



THIRD YEAR EXAMINATIONS IN BACHILOR OF COMMERCE (EXTERNAL)-2011/2012
HELD IN NOVEMBER / DECEMBER-2013

COM 37 (II) – TAXATION

Time allowed – 3 hours

Answer all questions and submit all workings. Begin each answer on a separate page.

State assumptions very clearly.

1. United Trading Company (Pvt) Ltd is engaging in Textile export business. Due to the GSP suspension by EU last few years, company faced financial difficulties. Major shareholders have sold 75% of shares to others. After the changing of the ownership, company commenced its business with the same license ..

Extracted Financial statements are as follows

	31-03-2012
	Rs. (000)
Balance sheet as at 31-03-2012	
Property, plant & Equipment	90000
Investment	5000
	<hr/>
	95000
Current assets	
Stocks	52000
Trade debtors	39000
Cash & Bank	5500
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Total	<u>191500</u>

Financed by

Share capital 200000

Reserves

Profit/ loss brought forward (250000)

Profit for the year 150,000 (100000)

100000

Non-current liability

Long term loan 30000

Current liabilities

Payables 22500

Accruals 16500

Provisions for gratuity 22500

Total 191500

Profit & Loss account for the year ended 31-03-2012

Rs.(000)

Revenue-Manufacturing 258000

-Services 12150

270150

Gross profit 600000

Add: interest income on treasury bills (net) 25000

Less: Administrative expenses (17500)

Selling expenses (247000)

Finance& other expenses (53000)

Net profit before tax 150000

Other information

Selling and distribution expenses include following

	Rs. (000)
Advertisement	25000
Rent	27000
Entertainment	5000
Transport	15000
Commission	10000
Foreign travelling	125000
Provision for bad debts	25000
Royalties	15000
	<u>247000</u>

Administration expenses include the following

	Rs. (000)
Depreciation	45000
Penalty for late payment of PAYE tax	500
Staff welfare	40000
Donation	12500
Subscription to trade association	5400
Provision for gratuity	<u>13600</u>

117000

Depreciation includes Rs. 3000000 charged on the assets purchased during the year.

Financial expenses include the following

Loss on disposal of equipment	1500
Insurance	15000
Interest	<u>22000</u>
	<u>38500</u>

You are provided with the following additional information

The company has commenced the business of on 01-04-2011 and in addition opened service center for machinery on July 2011.

The company has constructed building on the land belong to the Managing Director of the company for the purpose of installing service plant. The cost of constructing the building amounting to Rs. 10 million.

As per the agreement from 01-07-2011 the company paid Rs. 6 million as lump sum payment to the Managing Director for the land and Rs. 75000 per month as rent.

According to the royalty agreement the company must pay 5% on turnover for the patent right to a leading textile company . During the year the company paid Rs.15000000 being royalty after deducting 10% tax in line with the Tax Agreement.

Provision for bad debts represents general provision made on customer balance at the year end.

During the year company has donated Rs. 12 million worth of motor vehicles to Colombo Municipal Council to dispose garbage. and Rs. 750000 to an approved charity.

Equipment purchased in 2008/9 amounting to Rs. 520000 has been sold for the Rs.265000 during the year. The book written down value of the equipment is Rs. 175000

The company purchased Rs. 850000 worth of furniture during the year.

The company obtained the services of consultant to Sri-Lanka from German to install the Plant and has provided air ticket to Germany. The cost of air ticket amounting to Rs. 500,000 included in the foreign travel expenditure account.

You are required to calculate income tax payable by the company for the year of assessment 201/2012

(Marks 45)

2. Mr. Kumara, a Senior Administrative officer of the State Bank retired on 01st of July 2009 and received a monthly pension from the date of retirement. After the retirement Mr. Kumara joint in private company as executive officer where he receives monthly remuneration of Rs. 100000 and additional benefit of a motor car with engine capacity over 2500cc. Mr. Kumara was given a house by the company which pays Rs.100000 as an annual rent to the owner of the house. Rating assessment of this house is Rs.120000 (Rate 30%) Mr. Kumara pays Rs. 8000 per month as rent to the Company. The value of the benefits has been properly taken for the purpose of PAYE calculations. PAYE tax deducted and paid by the company is Rs. 270,000.

Mr. Kumara contributes 8% to the EPF and the employer's contribution is 12%.

Meals expenses reimbursed during the outstation on business purposes Rs. 50000 for the year and Accommodation expenses on out station travel Rs. 1500 Per trip , he visited 35 official visit for last year.

The Company also reimbursed the following medical expenses for the year

		Mr. Kumara	Mrs. Kumara	His mother (90 Years)
Outpatient	(Rs)	12000	7500	7500
Ward charges	(Rs)	42000	10000	15000

The Company paid him an honorarium of Rs. 150000 in October 2011 for the outstanding services he contributed to enable the Company to win the international award for best export quality product, conducted by Ministry of External Trade & Commerce.

You are provided the following additional information related to his previous job.

	Rs.
Monthly emoluments received from the Government	48,000
Monthly pension	44,000
Lump sum receipt at the time of retirement	3700,000

Mr. Kumara obtained a housing loan from Housing Department July 2009 and constructed his first house with floor area of 2000sq ft. He pays Rs.150000 as interest on loan and Rs. 350000 as capital repayment. The house rated Rs. 75000 (Rate 30%). Mr. Kumara rented this house for the Rs. 35000 per month. Another house of Mr. Kumara is located in Colombo -05 purchased on March 2010 for Rs. 5 million. Colombo Municipal council rated this house Rs. 80000 (Rate 30%). From 01-06-2011 this house was rented to a person working in Foreign Embassy for Rs. 55000 per month.

Mr. Kumara deposited a sum of money in a local pawning company. The Chairman of the company has left the country on 1st January 2011 after the defaulting the investors of the company. The details of Mr. Kumara investments at the company are as follows.

Amount deposited (Rs)	Period	Interest per annum	Method of interest payment

1500,000	1/01/2010 to 31/12/2012	28%	monthly
700,000	01/01/2011	25%	Quarterly
500,000	01/04/2011 to 01/04/2012	30%	On maturity

Mr.Kumara has claimed the following for deduction

Donation Rs. 25000 to an approved charity

Donation Rs. 200000 worth of books to J.R. BMICH Foundation.

Donation Rs. 600000 worth of equipment to Colombo Public health Service to control Dengu fever.

You are required to calculate income tax payable by Mr. Kumara for the year of assessment 2011/12

(Marks 35)

3.Mr. Kelum has commenced a partnership business to manufacturing textile industries for export U.S.A market with his friend Mrs. Silva on 01/04.2011

Extracted information of the partnership is as follows.	Rs.
Divisible profit for the year (adjusted for the tax)	4200000
Salaries paid to Kumara per month	50000
Silva per month	40000
Interest paid on partner capital to Kelum per month	6000
Silva	6000

Divisible profit includes a trade loss on the disposal of fixed assets amounting to Rs.400000 and advertisement expenses Rs 520000 incurred USA for textile industries.

The partnership tax paid on self assessment basis is amounting to Rs. 150000.

However the adjusted Divisible Profits is not included with the depreciation allowances computed as per the Inland Revenue Act for the year of assessment 2011/12 is amounting to Rs. 200000

Profit sharing by the partners 50:50

Calculate Mr. Kelum total statutory income for the year of assessment 2011/12

(Total 20 Marks)