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Serial No.....

**Institute of Certified Management Accountants of Sri Lanka**  
**Managerial Level**  
**May 2018 Examination**

**Examination Date :** 20<sup>th</sup> May 2018      **Number of Pages :** 03  
**Examination Time:** 9.00 a.m. – 1.00 p.m.      **Number of Questions:** 03

<u>Subject</u>	<u>Subject Code</u>
<b>Corporate Law &amp; Advanced Taxation – Corporate Law (Section A)</b>	<b>(CLT / ML 4 - 304)</b>

**Instructions to Candidates**

1. 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 **Corporate Law** and **Advanced Taxation** parts both MCQs and written based questions.
5. Candidates are allowed to use non-programmable calculators.
5. 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) Which of the following is **not** an example of an artificial legal person?
  - (a) A Company Limited by guarantee
  - (b) Listed Company in the Colombo Stock Exchange
  - (c) Partner in a partnership
  - (d) University Vice chancellor in his official capacity
- (2) Mr. Silva owns shares of A limited. This means that Mr Silva:
 

A - is a part owner of A Limited  
 B - is a part owner of A Limited Company's properties

Which of the above is/are correct?

  - (a) A only
  - (b) B only
  - (c) Both A and B
  - (d) Neither A Nor B
- (3) Select the key Objective/s of the Securities of Exchange (SEC) out of the following.
  - (a) the creation and maintenance of a market in which securities can be issued and traded in an orderly and fair manner.
  - (b) the operation of a Compensation Fund to protect investors from financial loss arising as a result of any licensed stock broker or licensed stock dealer being found incapable of meeting his contractual obligations.

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- (c) The regulation of the securities market and to ensure that professional standards are maintained in such market.
  - (d) All of the above
- (4) What are the directors' duty/duties defined by the Companies Act No. 7 of 2017?
- (a) Duty to Act in good Faith and in the Interests of Company
  - (b) Duty to Comply with Act and Company's Articles
  - (c) Duty of skill and care (standard of care)
  - (d) All of the above
- (5) Select the incorrect statement from the following.
- (a) The Administrator is not personally liable on any contract entered into by him, in the exercise of his powers as Administrator.
  - (b) Once the affairs of the company are wound up, the Liquidator must make an Account of the winding up and present such Account at a general meeting of the company and at a meeting of the creditors.
  - (c) A Voluntary winding up of a company is deemed to have commenced, upon, the passing of the resolution for the voluntary winding up.
  - (d) Winding up is a process which a company is dissolved or liquidated.

**Write Short Answers for the following.**

- (6) In the modern world, there are two types of legal persons. Name those two.
- (7) The courts have lifted the veil of incorporation depending on the circumstances of each case. Name two of such circumstances.
- (8) Corporate Governance principals and the practice classifies the directors. Name two such directors.
- (9) Name two of the Objectives of the Securities and Exchange Control (SEC)
- (10) Who is a Promoter of a Company?

**(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 – All questions are Compulsory**

Sirnimal recently got his retirement from a leading private sector institution. He seeks your advice on the following areas since he is planning to invest the money he received from his EPF in a public company as a shareholder.

- (a) The rights attached to every share he invests. **(05 Marks)**
- (b) Persons Prohibited from Managing Companies. **(05 Marks)**
- (c) Different types of shares a public company can issue. **(05 Marks)**

**Part B – Select two from the following and answer**

- (d) State the instances where directors will be disqualified by the Courts.
- (e) Who are the persons disqualified by the Company's Act to appoint as an auditor of the company?
- (f) What are the rights of an Auditor?
- (g) Describe the instances where the office of a director shall be vacated.

**(2 × 2 ½ Marks = 05 Marks)**  
**(Total 20 Marks)**

**Question No. 03 (20 Marks)**

**Part A – All questions are Compulsory**

On the request of the Board of Directors of XY Limited, you as the Accountant of the company is required to discuss the following areas at the upcoming board meeting of the Company. The Company is planning to liquidate their current business and form a new listed Company which required a Company secretary's service from the inception.

- (a) Liquidator's role in the liquidation process of a Company. **(07 Marks)**
- (b) Key secretariat functions of a Company Secretary. **(08 Marks)**

**Part B – Answer One part from the following two (c) and (d) sections**

- (c) "Insider trading is the practice of using information that has not been made public to execute trading decisions. It gives traders an unfair advantage over others and most forms of insider trading are illegal. Many investors are tempted to make quick returns from insider trading but doing so can be dangerous. Insider trading is routinely investigated by the Securities and Exchange Commission (SEC) and prosecuted".

