house was fully furnished. He handed over the house back to the company on 30th September 2021.

During the year, he had to undergo a surgery and the company has reimbursed Rs.300,000 under a medical scheme which is available for all employees of the company.

He has received Rs. 125,000 as telephone bill reimbursement from the company during the year.

APIT deducted by the employer is Rs.135,000

(2) Business Income

Apart from the employment, he is engaging in the consultancy business and the performance of the business during the year is as follows:

- Net Profit before tax Rs. 4,232,000

Administration expenses include the following:

- Depreciation Rs. 550,000
- Gratuity Provision Rs. 400,000
- Bad debts Provision Rs. 250,000

The following information is also provided:

- A photocopy machine purchased on 01st July 2017 at a cost of Rs.1,000,000 has been disposed in October 2021 for Rs.700,000. Accounting depreciation calculated at 10% per annum. Full year depreciation computed for the year of purchase and no depreciation computed for the year of sale.
- During the year Kalum has written off Rs. 200,000 as bad debts which was a receivable from a government institute. This Rs. 200,000 included in the bad debts provision mentioned above.
- Capital allowances for tax purposes has been claimed full in the previous year.

(3) Investment income

- His own house is in Galle and it was rented out to a family for a monthly rent of Rs.45,000 since February 2021.

(4) Other information

- Kalum is following a MBA in the University of Colombo and paid Rs. 250,000 to the university during the year. Balance amount payable of Rs. 300,000 has postponed to the next year.
- Kalum's son is following a degree in a foreign University and Kalum has remitted US \$ 400 during the year as course fees. (US\$ 1 = Rs.300/-)
- He has incurred Rs.100,000 during the year to purchase listed shares of Colombo Stock Exchange.
- He has donated Rs. 200,000 to the village temple and goods worth Rs. 100,000 to the General Hospital.
- Self-Assessment tax paid during the year – Rs. 200,000

You are required to:

- (A) Compute the income tax payable by Mr. Kalum for the Year of Assessment 2021/2022
(18 marks)
- (B) Compute the balance tax payable for the Year of Assessment 2021/2022
(02 marks)
- (C) As the Tax advisor, briefly explain how Mr. Kelum could reduce his tax liability considering the facts given above.
(02 marks)
- (Total Marks 22)

Question 02

- (A) Explain why we cannot directly extract the net profit from financial statements for computation of income tax.
(03 marks)
- (B) List four (04) Specific Deductions stated in the Inland Revenue Act when computing assessable income.
(04 marks)
- (C) Mr. Gunaruwan is carrying a business of manufacturing of footwear. During the year of assessment 2018/2019, he bought a machinery at a cost of Rs. 4,500,000. In August 2021, he spent Rs. 1,000,000 to upgrade the machine which enhance the capacity.
How much Mr. Gunaruwan can deduct as repair expenses when computing his assessable income?
(03 marks)
- (D) Explain the treatment for the unclaimed repair expenses if any.
(02 marks)
- (Total Marks 12)

Question 03

- Pathum, Naveen and Kumara are partners of PNK Consultants sharing profits at the ratio of 5:3:2
- Financial Statements as at 31st March 2022 of PNK Consultants reflected a net profit before tax of Rs. 15,800,000

- Expenses include Rs 3,500,000 as depreciation and capital allowances for tax purposes claimed in full in previous year.
- During the year one employee resigned and paid Rs. 900,000 as gratuity. Expenses include Rs. 3,500,000 for the Provision of Gratuity.
- During the year goods worth Rs.800,000 donated to the General Hospital and these donations were included in the expenses.
- Other than the above, all other expenses are deductible for tax.
- Apart from this business, Kumara employed at One Plus (Pvt) Ltd as an Accountant and received a monthly salary of Rs. 350,000. He has given a motor car (1500cc) with unlimited fuel. No records of fuel consumption were maintained by the employer. No APIT deducted during the year by his employer.
- Further, Pathum incurred Rs. 1,300,000 as medical expenses for a surgery done at a private hospital during the year.

(A) Compute the income tax liability of the Partnership Business

(06 marks)

(B) Compute the taxable income of each partner separately

(06 marks)

(Total Marks 12)

Question 04

Suneth is a registered tax payer in Sri Lanka and running a business of manufacturing perfumes. Apart from Sri Lanka, he opened a sales outlet in Australia in 2020. During the year 2021/2022 he went to Australia to overlook the operations of the outlet. On 01st July 2021 he went to Australia and came back to Sri Lanka on 15th September 2021. Again, he went there on 01st December 2021 and came back on 01st May 2022.

His taxable business income arising from Sri Lanka for the year of assessment 2021/2022 was Rs. 6,825,000. Further, during the year he earned AUD 6,000 from his business in Australia. (AUD/LKR conversion rate is 1 AUD = Rs. 250)

(A) Determine the residential status of Suneth for the Year of Assessment 2021/2022

(03 marks)

(B) Compute the income tax payable by Suneth for the Year of Assessment 2021/2022
(04 marks)

(C) State Five (05) Principles of Taxation.
(05 marks)
(Total Marks 12)

Question 05

(A) State the timeline of submitting annual income tax return according to the administration provisions of the Inland Revenue Act.
(04 marks)

(B) What is the penalty of not submitting the annual tax return on the due date as stated in the Section 178 of the Inland Revenue Act?
(04 marks)

(C) Briefly describe the Administrative Review Procedure
(04 marks)
(Total Marks 12)
