



UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Degree Programme 2000 Level Second

Semester End Examination (Repeat) - February / March 2021

Academic Year 2020/2021

ACC 2212 –Taxation

Duration: Three hours

The Question Paper contains Five (5) questions.

Answer All Questions.

01.

A. What is the meaning of Taxation?

(02 Marks)

B. Describe the principles of Taxation.

(04 Marks)

C. Briefly describe the evolution of taxation focusing the tax types, tax administration and purposes of taxation during historical dynasties with examples.

(06 Marks)

(Total Marks 12)

02.

- A. Mr. Wijenayake has a grocery business. In addition, he has some investment incomes and other incomes. The following information has been extracted from the financial statements of Mr. Wijenayake for the financial year ended 31st March 2021.

Income statement for the year ended 31st March 2021.

	Rs.'000	Rs.'000
Turnover		8,800
Cost of sales		(6,200)
Gross profit		2,600
Other Income		
Cash dividends (net)	430	
Fixed Deposit interest (gross)	600	
Share dividends (net)	750	
Rent received (gross)	480	
Treasury bills	1,000	
Capital gain	800	
Lottery winning (gross)	370	
Van disposal profit	400	
Sales commission received	200	
Customer service charges	300	5,330
		7,930
Administrative expenses	(3,480)	
Selling and distribution expenses	(850)	
Finance expenses	(480)	(4,810)
Profit before tax		3,120

Note 1: Administrative expenses include the followings

	Rs.'000
Salaries and wages	520
Electricity and water	180
Rent	50
Drawings	80
Telephone	45
Book keeping and auditing	85
Entertainment	130
Legal expenses	300
Donations to beggars	70
Tax penalties	50

Self-assessment tax payment	250
Course fee for MBA studies	450
Travelling	245
Annuity	75
Machine repair expenses	200
Almsgiving expenses to Buddhist temple	120
Gratuity provisions	100
Uniform cost of the staff	60
Cost of family tour to India	470

The following additional information has been provided.

- 1.1 Salaries and wages include Rs. 30,000 of insurance payment of Mr. Wijenayake.
- 1.2 Salaries include Rs. 230,000 of personal drawings taken by Mr. Wijenayake's wife.
- 1.3 Telephone expenses include Rs. 25,000 of personal mobile phone bill.
- 1.4 The entire depreciation allowance had been claimed on all assets, other than on those purchased during the year. Mr. Wijenayake purchased a vehicle during the year for Rs. 2,500,000.
- 1.5 Rs. 40,000 of meals cost is included in entertainment expenses.
- 1.6 50% of legal expenses have been paid to recover bad debts.
- 1.7 Mr. Wijenayake is doing a Master Degree at a National University to join a private organization as a part-time employee.
- 1.8 An Almsgiving was arranged within the business premises to celebrate the 10th anniversary of grocery business.
- 1.9 Gratuity expense was Rs. 82,000.
- 1.10 Family tour expenses include Rs. 40,000 valued grocery items purchased from India to sell in the grocery shop.

Note 2: Selling and distribution

Selling and distribution expenses include Rs. 100,000 valued grocery items donated to a government orphanage.

Note 3: Van disposal profit

The van purchased at Rs. 1,200,000 in 2017/2018 was disposed in the year of assessment 2020/2021 for Rs. 600,000.

You are required to compute followings of Mr. Wijenayake for the year of assessment 2020/2021

- ii. Assessable income
- iii. Taxable income
- iv. Gross tax liability
- v. Net tax liability

(Total Marks 22)

03.

A. What is the difference between a resident and a non-resident?

(2 Marks)

B. Zameer is a non- resident citizen of Sri Lanka. Moreover, he has businesses and investments in Japan. He has stayed in Sri Lanka only for 5 months for the year of assessment 2020/2021 and his income details have been given for the financial year ended 31st March 2021 as follows.

1. Rs.3,600,000 of annual employment income has been earned from Sri Lanka by working as a software engineer.
2. Entertainment allowance for the five months period is Rs. 500,000.
3. Other allowances received from Sri Lankan employment is Rs. 250,000
4. Employment income received from Japan is Rs. 400,000 per month.
5. Annual Rent income from renting his house in Sri Lanka is Rs. 800,000.
6. Interest from treasury bills received from Sri Lanka is Rs.800,000.
7. Net dividend received from Japan is Rs. 400,000.
8. Lottery winning in Sri Lanka is Rs. 200,000.
9. Interest income earned from Japan is Rs. 780,000.
10. Mr. Zameer has received a gross share dividend of Rs. 500,000 from Sri Lanka.
11. He has made Rs.500,000 donation to Sri Lankan government and Rs. 100,000 valued Christmas gifts have been given to children in villages.

You are required to compute the followings of Mr. Zameer for the year of assessment 2020/2021

- i. Assessable income
- ii. Taxable income and Net tax liability

(10 Marks)

(Total Marks 12)

04.

A. Distinguish “employment income” and “retirement benefits” with examples.

(2 Marks)

B. Mr. Bhanu is an employee of a private company. His income and profits have been given below for the year of assessment 2020/2021.

1. Monthly gross remuneration from employment is Rs. 280,000. The PAYE deducted from gross salary is Rs. 420,000 per annum.
2. He received a bonus of Rs. 200,000 during the year.
3. Monthly Entertainment allowance is Rs. 20,000.
4. Reimbursement of Medical bill under common and equal insurances scheme applicable to all employees is Rs. 60,000.
5. Contribution to special savings fund which is not approved by CGIR is Rs. 180,000.
6. Telephone bill allowance is Rs. 50,000 per annum.
7. A residence in rated area has been provided to Mr. Bhanu by the company in rated area.
8. He has given a car (less 1800 cc) with fuel and a driver for travelling from his company.
9. He received Rs. 500,000 gratuity payment for his surgery.
10. Mr. Bhanu received an annual cost of living allowance of Rs. 600,000
11. He received Rs. 500,000 valued right shares under a common scheme and the net dividend received for the shares is Rs. 120,000.
12. He has made donations of Rs. 500,000 to government and Rs 50,000 to an approved charity.
13. He received monthly Over time payment of Rs. 10,000
14. He received a gift of Rs. 250,000 for being the best employee in the company
15. His daughter received a cash price of Rs. 200,000 for obtaining 3 A’s at G.C.E. A/L exam from the company.
16. Food allowance received is Rs. 1,5000 per month.
17. He received a sum of Rs.450,000 for participating an official conference in England.

You are required to compute Mr. Bhanu’s Net tax liability on the taxable income and on the retirement benefits for the year of assessment 2020/2021

(10 Marks)

(Total Marks 12)

05. Describe any four (04) of the following pairs according to the Inland Revenue Act with examples.

- i. Withholding tax and self-assessment tax
- ii. Investment income and business income
- iii. Tax credits and Tax refunds
- iv. Direct tax and indirect tax
- v. Person and entity
- vi. Allowable expenses and disallowable expenses

(3 Marks each)
(Total Marks 12)
