



Institute of Certified Management Accountants of Sri Lanka
Operational Level
November 2016 Examination

Examination Date : 13th November 2016 **Number of Pages :** 05
Examination Time: 1.30 p.m. – 4.30 p.m. **Number of Questions:** 07

Instructions to Candidates

1. Time allowed is **three (3) hours**.
2. Total: **100** Marks.
3. Answer **all** questions in Part I and **four (4)** questions from Part II selecting **two (2)** questions from each of the Sections, **A** and **B**.
4. Part I: - Section **A**: Business Law and Section **B**: Taxation &
Part II: - Section **A**: Business Law and Section **B**: Taxation
5. Use **separate two (2) Answer Booklets** to answer **Business Law and Taxation parts** for both **MCQs** and **written based questions**.
6. Candidates are allowed to use non-programmable calculators.
7. The answers should be in **English Language**.

<u>Subject</u>	<u>Subject Code</u>
Business Law and Taxation	(BLT / OL 4 - 204)

PART I

Question No. 01 (20 Marks)

Answer all parts of Question No.1. 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...**

Section A – Business Law

- (1) Shan employs Amal to invest Rs.10,000/- in shares in Nano PLC. Amal instead invests Shan's money in Tecno PLC. Amal has likely breached the duty of:
 - (a) Accounting
 - (b) Obedience
 - (c) Loyal
 - (d) Performance
- (2) Select the correct statement from the following:
 - (a) All Cheques are Negotiable Instruments.
 - (b) All Bills of Exchange are cheques.
 - (c) All Negotiable Instruments are cheques.
 - (d) Cheques are the only example for Bills of Exchange.
- (3) Bill of exchange indicates Malan as the drawee, Nayana as the drawer, and Cyril as the holder. When Cyril went to Malan for presentment, Cyril learned that Malan is a minor of 16 years old. Cyril wants to recover from Nayana where, Nayanainsists that a notice of dishonor must first be made. Is she correct?
 - (a) Yes, since a notice of dishonor is essential to make the drawer liable.
 - (b) No, since Cyril can treat Nayana as the drawer due to the minority of Malan, the drawee.
 - (c) No, since Malan can waive the requirement of notice of dishonour.
 - (d) Yes, since in a bill of exchange, notice of dishonour is at all times required.

- (4) Agency by necessity arises:
- (a) Where a person allows another person, who is not his agent, to appear as if he is.
 - (b) Where a principal allows his agent to give the impression that he has more extensive authority than is really the case.
 - (c) Where, following termination of the agency relationship, a principal allows his former agent to continue to appear to be his agent.
 - (d) Where an agent incurs a transaction, without authority from the principal out of need to save the principal from suffering losses
- (5) Select the incorrect statement from the following on essential requirements of an acceptance:
- (a) Acceptance must be absolute and unqualified.
 - (b) It must be given within the time specified or within reasonable time.
 - (c) It must be made after the offer lapses.
 - (d) Acceptance must be communicated to the offeror.

Section B – Taxation

- (6) Which of the following is **not** a principle of taxation?
- (a) Simplicity
 - (b) Progressivity
 - (c) Independency
 - (d) Stability
- (7) Agasthi, a Chartered Accountant, works as the CFO of A PLC. He also acts as a Tax Consultant in his private capacity and one of his clients includes B Ltd, a sister company of A PLC. Which of the following statement is **not true** in terms of Agasthi for the income tax purposes?
- (a) Income received from A PLC is profit from employment.
 - (b) The engagement with company B Ltd forms an employer employee relationship
 - (c) Income received from both A PLC and B Ltd forms a part of the liable income for tax purposes.
 - (d) Income generated from tax consulting forms a part of his professional income.
- (8) For Value Added Tax purposes, identify the input tax that could be claimed:
- (a) Input tax on expenses not relevant to the business.
 - (b) Input tax not supported with a valid tax invoice.
 - (c) Input tax on raw material purchased.
 - (d) Input tax on invoices older than 12 months from the date of tax invoice.
- (9) Identify which one is NOT a requirement for a valid appeal;
- (a) Appeal should be filed within 30 days.
 - (b) Tax on return should have been paid.
 - (c) Appeal should precisely state the grounds of appeal.
 - (d) Tax as per assessment should be paid in full.
- (10) Mr. Piyal submitted his income tax return for the year of assessment 2014/2015 on 4th November 2015. What is the date by which the return becomes **time barred**?
- (a) On or before 31st March 2017
 - (b) On or before 30th November 2018
 - (c) On or before 30th November 2015
 - (d) On or before 30th May 2017

(10 × 2 Marks = Total 20 Marks)

End of Part I

PART II

Section A: Business Law

Answer any two (2) questions

Question No. 02 (20 Marks)

- (a) Define a cheque and describe the key distinctions between a cheque and a bill of exchange. (10 Marks)
- (b) (i) A holder in due course is a person who becomes the good faith holder of a negotiable instrument. Stipulate the requirements to become a holder in due course of a negotiable instrument. (06 Marks)
- (ii) Peter drew a cheque for the value of Rs.10,000/- in favor of Bob. Bob indorse it and kept in his office cupboard. Chan stole the cheque from Bob and used it before it is overdue to buy a laptop from David who got it in good faith without knowing any previous defects. Discuss whether David could be considered as a holder in due course. (04 Marks)
- (Total 20 Marks)**

Question No. 03 (20 Marks)

- (a) Mary owns a shop selling antique goods. She placed an advertisement in the weekends paper stating: 'Unique opportunity to own an antique picture for Rs.200,000/- cash. Offer valid for one day, only on October 2nd Sunday.'

