



UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE

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BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

3000 LEVEL FIRST SEMESTER END EXAMINATION - AUG/SEP 2023

Three Hours

ACC 31113 Advanced Taxation and Corporate Law

Academic Year 2022/2023

Instructions

- This paper contains two parts. Part I and Part II
- You are advised to **use separate answer scripts for Part I and Part II**
- Clearly state the **Part** in the **front page** of your **answer script**
- There are three (03) questions in Part I and three (03) questions in Part II
- Answer **all three (03) questions in Part I** and **two (02) questions from Part II including Question 01**
- Calculators are permitted



PART I – ADVANCED TAXATION

Question 01

Rose Wood (Pvt) Ltd is a company engaging in manufacturing furniture for the local market. It's main manufacturing plant is located in Horana and they are considering expanding its operations in large scale to approach foreign markets. They have visited several places in Sri Lanka to establish a new factory and finally selected three options, Jaffna, Kurunegala and Anuradhapura.

Following details are extracted from the financial statements of Rose Wood (Pvt) Ltd for the year ended 31st March 2022.

a) **Financial Position of the company as at 31st March 2022 is as below.**

Description	Rs.
Share Capital	4,000,000
Revaluation Reserves	7,000,000
Retained Earnings	20,000,000
Long Term Debt	120,000,000

b) **Extract of the Income Statement and other information for the year ended 31st March 2022 is as follows.**

Gross Profit	128,000,000
Other Income	12,500,000
Administration Expenses	(55,380,000)
Selling Expenses	(37,425,000)
Finance Expenses	(17,310,000)
Profit Before Tax	30,385,000

Turnover of the company for the year 2021/2022 has drastically come down to Rs. 428,000,000 due to the ongoing economic crisis of the country.

c) Break up of Administration Expenses.

Salaries & related expenses	18,500,000
Expenses for customer dinner party~	2,450,000
Household expenses of directors	1,280,000
Donations	3,500,000
Gratuity provision	7,100,000
Depreciation	21,300,000
Other expenses	1,250,000

d) Break Up of Selling Expenses

Vehicle maintenance	19,450,000
Provision for bad debt	4,800,000
Other sales expenses	13,175,000

e) Financial Cost

Interest on bank loan	16,900,000
Over Draft (OD) interest	410,000

f) Other Income

Disposal profit of fixed assets	4,500,000
Interest from fixed deposits	3,800,000
Dividend income	4,200,000

g) Details of Property Plant & Equipment are as follow

Cost

Asset Type	Balance as at 01st April 2021 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31st March 2022 (Rs.)
Building	85,000,000			85,000,000
Machinery	38,000,000			38,000,000
Computers	5,000,000			5,000,000
Equipment	12,000,000			12,000,000
Motor vehicles	30,000,000		8,000,000	22,000,000
Furniture	7,000,000			7,000,000

Depreciation

Asset Type	Balance as at 01st April 2021 (Rs.)	Depreciation for the year (Rs.)	Disposals (Rs.)	Balance as at 31st March 2022 (Rs.)
Building	25,500,000	8,500,000		34,000,000
Machinery	11,400,000	3,800,000		15,200,000
Computers	3,000,000	1,000,000		4,000,000
Equipment	5,400,000	1,800,000		7,200,000
Motor vehicles	18,500,000	5,500,000	2,000,000	22,000,000
Furniture	2,100,000	700,000		2,800,000

Additional Information

1. Motor Lorry was purchased on 01.05.2020 for Rs. 8,000,000 and depreciated at 25% p.a. on straight line basis and company policy is to depreciate assets full in the year of purchase and no depreciation in the year of sale. This lorry was sold on 01.01.2022.
2. All assets other than above have purchased in the year of assessment 2018/19.
3. Gratuity liability as at 31.03.2022 was Rs. 45,000,000. Opening balance as at 01.04.2021 was Rs. 44,000,000. Provision made during the year of Rs.7,100,000 was made based on the estimate.
4. Donation made to the Cancer Hospital was Rs.1,500,000. Another Rs.800,000 made for an approved charity for sick & needy and remaining for the village temple.
5. Other expenses include a penalty paid on income tax appeal settled for the year of assessment 2019/20 amounting to Rs.125,000.
6. Company has obtained a Rs.170 Mn loan three years ago and balance as at 31.03.2022 was Rs. 120 Mn. Bank Over Draft balance as at 31.03.2022 was Rs. 16 Mn.

Considering the provided information above compute the,

(A) Total Assessable Income for the Year of Assessment 2021/2022

(16 Marks)

(B) Income tax payable by the company for the Year of Assessment 2021/2022

(03 Marks)

(C) In the next board meeting, Directors of Rose Wood (Pvt) Ltd are needed to select the exact location for its new factory. They expect to invest USD 4.5 million on fixed assets of this new factory. Considering strategic tax planning, suggest a suitable location for this new factory and justify your answer.

(03 Marks)

(Total Marks 22)

Question 02

(A) Briefly explain the term "Strategic Tax Planning".

(03 Marks)

(B) "Tax considerations have a major effect on the way a company determines its capital structure".
Briefly explain how a company can obtain tax benefits by changing its capital structure.

(03 Marks)

(C) Briefly explain the term "Tax Evasion" along with relevant examples.

(03 Marks)

(Total Marks 09)

Question 03

(A) "The tax treatment of "Zero Rate VAT" and "VAT Exempt" items differs significantly in the context of Value Added Tax (VAT)".

