



Institute of Certified Management Accountants of Sri Lanka

**Intermediate Stage
September 2009 Examination**

Examination Date : 26th September 2009 **Number of Pages :** 06
Examination Time: 1.30 p:m. 4.30 p:m. **Number of Questions:** 05

Instructions to candidates:

- (v) Time allowed is **three (3) hours.**
- (vi) Answer **all** questions.
- (vii) Answers should be entirely in the **English** language.

<u>Subject</u>	<u>Subject Code</u>
Taxation	(TAX / 605)

Question No. 1 (35 Marks)

Sirilak Ltd, a company manufacturing toys sends the following particulars relevant to the year of assessment 2007/08. From the information supplied, compute the Statutory Income, Assessable Income, Taxable Income and the balance income tax payable by the company for the year of assessment 2007/08.

Details Furnished are as follows.

- (i) The net profit before taxation amounted to Rs.28,000,000/-.
- (ii) The other incomes of the company consists of the following:

	Rs.
Dividends (net)	54,000
Interest on Fixed Deposits (net)	270,000
Gain on sale of a machine	52,000

- (iii) Some of the expenses charged to the Profit & Loss a/c are as follows:

	Rs.
a) Loss on sale of Van	100,000
b) Cost of a Table for office use	160,000
c) Advertisements	400,000
d) Entertainment of customers	300,000
e) Donations	600,000
f) Legal & accountancy fees	400,000
g) Training expenses	250,000
h) Provision for gratuity payments	600,000

(iv) Assets	Balance 1/4/07 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance 31/3/08 (Rs.)
Land	4,000,000	1,000,000	0	5,000,000
Buildings	6,000,000	900,000	0	6,900,000
Motor Cars	3,000,000	-	0	3,000,000
Plant/Machinery	4,200,000	-	80,000	4,120,000
Vans	4,000,000	-	1,000,000	3,000,000
Computers	300,000	90,000	0	390,000

Depreciation	Balance 1/4/07 (Rs.)	Charge for year (Rs.)	Disposals (Rs.)	Balance 31/3/08 (Rs.)
Buildings	1,200,000	345,000	0	1,545,000
Motor Cars	1,300,000	300,000	0	1,600,000
Plant/Machinery	2,000,000	410,000	62,000	2,348,000
Vans	1,200,000	300,000	300,000	1,200,000
Computers	180,000	<u>78,000</u>	0	258,000
		<u>1,433,000</u>		

- (v) (a) (i) The land was revalued during the year.
(ii) The factory building and the office premises were constructed in the year of assessment 2003/2004.
(iii) A building was purchased during the year for use as a store room.
- (b) Two motor cars were purchased in the year of assessment 2003/2004. They are used by the directors and executives for travelling. One car purchased for Rs.800,000/- in 2006/2007 is used only for business.
- (c) A machine purchased in 2005/2006 was sold during the year. This machine was sold in March 2008 and replaced in May 2008. All the other machines, other than one machine purchased for Rs.200,000/- in the year 2006/2007, were purchased in 2002/2003.
- (d) 3 vans were purchased in the year of assessment 2004/2005 for distribution of goods. One van was disposed of during the year.
- (e) Two computers had been purchased in the year of assessment 2004/05. A second hand computer in good condition was purchased during the year.
- (vi) During the year an employee was sent for training to Bangladesh. The training expenditure consists of expenses incurred on his behalf.

- (vii) Advertisements expenses consist of the following:

	Rs.
Advertising for 2 vacancies in the company in news papers	46,000
Advertising of goods at a function held in a school	30,000
Other business advertisements	90,000

- (viii) Details of the gratuity provision are as follows.

	Rs.
Opening balance	1,400,000
Profit and loss a/c	600,000
Closing balance	1,800,000

(ix) Legal and accountancy expenses consist of the following.

	Rs.
Pursuing a tax appeal	180,000
Surcharge for late payments to the Employees Provident Fund	90,000
Accountancy fee	70,000
Lawyers fee in respect of collection of trade debts	60,000

(x) Donations consist of the following.

	Rs.
Cash donation to the Young Men Buddhist Association (an approved charity)	200,000
Gift of toys to another approved charity looking after orphaned children	400,000

(xi) The proposed dividend of last year amounting to Rs.300,000/- was paid during the year. Out of this Rs.70,000/- was out of dividends received from other companies. The proposed dividend this year amounts Rs.2,000,000/-.

(Total 35 Marks)

Question No. 2 (30 Marks)

(a) Mr. Senadheera, an engineer works in a private company. He is married and has two children. According to the particulars furnished by him, compute the Statutory Income, Assessable Income, Taxable Income, Tax Payable / refund due, for the year of assessment 2007/2008.

If any income is exempt from tax, the detailed working of the income exempt from tax should be clearly shown and indicated.

