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Serial No.....

## Institute of Certified Management Accountants of Sri Lanka

### Managerial Level May 2015 Examination

**Examination Date :** 17<sup>th</sup> May 2015      **Number of Pages :** 06  
**Examination Time:** 9.00 a.m. – 1.00 p.m.      **Number of Questions:** 10

#### Instructions to Candidates

1. Time allowed is **four (4) hours**.
2. Total: **200 Marks**.
3. Answer **any four (4)** questions in Section A, **all** questions in Part I and any **three (3)** questions from Part II in Section B.
4. **Section A:** Corporate Law and **Section B:** Advanced Taxation
5. The answers should be in **English Language**.

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

#### **SECTION A: Corporate Law**

Answer **any four (4)** questions

#### Question No. 01 (25 Marks)

- (a) Modern Ltd wishes to appoint Susil, Jagath and Rohan as Directors of its wholly-owned subsidiary, Fresh Ltd.
- (i) Susil, aged 75 years, has vast experience in holding senior positions of various companies. Modern Ltd wishes to appoint him as a director for a period of three consecutive years.
  - (ii) Jagath was convicted of theft four years ago and sentenced to imprisonment for two years. Now he has been released from prison. He has previous experience managing large companies. He has also assured Modern Ltd that he is a reformed character and that he would prove to be an asset to Fresh Ltd.
  - (iii) Rohan, is a 17 years old student who has just completed his O/L examination.

Advise Modern Ltd whether there would be any legal obstacles under the Companies Act 2007 to the proposed appointment of Susil, Jagath and Rohan as directors of Fresh Ltd, and how such obstacles may be overcome. **(13 Marks)**

- (b) Basil is a director of two public listed companies in which he has substantial shareholdings: Bandi plc and Candy plc. The annual reports of both Bandi plc and Candy plc have just been drawn up although not yet disclosed to the public. They show that Bandi plc has made a surprisingly big loss and that Candy plc has made an equally surprising big profit. On the basis of this information Basil sold his shares in Bandi plc and bought shares in Candy plc. He also advised his brother, Wimal to buy shares in Candy plc.

Discuss the liability of Basil and Wimal.

**(12 Marks)**

**(Total 25 Marks)**

**Question No. 02 (25 Marks)**

- (a) Piyal is a member of Trio Pvt. Ltd, a small publishing company, holding 100 of its 500 shares. The other 400 shares are held by four other members. It has recently become apparent that Piyal has set up a rival business to Trio Pvt. Ltd and the other members have decided that he should be expelled from the company. To that end they propose to alter the articles of association to include a new power to 'require any member to transfer their shares for fair value to the other members upon the passing of a resolution so to do'. Piyal object to alter the articles as proposed.

Advise the majority members who wish to alter the articles with reference to the procedure which Trio Pvt. Ltd must follow to alter it. **(12 Marks)**

- (b) (i) Explain the meaning of ordinary shares and preference shares. **(06 Marks)**

(ii) Explain the term "debenture" and identifying the characteristic features of debentures. **(07 Marks)**

**(Total 25 Marks)**

**Question No. 03 (25 Marks)**

- (a) Lal purchased a large old mansion for Rs.10 million. He intends to convert the property into a hotel. Lal has decided to form a company to run the business, and to sell the mansion to the company for Rs.15 million.

Explain with reference to the legal duties of a promoter how the law governing promoters would apply to such a sale. **(12 Marks)**

- (b) Explain and analyze the legal significance of pre-incorporation contracts in relation to the promoter of a company. **(13 Marks)**

**(Total 25 Marks)**

**Question No. 04 (25 Marks)**

- (a) Lara, Mewan and David are the directors of Lamy Ltd and each holds one third of the company's shares. During the last two years, Lara has become increasingly dissatisfied with the way in which the company is being run. In particular, he feels aggrieved because the company's premises in Kandy were sold at a lower price than their market value. Mewan and David failed to have the company's premises valued before the sale. Furthermore, Lara feels that his views are no longer being taken into consideration by the other two directors, who automatically oppose any suggestions he makes in board meetings.

