



Institute of Certified Management Accountants of Sri Lanka
Operational Level
October 2017 Examination

Examination Date : 29th October 2017 **Number of Pages :** 06
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. Candidates are allowed to use non-programmable calculators.
6. 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) **Select the incorrect statement on Special Laws**
 - (a) The Sinhalese legal system is developed over many centuries.
 - (b) Thesawalamai means the “custom of the land”.
 - (c) Muslims who came to Sri Lanka and settled down in villages and colonies brought with them a legal system known as Muslim law.
 - (d) Thesawalamai cannot be traced back to the customs and usage of the Dravidians from the Malabar Court of India.
- (2) **Select from the following, which is not considered as a Negotiable Instrument.**
 - (a) Bill of Exchange
 - (b) Cheque
 - (c) Promissory note
 - (d) Bill of lading
- (3) **Select the incorrect statement from the following on Lease and Higher Purchase agreements.**
 - (a) Options are provided to the lessee to purchase the goods.
 - (b) Hire Purchase instalments comprise of three elements (normal trading profit, finance charge and recovery of cost of goods/assets).
 - (c) The two elements which a lease rental is comprised of are; finance charge and capital recovery.
 - (d) A lease transaction is a commercial arrangement, whereby an equipment owner or manufacturer convey to the equipment user the right to use the equipment in return for a rental.

- (4) **Agent and Principal relationship can be created in many ways. Select the most suitable answer from the following.**
- (a) By an Expressed Agreement
 - (b) By Necessity
 - (c) By Ratification
 - (d) All above
- (5) **Select the main objective/s of the National Environment Act.**
- (a) Establishing the Central Environmental Authority (CEA).
 - (b) Establish the powers, functions and duties of the CEA.
 - (c) Protection, Management and Enhancement of the Environment.
 - (d) All above

Section B – Taxation

- (6) The Income Tax return filing date for the year of assessment 2016/2017 is on or before;
- (a) 30th November 2017
 - (b) 31st March 2017
 - (c) 30th September 2017
 - (d) 31st December 2017
- (7) Mr. Sudarshana is engaged in the business of manufacturing, importing and selling of tile products in the local market and he is registered for Value Added Tax. Identify the input tax that he is not entitled to claim.
- (a) VAT paid to Customs on Custom Declaration (CUSDEC)
 - (b) VAT paid to registered raw material supplier on a Tax invoice
 - (c) VAT paid to registered raw material supplier on a normal invoice
 - (d) VAT paid to raw material importer on a Tax invoice

- (8) Mr. Cooray and Mr. Maray are two friends. In the year of assessment 2016/2017, they each had a taxable income of Rs.3,000,000/-. However, tax liability for the year of Mr. Cooray and Mr. Maray were Rs.200,000/- and Rs.350,000/- respectively.

Under the different principles of taxation, identify which of the following tax principles is breached under the above situation?

- (a) Equity
 - (b) Progressivity
 - (c) Efficiency
 - (d) Certainty
- (9) Mr. Perera has a house in Colombo-05. Rating Assessment of the house is Rs.450,000/- and Mr. Perera pays rates for the house at 30%. The house is occupied by Mr. Perera's one and only brother & his family for free. This is the only house owned by Mr. Perera.

Identify the correct statement in relation to above house.

- (a) The house is considered as owner occupied and the net annual value of the house – Rs.337,500/- will form a part of Mr. Perera's assessable income.
- (b) The house is considered as let on rent to his brother and the net annual value of the house – Rs.337,500/- will form a part of Mr. Perera's assessable income.
- (c) The house is considered as let on rent to his brother and total net annual value of Rs.337,500/- will be an Occupier's Income to his brother. Mr. Perera's rent income is zero.
- (d) The house is considered as owner occupied and the net annual value of the house is exempted for tax purpose.

- (10) Mrs. Shiromi Dahanayake earned an interest income from a commercial paper issued by a Company. However, the company has failed to deduct the Withholding tax (WHT) on interest due to an oversight and Mrs. Shiromi received the gross amount as interest.
- (a) The gross interest received should be added to the assessable income of Mrs. Dahanayake and tax should be paid at normal rates.
 - (b) The interest received would not form a part of assessable income of Mrs. Dahanayake.
 - (c) The gross interest received should be added to the assessable income of Mrs. Dahanayake and should be taxed at 2.5%.
 - (d) The gross interest received should be added to the assessable income of Mrs. Dahanayake and should be taxed at 10%.

