



**UNIVERSITY OF RUHUNA**  
**FACULTY OF MANAGEMENT AND FINANCE**

No. of Pages : 06  
No. of Questions: 06  
Total Marks : 70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

3000 LEVEL FIRST SEMESTER END EXAMINATION - AUG/SEP 2023

Three Hours

ENT 31223 - Taxation for Ventures

Academic Year 2022/2023

**Instructions**

- Answer five (05) questions including Question no 01.
- Question number one (01) is compulsory.
- Calculators are permitted.

**Question No. 01**

Mr. Aruna is a registered Income Tax payer and doing a business of manufacturing leather bags. The following information was given for his income tax computation for the year of assessment 2021/2022.

**Business income**

The Following information has been extracted from the financial statements of Aruna's business for the year ended 31 March 2022.

	Rs.
Revenue	28,350,825
Cost of Sales	(19,845,580)
Gross Profit	8,505,245
Other income	3,200,000
Selling expenses	(1,820,000)
Administration expenses	(4,280,000)
Net Profit	5,605,245

The following additional information also available.

1. Other income represents the profit obtained from the disposal of the motor lorry used to transport raw materials and this motor lorry was purchased on 15.06.2019 for Rs. 6,000,000 and depreciated at 25% per annum on straight line basis. This lorry was sold on 31.10.2021.

2. Depreciation policy of the business is to depreciate full in the year of purchase and no depreciation in the year of sale.
3. Administration expenses include the following expenses:

	Rs.
Accounting depreciation	1,500,000
Gratuity provision	850,000
Salaries	1,200,000
Donation	500,000
Other expenses(tax deductible)	230,000
	4,280,000

4. Selling and Distribution expenses include the following expenses:

	Rs.
Bad debts write off	550,000
Sales expenses	850,000
Sales van repair	230,000
Other sales expenses	190,000
	1,820,000

5. Depreciation allowances has been claimed in full in prior periods and hence no depreciation allowances for tax purposes in this year of assessment.
6. Gratuity provision was made according to the estimate given by the valuation officer and Mr. Aruna paid Rs. 650,000 as gratuity for a retired employee during the year.
7. Donation includes Rs. 150,000 money transferred to an approved charity, Rs. 100,000 worth of books to a nearby temple and Rs. 250,000 worth of medicines donated to the General Hospital.
8. Since it was not possible to collect money from a debtor who arose two years ago, the amount of Rs. 550,000 was written off as bad debts in this year.
9. All other expenses are tax deductible.

### Investment Activities

1. On 01 January 2022, Mr. Aruna sold a land owned by him for Rs. 8,500,000. He purchased this land for Rs. 3,000,000 in March 2015 and market value of this land as at 30.09.2017 was Rs. 6,500,000. He has incurred Rs. 55,000 advertising expenses and Rs. 250,000 as legal expenses.
2. Mr. Aruna rented out his old house which is located in Colombo for Rs. 50,000 per month as now he residing in Matara. The Rent agreement started since 01 September 2021. No repair expenses claimed during the period.

### Other Information

1. Mr. Aruna paid Rs. 750,000 as tuition fees for his son who is studying in Australian university.
2. During the year, Mr. Aruna spent Rs. 900,000 for heart surgery done in a private hospital.
3. Mr. Aruna received Rs. 1,250,000 as salary arrears from his former employer PS (Pvt) Ltd. which he resigned on 31.03.2018.
4. Mr. Aruna paid Rs. 125,000 as self-assessment income tax during the year.

Required

- (i) Calculate the taxable income of Mr. Aruna for the year of assessment 2021/2022. (18 marks)
  - (ii) Calculate the tax payable by Mr. Aruna for the year of assessment 2021/2022. (04 marks)
- (Total 22 marks)

### **Question No.02**

- A. State three social functions of Taxation. (03 marks)
- B. Briefly describe four key features of Tax system in Sri Lanka. (04 marks)
- C. Indunil is a registered tax payer in Sri Lanka. On 01 July 2021 he went to Canada to monitor his new venture. He came back to Sri Lanka on 15 November 2021. Again, he went to Canada for a business meeting on 01 January 2022 and came back on 30 April 2022.

