



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

No of Pages : 02  
No of Questions : 05  
Total Marks : 70

**ENT 3120- LEGAL ISSUES AND TAX PLANNING**

Date : 29.12.2015

Time : 01.30 p.m. – 04.30 p.m.

**BACHELOR OF BUSINESS ADMINISTRATION DEGREE - 3000 LEVEL**

**03 Hours**

**1<sup>st</sup> SEMESTER END EXAMINATION – DECEMBER 2015/ JANUARY 2016**

**Answer all questions.**

**Calculators are permitted.**

**Candidates will be penalized for illegible handwriting.**

**Use separate answer scripts to each part.**

**PART I – LEGAL ISSUES**

1. Assuming that you have been invited by a business organization to deliver a speech on '*Ethical issues in today's businesses*' for their members. Considering at least 10 (ten) ethical issues commonly understood in every business in Sri Lanka, you are required to prepare a note to be distributed on the day of speech.

(10 marks)

2. (a) Ajith is a bio product manufacturer. He is planning to introduce his new product named, 'healthy fruit juice' to the market. Now, he seeks your advice about possible legal issues relating to advertising.

Advise Ajith in the light of applicable law in Sri Lanka.

(10 marks)

- (b) Madhuwanthi, Nadeeshani and Sandamali are undergraduate students. Since they have different opinions they were unable to determine the possible legal issues in the following transactions. You are required to help in determining those issues briefly by referring to legislation.

- Recruiting an employee.
- Contract of sale of goods.
- Competing with another business.

(05 marks each)

(Total Marks 15)

**PART TWO- TAX PLANNING**

3. (i) (a) What do you mean by Tax Planning? (02 marks)

(b) Distinguish between "Tax Evasion" and "Tax Avoidance". (03 marks)

(ii) Discuss the various implications of tax planning. (04 marks)

(iii) The Capital Structure of a company should be decided considering the income tax law.

Briefly explain the above statement. (04 marks)

(Total marks 13)

4. (i) Explain the terms "Additional Assessment" and "Estimated Assessment". (04 marks)

(ii) There are several methods in the Inland Revenue Act for the recovery of taxes in default.

Briefly describe these methods.

(04 marks)

(Total marks 08)

5. (i) Explain the various financial factors affecting for Lease or Buy Decisions and discuss the limitations of Leasing.

(06 marks)

(ii) Beta Company Limited wants to acquire a machine worth of Rs.3, 000,000/-. The Company requires the machine for five years. It has two options as follows.

(a) To acquire the machine by taking a loan of Rs.3, 000,000/- repayable in five equal year end installments together with interest at 8%. Lifetime of the asset is five years and the end of five years it will fetch an amount equal to Rs.500,000/-. The loan repayment starts from the end of first year.

(b) To take the machine on lease basis for four years and annual lease rent of Rs. 800, 000/- which is payable at each year end.

The applicable corporate tax rate is 30% and the rate of depreciation is  $33 \frac{1}{3}\%$ . The cash flow discount rate is 15%.

Advise the company regarding the better option.

(08 marks)

(Total marks 14)