



**SOUTH EASTERN UNIVERSITY OF SRI LANKA**

**THIRD YEAR EXAMINATION IN BACHELOR OF BUSINESS ADMINISTRATION /  
COMMERCE (EXTERNAL) – 2009 / 2010 - HELD IN DECEMBER – 2010**

**BBA / COM 37 (II) – TAXATION**

Answer all questions.

Time : 03 Hours

01. (i) Indicate your opinion on the following based on the Tax Law that prevails in Sri Lanka.

(a) Mrs. Nadesh runs a grocery store next to her house. Her husband and 19 year old son work in the shop. Can she deduct the wage payments to her husband and son as expenses when calculating profit from business?  
(05 Marks)

(b) Mr. Ranjan received Rs. 2,000,000 as retiring gratuity and Rs.200,000 as dividends. Is he liable for tax?  
(05 Marks)

(ii) Explain the following concepts in relation to tax calculation of an individual.

(a) Residence of an individual

(b) Spouse and Child

(02 x 05 Marks)

(Total 20 Marks)

02. (a) Mr. Thayanantha is an executive of Alli PLC. He receives a monthly salary of Rs. 150,000 from the company. The company has provided him a rent free house for his residential purpose. The company pays a monthly rent of Rs. 35,000 for the house. The rental value of the house is Rs. 120,000. Rates paid at 30%.

Mr. Thayanantha's wife runs a grocery shop. She has constructed a building at a cost of Rs. 600,000 to be used for the business, but not yet used. During the year, she has received Rs. 160,000 as profit from this business. Deducted expenses included the following:

Depreciation for a van Rs. 30,000, (She had purchased the van on 10.10.2007 for Rs. 600,000); fine Rs. 15,000 for breaching traffic rules; and cost of calendars for customer Rs. 8,000. Further she had written off Rs. 10,000 as bad debts.

Mr. Thayanantha has been provided a car by the company as an additional facility. The Cylinder capacity of the car is 2500 CC. These facilities are

calculated and added accurately to the Pay As You Earn (PAYE). PAYE tax thus paid is Rs. 425000.

Mr. Thayanantha contributes 8% to the Provident Fund while the company contributes 12%.

Mr. Thayanantha owns three houses. They are as follows.

<b>Location</b>	<b>Annual Value Rupees</b>	<b>Rate %</b>	<b>Year constructed</b>	<b>Floor Extent (Sq. Feet)</b>
Colombo	60,000	36 %	2000	2500
Kandy	180,000	20 %	1998	1500
Nuwaraeliya	48,000	10 %	2007	1200

The house in Colombo has been rented out for Rs. 40,000. The house in Kandy has been given to his friend for a monthly rent of Rs. 12,000. Mr. Thayanantha's parents live in his Nuwaraeliya House. Mr. Thayanantha now and then does necessary repair works to these houses.

While Mr. Thayanantha has been working as a director, he used to engage himself as a cinema artist during his leisure time. Recently, he produced a film which was notably selected for an international film fare held in Russia.

Expenses incurred with regard to this film making are as follows:

<u>Year Expenses incurred</u>	<u>Rupees</u>
2007 / 2008	30,00,000
2008 / 2009	40,00,000
2009 / 2010	60,00,000

The film was completed in July 2009 and the film returned an income of Rs. 20 Million. Rs. 02 Million was spent for advertisement of the film fare. This has been included in the 2009 / 2010 expenses. A motor car was purchased on 01.01.2007 at the cost of Rs. 42,00,000 for the use of the cinema sector. 10 % annual depreciation is done to this car.

Further, a new machinery was purchased for the use of the cinema sector on 01.01.2008 at the cost of Rs. 20,00,000.

The old motor car was sold for Rs. 20,00,000 on 01.05.2008 and on the same date a new van was purchased for Rs. 45,00,000.

During the tax assessment year, Mr. Thayanantha purchased two ELF Lorries at the cost of Rs. 15,00,000 (Price per lorry) and donated them to the Gampaha Urban Council for Disaster rehabilitation works. He also has donated Rs. 15,000 worth of rice and 20,000 worth of milk packets to a recognized orphanage in Colombo.

You are required to calculate the taxable Income of Mr. Thayanantha based on the Assessment Year 2009 / 2010.

(45 Marks)

03. Mr. Sritharan obtained the following profits in the Tax Assessment Year 2009/10.

<u>Interest Income</u>	<u>Rupees</u>
BOC	90000 (Net)
HSBC	45000 (Net)
Seylan	48000

In addition to this Mr. Sritharan has made the following deposits in a company which had not been registered as a Finance Company. The director of the company has escaped from the country defaulting the depositors. Interest received and receivable are as follows.

<b>Amount deposited</b>	<b>period</b>	<b>Annual Rate of Interest</b>	<b>Method of Interest payment</b>
10,00,000	01.09.2008 – 30.09.2009	27 %	Monthly
500,000	01.04.2009 – 30.09.2010	30 %	On maturity

Interest is due since 01.07.2009.

Sales details of shares of Mr. Sritharan are follows.

Company Name	Nature of Company	purchase price per share	Number of shares	Date of purchase	Sale price per share	Number sold	Date sold
XYZ	Private company	100 / -	500	01.09.2009	200/-	500	01.03.2008
BTL	Private company	100 / -	3000	01.06.2009	80/-	3000	20.01.2010
DTL	Quoted Company	100 / -	3000	10.01.2010	220/-	2000	10.03.2010

Dividend share income of Mr. Sritharan is as follows.

	<u>Rupees</u>	<u>Rupees</u>
From ABC Company profit	125,000	
From exempted Profit	25,000	150,000
Net dividend from quoted company		50,000
		200,000



Income earned when Mr. Sritharan served as a doctor is as follows. Mr. Sritharan has a 14 year old son and 10 year old daughter.

Monthly salary	60,000
Monthly travelling claim	12,000
Rental received	150,000
(NPV Rs. 7,500/- rate 30%)	
Income of son (Interest)	25,000
Income from agriculture	32,000

Mr. Sritharan obtains a salary of Rs. 350,000/- from the government hospital.

Mr. Sritharan's donation to government	10,000
Tower Hall fund	12,000
Orphanage	7,000
Donation to Kataragama temple	10,000

Calculate Mr. Sritharan's Tax-debit for the Assessment Year 2009 / 2010.

(20 Marks)

O4. Write short notes on the following.

- (a) Qualified payment
- (b) Value Added Tax (VAT)
- (c) Tax Evasion, Tax Avoidance

(15 Marks)

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