His taxable business income arising from Sri Lanka for the year of assessment 2021/2022 was Rs. 9,755,000. Further, during the year he earned Rs. 850,000 from his business in Canada.  
(Based on USD/LKR conversion rate of Rs. 350)

Required:

Determine the total taxable income of Indunil for the year of assessment 2021/2022.

(05 Marks)  
(Total 12 Marks)

**Question No. 03**

A. State three non-cash benefits related to the employment income and state how to determine the value of those items when calculating the assessable income

(03 Marks)

B. State three employment benefits which exempt from tax?

(03 Marks)

C. Mr. Gamini is working as the Accountant of HM Ltd. and receiving a gross salary of Rs.450, 000 per month. In addition to that, he received an annual bonus of Rs. 500,000 on 01 March 2022. Further, he has given a house owned by the Company located in Matara municipal area and he is residing there with his family. The Company has given a motor car of 1500 cc engine capacity to Mr. Gamini and he has to bear the fuel cost. (Company does not pay for fuel)

On 01 July 2021, he reimbursed medical bills amounting to Rs. 300,000 from the family medical cover facility provided by the Company. This facility is available for all employees without any discrimination. During the year, he has obtained a loan from the Company which does not charge interest on it. If he obtain this loan from a Commercial Bank, the bank would charge Rs. 150,000 as the interest.

Required:

Compute the assessable income of Mr. Gamini from his employment for the year of assessment 2021/2022.

(06 Marks)  
(Total 12 Marks)

**Question No. 04**

A. Briefly describe the Small and Medium Enterprise according to the Inland Revenue Act.?

(03 Marks)

B. Edu Link (Pvt) Ltd is engaging in providing educational services for students seeking higher education. The following items have been extracted from the income statement of the Company for the year 2021/2022.

	Rs.
Turnover	245,000,000
Profit before tax	26,950,000

The following items were deducted as expenses when computing the above profit.

	Rs.
Staff Salary	12,500,000 ✓
Stationery expenses	1,950,000 ✓
Entertainment	2,300,000 ✓
Depreciation	2,450,000 ✓
Provision for Bonus	8,000,000 ✓
Donation	* 450,000 ✓

**Additional information**

1. Depreciation allowance computed for tax computation was Rs. 3,950,000 ✓
2. Cash Donation made for approved charity. ✓

Required:

Compute the income tax payable by Edu Link (Pvt) Ltd for the year of assessment 2021/2022.

(09 Marks)

(Total 12 Marks)

**Question No. 05**

Kumara and Sarath are partners of KS Consultants sharing profits and losses equally. The following details extracted from the Financial Statements of KS Consultants for the year ended 31 March 2022.

	Rs.
Fee Income	48,000,000
Expenses	(14,000,000)
Profit before tax	34,000,000

**Additional information**

1. Expenses include Rs 5,500,000 as depreciation and capital allowances calculated for tax purposes amounted to Rs. 4,200,000.
2. Cash donations of Rs. 500,000 was made to an approved charity during the year and these donations were included in the expenses.
3. Other than the above, all other expenses are tax deductible.
4. Apart from this business, Sarath employed at PQ (Pvt) Ltd as an Accountant and received monthly salary of Rs. 300,000. He received an allowance of Rs. 85,000 per month for accommodation. No APIT deducted during the year by his employer.

Required:

- (i) Compute the income tax liability of Partnership Business. (06 marks)
- (ii) Compute the taxable income of each partner separately. (06 Marks)

(Total 12 Marks)

**Question No. 06**

- A. State four types of tax assessments. (02 Marks)
- B. Briefly explain the first step that tax payer can take if he receive an assessment. (03 Marks)
- C. Proper Tax planning by tax payers will creates employment opportunities and also it will support for the development of the country. Briefly explain. (04 marks)
- D. Briefly explain the term "Tax Evasion". (03 Marks)

(Total 12 Marks)

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