	Rs.	Rs.
(i) Salary from the company	1,000,000	
Rent allowance	120,000	
Entertainment allowance	50,000	
Reimbursement of expenses for a visit to Matara on company business	<u>15,000</u>	
	<u>1,185,000</u>	
Less: Contribution to Employees' Provident Fund	80,000	
Pay as you earn tax	115,000	
Loan to purchase a car including interest amounting to Rs.1,000/-	12,000	
Payment to Government Tsunami Fund	28,000	
Annual membership fee to the Engineers' association	<u>9,000</u>	941,000
	<u>244,000</u>	

He is claiming the above expenses as deductions in computing his tax payable.

- (ii) The company paid him a bonus of Rs.150,000/- in May 2008 based on the company's profit for 2007/2008, The PAYE deduction on this was Rs.45,000/-.
- (iii) The company provided him with a car for his use The engine capacity of the car is 1700cc.
- (iv) His wife is employed in the company as a computer operator and paid a monthly salary of Rs.24,000/-.

(v) He constructed a house in Galle in the year of assessment 2006/2007, expending Rs.1,800,000/- out of his own funds. The floor area of the house is 3000 square feet. Since he is employed in Colombo, he has given this house on rent to a foreigner at Rs.40,000/- per month from January 2007. Rates paid by him amounted to Rs.8,000/- for the year and repair expenditure amounted to Rs.10,000/-.

(vi) He has the following income from interest

	Rs.	Rs.
Income from the National Savings Bank	80,000	
Less: 10%	8,000	72,000
Interest from Savings account in Sampath Bank (withholding tax was not deducted)		4,800

(vii) He has received the following income from a small coconut estate

	Rs.	Rs.
Sale of coconuts	300,000	
Replanting subsidy	<u>40,000</u>	340,000
Less: payment to pluckers	9,000	
Replanting expenses	<u>45,000</u>	<u>(54,000)</u>
		<u><u>286,000</u></u>

(viii) He has two children whose Details are as follows:

Namal Born on 15th August 1989

Annuity income from the Grand Father Rs.30,000/-

Namali Born on 20th September 1993

Interest income from savings account in National Savings Bank

Withholding tax was not deducted Rs.4,000/-

(b) Assuming that he has a refund due at the end of the year, what action could he have taken to ensure that the pay as you earn tax deduction will not exceed the final tax payable ?

(Total 30 Marks)

Question No. 3 (20 Marks)

Fernando and Silva carry on a business in partnership sharing profits and losses in the ratio of 2:1. The details of the profit and loss account for the year of assessment 2007/08 are as follows:

Profit & Loss account for the year ending 31/03/2008

	Rs.	Rs.		Rs.
Salaries		1,000,000	Gross profit b/d	3,135,000
Rent		30,000	Interest (net)	40,000
Electricity		19,000		
Donations		45,000		
Other expenses allowable for tax		200,000		
Depreciation		90,000		
Net Profit c/d		<u>1,791,000</u>		
		<u>3,175,000</u>		<u>3,175,000</u>
<i>Interest on partners capital</i>			Net profit b/d	1,791,000
Fernando	300,000			
Silva	200,000	500,000		
<i>Salaries to partners</i>				
Fernando	360,000			
Silva	240,000	600,000		
Life insurance premium of Fernando		12,000		
General Reserve		55,000		
<i>Net profit transferred to Current a/c</i>				
Fernando	416,000			
Silva	208,000	<u>624,000</u>		
		<u>1,791,000</u>		<u>1,791,000</u>

Notes:

- 1) Donations are to an approved charity.
- 2) For tax purposes depreciation is due only for a computer purchased for Rs.60,000/-.

According to the details given above you are required to:

- (a) Compute the divisible profit of the partnership.
- (b) Apportion the divisible profit and other income between the two partners showing the business income of the partners from the partnership clearly.
- (c) Compute the tax payable by the partnership.
- (d) Compute the tax credit available to Fernando, on the tax paid by the partnership.
- (e) State the amount on which Fernando can claim qualifying payment relief.

(Total 20 Marks)

Question No. 4 (08 Marks)

Compute the Value Added Tax payable by Vajira Ltd for the month of January 2008 based on the following particulars:

		Rs.	Rs.
Output	Sales	10,000,000	
	VAT	<u>1,500,000</u>	11,500,000
	Sales to persons not registered for VAT (inclusive of VAT)		3,450,000
Input VAT	On imports	8,000,000	
	VAT	<u>1,200,000</u>	9,200,000
	On purchases	6,000,000	
	VAT	<u>900,000</u>	6,900,000
	Purchases from persons not registered for VAT		2,000,000
	Purchases of items at luxury rate	700,000	
VAT	<u>140,000</u>	840,000	

(Total 08 Marks)

Question No. 5 (07 Marks)

XY Ltd did not furnish a return of income for the year of assessment 2007/2008 . The Revenue issued an assessment estimating the company's income at Rs.1,000,000/-, charging a tax of Rs. 150,000/- in November 2008. The company failed to appeal within one month, but furnished a return of income declaring an income of Rs.500,000/.

What is the action that the company can pursue to get the tax amended?

At what stage can the company take such action?

What are the restrictions applicable to this action according to the provisions of the Inland Revenue Act?

(Total 07 Marks)

End of Question Paper
