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Serial No.....

Institute of Certified Management Accountants of Sri Lanka
Operational Level
May 2018 Examination

Examination Date : 13th May 2018 **Number of Pages :** 04
Examination Time: 9.00 a.m. – 1.00 p.m. **Number of Questions:** 03

<u>Subject</u>	<u>Subject Code</u>
Business Law & Taxation – Business Law (Section A)	(BLT / OL 4 - 204)

Instructions to Candidates

1. Total Time allowed is **two (2) hours**.
2. Total: **50** Marks.
3. Answer **all** questions in Part I and in Part II should answer based on the instructions given below.
4. Use Separate **two (2) Answer Booklets** to answer **Business Law** and **Taxation** parts both MCQs and written based questions.
5. Candidates are allowed to use non-programmable calculators.
6. The answers should be in **English Language**.

PART I

Question No. 01 (10 Marks)

Select the **most correct** answer to each part of the question. Write the number of the part of the question and the selected answer by stating the relevant English letter, in your answer booklet. **E.g. (1) (relevant English letter), (2) (relevant English letter) etc...**

- (1) Malik goes to a shop and sees a price label for Rs. 2,000/- on an ironing board. She takes the board to the cashier but he informs Malik that the label is misprinted and should read as Rs.3,000/-. Malik maintains that he has to pay only Rs. 2,000/-. How would you describe the price on the price label in terms of law of contract?
 - (a) Offer
 - (b) A tender
 - (c) An invitation to treat
 - (d) An acceptance
- (2) In a fraudulent **misrepresentation** a contract is:
 - (a) Void
 - (b) Voidable
 - (c) Illegal
 - (d) Valid
- (3) As a general rule, everyone is capable of entering into contracts. However, this capacity may be restricted considering the mental and legal status of the parties. Out of the following select in which legal person the mental capacity will not be affected for a contract.
 - (a) Minors
 - (b) Insanity
 - (c) Intoxicated Persons
 - (d) Companies incorporated under the Companies Act

- (4) Select the correct statement/s from the following on law of Agency.
- An agency is a legal relationship in which one person represents another and is authorized to act for him/her.
 - A principal is bound by any actions that are within the agent's actual authority.
 - Implied authority, also known as "usual authority," is the authority of an agent acting on behalf of another person or entity.
- A only
 - B only
 - C only
 - All of the above
- (5) Select from the following the incorrect statement which is based on Sale of Goods.
- Specific Goods:** are the goods which are identified and agreed on at the time a contract of sale is made.
 - Unascertained Goods:** are the goods which are not identified and agreed on at the time of the transaction.
 - Existing goods:** are goods not owned or possessed by the seller at the time of making the contract
 - Future goods** are goods which are not in existence at the time of the contract is made but they are goods to be manufactured or acquired by the seller after forming the contract of sale.

Write Short Answers for the following.

- What are the incoterms used for international trade transactions?
- State two of the duties of a seller under FOB contracts.
- Name two of the letters of credit used for payment under International Sale of Goods transactions.
- State the level of burden of proof under Civil liability and Criminal Liability.
- State the hierarchy of appealing within the court structure under civil jurisdiction.

(10 × 1 Marks = Total 10 Marks)

End of Part I

PART II

Instructions to Candidates

- Answering to question number One and Two are compulsory in this section. Each question carries 20 marks
- Both questions contain two parts, Part A and Part B.
- Out of which, Part A both questions are Compulsory and students can select one question from Part B of each question.

Question No. 02 (20 Marks)

Part A –Both questions are Compulsory

- Anura displayed some automatic revolvers in his shop which are used by the Army during the war time. He knows that selling weapons is an offence which is not allowed by the law of the country. Discuss whether Anura is guilty of keeping revolvers in his custody with reference to decided cases.

(07 Marks)

- (b) Saru and Viru were running a business partnership *under the* name SV Enterprises. Saru wanted to leave the partnership and Viru is planning to introduce Manu to the partnership and form MV Enterprises. Both Saru and Manu wanted to know the incoming and outgoing partners liabilities. You as the Accountant of the firm is required to give a clear explanation on this concern.

Discuss.

