



© Copyright Reserved

Serial No.....

Society of Certified Management Accountants of Sri Lanka

Intermediate Stage March 2007 Examination

Examination Date : 31st March 2007
Examination Time: 1.30p.m.- 4.30p.m.

Number of Pages : 05
Number of Questions: 05

Instructions to candidates:

1. Time allowed is **three (3) hours.**
2. Answer **all** questions.
3. Answers should be entirely in the **English** language.

<u>Subject</u>	<u>Subject Code</u>
Taxation	(TAX)

Question No. 01 (35 Marks)

Silversprings Ltd, a company manufacturing bottled water was incorporated in the year of assessment 2001/02 and commenced business on 1/4/ 2002. According to the details given, **compute the Statutory Income, Assessable Income, Taxable Income and the Income Tax Liability** for the year of assessment 2005/06.

- (1) The net profit for the year before tax amounts to Rs 30,000,000.
- (2) Total expenditure charged in the accounts included the following:

	Rs.
Depreciation	1,468,000
Salaries	4,000,000
Foreign Travel	300,000
Electricity & Telephone	265,000
Provision for gratuity	600,000
Donations	160,000
Advertisement & Entertainment	210,000
Rent on house provided rent free to Managing Director	360,000
Rent for building used as a store	420,000
Lease rent on van	240,000
Royalty	250,000
Repairs	160,000

(3) Other incomes included the following:

	Rs.	Rs.
Interest on deposits (Net)		135,000
Rent received on part of building given out to a mercantile establishment		360,000
Profit on sale of Lorry	400,000	
Less loss on sale of furniture	30,000	370,000

(4) Details of assets

Asset	Balance 1/4/2005 Rs.	Additions Rs.	Disposal Rs.	Balance 31/3/2006 Rs.
Land	3,000,000	0	0	3,000,000
Building	4,000,000	0	0	4,000,000
Lorries	2,500,000	1,600,000	1,200,000	2,900,000
Car	900,000	0	0	900,000
Machinery/equipment	6,000,000	0	0	6,000,000
Computers	400,000	90,000	0	490,000
Office furniture	600,000	200,000	75,000	725,000

Depreciation	Balance 1/4/2005 Rs.	Charge for year Rs.	Disposal Rs.	Balance 31/3/2006 Rs.
Building	450,000	150,000		600,000
Lorries	730,000	910,000	330,000	800,000
Car	405,000	135,000		540,000
Machinery & equipment	1,800,000	600,000		2,400,000
Computers	240,000	95,000		335,000
Office furniture	216,000	88,000	27,000	277,000

- (i) All assets other than those specifically referred to as purchased on other dates, were acquired in the year of assessment 2002/03.
- (ii) The building was constructed in the year of assessment 2004/05.
- (iii) A lorry was sold during the year and a new lorry was purchased to replace the one sold.
- (iv) The office furniture purchased during the year were not replacements.
- (v) The car is used by the Managing Director for both business and private travelling.

(5) A van was taken on lease in April 2005. The total lease rental payable over a 4 year period amounts to Rs 960,000

(6) Salaries include Rs 1,200,000 paid to the Managing Director.

(7)	Details of foreign travel are as follows:	Rs.
	Cost of air ticket for Managing Director to attend seminar	200,000
	Cost of air ticket for employee sent for training	100,000
(8)	The gratuity provision was as follows:	Rs.
	Opening balance	1,800,000
	Closing Balance	2,100,000
(9)	The professional fees are as follows:	Rs.
	Paid legal fees, on a price control case	70,000
	Accountancy & audit fees	110,000
(10)	The donation was a payment to an approved charity	
(11)	Details of advertising & entertainment expenses	Rs.
	Christmas party for staff	60,000
	Entertainment of clients	100,000
	Advertisements in news papers & magazines on products available	50,000
(12)	Dividends were not paid during the year. The proposed dividend for the year amounts to Rs 500,000	(Total 35 Marks)

Question No. 02(30 Marks)

Mr. Edirisingha , a director in a mercantile firm sends the following information relating to tax matters for the year of assessment 2005/06.

