



025

UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Degree Programme 2000 Level Second

Semester End Examination - March 2022

Academic Year 2020/2021

ACC 22123 – Taxation

Instructions: Answer all questions.

Calculators are permitted.

Total Marks: 70

Duration: Three hours (03)

01. Mr. Wimalasiri is a chartered accountant and working as the Chief Financial Officer of Pulse (Pvt) Ltd. He has given consent to deduct Advance Personal Income Tax (APIT) on his remuneration to the Company. Apart from his employment he is running a business of providing consultancy services to the business people. He is registered as Income Tax payer and need to file the tax return for the year of assessment 31.03.2021.

You are given the following information relating to Mr. Wimalasiri.

01. Employment Income

- i. He received monthly salary of Rs. 450,000 during the year 01.04.2020 to 31.03.2021. On 01.04.2021 his salary increased to Rs. 500,000 per month.
- ii. Company provides a motor car of 1500cc with unlimited fuel and a driver. No records of private travelling maintained by the employer.
- iii. The company bears his mobile phone bills and reimbursed Rs. 80,000 during the year 2020/2021.
- iv. During the year he has participated official conference in Pakistan. Air tickets and accommodation costs Rs. 500,000 which reimbursed by the Company.
- v. Rs. 600,000 paid as Bonus in December 2020.
- vi. Rs. 90,000 was deducted as Advance Personal Income Tax (APIT) during year

02. Business Income

Income statement for the year ended 31.03.2021

Consultancy Fee income	8,250,000
Other income	25,000
Salaries for staff	(2,400,000)
EPF & ETF	(432,000)
Depreciation	(750,000)
Donation	(250,000)
Interest	(175,000)
Provision for Gratuity	(1,250,000)
Other Expenses	(225,000)
Net Profit	2,793,000

Mr. Wimalasiri Purchased a Motor Car for his personal use in September 2020. Depreciation of Rs. 450,000 charged during the year and includes under Depreciation.

Other income represents the disposal of photocopy machine during the year. This photocopy machine was purchase in July 2018 for Rs. 350,000 and sold for Rs. 200,000. No accounting depreciation computed during the year.

Capital Allowances were claimed in full and no available capital allowances to claim for the year.

Other expense includes Rs. 50,000 for the provision of bad debts and balance other expenses are allowed to deduct for tax purposes.

During the year one staff member has resigned and paid Rs. 125,000 as retiring gratuity.

Donations include;

Donation of Medicine worth Rs. 200,000 to the General Hospital. Cash donation of Rs. 50,000 to the nearby elders Home

03. Other information

- i. Mr. Wimalasiri's elder Son studying in abroad and he paid Rs. 750,000 as course fees during the year. His younger son studying at Advanced Technical College in Sri Lanka and paid Rs. 250,000 as the course fee during the year.
- ii. Mr. Wimalasiri paid Rs. 300,000 as the premium for the medical insurance during the year.
- iii. During the year he underwent a bypass surgery and paid hospital bill of Rs. 1,700,000.
- iv. Rs. 150,000 paid as self-assessment taxes during the year.

i) You are required to compute the taxable income of Mr. Wimalasiri for the Year of Assessment 2020/2021

(18 marks)

ii) Compute the tax payable by Mr. Wimalasiri for the Year of Assessment 2020/2021

(04 marks)

(Total Marks 22)

02.

i. Briefly describe the term "Capital Gain" with reference to the Inland Revenue Act No.24 of 2017. (03 marks)

ii. Gamini had a land at Mirissa which was purchased on 01st October 2017 at a cost of Rs. 80 million where market value as at 30 September 2017 was Rs. 90 million. He sold this land in March 2021 for Rs. 100 million and he has incurred the following expenses for the land:

In January 2019, he built boundary wall around the land for Rs.1,500,000/- and repaired the drainage line for Rs. 350,000.

He paid Rs. 150,000 to the broker and Rs. 80,000 as legal expenses in relation to the disposal.

Compute the Capital Gain from this transaction (05 marks)

Compute the tax relevant for the Capital Gain. (02 marks)

iii. Advise Gamini on the administrative provisions relating to the Capital Gain. (02 marks)

(Total Marks 12)

03.i.Ruwan, Kapila and Saman are partners of RKS Consultants sharing profits at the ration of 4:3:3.

Following details extracted from the Financial Statements of RKS Consultants for the year ended 31 March 2021.

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

Expenses include Rs 6,500,000 as depreciation and capital allowances calculated for tax purposes amounted to Rs. 4,200,000.

During the year two employees resigned and paid Rs. 1,600,000 as gratuity. Expenses include Rs. 8,500,000 for the Provision of Gratuity.

Cash Donations of Rs. 700,000 was made to an approved charity during the year and these donations were included in the expenses.

Other than the above, all other expenses are deductible for tax.

Apart from this business, Saman employed at Red Rose (Pvt) Ltd as an Accountant and received monthly salary of Rs. 280,000. He received an allowance of Rs. 75,000 per month for accommodation. No APIT deducted during the year by his employer.

Further, Ruwan incurred Rs. 1,800,000 as medical expenses for a surgery done at a private hospital during the year.

- i) Compute the income tax liability of Partnership Business. (06 marks)
- ii) Compute the taxable income of each partner separately (06 marks)
- (Total Marks 12)

04. Pyramid (Pvt) Ltd. is a registered company for Value Added Tax (VAT). Its main activity is manufacturing toys. The following information for the quarter ended 31st March 2021 was extracted from the books of the company:

(a) Details of turnover (exclusive of VAT):

From Domestic Sales	85,425,000
From Export sales	45,895,000

(b) The company has made following purchases during the quarter.

Raw material from VAT registered suppliers	18,649,000 (VAT inclusive)
Motor Car for the use of Managing Director	59,000,000 (VAT inclusive)

(c) Electricity expenses for the quarter was Rs. 2,450,000 and Company has purchased a software from a local software developer for Rs. 3,800,000.

(d) The excess input VAT brought forward from the previous quarter amounts to Rs.160,000/-.

i) Compute the VAT payable for the quarter ended 31.03.2021. (08 marks)

ii) State four responsibilities of VAT registered persons. (04 marks)

(Total Marks 12)

(5).i. Briefly describe two Principles of Taxation (04 marks)

ii. Briefly describe two economic functions of taxation with suitable examples. (04 marks)

iii Distinguish the tax base of Resident individual and non- Resident individual (04 marks)

(Total Marks 12)