In line with the above statement discuss the following.

- (i) Who is an insider? **(01 Mark)**
- (ii) What are the prohibition for such Insiders by law? **(04 Marks)**
- (d) Compare and Contrast the different features of a Partnership Business and a Limited Liability Company. **(05 Marks)**

**(Total 20 Marks)**  
**End of Section A**

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<u>Subject</u>	<u>Subject Code</u>
<b>Corporate Law &amp; Advanced Taxation – Advanced Taxation (Section B)</b>	<b>(CLT / ML 4 - 304)</b>

**Instructions to Candidates**

1. Time allowed is **two (2) hours**.
2. Total: **50** Marks.
3. Answer **all** questions.
4. Use Separate **two (2) Answer Booklets** to answer **Corporate Law** and **Advanced 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) Functions of taxation can be identified as Primary function, Social Function and Economic Function. Which of the following is **not** a function of taxation?
  - (a) Reduce Income disparity between rich and poor
  - (b) Channelling investment in desired directions through the allocation of resources and protect local industries from foreign competition
  - (c) Encourage the savings and capital Investment
  - (d) Providing equal opportunities to tax payers
- (2) Which of the following is **not** relevant to the principles of income taxation?
  - (a) Tax should be charged based on the ability to pay
  - (b) Government should be able to collect tax at minimum cost
  - (c) Tax system should be changed on regular basis.
  - (d) Tax system should encourage the voluntary compliance
- (3) Person shall pay income tax on profit and income earned during any year of assessment.  
 Which of the following is not considered as source of income as per the provisions of the Inland Revenue Act for the year of assessment 2016/2017?
  - (a) Winning from a lottery
  - (b) Capital gain
  - (c) Any sum received by a non-governmental organization
  - (d) Income from any other sources (other than of a casual and non-recurring nature)

- (4) Select the **true** statement of following.
- (a) A company or a body of persons is deemed to be resident in Sri Lanka, only where its registered or principle office in Sri Lanka.
  - (b) An individual who is physically present for 183 days or more during any year of assessment shall be deemed to be resident in Sri Lanka throughout that year of assessment.
  - (c) Profit from Employment includes all cash or non-cash benefits received from employer during the year of assessment.
  - (d) The profit and income of a residence guest not arising in Sri Lanka and interest in money deposited in any account opened with a commercial bank in Sri Lanka in foreign currency from abroad are taxable.
- (5) Which of the following statements correctly state the statutory dates relating to any balance tax payable and filing income tax return for the year of assessment 2016/2017?
- (a) Any balance tax to be paid on or before 15<sup>th</sup> May 2017 and return to be filed on or before 30<sup>th</sup> September 2017.
  - (b) Any balance tax to be paid on or before 30<sup>th</sup> September 2017 and return to be filed on or before 30<sup>th</sup> November 2017.
  - (c) Any balance tax to be paid on or before 30<sup>th</sup> September 2017 and return to be filed on the same date.
  - (d) Any balance tax to be paid on or before 30<sup>th</sup> November 2017 and return also to be file on the same date.
- (6) Securitas is a multinational company of which the principal office situated in Sweden and Securitas SL is registered in Sri Lanka as fully owned subsidiary of Securitas on January 10, 2016.

Securitas reported group revenue of USD 11.8 billion and taxable profit of USD 554 Million and Securitas SL reported USD 3 million revenue and taxable profit of USD 0.5 million for the year of assessment 2016/2017.

Which statement correctly prescribes the tax exposure of Securitas in Sri Lanka?

- (a) Entire group profit of Securitas including Sri Lankan profit is liable to pay income taxes in Sri Lanka as company has registered in Sri Lanka.
  - (b) Securitas is not required to pay income taxes in Sri Lanka as their principle office is in Sweden.
  - (c) Securitas is liable to pay income tax in Sri Lanka on the profit of USD 0.5 million by applying 12% rate as its turnover is less than LKR 750 million.
  - (d) Securitas is liable to pay income tax in Sri Lanka on the profit of USD 0.5 million at normal rate of 28%.
- (7) What is the applicable income tax rate for a company purely engages in the direct export of garments for the year of assessment 2016/2017?
- (a) 10%
  - (b) 12%
  - (c) 14%
  - (d) 28%
- (8) Which of the following statements is not correct in relation to the appeal procedure under the Inland Revenue Act No. 10 of 2006?
- (a) A valid appeal must be made in writing within 30 days from the date of notice of the assessment.
  - (b) The appeal should be addressed to the Assistant commissioner who raised the assessment.

