



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

No. of Pages : 05

No. of Questions: 05

Total Marks :70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

*Three Hours*

3000 LEVEL FIRST SEMESTER END EXAMINATION – AUG/SEP 2025

**ACC 31113 – Advanced Taxation and Corporate Law**

Academic Year 2024/2025

**Instructions**

- ➔ Answer all (05) questions.
- ➔ Calculators are permitted.

**Question 01**

Tracy (Pvt) Ltd is a company engaged in the courier service for the local and international market. Total turnover from the trade for the year ended 31<sup>st</sup> March 2025 is Rs. 781 million, and the equity capital of the company as at 31<sup>st</sup> March 2025 is Rs. 15 million (share capital + Revenue Reserves). The income statement for the financial year ended 31st March 2025 and other related details are as follows.

	Rs.	Rs.
Gross profit from trade		781,000,000
Rent income		13,500,000
Dividend – Gross		12,530,000
Loss from the disposal of the old lorry		(200,000)
Total Interest from fixed deposits		1,850,000
<b>Less:</b>		
Administration Expenses	20,289,000	
Distribution Expenses	1,976,000	
Financial Expenses	5,400,000	(27,665,000)
Net profit Before Tax		781,015,000

Details of the expenses are as follows.

<b>Administrative Expenses:</b>	<b>Rs.</b>
Salaries and Wages	8,250,000
Electricity	800,000
Telephone	280,000
Management fee	320,000
EPF and ETF	930,000
Rent Paid	650,000
Repairs and improvements	500,000
Entertainment expenses	316,000
Depreciation	5,145,000
Audit fees	276,000
Donation	540,000
Office expenses	982,000
ESC unclimbable	1,300,000

**Distribution Expenses:**

Bad and doubtful debt	360,000
Advertisement	180,000
Vehicle Maintenance	456,000
Travelling & transport	980,000

**Finance Expenses:**

Interest paid on the BOC Bank loan	5,400,000
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**Additional Information**

- The loan from BOC was obtained in the year 2022/2023, and the loan balance as at 31<sup>st</sup> March 2025 was Rs. 86,850,000.
- Interest on temporary bank overdraft amounts to Rs. 1,000,000.
- The company has rented the first floor of its office building to Kelsy Pvt Ltd, as Tracy Pvt Ltd is currently not occupying this space. However, this floor will convert to a store in April 2025.
- Details of Property, Plant and Equipment are as follows.

Asset Type	Balance as at 01st April 2024 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31 <sup>st</sup> March 2025 (Rs.)
Office Building	15,000,000			15,000,000
Van	21,000,000	3,675,000		24,675,000
Computers	1,450,000	120,000		1,570,000
Software	500,000			500,000
Lorry	6,650,000	8,400,000	(4,000,000)	11,050,000
Furniture	1,240,000	50,000		1,290,000
Goodwill	-	2,000,000		2,000,000

- Details of the depreciation are as follows

Asset Type	Balance as at 01st April 2024 (Rs.)	Depreciation for the year (Rs.)	Disposals (Rs.)	Balance as at 31 <sup>st</sup> March 2025 (Rs.)
Office Building	6,750,000	750,000		7,500,000
Van	9,750,000	1,252,000		11,002,000
Computers	1,015,000	170,000		1,185,000
Software	300,000	100,000		400,000
Old Lorry	3,542,000	2,337,000	(1,500,000)	4,379,000
Furniture	1,116,000	136,000		1,252,000
Goodwill		400,000		400,000

- f) After disposing of the above old motor lorry, the company purchased a new lorry for the value of Rs. 6,400,000. Balance motor vehicle additions represent a car purchased for the personal use of the Managing Director.
- g) Tracy (Pvt) Ltd acquired a patent right during the year for Rs. 800,000. The company has ascertained the useful life of the patent as 10 years.
- h) Assume all other assets as at 01<sup>st</sup> April 2024 were acquired/constructed during the year of assessment 2021/22.
- i) During the year, an old shed attached to the building was removed and replaced with a modern brick storage facility for Rs. 850,000. This amount has been incorrectly recorded in the Profit and Loss account as an expense, where this should be classified as a capital expense.
- j) Bad and doubtful debts charged include a provision made for the doubtful debt worth Rs. 280,000.
- k) Summary of the donations during the financial year is as follows.

