



Institute of Certified Management Accountants of Sri Lanka
Operational Level
May 2015 Examination

Examination Date : 17th May 2015 **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. Use **separate two (2) Answer Booklets** to answer **Business Law and Taxation parts** for both **MCOs** 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

Section A – Business Law

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...**

- (1) Contracts are legally enforceable agreements. Which of the following statements is true?
 - (a) They must be in writing
 - (b) They must be evidenced in writing
 - (c) They need not be in writing
 - (d) None of the above
- (2) To establish an infringement of copyright it must be shown that
 - (a) A substantial part of the creation has been copied.
 - (b) There is objective similarity between the creation and the copy.
 - (c) There is a casual connection between the creation and the copy.
 - (d) All of the above
- (3) In the context of case law, which of the following applies to an *obiter dictum*?
 - (a) It is binding on all future courts
 - (b) It is binding on all lower courts
 - (c) It is not binding on any courts
 - (d) It is not binding outside the court it was issued in
- (4) Which **TWO** of the following are **AUTOMATICALLY** unfair grounds for dismissing an employee?
 - (i) Engaging in trade union activity
 - (ii) Constructive dismissal
 - (iii) Dismissal on transfer of employment to a new undertaking
 - (iv) Redundancy

- (a) (i) & (ii) only
 - (b) (ii) & (iii) only
 - (c) (iii) & (iv) only
 - (d) (i) & (iii) only
- (5) The law treats employees differently from the self-employed and has established a number of tests to distinguish between the two categories. Which of the following is **NOT** a test for establishing an employment relationship?
- (a) The subordinate test
 - (b) The control test
 - (c) The integration test
 - (d) The economic reality test

Section B – Taxation

- (6) Which of the following is not a qualifying payment for an individual for the year of assessment 2013/2014?
- (a) Premia for life insurance
 - (b) Maximum of Rs.100,000/- on employment income
 - (c) Donation to University of Colombo
 - (d) Capital repayment of housing loan for construction of houses
- (7) Mr. Silva has retired from his employment under a voluntary retirement scheme on 01st October, 2013 and he received Rs.6,500,000/- as compensation at the time of retirement. How much will be subjected to income taxes as a retirement benefit?
- (a) Rs.6,500,000/-
 - (b) Rs.5,500,000/-
 - (c) Rs.4,500,000/-
 - (d) Rs.3,500,000/-
- (8) A taxpayer should appeal against an assessment within,
- (a) 30 days from the date of the receipt of the assessment.
 - (b) 30 days from the date of the postmark on the envelop of the assessment.
 - (c) 20 days from the date of the receipt of the assessment.
 - (d) 20 days from the date of the postmark on the envelop of the assessment.
- (9) For the year of assessment 2013/2014, a partnership is allowed to deduct a tax relief of:
- (a) Rs. 600,000/-
 - (b) Rs. 500,000/-
 - (c) Rs.1,000,000/-
 - (d) Rs.5,000,000/-
- (10) Which of the following is not information to be disclosed in the return of income of an individual?
- (a) Particulars of sources of income.
 - (b) Any exempt profit and income.
 - (c) Value of assets and liabilities as at the last date of the year of assessment.
 - (d) Sources of income of the spouse.

(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) Explain the meaning of the following terms with regard to the law of agency, with suitable examples:
- (i) Express authority;
 - (ii) Implied authority;
 - (iii) Ostensible/Apparent authority

(10 Marks)

- (b) Explain any five (5) duties of an agent to a principal.

(10 Marks)

(Total 20 Marks)

Question No. 03 (20 Marks)

- (a) Manik, Viraj and Sunil formed a partnership 10 years ago. Manik was a sleeping partner and never had anything to do with running the business. Last year Viraj retired from the partnership. Sunil has subsequently entered into two large contracts. The first one was with a longstanding customer, Kamal, who had dealt with the partnership for many years. The second contract was with a new customer, Ranil. Both believed that Viraj was still a partner in the business. Now the partnership owe Rs.500,000/- to both Kamal and Ranil. The remaining assets of the partnership is only Rs.350,000/-.

Explain whether Kamal and Ranil can claim the outstanding debt from Manik and Viraj.

(10 Marks)

- (b) Define the term consideration and explain the following statements regarding consideration:

- (i) Consideration must be sufficient but does not have to be adequate;
- (ii) Past consideration is not good consideration.

(10 Marks)

(Total 20 Marks)

Question No. 04 (20 Marks)

Anandha, an antique collector, saw an advertisement in the newspaper of an auction which specifically mentioned of rare type of wall clocks in the list of items to be auctioned. He travelled from Colombo to Jaffna to attend the auction in order to bid for wall clocks, however, when he got to the auction site he found that the auction had been cancelled. Anandha saw an antique shop nearby and saw the exact type of wall clock he had come to bid for. The price label stated that it was Rs.500,000/- but Anandha said he was only willing to pay Rs.350,000/- for it. The shopkeeper, Sena, said he would sell it for Rs.400,000/-. Anandha said that he would like time to think about it and Sena agreed not to sell it before Anandha turned. However, when Anandha returned to buy the wall clock, he found that Sena had already sold it to someone else, who had paid Rs.450,000/- for it.