(08 Marks)

Part B – Select one question from the following two

- (c) Mervin appointed Binara to purchase cars to his car sale and gave instructions not to buy cars where the price exceeds 3.5M. Binara bought a car from Erath for Rs 4M stating that he is the only agent of Mervin. On the same day of the transaction Binara informed Mervin the transaction what he has formed. Discuss whether Mervin and Binara could form an agency relationship in this instance.

(05 Marks)

- (d) Generally, only the owner of goods can validly transfer property or ownership in them to a third party. The law however allows his agent to do so too. But there are other instances where property in goods is transferred to a third party by a person who is not the owner or his agent. This basic rule is expressed in the Latin phrase *nemo dat quod non habet* and it literally means nobody can give what he has not got. There are few exceptions to this rule. That means, even if the seller has no title to goods, the buyer will still get a better title to such goods.

Discuss such exceptional situations.

(05 Marks)

(Total 20 Marks)

Question No. 03 (20 Marks)

Part A – Both questions are Compulsory

- (a) Section 73 of the Bills of Exchange Ordinance defines a cheque as a bill of exchange drawn on a banker, payable on demand. According to this definition a cheque has all the features of a bill of exchange. But it is always drawn on a bank and payable on only demand. There are other differences also to be found between a cheque and a bill of exchange.

Discuss the other differences between a Bill of Exchange and a Cheque.

(08 Marks)

- (b) Money laundering is the generic term used to describe the process by which criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have derived from a legitimate source.

Traditionally money laundering has been described as a process which takes place in three distinct stages. Discuss such stages and highlight the punishments for Money Laundering.

(07 Marks)

Part B – Select one question from the following two

- (c) Contract of Insurance is one whereby a person or company (the insurer) agrees in consideration of a single or periodical payment (called the premium) to pay a sum of money to another person or company (the insured) on the happening of a certain event or to indemnify against loss caused by the risk insured against.

Discuss the advantage of a contract of Insurance in today's context.

(05 Marks)

- (d) A lease is defined as a contract which allows the use or occupation of property for a specific period of time, with a specified amount of rent which is equivalent to the consideration which is payable under the lease agreement between the lessor & lessee.

On the other hand Hire purchase is a type of instalment credit under which the hire purchaser, called the hirer, agrees to take the goods on hire at a stated rental, which is inclusive of the repayment of principal as well as interest, with an option to purchase after the stated hire instalment have been paid.

Discuss the differences between a Lease and a Hire Purchase.

(05 Marks)

(Total 20 Marks)

End of Section A



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Examination Date : 13th May 2018 **Number of Pages :** 05
Examination Time: 9.00 a.m. – 1.00 p.m. **Number of Questions:** 03

<u>Subject</u>	<u>Subject Code</u>
Business Law & Taxation – Taxation (Section B)	(BLT / OL 4 - 204)

Instructions to Candidates

1. Total Time allowed is **two (2) hours**.
2. Total: **50** Marks.
3. Answer **all** questions.
4. Use Separate **two (2) Answer Booklets** to answer **Business Law** and **Taxation** parts both MCQs and written based questions.
5. Candidates are allowed to use non-programmable calculators.
6. The answers should be in **English Language**.

PART I

Question No. 01 (10 Marks)

Select the most correct answer to each part of the question. Write the number of the part of the question and the selected answer by stating the relevant English letter, in your answer booklet. **E.g. (1) (relevant English letter), (2) (relevant English letter) etc...**

- (1) What is the **correct** statement that represents principles of income taxation?
 - (a) Clearness, Appropriate, Simplicity, Progressivity, Stability, Independency
 - (b) Self-compliance, cost effectiveness, Equity, Stability, Integrity, simplicity
 - (c) Equity, Simplicity, Progressivity, Stability, economy, self-compliance
 - (d) Accuracy, Equity, Stability, Cost effective, Independency, integrity
- (2) As per the provisions of Inland Revenue Act, the term “person” does not include:
 - (a) Public corporation established under any law other than the Companies Act
 - (b) Charitable Person
 - (c) A Partner of the partnership
 - (d) All of above are incorrect
- (3) What is the SME income tax rate as per the Budget proposals for 2017?