Advise Lara in relation to the legal remedies available to him, if any. **(18 Marks)**

- (b) Explain the nature of the duty of a director to disclose interests in relation to contracts with the company. Support your answer with decided cases. **(07 Marks)**

**(Total 25 Marks)**

**Question No. 05 (25 Marks)**

Saru is planning to start a business after a service of 20 years in the Private sector. Explain, Saru the different forms of business organizations, available in Sri Lanka and the important features of those organizations that will help him to select the most suitable business form.

**(Total 25 Marks)**

End of Section A

## SECTION B: Advanced Taxation

### Part I

Answer all questions

#### Question No. 06 (40 Marks)

Sesath (Private) Limited is a private limited company engaged in the business of exporting toys manufactured by them. Following details are extracted from the financial statements for the year ended 31<sup>st</sup> March 2014.

- (1) The net profit as per the financial statements is Rs.9,275,000/-. The company has generated Rs.175,500,000/- turnover from exports and Rs.9,675,000/- from local sales. The adjusted profit of the preceding year was Rs.3,450,000/-.
- (2) Details of Property, plant and equipment

#### Freehold

Asset	Year of purchase	Cost (Rs.)
Land	2007/2008	4,000,000
Building – Office (Constructed)	2012/2013	5,000,000
Building – Factory	2008/2009	1,000,000
Plant and machineries	2008/2009	12,000,000
Plant and machineries	2011/2012	400,000
Office equipment	2008/2009	65,000
Office furniture	2012/2013	275,000

#### Leasehold

Company has purchased a distributing van during 2011/2012 under four year lease agreement. The monthly rental is Rs.1,329,166/- excluding VAT. Company settled the total rental due for the year on due dates.

Depreciation charged to the income statement for the above assets was Rs.12,250,000/-.

- (3) Following expenses also has been charged to the income statement in arriving at the above profit.

	Rs.
Audit Fees	350,000
Advertising	150,000
Sales promotions	75,000
Management fee	3,400,000
Directors remuneration	5,750,000
Interest on bank loan obtained to construct the building	65,000
Interest on bank overdraft	23,000
Legal fee for a case against a local debtor	22,000
Membership fee paid to Chamber of Commerce	25,000
Foreign travelling – To Japan to meet foreign buyers	755,000
Payment made to tax consultant to draft an appeal for an assessment relevant to previous year tax return	10,000
Donation to the Buddhist and Pali university	325,000
Gratuity provision (paid Rs. 435,000 during the year)	1,565,000
Interest on lease	2,200,000
Ground rent	500,000

- (4) Company received Rs.350,000/- as dividend from an investment made in Shakthi PLC and it has accounted under other income.
- (5) Sesath Limited paid following dividend for its shareholders during the year.
- |               |                                |
|---------------|--------------------------------|
| For 2012/2013 | Rs.2,000,000 – Final dividend  |
| For 2013/2014 | Rs. 500,000 – Interim dividend |

The distributable profit for year of assessment 2012/2013 was Rs.25,000,000/-.

- (6) The company has paid Rs.2,000,000/- during the year under the self - assessment basis.

**You are required to compute** the Balance Income Tax Liability / Refund Due of the company for the year of assessment 2013/2014.

**(Total 40 Marks)**

End of Part I

## Part II

Answer **any three (3)** questions

### **Question No. 07 (20 Marks)**

- (a) Compute the income liable for tax purposes for the year of assessment 2013/2014. If any income is exempt for tax, it must be clearly stated.

- (i) Mr. Sandaruwan Basnayake has invested Rs.750,000/- in one year treasury bills on 01<sup>st</sup> June 2013 and at the time of maturity he will receive Rs.915,000/- as the maturity value (withholding taxes @ 10% has been deducted at the upfront). **(05 Marks)**

- (ii) Mr. Pramod Darshana has rented out his house at Piliyandala for a monthly rent of Rs.7,500/- to one of his friend on 01<sup>st</sup> June 2013. The rating assessment of the house is Rs.150,000/- and rates paid at 30%. The house is constructed on May, 2012 with 1,500 sq. ft. **(05 Marks)**

- (iii) Mr. Pradeep Weerakoon is an employee of Woodpack Limited and received following benefits from his employment for the year of assessment 2013/2014. Compute his Profit from employment and if any income is exempt for tax, it must be clearly stated.