Advise Anandha whether he can take action against:

- (a) The auctioneers, for the expense of his travel to the auction; and
- (b) Sena, for not selling the clock to him.

(Total 20 Marks)

End of Section A

Section B: Taxation

Answer any two (2) questions

Question No. 05 (20 Marks)

Mr. Nalaka Bandara, the General Manager of Mabal Limited, has provided you with the following details of his income and expenses for the year of assessment 2013/2014.

(1) **Employment Income**

	Rs.
Monthly Salary	180,000
Monthly fixed allowances	15,000
Monthly vehicle allowance	65,000
Bonus	400,000
Monthly entertainment allowance	10,000 (during the year he utilized only Rs.90,000/-)
EPF – Employer's contribution	400,000

Mr. Nalaka Bandara has been provided with a house at a rent of Rs.10,000/-. However, the company pays monthly rent of Rs.25,000/- to the owner of the house. The rating assessment of the house is Rs.500,000/- and the rates paid at 30%.

The company has a medical scheme with a separate contribution for each employee. The medical contribution under the name of Mr. Bandara for this year of assessment was Rs.120,000/-. However, Mr. Bandara did not reimburse any medical bills during the year.

During the year of assessment Rs.198,000/- has been deducted from his employment income as PAYE.

(2) **Interest Income**

	Rs.
On Fixed deposits	50,000 (net)
On Treasury bills (under his wife's name)	30,000

(3) **Dividend Income**

He received Rs.120,000/- as dividend for his investments in Batapotha Limited. Batapotha declared this dividend out of the dividend they received from another company. However, none of the companies has deducted withholding tax from the dividend.

(4) **Income from property**

Mr. Bandara has two houses and the details of these houses are as follows.

Location	Occupied by	Constructed year	Floor area	Rating assessment (Rs.)
Gampaha	His son	May, 2008	1,400 sqft	1,250,000
Anuradhapura	His daughter	June, 2011	1,280 sqft	950,000

(5) **Expenses**

	Rs.
Personal expenses	1,650,000
Interest expenses on housing loan	90,000
Capital repayment of housing loan	160,000
Life insurance premia	240,000
Self - assessment tax	200,000

You are required to compute the final income tax liability of Mr. Nalaka Bandara for the year of assessment 2013/2014 **(Show workings clearly).** **(Total 20 Marks)**

Question No. 06 (20 Marks)

- (a) Mr. Dananjaya Kuruppu is a Sri Lankan citizen who migrated to Australia in January 2012. His movements between the two countries were as follows.

<u>Arrival</u>	<u>Departure</u>
01/04/2012	21/05/2012
21/08/2012	19/11/2012
21/12/2012	12/01/2013
23/03/2013	10/05/2013
01/08/2013	30/12/2013

You are required to comment on Mr. Kuruppu's residential status for income tax purposes for the year of assessment 2013/2014. **(06 Marks)**

- (b) State whether the following statements are **true** or **false**. Justify your answers with relevant statutory provisions for year of assessment 2013/2014.
- (i) A business which is having a statutory income of Rs.1,260,000/- and assessable income of Rs.1,072,000/- is allowed to claim an amount of Rs.375,200/- as business loss when it has a brought forward loss of Rs.400,000/-.
 - (ii) A person engaged in the sale of imported articles is liable for NBT only as an importer.
 - (iii) Where an individual has a taxable income of Rs.3,000,000/-, the total tax liability would be Rs.400,000/-.
 - (iv) A commercial building acquired in May, 2010 is qualified for depreciation allowances in the year of assessment 2013/2014 at a rate of 10%.

(4 × 2 Marks = 08 Marks)

- (c) A&B Associates is a partnership business carried on by Amal and Batiya sharing profits and income equally. Following information is provided with regard to the partnership business for the year of assessment 2013/2014.

Net profit as per the financial statements Rs. 5,250,000

Following income/expenses have been adjusted to revenue in arriving at the net profit.

	Rs.
Ground rent	20,000
Salary – to Amal	900,000
– to Batiya	600,000
Interest on capital	200,000 each
Interest on drawings by Amal	20,000
Dividend Income (net)	180,000

You are required to compute the divisible profit of the partnership business for the year of assessment 2013/2014. **(06 Marks)**

(Total 20 Marks)

Question No. 07 (20 Marks)

- (a) State the circumstances that a registered person for Value Added Taxes could make an application to cancel the registration. **(06 Marks)**
- (b) Following details are related to the business of Mr. Kulathunga for the quarter ended 30th December 2013.

	Rs.
Taxable supplies	5,730,500
Exempted supplies	2,350,900

Purchases/ Input tax:

	Rs.
Materials purchased for taxable supplies	3,414,000
Materials purchased for exempted supplies	1,750,000
Input tax common to taxable and exempted supplies	162,000
Input tax on the car purchased for CEO	420,000

For the months of October and November, 2013 the business paid VAT of Rs.45,000/- and Rs.53,000/- respectively.

You are required to compute the final VAT payable amount by the business for the quarter ended 31st December 2013. **(14 Marks)**

(Total 20 Marks)

End of Section B

End of Part II

End of Question Paper