“Small and Medium Enterprise (SME)” means a person who satisfies the following conditions:

 - the person who conducts business solely in Sri Lanka other than an individual who is engaged in providing professional services individually or in partnership being an individual who is professionally qualified;
 - the person does not have an associate that is an entity; and
 - the person’s annual gross turnover is less than Rs.500,000,000/-.
 - (a) 12 %
 - (b) 14 %
 - (c) 15 %
 - (d) 28 %

- (4) What is the amount chargeable for tax purposes as Net Annual value for the year of Assessment 2016/2017?

Description	Rating Assessment (Rs.)
Residence at Maharagama completed in 2010/2011 with 2000 sq. ft.	300,000
Old house in Galle inherited from father in 2005/2006	100,000
House converted to dispensary Nugegoda	400,000
Holiday bungalow – Nuwara-Eliya for occasional visit	180,000

- (a) Rs. 235,000/-
 (b) Rs. 210,000/-
 (c) Rs. 300,000/-
 (d) Rs. 435,000/-
- (5) What is the **incorrect** statement related to Withholding Tax on Interest Income for the year of assessment 2016/2017?
- (a) 10% WHT shall be deducted at the issuance of Treasury bills and Treasury bond.
 (b) 2.5% WHT deducted on interest can be claimed as tax credit by an individual.
 (c) Interest arising on quoted corporate debt securities issued after 1st January 2013 is exempt from tax.
 (d) Applicable WHT tax rate is 10% for Saving certificates, certificate of deposit, or similar deposits or government rupee loans.
- (6) Turnover of the Fashion Garments Ltd for the quarter ended December 31, 2016 is as below.

	Rs.
Export turnover	600,400,000
Local Sales	125,000,000
Total Turnover	725,400,000

Amount of ESC payable for the quarter ended 31/12/2016 is?

- (a) Rs. 1,813,500 (c) Rs. 3,627,000
 (b) Rs. 7,254,000 (d) Rs. 725,400
- (7) The term “Business” is defined in the Inland Revenue Act as?
- (a) **Business includes** an agricultural undertaking, the racing of horses, the letting or leasing of any premises including any land by a company & the forestry.
 (b) **Business includes** an agricultural undertaking, manufacture and every adventure or concern in the nature of business.
 (c) **Business includes** an agricultural undertaking, manufacture and every adventure or concern in the nature of business and professional services.
 (d) None of the Above is correct
- (8) Income tax has to be paid on quarterly installment basis, which is the date that final quarterly installment to be paid for the year of assessment 2016/2017?
- (a) 15th Feb 2016 (c) 15th May 2017
 (b) 30th Sep 2017 (d) 30th Nov 2017

- (9) What is the flow which is correctly state the Appeal settlement procedure under the Provisions of the Inland Revenue Act?
- Appeal ---> AC ---> CGIR ---> BOR ---> TAC ---> Court of Appeal---> Supreme Court
 - AC ---> CGIR ---> BOR ---> TAC ---> Court of Appeal ---> Supreme Court
 - Appeal ---> AC ---> CGIR ---> TAC ---> Court of Appeal ---> Supreme Court
 - Appeal ---> AC ---> CGIR ---> BOR ---> Court of Appeal ---> Supreme Court

AC = Assistant Commissioner CGIR = Commissioner General of Inland Revenue
BOR = Board of Review TAC = Tax Appeal Commission

- (10) Select the **incorrect** statement related to NBT.
- NBT is chargeable at 2% on turnover other than any turnover from wholesales & retail sales
 - Distributors who appointed by Manufacturer (other than liquor and Motor vehicles) can enjoy $\frac{3}{4}$ rebate from the liable turnover
 - Whole sales & retail traders can enjoy $\frac{1}{2}$ rebate from the liable turnover
 - Only manufactures are entitled to setoff NBT paid on its whole purchases made during the quarter from the NBT payable.

(10 × 1 Marks = Total 10 Marks)

End of Part I

PART II

Answer **all** questions

Question No. 02 (20 Marks)

- (a) "Tax revenue is collected by the government through the imposition of direct and indirect tax. Presently, more than 80% of the tax revenue is generated through indirect taxes.