Discuss the above statement taking into consideration any relevant examples.

(03 Marks)

(B) Universe (Pvt) Ltd is a registered company for Value Added Tax (VAT) and engaged in manufacturing of toys. It has both foreign and local customers. The following information for the quarter ended 31st March 2022 was extracted from the books of the company.

Details of sales during the quarter ended 31st March 2022 are given below:(Inclusive of VAT)

Description	Rs.
Export Sales	55,775,000
Local Sales	158,250,000
The company has paid the following input tax during the quarter:	
On import of raw materials	8,500,000
On local purchases of materials	5,750,000
On repair expense of a motor car used by a Director	25,000
The excess input VAT brought forward from the previous quarter	4,450,000
During this period company has purchased a machine (excluding VAT)	19,500,000
VAT rate	15%

Compute the VAT payable for the quarter ended 31st March 2022.

(06 Marks)

(Total Marks 09)

(Part I - Total Marks 40)

PART II – CORPORATE LAW

Question 01 (Compulsory Question)

Answer the given questions from A to F referring the case study provided as following.

Nimal and Suneth are two friends who studied in the same University. After their graduation they have found their own careers. By the completion of 10 years of service from their careers they decided to retire and start their own business. Both Nimal and Suneth have studied Agriculture and Food Science during their Bachelor's Degrees. Nimal worked in an Agricultural Research Institute whereas Suneth worked in a multinational meat related food processing company. They started a business which produces processed food such as sausages, using mushroom. They are planning to incorporate their company as a Public Limited Company. In order to proceed with the registration process Nimal and Suneth appointed three promoters for their newly formed company named Kamal, Nuwan and Suwani. Three promoters along with Nimal and Suneth decided that they will name their new company as "Sunflower Chamber of Commerce PLC".

According to the Company Act no 07 of 2007, Nimal and Suneth's new PLC is required to have a minimum of two directors in their Board of Directors. Suneth is planning to appoint his cousin son Piyal who is 17 years old as at 2022 as one of the Directors in their new business to be incorporated and has already included his name in the list of first directors in the application form.

During the period before the incorporation the promoters entered into a pre-incorporation contract with Easy Lanka Pvt Limited which is a vehicle leasing company. The pre-incorporation contract was to acquire a van for the newly formed business to carry out their business activities. The team of promoters were able to incorporate the company on 12th August 2022. However, the team of promoters did not ratify the pre-incorporation contract with Easy Lanka Pvt Limited even by 30th November 2022 after the incorporation. Easy Lanka Pvt Limited went to courts regarding this issue.

After the incorporation is completed, the new business venture issued their initial shares to raise capital for the company. The company now have 150 shareholders owning the business. In order to discuss few business matters there was a Special General Meeting happened with 70 shareholders. The quorum for a Special General Meeting was 2/3 of the members according to the company articles.

Upon completion of 3 years in business, the shareholders of the company have discovered that there was a wrongful borrowing done by one of the Finance Managers in the company value worth Rs. 20Mn from a financial institution which is not registered in the Central Bank of Sri Lanka. It was also discovered that this Finance Manager has received a 5% commission from the borrowed amount. The Board of Directors were well aware about this wrongful borrowing and still did not proceed any actions on these regards.

(A) Advise Nimal and Suneth along with their promoters on the legality of choosing their new company name as "Sunflower Chamber of Commerce PLC" by taking into consideration relevant statutory provisions and case laws.

(04 Marks)

(B) Describe the consequences of failing to ratify the pre-incorporation contract made by the promoters with Easy Lanka Pvt Limited to lease the van. You may consider the relevant statutory provisions and case laws to justify your answer.

(04 Marks)

(C) "Piyal (Suneth's cousin son) can be appointed as one of the Directors of this business".

Do you agree with this statement? Justify your answer considering the statutory provisions stated under Sec 202 (2) of the Company Act.

(02 Marks)

(D) Nimal and Suneth wanted to prepare a memo explaining the prospective Board of Directors of the company regarding their duties. Prepare notes for this memo by briefly explaining two (02) duties of directors by considering relevant statutory provisions and legal cases if any.

(04 Marks)

(E) Explain with relation to Sec 225 and Sec 226 of the Company Act how the shareholders can act in a situation mentioned in the case where the Finance Manager is involved in a wrongful borrowing and the Board of Directors did not proceed any actions on this regard.

(04 Marks)

(F) Comment whether this business has able to fulfill the essential requirements to hold a shareholder meeting considering the given case. List down three (03) essential items for a shareholder meeting.

(02 Marks)

(Total Marks 20)

Question 02

(A) "Floating Charges cannot be converted into a Fixed Charge under any circumstance".

Do you agree with this statement? Justify your answer taking into consideration any related statutory provisions if any.

(04 Marks)

(B) Briefly explain three (03) situations where an automatic re appointment of auditor is NOT possible.

(03 Marks)

(C) List down four (04) types of charges that needed to be registered to be valid.

(03 Marks)

(Total Marks 10)

Question 03

(A) "As a company Secretary by virtue of the position, a person can enter into contracts on behalf of the company. The company is liable for such contracts."

Do you agree with this statement? Justify your answer supported by relevant legal cases.

(04 Marks)

(B) Briefly explain the process adopted by an Auditor in resigning or ceasing to hold office by taking into consideration any statutory provisions if any.

(03 Marks)

(C) State four (04) situations which member voluntary winding up can happen.

(03 Marks)

(Total Marks 10)

(Part II - Total Marks 30)
