



054

UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Degree Programme 3000 Level First

Semester End Examination (November / December 2021)

Academic Year 2020/2021

ENT 31223 - Taxation for Venture

Instructions:

Answer only 5 questions including compulsory question no 01.

Non programmable calculators are permitted.

Time: Three hours (03)

Total Marks: 70

01.

Mr. Dhanasiri is running a business of providing consultancy services to the business people. The summary of the income and expenditure account prepared for the year ended 31st March 2021 relating to his business is as follows.

	Rs.
Consultancy Fee income	8,250,000
Other income	25,000
Salaries for staff	(2,400,000)
EPF & ETF	(432,000)
Depreciation	(750,000)
Donation	(250,000)
Interest	(175,000)
Provision for Gratuity	(1,250,000)
Other Expenses	(225,000)
Net Profit	2,793,000

Other Information.

- a) Mr. Dhanasiri Purchased a Motor Car for his personal use in July 2020. Depreciation of Rs. 500,000 was charged during the year and include under Depreciation.
- b) Other income represents the disposal of a photocopy machine during the year of assessment 2019/2020. This photocopy machine was purchased in May, 2015 for Rs. 350,000 and sold for Rs. 200,000. No accounting depreciation has been computed during the year.
Capital Allowances were claimed full and no available capital allowances to claim for the year.
- c) Rs. 250,000 valued asbestos sheets were donated to an Elders' Home which is listed as an approved charity near the firm for renovate its roof.
- d) Other expense includes Rs. 45,000 incurred to provide a dinner for a prominent client of Mr. Dhanasiri and the balance is allowed for deduction for the tax purposes.
- e) During the year one staff member has resigned and he was paid Rs. 125,000 as retiring gratuity.
- f) Mr. Dhanasiri obtained a bank loan of Rs. 1,500,000 from National Savings Bank in 2019 and utilized Rs. 300,000 for his personal purpose and the balance was used to renovate the office building.
- g) On 01.01.2008, Mr. Dhanasiri purchased a land for Rs. 3,500,000 and sold it on 02.02.2021 for Rs. 8,750,000. He has spent Rs. 150,000 as brokerage fee and Rs. 25,000 as legal fees. Market Value of this land as at 30.09.2017 was Rs. 5,500,000.

Required;

- i) Compute the taxable income of Mr. Dhanasiri for the Year of Assessment 2020/2021

(20 marks)

- ii) Compute the tax payable by Mr. Dhanasiri for the Year of Assessment 2020/2021

(02 marks)

(Total 22 marks)

02.

- i) The Concept of Residence is set out in Section 69 of the Inland Revenue Act No 24 of 2017. Explain how do you determine the residential status of an individual according to the Inland Revenue Act No 24 of 2017.

(04 marks)

- ii) What is the main difference between Resident and Non Resident in terms of Source of income?

(03 marks)

- iii) Mr. Melder a Sri Lankan Citizen immigrated to Australia in 2019. However, since he has property in Sri Lanka he arrives and departs frequently. His movements were as follows;

Arrival	Departure
01.05.2019	20.06.2019
20.08.2019	20.11.2019
21.12.2019	12.01.2020
20.03.2020	10.05.2020
01.08.2020	31.12.2020

Determine the residential status of Mr. Melder for Year of Assessment 2019/2020.

(05 marks)
(Total 12 marks)

03.

i) State 03 differences between corporate taxation and Individual Taxation.

(02 marks)

ii) Apple (Pvt) Ltd is a resident company, engaged in providing consultancy services for investors. The statement of income of Apple (Pvt) Ltd for the year of assessment (Y/A) 2020/21 is as follows:

	Rs
Turnover	220,500,000
Less: Expenses	
Depreciation	7,250,000
Donation	750,000
Provision for gratuity	28,000,000
Other expenses	150,860,000
Net profit	111,649,750

The following additional information has been provided.

- Allowances for depreciation has been claimed in full on all the assets.
- The company has donated Rs. 750,000 cash amount to an approved charity established for the provision of institutionalized care for elderly parents.
- During the Y/A the company paid Rs. 2,500,000 as gratuity for employees who retired during the Y/A.
- Other expenses are allowable for income tax purposes.
- For the Y/A, the company paid Rs. 1,500,000. tax on self-assessment basis.

You are required to compute the tax payable by Apple (Pvt) Ltd for the Y/A 2020/2021.

(10 marks)
(Total 12 marks)

04.

i) State any three items which exempt from computing income tax from Employment.

(02 marks)

ii) Sahan Weerathunga is a chartered accountant attached to a Listed Company in Sri Lanka as the Chief Financial Officer. The following information is available regarding his income for the year of assessment 2020/2021

- Gross salary is Rs.360,000 per month.
- The company has provided him a car (1500 cc) with a driver. He is not maintaining running charts and use the vehicle for his personal travelling as well. Fuel is supplied by the Company.
- While he was on Annual leave, he went Nuwara-Eliya with his family. The hotel bill of Rs.164,000 paid by Sahan was reimbursed by the employer.
- During the year, he has participated in an official business conference and has paid Rs. 75,000 as the conference fee. This amount reimbursed by the Company.
- Sahan reimbursed Rs. 48,000 for the year as telephone bills from the Company where he use his phone for private as well as official purposes.
- During the year he reimbursed medical bills of his wife amounting to Rs. 68,000 from the family medical cover facility provided by the company. This facility is not available for all employees.
- During the year, he received Rs.200,000 as a compensation from the company due to an accident he faced while in service.
- He received Annual Bonus of 2 months Gross salary on March 2021.

You are required to determine the assessable income from Employment of Mr. Sahan Weerathunga for the year of assessment 2020/2021

(10 marks)

(Total 12 marks)

05.

i) State the VAT registration threshold of Sri Lanka.

(02 marks)

ii) List out three (03) particulars to be included in a tax invoice as per the provisions of VAT Act

(02 marks)

iii) Janaka (Pvt) Ltd. is a manufacturing Company and registered for VAT. Following transactions are given relating to the quarter ended 31.03.2021.

	Rs.
Total Sales - Local (Excluding VAT)	5,850,000
Total Sales – Export	1,560,000
Raw material Purchases from Sandun Ltd.	850,000
Raw material Purchases from DN Ltd.	940,000
VAT paid on imported raw materials	112,000

Notes:

- Sandun Ltd is not registered for VAT
- DN Ltd is a VAT registered supplier and above value includes the VAT portion.

You are required to compute the VAT payable by Janaka (Pvt) Ltd for the quarter ended 31.03.2021

(08 marks)

(Total 12 marks)

06.

Mr. Ananda Siriwardhana is an Entrepreneur engaging in manufacturing rubber gloves. He started his business in January 2019 and still not get registered as a tax payer. He is getting sufficient profits from his business and now considering to register himself as a tax payer.

i) Advice Mr. Ananda Siriwardhana on the procedure of registration with Inland Revenue Department as a tax payer.

(04 marks)

ii) After registration as a tax payer, if he fails to file the Income tax return within the stipulated deadline, What will be the penalty imposed on him under section 178 of the Inland Revenue Act ?

(04 marks)

iii) Briefly explain the situation where a tax payer can request an Administrative Review from the Inland Revenue Department.

(04 marks)

(Total 12 marks)

07.

i) Briefly explain the term "Tax Avoidance".

(04 marks)

ii) State five differences between Tax Planning and Tax Avoidance.

(04 marks)

iii) List out five actions that can take to recover unpaid taxes by the Commissioner General of Inland Revenue.

(04 marks)

(Total 12 marks)