You are required to compute the Statutory Income, Assessable Income, Taxable Income and the balance tax payable by him or the refund due, for the year of assessment 2005/06.

Any income exempt from tax or excluded from tax should be clearly stated.

- (i) Mr. Edirisingha retired from Government Service at the age of 55 years in June 2003. He receives a pension of Rs 320,000 per annum.
- (ii) **Details of salary**
- | | |
|--|------------|
| Salary | Rs. |
| Travelling allowance (expended on company business) | 900,000 |
| Contribution to Employees' Provident Fund | 15,000 |
| Arrears of salary from 1/1/2006 to 30/6/2006 | 72,000 |
| Reimbursement of medical expenses incurred on his wife's illness, paid direct to the nursing home by the company | 400,000 |
| Incentive allowance - PAYE tax has not been deducted from this allowance | 38,000 |
| | 200,000 |

He is provided with a house, free of rent in Colombo. The rating assessment of this house is Rs 90,000 and rates are paid at 35%. The company pays the owner of this house a rent of Rs. 40,000 per month.

(iii) **Income from Interest**

He received the following interest income in the year.

The withholding tax certificate from the national Savings Bank (NSB) shows as follows:

	Rs.
Gross interest for the year	120,000
Less withholding tax deducted	<u>11,000</u>
	<u>109,000</u>

Seylan Bank Gross Interest was Rs.75,000. Tax was not deducted from this amount as the total interest from the Bank was less than Rs. 108,000.

(iv) Dividends from AB Ltd.	Rs.	Rs.	Rs.
Paid out of exempt income		60,000	
Paid out of liable profits	100,000		
Less 10%	<u>10,000</u>	90,000	
Out of dividends received from other companies on which 10 % has been deducted		<u>30,000</u>	<u>180,000</u>

(v) **Capital Gains**

He sold 300 shares in a quoted public company for Rs. 300,000. He had purchased these shares for Rs 110,000. He paid the broker Rs 3,000. The share transaction tax has been paid.

(vi) He owned the ancestral house in Galle. This was closed till 30/9/2005 for repairs. He rented out this house to a foreigner from 1/10/2005 at Rs 60,000 per month. The rating assessment of this house is Rs 80,000 and rates are paid by him at 20 %. Even though he agreed to carry out repairs, no repairs were carried out during the year. He paid Rs 60,000/- to the broker who found the tenant for him.

(vii) He is constructing a house in Colombo 7, for his residence. For this purpose he took a loan of Rs 5,000,000 from the Bank. During the year, he made the following payments:

	Rs.
Interest	120,000
Capital	<u>110,000</u>
	<u>230,000</u>

He also took a loan from the company to purchase a car. During the year he paid back Rs. 29,000, which included an interest element of Rs. 9,000.

(viii) His son aged 17 years receives an annuity income of Rs 60,000 from his grand father

(ix) He also claims the following expenses incurred during the year.

	Rs.
Payment to Government Tsunami Fund	40,000
Payment to approved charity	2,000
PAYE Tax	38,000

(Total 30 Marks)

Question No. 03(16 Marks)

- (a) State the criteria under which a person should register for the Value Added Tax according to the provisions of the Value Added Tax Act **(6 Marks)**
- (b) Explain the difference between Zero Rating and Exemption in respect of the Value Added Tax **(4 Marks)**
- (c) What are the rates at which VAT is payable as at 31/12/2005? How are the rates described in the VAT Act? **(6 Marks)**
- (Total 16 Marks)**

Question No. 04(10 Marks)

- (a) Mr Fernando, a PAYE taxpayer finds that the tax being deducted from his monthly salary according to the tables provided is more than what he should actually pay for the period. What action should he take once he realizes this to get the correct tax deducted? **(2 Marks)**
- (b) If he does not take action at the point of deduction, is there any method to claim the refund later? Explain. **(3 Marks)**
- (c) What are the obligations of an Employer according to the provisions of the Inland Revenue Act? **(5 Marks)**
- (Total 10 Marks)**

Question No. 05(09 Marks)

How are the following words defined in the Inland Revenue Act?

- (i) Person
- (ii) Trade
- (iii) Executive Officer

(Total 9 Marks)
End of Question Paper