Hilda saw the advertisement and she immediately posted a letter of acceptance. Susan inquired Mary if she would accept a cheque for Rs.200,000/- instead of cash. Mary refused to accept the cheque. On October 2nd Sunday Mary sold the picture to Mahen. On Monday morning Mary received Hilda's letter.

You are required to explain the followings:

- (i) The legal nature of Mary's advertisement; (06 Marks)
- (ii) Whether Hilda has any right of action against Mary; (04 Marks)
- (iii) Whether Susan has any right of action against Mary. (06 Marks)
- (b) Briefly explain the difference between a condition and warranty and explain the consequences of breach of condition. (04 Marks)
- (Total 20 Marks)**

Question No. 04 (20 Marks)

- (a) Distinguish a contract of sale of goods from an agreement to sell and name the essential features of contract of sale of goods. (10 Marks)
- (b) Siri wanted to be an agent of Ravi, who is into sale of land and building. Ravi who was there in the property sales market almost a decade has given job opportunities for more than 50 individuals by appointing them as agents in different Districts. Ravi has requested you to draft an agency agreement and to highlight the key duties of an agent towards his Principal. State such duties. (10 Marks)

(Total 20 Marks)
End of Section A

Section B: Taxation

Answer any two (2) questions

Question No. 05 (20 Marks)

- (a) Value Added Tax (VAT) is an indirect tax. Explain. (03 Marks)
- (b) Determine the difference between zero-rated supplies and exempt supplies for VAT purposes. (05 Marks)
- (c) (i) POLY Ltd. is a company which is engaged in the business of wholesale and retail of grocery items. What is the threshold applicable for any consecutive 3 months of the year 2015 for POLY Ltd to be a registered person for VAT? (02 Marks)
- (i) If Malu Ltd has registered for VAT on wholesale and retail supplies, what are the due dates for the payment of VAT for any taxable period? (02 Marks)
- (d) Viwen Textiles (Pvt) Ltd. is a company engaged in manufacturing of textiles. Throughout the previous years of assessment, the company has incurred losses. However, as per the financial statements for the year ended 31st March 2016, the company had earned a profit. The relevant turnover from which the profits and income earned is Rs.540,950,000/-.

You are required to:

- (i) Advise whether the company is liable to pay economic service charge (ESC) on this turnover. If liable, you are required to compute the ESC liability for all quarters. If the ESC is not chargeable, give reasons. (06 Marks)
- (ii) Where a company is liable to ESC, what is the due date to file the ESC return? (02 Marks)
- (Total 20 Marks)**

Question No. 06 (20 Marks)

- (a) It is accepted that an effective tax system should be simple, so that an average taxpayer should be able to understand the imposition, assessment and payment of tax.

Evaluate the principle of “simplicity” based on the tax law prevailing in Sri Lanka. (05 Marks)

- (b) Protecting local industries from foreign competition is one of the major economic functions of taxation. **Evaluate** this statement giving examples for such taxes. (05 Marks)
- (c) **List** the conditions under which an individual is required to submit a return of income. (05 Marks)
- (d) On 30th August 2016, A Ltd decided to pay Rs.290,000/- as dividends to its shareholders out of its after tax profits of the year of assessment 2015/2016. 40% shares of A Ltd are held by a Unit Trust and the rest are owned by individual investors. Out of the total dividend Rs.50,000/- was paid through the dividend income received from A Ltd’s subsidiaries.

Determine the dividend tax payable by A Ltd for the above dividend issue. (05 Marks)

(Total 20 Marks)

Question No. 07 (20 Marks)

Mr. Usain Bolt is a Jamaican citizen. He joined PKH PLC on 01st December 2014 on a five year employment contract as the Chief Operating Officer in the sportswear division. Before then he has never visited Sri Lanka.

As per the employment contract, he has received following benefits within the year of assessment 2015/2016.

1. Monthly salary Rs 850,000/-
2. A BMW car (engine capacity 2000 cc) with a driver and the fuel cost was borne by the company.
3. He has given a luxury apartment for residency and company pays the monthly rent of Rs.150,000/- on his behalf.
4. In addition Bolt is entitled for a bonus payment equal to five (5) months' salary if his sportswear unit accounts for a profit of over Rs.1 billion. For the year ended 31st March 2016, the unit accounted a profit of 1.75 billion. However, by the end of the year he has not received such bonus payment as the accounts were not finalized.
5. Further he has received an interest income of Rs.1,240,000/- (gross) from his Resident Foreign Currency (RFC) account.

You are required to:

(a) **Determine** the **residential status** of Mr Usain Bolt for the year of assessment 2014/2015 and 2015/2016. **(04 Marks)**

(b) **Compute** the taxable income and income tax payable by Mr. Usain Bolt for the year of assessment 2015/2016. **(16 Marks)**

(Total 20 Marks)

End of Section B

End of Part II

End of Question Paper