Briefly describe under this tax system which principle has been violated? **(06 Marks)**

- (b) Differentiate the direct & indirect taxes providing two direct taxes and two indirect taxes presently prevail in Sri Lanka. **(04 Marks)**

- (c) List out four main tax authorities which are collecting taxes on behalf of the Sri Lankan government. **(02 Marks)**

- (d) SLPL Ltd is a manufacturing company who made the taxable supply for the local market Details for the quarter ended 31st December 2017 is as below.

	Rs.
Revenue	15,300,000
Less: NBT expense	(306,000)
Net Turnover after NBT	14,994,000

Other income of the SLPL includes following (value excluding taxes)

	Rs.
Sale proceeds on furniture disposal	2,500,000
Gross Rent income	3,000,000
Royalty Income	1,200,000
	Rs.
VAT paid on locally purchased Raw Material	2,600,000
VAT paid on Motor car insurance	36,000

VAT payment made on locally purchased raw material amounting to Rs. 48,000/- was not

supported with Tax invoice.

Monthly VAT payment made to the government during the quarter as follow

October 2016	Rs. 250,000 Paid on 20/11/2017
November 2016	Rs. 250,000 Paid on 18/12/2017
December 2016	Rs. 263,960 Paid on 19/01/2018

You are required to:

- Compute VAT payable by company for the quarter ended 31st December 2017. **(07 Marks)**
 - What is the due date to submit the VAT return to the Department of Inland Revenue for this quarter? **(01 Mark)**
- (Total 20 Marks)**

Question No. 03 (20 Marks)

- (a) Mrs. Sandamali Wijerathne is 61 years old and a Government pensioner retired in October 2015. After her retirement, she is employed in a mercantile firm and her income for the year ended 31st March 2017 is as follows.

	Rs.
Government Pension for the year	650,000
Gross Salary from the mercantile firm	1,880,000
Medical reimbursement during the year	82,500
Vehicle allowances	750,000
Telephone bills reimbursed for the year	52,500

- (b) Gross interest on fixed deposit on senior citizen saving scheme is 475,000
Interest income received from minor saving accounts
(Son's saving accounts 16 years old) 28,000
Mrs. Wijerathne's marriage is subsist during the year

Ms. Wijerathne has rent out a property at a monthly rent of Rs. 70,000/- and rate paid amounted to Rs. 80,000/- per annum which is 10% of Rating Assessment

- (c) She started business of import & selling accessories for the motor vehicles during the year. Financial information for the year of assessment 2016/2017 as follow.

Income	Rs.	Rs.
Gross revenue		<u>10,980,000</u>
Total income		10,980,000
Less: Cost of Sales		
Import Accessories	7,650,000	
Less: Closing Balance	<u>(2,150,000)</u>	<u>(5,500,000)</u>
Gross Profit		5,480,000
Less: Expenses		
Fuel, maintenance and staff cost	3,200,000	
Lease interest	330,000	
Purchase of Tools for company use	66,000	
Purchase of Computer	82,000	
Key money & office rent	1,100,000	
Donation	100,000	
Advertisement	<u>250,000</u>	<u>(5,128,000)</u>
Net Profit		<u>352,000</u>

Lease rental was paid for the lorry purchase under finance lease for 4 years periods, lease instalment is Rs. 78,000/- per month & lease agreement entered on 01/07/2016.

She has signed rent agreement with landlord on 01/04/2016 for the office premises for 3 years' period & key money was paid Rs. 500,000/- on 01/04/2016.

Donation to Approved charity established for institutionalized care for sick and needy was Rs. 85,000/- and balance for the village temple.

Other information

1. Mrs. Wijerathne has paid a sum of Rs. 450,000/- during the year as interest and Rs.500,000/- as capital to a state bank for a housing loan
2. Contribution to special health insurance scheme was Rs. 120,000/-.
3. She carried out community development project (approved by CGIR) from her own money total investment for the project was Rs. 1,150,000/-.
4. PAYE tax payment Rs. 103,600/- (as per the T 10 certificate)

You are required to compute Mrs. Wijerathne total statutory income, assessable income, taxable income, gross tax liability and balance tax payable for the year of assessment 2016/2017.

(Total 20 Marks)

End of Section B

End of Question Paper
