



UNIVERSITY OF RUHUNA  
FACULTY OF MANAGEMENT AND FINANCE

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Total Marks: 70

**BBA 3110 – Advanced Taxation**

Date : 29.12.2015  
Time : 1.30. p.m – 4.30 p.m

**BACHELOR OF BUSINESS ADMINISTRATION DEGREE 3000 LEVEL**

*Three Hours*

**FIRST SEMESTER END EXAMINATION – 2015 DECEMBER/ 2016 JANUARY**

**Instructions:**

- Answer **only five questions** including the first question.
- Calculators are permitted.

(01). I. Nelna PLC produces and sells milk products in Sri Lanka. You are given the following information and extracts of the financial statements of “Nelna PLC” for the financial year ended 31<sup>st</sup> March 2015.

i Extract of Income Statement for the year ended 31<sup>st</sup> March 2015.

	Rs.'000
Turnover	50,000
Cost of sales	(23,000)
<b>Gross profit</b>	<b>27,000</b>
<b><u>Other Income</u></b>	
Fixed Deposit interest (Net)	360
Dividends (Net)	720
Interest from savings account	400
Rent received	1,500
Interest from treasury bills	1,800
<b><u>Expenses</u></b>	
Administrative expenses	(9,650)
Selling and distribution expenses	(3,300)
Finance expenses	(2,000)
<b>Profit before tax</b>	<b>16,830</b>

ii Extract of expenses

	Rs.'000
Depreciation	840
Advertising	400
Donations	3,200

Interest	1,500
Gratuity provisions	600
Annuity	240
Telephone bills	320
Bad debt provision	350
Entertainment expenses	950
Travelling expenses	475
Legal expenses	685
Rates and repair expenses	280

iii Details of the provisions:

Provisions	Bad debts (Rs.)	Gratuity (Rs.)
Balance as at 01 <sup>st</sup> April 2014	1200,000	3000,000
Provision during the year	350,000	600,000
Payments	-	(500,000)
Balance as at 31 <sup>st</sup> March 2015	1550,000	3100,000

iv Details of Property, Plant and Equipment:

Details	Rs.
Opening balance as at 01 <sup>st</sup> April 2014	25000,000
Add : Cost of additions	9000,000
Less : Cost of disposal	-
Closing balance at cost as at 31 <sup>st</sup> March 2015	34000,000

- v The entire depreciation allowance had been claimed on all assets, other than on those purchased during the year. The machine purchased during the year was depreciated at 15% on the cost.
- vi Telephone expenses includes Rs. 120,000 of Managing Director's personal mobile bill.
- vii Entertainment expenses of Rs. 475,000 have been spent on providing meals to the staff.
- viii The legal expenses for recovering bad debts was Rs. 325,000.

- ix Analysis of Donations:
- |  |               |
|--|---------------|
| a. Donations to approved charity             | Rs. 1,200,000 |
| b. New year gifts                            | Rs. 800,000   |
| c. Donations to cancer hospital – Maharagama | Rs.1,200,000  |
- x Analysis of interests:
- |  |             |
|--|-------------|
| a. Loan to purchase a car to the personal use of manager | Rs. 450,000 |
| b. Over draft interest                                   | Rs. 300,000 |
| c. Loans to purchase operating assets                    | Rs.750,000  |
- xi Rates of Rs. 100,000 have been paid for the rented building.
- xii Travelling expenses was used for the motor coach given to the staff.
- xiii. The company has declared dividend of Rs.3, 500,000 on 25<sup>th</sup> September 2014 out of the profits for the year 2014/2015. However Rs. 1,000,000 dividend was paid out of exempted profits.
- ix. The distributable profit for the previous year of assessment was Rs.3000, 000. The dividend declared against that profit was Rs. 100,000 (declared on 01.12.2013).
- x. Company has paid the income tax of Rs. 3,400,000 on self-assessment basis during the year.

You are required to compute followings;

- i. Tax on taxable income
- ii. Tax on dividend distribution
- iii. Deemed dividend tax (if available) of the company for the year of assessment 2014/2015.

**(Total Marks 22)**

- (02). i. Details of a Non- Governmental Organization (NGO) are given below for the year of assessment 2014/2015.

	Rs.
Subscriptions	450,000
Donations	1,000,000
Grants	
- Local	800,000
- Foreign	1,200,000
Contributions	550,000



**You are required to calculate;**

- a) The deemed profits and income
- b) The gross income tax liability of the NGO for the year of assessment 2014/2015.

(2 Marks)

- ii. 'Garments Manufacturers' trade association is commenced in 2013 with the owners of the garment factories. The income and expenses account is given below for the year ended 31<sup>st</sup> March 2015.