- (c) Appeal should state precisely the grounds of appeal.
- (d) The determination by the Commissioner General must be made within 2 years from the date of receiving a valid appeal.
- (9) Penalty exposure for noncompliance of self-assessment tax payments would be?
- (a) A sum not exceeding Rs.50, 000/-.
- (b) A sum not exceeding in aggregation of Rs.2, 000/- and twice the tax on the excess.
- (c) Immediately 10 % of the tax in default and a further 2% for every additional month maximum up to 50% from the tax in default
- (d) A sum not exceeding 50% of outstanding tax immediately
- (10) What is the correct statement related to recovery of default taxes of an Individual?
- (a) Department of Inland revenue could recover the default tax by issuing notice to the employer to charge default tax when paying the monthly remuneration of the defaulter
- (b) Default tax could be recovered from the spouse even the defaulter has legally divorced
- (c) Default tax can be recovered by seizing movable & immovable properties of defaulter.
- (d) Default tax could be recovered from the bank if the bank has given OD facilities to tax defaulter

**(10 × 1 Marks = Total 10 Marks)**

End of Part I

## PART II

Answer **all** questions

### **Question No. 02 (20 Marks)**

Arya (Pvt) Ltd is a well-known plastics products manufacturer in Sri Lanka, incorporated in 2010 as a subsidiary of Bando Group. You are being the tax consultant of the group have been provided the following financial information for the year of assessment 2016/2017.

- a. Details of the income statement is as below.

	Rs. 000'	
<b>Revenue</b>		<b>436,000</b>
Less: - NBT expenses		<u>(8,720)</u>
<b>Net Revenue</b>		<b>427,280</b>
<b>Other income</b>		
Interest income from treasury bill	1,800	
Interest income from Fixed deposit	900	
Profit from disposal of Motor car	<u>3,760</u>	<u>6,460</u>
		<b>433,740</b>
Less:		
Administrative and Distribution expenses		<u>(98,060)</u>
Finance cost		<u>(10,150)</u>
<b>Profit before tax</b>		<b><u>325,530</u></b>

- b. Administration and Distribution expenses includes the following:

	<b>Rs. 000'</b>
Management fees	4,600
Foreign travelling	1,198
Advertisement cost	9,870
Research expenses (Carried out by Colombo university to improve the quality of products)	3,950
Staff cost	19,608
Donation made to approved charity	2,500
Gratuity provision	5,490
Provision for bad debt	4,590
Legal expenses	1,960
Building rent	8,000
Commission paid	4,522
Provision for pension fund	3,500
Depreciation	13,560
Stamp duty	1,060
Cash loss due to burglary	3,000
Audit fees	900
Lease Interest	25
Vehicle hire charges for delivery vehicles	5,600
	<b>98,060</b>

- c. Management fees have been paid to the holding company of Arya (Pvt) Ltd. The Commissioner General of Inland Revenue has agreed to allow 60 % of the management fees as allowable under the provisions of the Act.
- d. Foreign travelling includes
- An amount of Rs. 590,000/- on visit to foreign manufacturer to inspect quality of products.
  - An amount of Rs. 608,000/- on cost of air ticket provided to Managing Director for his personnel travelling.
  - Statutory income of the trade for the year of assessment 2015/2016 was Rs.26,890,500/-.
- e. Advertisement cost includes Rs. 256,000/- incurred on vacancy advertisement published to recruit Accountant during the year.
- f. Opening balance of provision for Gratuity was Rs.6,890,000/- and closing balance was Rs.7,160,000/-.
- g. Provision made for bad debt during the year is as below:
- Rs 1,000,000 on Staff loan
  - Rs. 1,760,000 has been provided as irrecoverable from BR constructors (Pvt) Ltd
  - Balance represent for the provision made on other trade debtors as at the balance sheet date
- h. Detail of legal expenses as follows.
- |  |             |
|--|-------------|
| On settlement of labour case   | Rs. 860,000 |
| On Land registration   | Rs. 580,000 |
| On Income tax appeal settlement at court<br>and company won the case | Rs. 520,000 |