	Rs.
• Monthly Salary	90,000
• Fixed allowances	40,000 per month
• EPF employer's contribution	172,800
• Leave pay	10,000 for the year
• Bonus received for the year	250,000
• Monthly vehicle allowance	60,000
• Mr. Pradeep has reimbursed Rs.20,000/- medical bills during the month of September, 2013 from the company's block medical contribution of Rs.5,500,000/-.	
• Mr. Pradeep lives in a house provided by the company for a lesser rent (rent charged by the employer is Rs.9,000/- per month). The rating assessment of the house is Rs.120,000/- and rates paid at 20%. The company pays monthly rent of Rs.20,000/- to the owner of the house.	

**(10 Marks)**

**(Total 20 Marks)**

**Question No. 08 (20 Marks)**

- (a) State the taxable period of following persons for the purpose of Value Added Tax (VAT).
- (i) An exporter
  - (ii) A manufacturer who sell products locally
  - (iii) A service provider
  - (iv) A person who have not commenced making the taxable supplies but is within the project implementation period (person registered under section 22 97) of the VAT Act).

**(05 Marks)**

- (b) Explain the following concepts as per the VAT law

- (i) VAT Exemptions on imports
- (ii) VAT Deferment on imports

**(05 Marks)**

- (c) 'Creatives' is a handloom textiles manufacturing and distributing company in Sri Lanka. For the quarter ended 30<sup>th</sup> September 2013. Information is given below relating to sales and purchases for the period.

	<u>Rs.</u>
<b><u>Value of supply</u></b>	
From locally manufactured handloom women textiles	2,120,000
From locally manufactured handloom men textiles	1,250,000
From imported handloom	2,600,000
<b><u>Value of Imports</u></b>	
Materials imported (yarn & dyes)	1,560,000
<b><u>Value of local purchases</u></b>	
Other liable purchases used for manufacturing	1,800,000
Other common expenses liable for VAT	750,000

**Additional information**

- Creatives has an unabsorbed VAT input tax as at 31/12/2010 of Rs.500,000/-. Up to 30<sup>th</sup> June 2013 Rs.200,000/- has been claimed.

**You are required to determine** the Balance VAT Payable of Creatives for the quarter ended 30<sup>th</sup> September 2013 (reasons should be clearly stated in the case that you have not considered any item to the computation).

**(10 Marks)**

**(Total 20 Marks)**

**Question No. 09 (20 Marks)**

One of your friend who is recently started a manufacturing business has forwarded following issues with regard to paying of Economic Service charges (ESC) and Nations Building taxes (NBT). Advise him to solve the below mentioned issues.

- (a) **Economic Service Charges**

- (i) Company has generated business loss in the preceding year and for the quarters ended 30<sup>th</sup> September 2013 and 31<sup>st</sup> December 2013 generated turnover is Rs.40,000,000/- & Rs.60,000,000/- respectively. Compute the ESC liability for the two quarters? **(05 Marks)**

- (ii) What are the due dates for the payment of this liability and for filing the return?

**(05 Marks)**

(b) **Nations Building Tax**

- (i) Company has paid NBT on raw materials purchases to another manufacturer amounting to Rs.40,000/- and on imports Rs.35,000/-. In addition to the material purchases made, company has paid Rs.20,000/- on other purchases from retailers during the month of August 2013. NBT on August turnover is calculated as Rs.245,000/-. How much company has to pay as NBT? **(05 Marks)**

- (ii) What are the due dates for the payment of this liability and for filing the return?

**(05 Marks)**

**(Total 20 Marks)**

**Question No. 10 (20 Marks)**

- (a) Sikuru (Private) Limited failed to pay the final tax liability of Rs.55,000/- for the year of assessment 2013/2014 on due date. However, they have decided to settle the liability with the penalty on default tax on 31<sup>st</sup> December 2014. What is the amount of penalty to be paid by the company? **(05 Marks)**

- (b) What are the conditions to be satisfied for a valid appeal? **(05 Marks)**

- (c) Every individual liable for taxes should file a completed return with Department of Inland Revenue on due date.

- (i) What are the information to be disclosed by an individual in a return of income?

**(04 Marks)**

- (ii) State the situation where an individual is not required to file a return of income for any year of assessment on his income sources. **(06 Marks)**

**(Total 20 Marks)**

End of Part II

End of Section B

End of Question paper

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