<b>Income</b>	<b>Rs.</b>	<b>Expenses</b>	<b>Rs.</b>
Entrance fees	2,460,000	Administrative expenses	950,000
Subscriptions	640,000	Depreciations	280,000
Income from Seminar	400,000	Rates of building	350,000
Hire of auditorium	450,000	Telephone and electricity	140,000
Sale of publications	300,000	Seminar expenses	120,000
Fixed deposit interest (net)	180,000	Staff welfare	400,000
Treasury Bills	360,000	Advertising	180,000
Dividends (net)	180,000	Legal expenses	300,000
Rent income (gross)	800,000	Entertainment expenses	450,000
Sale of Magazines	200,000	Donation to kids for Christmas	100,000
		Donation to a temple	200,000
		Surplus	2,500,000
	<b>5,970,000</b>		<b>5,970,000</b>

**Additional Information:**

1. The rates of Rs.100,000 and the repair expense of Rs. 160,000 for the rented premises were included in the administrative expenses.
2. Capital allowance has been adjusted for all the assets during previous years. However, a computer software package has been purchased during the year of assessment for Rs. 500,000. The depreciation of Rs. 75,000 for the asset is included in the depreciation expenses.
3. Staff welfare includes Rs. 50,000 of two membership fees paid for the Institute of Certified Management Accountants.
4. Telephone expenses include Rs. 40,000 of one members' mobile phone bill.
5. Administrative cost includes membership fees of Rs. 100,000 for the Sports club.
6. Entertainment expenses of Rs. 50,000 have been paid for providing meals to the members.

**You are required to;**

Calculate the tax liability of the trade association for the year of assessment 2014/2015.

(10 Marks)

(Total Marks 12)

- (03). i Briefly explain the pre-requisites and the **procedure of furnishing a tax return** to the Commissioner General of Inland Revenue Department.
- (4 Marks)
- ii. Briefly describe **the appeal settlement procedure** according to the Inland Revenue Act No.10 of 2006.
- (5 Marks)
- iii. What are the different types of **tax penalties** charged by the Commissioner General of Inland Revenue Department?
- (3 Marks)
- (Total Marks 12)

- (04). i. What is the purpose of charging Value Added Tax (VAT) in Sri Lanka?
- (2 Marks)
- ii. GIGA Company is engaged in the business of manufacturing and exporting of Toy Products. In addition, company engages in buying and selling of Fabric Materials. It is a VAT registered company and got registered for Simplified Value Added Tax (SVAT) as a Registered Identified Purchaser (RIP) effective from 01.04.2012. The summary of the transactions for the month ended 31.03.2015 are given below.

**Particulars of the toy manufacturing business**

**Supplies**

- Exports value is Rs.25 million.
- Local supplies to SVAT registered RIPs were Rs. 8 million and only 50% of the credit vouchers were received.
- Company issued Rs.12 million tax invoices. However, Rs. 3 million of goods were delivered on 15<sup>th</sup> April 2015.
- Exempt supplies were Rs. 2 million.

### **Expenditure**

- Import of raw materials – Cost, Insurance and Freight charges (CIF) value is Rs. 3 million and duty and levies are Rs. 200,000. Out of the VAT payable, Rs.150, 000 has been differed by the Director General of Customs.
- Local purchases from Registered Identified Suppliers (RIS) was Rs. 5 million.
- Local purchases from VAT registered persons is Rs. 3 million.
- Purchase of a car for Managing Director’s personal travelling is Rs.4 million + VAT.
- Purchase of a lorry for transporting manufactured products is Rs.2 million + VAT.

### **Particulars of the Fabric Buying and selling business**

#### **Receipts**

- Cash sales was Rs.10 million and credit sales was Rs. 5 million.
- Collection from customers in respect of credit sales of previous month was Rs. 6 million.

#### **Expenses**

- Local purchase from VAT registered persons is Rs.4 million + VAT.
- Local purchases from non-VAT registered persons is Rs.5 million.

#### **Particulars of the personal expenses**

- Purchase of a car for Rs. 3 million.
  - Purchase of fabric for Rs. 1.2 million.
- Unabsorbed brought forward input VAT from last month is Rs.65,000.
- Unabsorbed brought forward balance as at 31.12.2010 is Rs.900,000 and net unabsorbed balance as at 30.12.2014 is Rs.600,000.

#### **Required;**

Calculate VAT payable or the refund due for the month ended 31<sup>st</sup> March 2015.

You can make any realistic assumptions for the calculations.

(10 Marks)

(Total Marks 12)

- (05). i. “Tax planning should only ever be done with a view to increase the total wealth”. Critically evaluate this statement considering the pre-requisites, techniques and limitations of Strategic Tax Planning.

(6 Marks)



ii. What are the illegal methods of tax planning? Describe briefly.

(3Marks)

iii. State tax planning strategies for a newly starting 'Tax Advising Partnership' business.

(3 Marks)

(Total Marks 12)

(06). Briefly explain any three (03) of the following pairs according to the provisions of the Inland Revenue Act, No.10 of 2006.

i. Economic Service Charge (ESC) and Nations Building Tax (NBT)

ii. Working partner and Precedent partner

iii. Simplified Value Added Tax (SVAT) and Financial Simplified Value Added Tax (FSVAT)

iv. Additional Assessments and Estimated Assessments

v. Fuller return of income tax and return of income tax

(4 Marks each)

(Total Marks 12)

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