Details	Rs.
Medicine for Kidney Hospital – Polonnaruwa	100,000
Stationary for National School – Mahiyanganaya	200,000
Bed sheets for an Approved Charitable Organization	240,000

- l) ESC paid for Y/A 2021/22, amounting to Rs 1,300,000, which was written off due to lapse of claimable period.
- m) The company has incurred a Rs. 5,000,000 trading loss for the year of assessment 2022/2023 and has been brought forward to this year.

**Required,**

Calculate the Income tax payable by the company for the year of assessment 2024/2025.

**Total Marks 21**

**Question 02**

- I. List **three** types of taxable income of a company under the corporate income tax provisions, giving one example for each. (03 Marks)
- II. One of the main purposes of taxation is to support national development without causing undue harm to any industry.

Briefly explain this concept with reference to the recent amendments made to the concessionary corporate tax rates in IT and enabling service, SME, Agriculture, and export sectors. (04 Marks)

- III. Has Sri Lanka effectively implemented tax exemptions and incentives to encourage compliance? Justify your answer with examples from **CSE-listed companies, BOI investments, post-vocational training businesses, research and development activities, and the tourism industry.** (05 Marks)

**Total Marks 12**

**Question 03**

- I. List three types of VAT registration occasions. (03 Marks)
- II. Even though the prevailing government has taken a series of actions to promote the usage of digital money, there are still practical tax-related issues in its adoption. Elaborate on these issues with specific reference to,
- a) Cross-border e-commerce transactions. (02 Marks)
  - b) The effects of the U.S. import tariffs imposed in 2025. (02 Marks)
- III. “Recent amendments to the Simplified Value Added Tax (S-VAT) system in Sri Lanka have generated considerable discussion regarding their impact on the economy”.
- a) Briefly explain the term S-VAT and the recent amendments made. (02 Marks)
  - b) Discuss the economic impacts of these amendments. (03 Marks)

**Total Marks 12**

**Question 04**

In early 2023, Arun Perera and Samantha Jayasinghe decided to start a construction company called NovaBuild Ltd. Eager to begin operations quickly, they skipped several formalities required under the Companies Act. They failed to prepare the articles of association properly, did not collect the declaration of compliance, and were unaware of the required registration fees.

Before the formal incorporation was complete, Arun, acting as a promoter, entered into a contract with BuildSupplies Ltd to purchase construction materials worth Rs. 80,000. He also signed a lease for a warehouse and employed a site manager—all without informing Samantha or obtaining proper approvals. Since the company was not yet legally incorporated, these contracts were made personally in Arun’s name, but he assumed they would be automatically adopted by NovaBuild Ltd once incorporated.

By mid-2023, the company was questioned about the validity of the pre-incorporation contracts.

BuildSupplies Ltd, noticing the delays, sued Arun personally for breach of contract, claiming the company had no legal obligation to honor the pre-incorporation agreement. Additionally, government authorities issued notices for non-compliance with company registration requirements, and NovaBuild Ltd faced penalties.

Due to these legal challenges, delays in operations, and mounting costs from lawsuits and fines, NovaBuild Ltd suffered severe financial difficulties. The directors realized the company could not continue without resolving the outstanding legal issues.

- I. Assuming you are a well-experienced promoter, advise Arun on the proper steps to be followed in the incorporation of a company in Sri Lanka, and how could following these steps have prevented the legal issues faced by him? (04 Marks)
- II. Explain the legal principles governing pre-incorporation contracts and how they could have been adequately implemented to avoid personal liability for Arun. (04 Marks)
- III. What are the duties of a promoter, and how did Arun's actions violate these duties in the NovaBuild case? (04 Marks)

**Total Marks 12**

**Question 05**

- I. Mr. Chanuka has been invited to serve as a director of JKH PLC, but is unfamiliar with the duties and responsibilities involved.  
Explain three key duties of a company director and illustrate each duty with relevant real-world case examples. (03 Marks)
- II. When a company cannot pay its debts, it will not go for a winding-up straight away. Briefly explain,
  - a) The appointment of the administrator and his duties. (02 Marks)
  - b) The winding-up process according to the Companies Act. (02 Marks)
- III. Briefly explain the following terms
  - a) Crystallization
  - b) Solvency Test
  - c) Shareholder
  - d) Company Auditor
  - e) Articles of Association
  - f) Disqualification of Directors (06 Marks)

**Total Marks 13**

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