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- i. company has signed a five-year rent agreement on July 01, 2016 to get a building on rent basis to use as the main store. Monthly rental is Rs. 500,000 Company has paid one-year lease rental and the key money at the date of signing the agreement and entire amount paid charged to income statement
- j. Bando group is carrying out approved pension fund which is established under trust deed in 2010 and all the companies in the group has to contribute for the same. Arya (Pvt) Ltd received the following statement from the trust on 20.04.2017

Contribution to be made during the year 2016/2017	Rs. 3,500,000
Less: Actual contribution made during the year	<u>(Rs.2,500,000)</u>
Balance to be contributed	<u>Rs. 1,000,000</u>

- k. Assets register of Arya (Pvt) Ltd is as follows.

Description	Balance as at 01.04.2016 (Rs.)	Additions (Rs.)	Transferred (Rs.)	Balance as at 31.03.2017 (Rs.)
Land	4,789,000		(750,000)	4,039,000
Buildings	15,700,000	9,000,000		24,700,000.
Plant & machinery	25,900,000	9,500,000	2,650,000	38,050,000.
Equipment	2,725,000	-	-	2,725,000.
Furniture & Fittings	1,168,000	-	-	1,168,000.
Motor Vehicles	3,696,000	12,500,000		16,196,000.
<b>Total</b>	<b>53,978,000</b>	<b>31,000,000</b>	<b>1,900,000.00</b>	<b>86,878,000.</b>

#### Accumulative Depreciation

Description	Balance as at 01.04.2016	Depreciation for the year	Balance as at 31.03.2017
Buildings	9,420,000	2,785,000	12,205,000
Plant & machinery	15,680,000	7,431,000	23,111,000
Equipment	1,090,000	215,000	1,305,000
Furniture & Fittings	643,000	104,000	747,000
Motor Vehicles	2,136,000	3,025,000	5,161,000
<b>Total</b>	<b>28,969,000</b>	<b>13,560,000</b>	<b>42,529,000</b>
Written Down Value	25,009,000		44,349,000

- A land purchased in December 2008 was transferred to M.Com Bando (Pvt) Ltd which is an associate company at a value of Rs. 1,750,000/-. The profit arising on this transfer had been transferred to the capital reserve.
- Addition to building represents building purchased during the year from Mayumi Developers to carry out a marketing office.
- Bando Packing Ltd an associated company was wind up during the year and the machinery used by that company was transferred to this company at a market value. The cost of machinery to the Bando Packing Ltd was Rs. 800,000/-.

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- Addition to plant and machinery includes a value of Rs. 1,500,000/- on machines obtained on lease term for a 3 years period commencing 1<sup>st</sup> January 2017. Three lease instalments amounting to Rs. 50,000/= were paid during the year. The rest of the addition represents the imported cost of a machinery obtained during the year.
- Addition to Motor vehicle includes car purchase for official travelling amounting to Rs. 5,200,000/- and balance is for delivery van
- Tax depreciation has been claimed in fully for the assets, other than the asset purchased during the year.

1. Stamp duty paid on land transfer was Rs. 69,000/- and balance were paid on receipts.

**You are required to** Base on the above information, you are required to calculate **adjusted profit from Trade or Business for tax purposes** of Arya (Pvt) Ltd for the year of assessment 2016/2017.

**(Total 20 Marks)**

**Question No. 03 (20 Marks)**

Mr. Silva is conducting a printing business and he has registered for Value Added Tax. The following information is available for the month of January 2017. All figures are exclusive of VAT.

	Rs.
Total cash supplies	3,200,000
Total credit supplies	2,800,000
Purchases made from VAT registered persons	750,000
Purchase from dealers not registered for VAT	350,000
Import of industrial machine for printing (value for VAT)	3,000,000
Electricity expenses	190,000

Purchase of a motor car for travelling purpose from a VAT registered person Rs. 3,000,000/-.

**You are required to:**

- Compute VAT payable/Refund claim by Mr. Silva for the month of January 2017. **(10 Marks)**
- Briefly explain the following terms as per the provisions of the VAT Act.
  - Time of Supply in the case of supply of goods.
  - Exempt Supplies and Zero-Rated Supplies. **(05 Marks)**
- Briefly explain NBT rate applicable to different trade & business such as (Manufacturers, Services providers, whole sales and retails, distributors who appointed by manufactures other than motor vehicles and tobacco). **(05 Marks)**

**(Total 20 Marks)**

End of Section B

End of Question Paper