



# Society of Certified Management Accountants of Sri Lanka

## Intermediate Stage March 2009 Examination

**Examination Date :** 4<sup>th</sup> April 2009  
**Examination Time:** 1.30 p.m.- 4.30 p.m.

**Number of Pages :** 04  
**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 / 605)

### Question No. 1 (35 Marks)

Vikings Ltd., a company manufacturing soap powder furnishes the following information for the year of assessment 2007/08. From the information supplied compute the company's Statutory Income, Assessable Income, Taxable Income and the Balance Tax Payable for the year of assessment 2007/08.

Except where indicated otherwise, all assets were acquired in April 2005. The building was also constructed in the same year.

### Notes:

- (i) The net profit before taxation amounted to Rs. 30,000,000.
- (ii) The other income included in the net profit consists of the following:

	<b>Rs.</b>
Gross income from rent on the part of the building given out on rent	500,000
Less: Relevant rates for the part	<u>30,000</u>
	470,000
Less: Repairs incurred on this part	<u>280,000</u>
Net Rent	190,000
Dividends received (net)	63,000
Interest on treasury bills	360,000
Gain on sale of Car Rs. 50,000 and Lorry 150,000	200,000

- (iii) Expenses included the following:

	<b>Rs.</b>
Depreciation	2,572,000
Loss on Sale of Computer	10,000
Advertisements	400,000
Entertainment	300,000
Formation Expenses (part written off this year)	90,000
Donations	200,000
Bad Debts	60,000

(iv) (a)

Assets	Balance 01.04.07	Additions	Disposals	Balance 31.03.08
Land	3,000,000	-	-	3,000,000
Buildings	8,000,000	-	-	8,000,000
Motor Cars	7,000,000	2,000,000	1,800,000	7,200,000
Plant & Machinery	8,000,000	750,000	-	8,750,000
Lorries	6,000,000	1,200,000	1,100,000	6,100,000
Computers	300,000	-	75,000	225,000
Furniture	260,000	-	-	260,000

(b)

Depreciation	Balance 01.04.07	Charge for year	Disposals	Balance 31.03.08
Buildings	160,000	80,000	-	240,000
Motor Cars	1,570,000	1,000,000	700,000	1,870,000
Plant & Machinery	1,600,000	800,000	-	2,400,000
Lorries	1,200,000	610,000	250,000	1,560,000
Computers	150,000	56,000	50,000	156,000
Furniture	52,000	26,000	-	78,000

(v) Motor Cars are provided to the executives for private and business travelling. One Car was sold during the year and a new one was purchased to replace it.

(vi) A Lorry was sold during the year and was replaced with a second hand Lorry.

(vii) A Computer sold was replaced during the year.

(viii) Advertisement Expenses:

Advertising Goods in the School Magazine	Rs. 75,000
Advertising Goods in Trade Journals	Rs. 325,000

(ix) Formation expenses incurred in 2005 are being written off over a 5 year period.

(x) Donations consist of the following:

Cash donation of Rs. 150,000 to YMBA, an approved charity	Rs. 150,000
Donation of Soap to the National Hospital, Colombo	Rs. 50,000

(xi) The Bad Debt of Rs. 60,000 is in respect of a loan given to an employee, who was dismissed.

**(Total 35 Marks)**

**Question No. 2 (30 Marks)**

Mr. Royle, a surveyor retired from Government Service on reaching 60 years of age on 30<sup>th</sup> September 2007, commenced employment in the private sector company. According to the details provided by him, relevant to the year of assessment, you are required to compute the Statutory Income, the Assessable Income, Taxable Income, the Gross Income Tax and the Balance Income Tax Payable for the year of assessment 2007/08.

You should clearly state whether any income is exempt from tax and whether any deductions claimed are disallowable.

- (i) Salary from the government from 01.04.2007 to 30.09.2007 Rs. 270,000
- (ii) Pension from the government from 01.10.2007 to 31.03.2008 Rs. 200,000
- (iii) Salary from the company 01.10.2007 to 31.03.2008 Rs. 450,000
- (iv) Free accommodation was provided by the company for the entire family in Matara. The rent paid by the company for 6 months amounted to Rs.240,000. The rating assessment of this house was Rs. 12,000 and the rates paid amounted to Rs.1,500 per quarter.
- (v) He received the following dividend from Fruity Limited:  
Dividend out of liable profit (Net) Rs. 36,000  
Out of exempt profit Rs. 20,000
- (vi) He has rented his house at Battaramulla to a foreign national. The gross rent is Rs.40,000 per month and the rates (paid by the owner) amounted to Rs.3,000 per quarter. The repairs borne by Mr. Royle amounted to Rs.56,000. This house which had been purchased by him in 1995 had an annual value of Rs.60,000.
- (vii) Interest paid by him to the Bank of Ceylon on a loan utilized by him for the purchase of the house at Battaramulla amounted to Rs. 42,000. A further amount of interest amounting to Rs. 11,000 was paid to the bank on a Car loan taken by Mr. Royle.
- (viii) He has received during the year gross interest amounting to Rs.150,000 from the National Savings Bank.
- (ix) The provident fund deduction amounted to Rs.36,000.
- (x) Donations made for the year consisted of:  
Cash donation to the Cancer Society (approved charity) Rs. 50,000  
Cost of paint to paint the walls of the National Hospital, Ward 47 Rs. 110,000
- (xi) The PAYE deduction by the employer amounted to Rs.39,000.

**(Total 30 Marks)**

**Question No. 3 (15 Marks)**

- (a) According to the following particulars submitted by Wijaya Ltd. a manufacturer of nails, registered for VAT for the month of January 2008, compute the VAT payable by the company for the month.

(All items are excluding VAT)

	<b>Rs.</b>
Sales	4,000,000
Import of raw material	2,800,000
Import of Air Conditioner for the office (luxury rate item)	300,000
Purchases from persons not registered for VAT	200,000
Electricity (exempt from tax)	96,000
Telephone expenses	80,000

**(13 Marks)**

- (b) Exports are zero rated. Explain the significance of the statement in relation to the Value Added Tax.

**(02 Marks)**

**(Total 15 Marks)**

**Question No. 4 (10 Marks)**

- (a) What is the definition of Turnover for purposes of the Economic Service Charge?
- (04 Marks)**
- (b) Is the Economic Service Charge an annual levy or a quarterly levy in the year of assessment?
- (02 Marks)**
- (c) What is the turnover limit for application of the Economic Service Charge from 01.04.2007?
- (02 Marks)**
- (d) What is the maximum limit for application of the Economic Service Charge for a quarter commencing from 01.04.2007?
- (02 Marks)**

**(Total 10 Marks)**

**Question No. 5 (10 Marks)**

Individual who have income from interest from deposits in financial institutions are liable to a withholding tax on interest. Explain the basis on which the financial institutions deduct the tax in the case of individuals.

**(Total 10 Marks)**

End of Question Paper

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