(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) Consideration is something of value given by two parties to a contract that includes them to enter into the agreement to exchange mutual performances.

Discuss the rules applicable for Consideration.

(09 Marks)

- (b) After a contract is made sometimes it may become impossible to perform, due to certain reasons beyond control of the parties. In such situation the law considers that the contract is automatically terminated by Frustration.

Discuss the instances where a contract will come to an end due to frustration?

(05 Marks)

- (c) Contract is an agreement between two parties where parties agree or disagree to do or not to do certain transactions. When a contract is breached, the innocent party will be entitled for remedies from the other party.

Discuss the possible remedies available to the innocent party under law of contracts.

(06 Marks)

(Total 20 Marks)

Question No. 03 (20 Marks)

- (a) Discuss the differences between cheques and bills of exchange.
- (b) A legal agreement requires a high standard of good faith. "Uberrimae fidei" or "uberrima fides" in Latin is "utmost good faith." Insurance contracts are the most common type of uberrimae fidei contracts, since the insurance company agrees to share the risk of loss with the policy holder.

Discuss the principles of the term "Uberrimae fidei" in Insurance contracts.

- (c) "Termination of a contract will report that the contract has come to an end".

Discuss the instances where a contract will come to an end through an agreement of the parties.

- (d) Main objectives of the Electronic Transaction Act 19 of 2006 are to Recognize and Facilitate Contracts in Electronic Form, Creation and Exchange of messages and documents and communications in Electronic Form, and Appointment of a Certification Authority and Accreditation of Certification Service Providers.

State the areas to which the Act does not apply.

(4 × 5 Marks = Total 20 Marks)

Question No. 04 (20 Marks)

- (a) Discuss the difference between a “sale” and an “agreement to sell” under the Sale of Goods Ordinance. (03 Marks)
- (b) An unauthorized transfer of title by anybody other than the owner generally has no legal effect, which means the owner continues holding title to the property while the person who received the invalid transfer of title owns nothing. The law does provide some exceptions to this general rule, Discuss such exceptions to the general rule. (07 Marks)
- (c) Letters of Credit is an undertaking by a bank to make a payment to a named beneficiary within a specified time period against the presentation of documents. Discuss the different types of letters of credit used for the payment of international trade transactions. (10 Marks)
- (Total 20 Marks)**
End of Section A

Section B: Taxation

Answer any two (2) questions

Question No. 05 (20 Marks)

- (a) Taxes can be used as a tool to protect the local industries from international competition. **Evaluate.** (03 Marks)
- (b) Mr. Ali is a businessmen and wishes to know the due dates for the income tax self-assessment payments for the year of assessment 2016/2017.

You are required to:

- (i) **State** the due dates for income tax self-assessment payments for the Year of Assessment 2016/2017. (02 Marks)
- (ii) State the due date for the final income tax payment for the Year of Assessment 2016/2017. (01 Mark)
- (c) Mistal (Pvt) Ltd is engaged in the business of manufacture and sale of cigarettes in Sri Lanka. The turnover of the company for year ended 31st March 2017 is Rs.70,000,000/- and taxable income for the Year of Assessment 2016/2017 is Rs.4,750,000/-.
- What is the income tax rate applicable for Mistal (Pvt) Ltd for Y/A 2016/2017? Assess the tax liability.** (03 Marks)
- (d) Mr. Amarapala’s statutory income from employment for the Year of Assessment 2016/2017 is Rs.1,500,000/-. He has incurred a loss of Rs.500,000/- from sale of shares listed on the Colombo Stock Exchange.

Assess the income tax liability of Mr Amarapala for the Year of Assessment 2016/2017.

(03 Marks)

- (e) Sindu and Bindu are carrying on a partnership business. For the year of assessment 2016/2017, its divisible profit computed for tax purposes was Rs.8,500,000/-. Further, it has had a net rent income amounting to Rs. 2,800,000/- and within the year the partnership has donated Rs.300,000/- to the “Api Wenuwen Api Fund”.

Assess the partnership tax payable for the year of assessment 2016/2017.

(04 Marks)

- (f) Mr. Keshara holds the 100% share ownership of KSN Pvt Ltd (KSN). On 15th August 2016 KSN did a dividend distribution of Rs 50 Million in cash from the profit for the year ended 31st March 2016.

