



UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Degree Programme 2000 Level Second

Semester End Examination (February / March 2021)

Academic Year 2020/2021

ACC 22123 – Taxation

Duration : Three hours

The Question Paper contains Five (5) questions.

Answer All Questions.

01.

- 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		
Money Dividends (net)	430	
Fixed Deposit interest (gross)	600	
Shares 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 of MBA studies	450
Travelling	120
Loan interest for purchasing his vehicle	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
Previous year business loss	80
Taxes paid to provincial council	45

The following additional information has been provided.

- 1.1 Salaries and wages include Rs. 30,000 of personal drawings of Mr. Wijenayake
- 1.2 Withholding taxes for the rent expenses have not been paid to Inland Revenue Department.
- 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. His vehicle has been purchased 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 The photocopy machine purchased in the year of assessment 2018/2019 at a cost of Rs. 600,000 was repaired during this year of assessment.
- 1.9 An Almsgiving was arranged within the business premises to celebrate the 10th anniversary of grocery business.
- 1.10 Gratuity expense was Rs. 82,000.
- 1.11 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 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.

Note 4: Partnership share of profits and other income

Mr. Wijenayake is a partner of Vijey Brothers partnership and his share of profits and other partnership income are given below.

- 4.1 Partnership share of profits is Rs. 1,200,000
- 4.2 Rent received from the partnership is Rs. 400,000
- 4.3 His wife's annual salary for working as a manager in the partnership is Rs. 1,000,000
- 4.4 He is receiving a 10% of interest per annum on the loan of Rs. 500,000 given to the partnership.

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 22 Marks)

02.

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 extracts have been given for the financial year ended 31st March 2021 as follows.

1. Rs.3,600,000 of annual employment income has received from Sri Lanka for working as a software engineer.
2. Entertainment allowance for the five months period is Rs. 500,000.
3. He has given a residence in non-rated area for the 5 months period by charging a nominal rent of Rs.2,000 per month.
4. Other allowances received from Sri Lankan employment is Rs. 250,000
5. Employment income received from Japan is Rs. 400,000 per month.
6. Annual Rent income from renting his house in Sri Lanka is Rs. 800,000.
7. Capital gains earned from Japan by selling a plant is Rs.1,000,000.
8. Interest from treasury bills received from Sri Lanka is Rs.800,000.
9. Net dividend received from Japan is Rs. 400,000.
10. Lottery winning in Sri Lanka is Rs. 200,000.
11. His profit before tax for the business in Japan is Rs. 4,200,000.
12. His interest income earned in Japan is Rs. 780,000.
13. He has received a gross share divided of Rs. 500,000 from Sri Lanka.
14. He has made Rs.500,000 donation to Sri Lankan government and Rs. 100,000 valued Christmas gift have been given to village children.

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

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

(10 Marks)

(Total 12 Marks)

03.

A. Define the term "employment" according to Inland Revenue Act No. 24 of 2017

(2 Marks)

B. Mr. Bhanu is an employee of a private company. He has retired from the employment since December 31st of 2020 after working for 17 years. 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 p.a.
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 not approved by CGIR is Rs. 180,000.
6. Telephone bill allowance is Rs. 50,000 per annum.
7. A residence is provided to him 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 leg surgery.
10. He received a capital gain of Rs. 675,000 by selling a plot of land.
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.

However, at the retirement Mr. Bhanu received following retirement benefits.

1. He received a gratuity of Rs. 1,200,000.
2. Rs. 1,500,000 of ETF amount has been given to him.
3. Rs. 2,000,000 of loss of office payment has been given under a common and equal scheme.
4. The non-approved special saving fund contribution received at the retirement is Rs. 1,200,000.

5. The approved savings fund contribution received at the retirement is Rs. 2,000,000.

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 12 Marks)

04.

A. What are the main purposes of taxation in Sri Lanka?

(2 Marks)

B. Distinguish "Direct tax" and "Indirect tax" with examples

(4 Marks)

C. Give a brief note about the "evolution of tax system in Sri Lanka" from Kings Dynasties to the present.

(6 Marks)

(Total 12 Marks)

05. Describe any four (04) the following pairs according to the Inland Revenue Act No 24 of 2017 with examples.

i. Qualifying payments and tax reliefs

ii. Capital gain tax and Withholding tax

iii. Repair allowance and capital allowance

iv. Share dividend and money dividend

v. Tax credits and self- assessment tax payments

vi. Allowable expenses and disallowable expenses

(3 Marks each)

(Total 12 Marks)
