

UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Degree Programme 3000 Level First Semester End Examination - November 2021

Academic Year 2020/2021

ACC 31113 -Advanced Taxation and Corporate Law

Duration: 03 hours

Instructions:

- > The Question Paper contains Seven (7) questions from Part I and Part II.
- > Answer only five (5) questions.
- > You are advised to answer Two questions from part I including the question number 1 and any Three (3) questions from Part II.

PART I: Advanced Taxation

(01). Educo PLC is a company incorporated in 2017 for delivering education services for all undergraduate and post-graduate students in Sri Lanka.

Following financial information and extracts of Educo PLC have been given for the financial year ended 31st March 2020.

i Extract of Income Statement for the year ended 31st March 2020.

	Rs.'000
Turnover	98,000
Cost of service	(72,000)
Gross profit	26,000
Other Income	
Rent (gross)	760
Cash dividends (gross)	430

Share dividends (net)	800
Gem Sales (net)	600
Lottery winning (gross)	1,000
Capital Gain (gross)	400
Student consultation income	400
Sales income –Learning materials	860
Van disposal profit	450
Expenses	
Administrative expenses	(11,120)
Selling and distribution expenses	(7,850)
Finance expenses	(4,375)
Profit before tax	8,355

ii Details of some of the above expenses adjusted in arriving at the profit before tax is given below.

Expense Type		Rs.'000
Other administrative expense	01	970
Salaries and wages	02	1,130
Water and electricity		400
Tax penalties		120
Contingent liability provisions	03	350
Royalty		260
Telephone bills		180
Employee provident fund – (approved)		580
Employee retirement fund – (non-approved)		490
Entertainment expenses	04	860
Provision for gratuity	05	360
Legal expenses – breach of law		278
Legal expenses – Recovering unpaid fees		452
Donations	06	2500
Depreciation		3,500
Staff uniform cost		430
Staff meal expenses		730
Staff travelling		530
Capital gain tax – For the sale of an investment asset	07	200
Repair expenses	08	490
Interest expense		430

Note 1: Other administrative expense includes Rs.50,000 taxes paid by company.

Note 2: Salaries include Rs. 200,000 taken by Manager for his personal use.

Note 3: Contingent liability expense paid during the year is Rs. 140,000.

Note 4: Entertainment expense includes Rs.460,000 for reimbursement of vouchers and the balance was spent for conducting a farewell party.

Note 5: Actual gratuity expense is Rs. 740,000.

Note 6: Donation analysis is given below.

Donation to presidential fund	Rs. 500,000
Donation to children of the office staff	Rs.450,000
Donations to approved charity (books)	Rs. 350,000
Donations to approved charity (cash)	Rs. 270,000
Donations to an orphanage	Rs. 930,000

Note 7: Capital gain is paid for the investment asset sold at net of Rs. 2,000,000.

Note 8: Repair expense includes Rs. 150,000 repair cost spent on newly purchased machine in 2019/20 and the balance is for the plant purchased in 2018/19.

iii. Details of Property, Plant and Equipment: (Rs.000)

Assets	Purchased year	Cost	Accumulated Depreciation	Sales value
Machine	2019/20	3,000	750	
Van	2018/19	5,000	2,500	2,950
Plant	2018/19	2,000	1,000	_
Equipment	2018/19	4,000	2,000	_

- The company incurred a repair cost of Rs. 400,000 for the equipment in the current year.
- Income from other sources that are not identified as investment or business profit is Rs. 850,000.

iv. Other relevant information to be adjusted.

- The taxable business loss brought forward was Rs. 950,000.
- Self-assessment tax paid for the year of assessment of 2019/2020 is Rs. 300,000.

You are required to compute following of Educo PLC for the year of assessment 2019/20.

- i). Total tax liability
- ii). Capital gain tax
- iii). Withholding taxes if any

(Total Marks 22)

(02) A). List out the similarities between tax avoidance and tax evasion.	
	(03 Marks)
B). Briefly describe the main methods of legal tax planning.	
b). Bilony describe the main methods of legal and planning.	(04 Marks)
C). "Strategic Tax planning is an inherent right of a tax payer".	
Discuss this statement.	(05 Marks)
(To	otal Marks 12)
(03) A). What is the meaning of a 'fuller return'?	
	(03 Marks)
B). What actions are taken by the Inland Revenue Department for recovering	default taxes?
Describe in brief with examples.	
	(04 Marks)
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C). "Tax administration should be legal, but not necessarily be ethical and pro	ductive".
Discuss this statement.	(05 Marks)
(Te	otal Marks 12)

PART II: Corporate Law

(04) A). Briefly describe the steps for incorporating a company.

(03 Marks)

B). What are the consequences of incorporation?

(04 Marks)

C). "Covinova Company is a single shareholding company which was incorporated on 3rd of December 2019 for producing and selling fiber. The shareholder of the company transferred a stock of fiber that has been insured on his name to the company. After a 6 months, the stock of fiber was destroyed due to fire in the stores. Now, both company and shareholder are demanding the claim from insurer. The company says that fiber stock is a company's property whereas shareholder says that fiber has been insured on his name and therefore the fiber stock is his property.

You are required to advise both the company and the shareholder with the support of relevant statutory provisions and decided cases, if any.

(05 Marks)

(Total Marks 12)

(05) Noritake Company is in a need of huge amount of capital for conducting its day to day operations. Shareholders suggest to generate finance by issuing equity capital whereas directors suggest to generate finance by debt capital (loan financing).

You are required to write a summary note on capital and financing of a company, and to advice company to select an appropriate financing decision with the support of relevant statutory provisions and decided cases, if any.

(Total Marks 12)

(06) Counsela Max Private limited is established in 2015 by five shareholders for providing counseling services. However, company is suffering a huge loss and is unable to pay its debts. Now the shareholders need to wind up the company. However, they have no idea about how to wind up a company.

Advice the company by focusing the modes, steps and procedures of the winding up of a company with the support of relevant statutory provisions and decided cases, if any.

(Total Marks 12)

- (07) Briefly explain any four (04) of the following with the support of relevant statutory provisions and decided cases, if any.
 - (i) Promoters
 - (ii) Directors
 - (iii) Auditors
 - (iv) Shareholders
 - (v) Meetings
 - (vi) Prospectus

(03 Marks each)

(Total Marks 12)