You are required to:

- (i) Assess the dividend tax payable by KSN Pvt Ltd for the Year of Assessment 2016/2017. **(1 ½ Marks)**
- (ii) Determine the due date for such Dividend tax payment. **(01 Mark)**
- (iii) State the tax implication in terms of such Dividend income for Mr Keshara for the Year of Assessment 2016/2017. **(1 ½ Marks)**
- (Total 20 Marks)**

Question No. 06 (20 Marks)

Mr. Sapumal Bandara was the Finance Manager of a well reputed company. With effect from 1st January 2017, he was promoted to the post of Director Finance of the same company. Following details are given in relation to his profits and income for the Year of Assessment 2016/2017.

1. In the capacity of Finance Manager he was offered the following benefits;

- Gross salary: Rs.250,000/- per month.
- Vehicle allowance: Rs.100,000/- per month

However, after being promoted to the position of Director Finance, his salary was increased to Rs.500,000/- per month and he was given an office car (engine capacity 2,500cc) with a driver and unlimited fuel. Driver's monthly salary is Rs.30,000/-.

In addition the following information is also given;

- Telephone bills reimbursed by the company within the year of assessment Rs.172,000/-.
- Deduction from salary to Employee Provident Fund (EPF) was Rs.336,000/-.
- PAYE deduction: Rs.550,800/-.

2. He owned a residential apartment in a luxury housing apartment scheme in Rajagiriya which was let on rent. He received Rs.200,000/- per month as rent. The rating assessment was Rs.560,000/- and the rates paid for the Year of Assessment was Rs.54,000/-. However, in the middle of the year, he decided to sell the apartment to the tenant. Accordingly, on 30th October 2016, he transferred the ownership for a consideration of Rs. 30 Million. He bought this apartment few years back for Rs. 20 Million.

He lives in his own house in Nugegoda. The Net Annual Value of the house is Rs.300,000/-. He pays Rs.25,000/- as rates for the house annually.

3. With the money earned through the sale of the apartment, he invested Rs. 10 Million in the share market and the balance was placed in a 5 year Fixed Deposit with annual interest of 10% payable at maturity. In March 2017, he received Rs.720,000/- as net dividend income through those investments in shares.
4. Mr. Bandara has made the following payments during the year of assessment;
- Rs.800,000/- as repayment on a housing loan taken for his residence. Capital repayment of this loan was Rs.550,000/-.
 - He donated Rs.100,000/- worth of medicine to the National Cancer Hospital, Maharagama during the year.
 - Self-assessment tax for the Year of Assessment 2016/2017 was Rs.450,000/-.

You are required to compute the gross income tax payable and the balance tax payable/(refund due) by/to Mr. Bandara for the Year of Assessment 2016/2017. **(Total 20 Marks)**

Question No. 07 (20 Marks)

- (a) **Distinguish** between zero-rated supplies and exempted supplies for Value Added Tax (VAT) purposes. **(03 Marks)**

- (b) Determine the currently applicable tax threshold for Value Added Tax (VAT) and Nations Building Tax (NBT) purposes for the following business entities.

	Name	Business Activity
(i)	Sirisanda Bakers	Bakery
(ii)	Sumudu Traders	Wholesale and Retail
(iii)	A&B Partners	Audit & Assurance partners
(iv)	Wahid Pvt Ltd	Vehicle Spare parts import

(04 Marks)

- (c) MK Garments (Pvt) Ltd is engaged in the business of manufacturing of garments for the local Market. The turnover for the quarter ended 31st March 2017 is Rs.34,900,000/-.

During the quarter the company received sales returns of Rs.1,350,000/- and incurred bad debts amounting to Rs.50,000/-. Discounts given on invoices (trade discounts) were Rs.30,000/- and discount given for early payments (cash discounts) is Rs.70,000/-.

You are required to:

- (i) Determine the liable turnover for VAT and NBT for the quarter ended 31st March 2017. **(02 Marks)**
- (ii) Determine the applicable Taxable Period for MK Garments for VAT and NBT purposes. **(02 Marks)**
- (iii) Advice MK Garments regarding the due dates for making the payments and submitting the returns for VAT and NBT for the quarter ended 31st March 2017. **(04 Marks)**
- (d) Economic Service Charge (ESC) is a Direct Tax. Evaluate the above statement. **(05 Marks)**

(Total 20 Marks)

End of Section B

End of Part II

End of Question Paper