



Institute of Certified Management Accountants of Sri Lanka
Operational Level
November 2012 Examination

Examination Date : 17th November 2012 **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. Section **A**: Business Law and Section **B**: Taxation.
5. 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 the 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) Which of the following statements is true?
 - (a) An agreement to sell is not a contract of sale.
 - (b) No seller of goods ever passes a better title to the buyer than he himself has.
 - (c) The present sale of future goods is an agreement to sell.
 - (d) The property in goods passes only on delivery.
- (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) A mercantile agent is
 - (a) An agent that has limited authority to act on behalf of the principal.
 - (b) An agent appointed to sell the property of the principal.
 - (c) An agent that has broad but not unrestricted authority to act on behalf of the principal.
 - (d) An agent that has unrestricted authority to act on behalf of the principal.
- (4) The replacement of one contract with another contract is called
 - (a) Privity.
 - (b) Novation.
 - (c) Quantum meruit.
 - (d) Assignment.

- (5) Not a main objectives of the Electronic Transactions Act
- To identify computer crimes.
 - To recognize and facilitate contracts in electronic form.
 - Creation and exchange of messages and documents and communications in electronic form.
 - Appointment of a certification Authority.
- (6) Select the correct statement relating to employment income of a government employee in relation to the year of assessment 2010 / 2011.
- He has to pay tax only on the 50% of the employment income received from the consolidated fund.
 - He can claim a tax credit on employment income received from the consolidated fund.
 - Employment income received from the consolidated fund is fully exempt from income tax.
 - He can claim a tax credit on employment income received from the consolidated fund other than incentive, bonus, reward or similar payment.
- (7) In order to claim an exemption on interest by a senior citizen , he should be an individual who is;
- a resident of Sri Lanka and not less than 59 years old.
 - a citizen of Sri Lanka and 59 years old at the commencement of the year of assessment.
 - a resident of Sri Lanka and a citizen of Sri Lanka and 59 years old at the first day of that year of assessment.
 - a resident of Sri Lanka and a citizen of Sri Lanka and 60 years old at the commencement of that year of assessment.
- (8) An individual who satisfies any four requirements out of five specified requirements is required to submit a return;
- paying monthly electricity bill exceeding Rs.10,000/- and purchase of an air ticket.
 - paying monthly credit card bill exceeding Rs.10,000/- and purchase of an air ticket and owns a motor car.
 - paying monthly electricity bill exceeding Rs.25,000/- purchase of an air ticket and owns a motor car.
 - paying monthly credit card bill exceeding Rs.25,000/- and monthly telephone bill exceeding Rs.10,000/- and owns a motor car.

Select the correct answer/s from the following that correctly includes those requirements.

- (i) and (ii)
 - (ii) and (iii)
 - (iii) and (iv)
 - (i) and (iv)
- (9) An assessment may be issued, where it appears to an Assessor that any person liable to income tax has been assessed for any year of assessment at less than the proper amount that he is required to pay. However, if an existing individual taxpayer has filed income tax returns and made due income tax payments by due dates in the preceding three years of assessment, an assessment should not be issued for any year of assessment, if he has furnished an affidavit swearing that no fraud, evasion or willful default has been committed for that year of assessment, and if;
- such person has paid income tax not less than 120% of the income tax paid for the previous year of assessment.
 - such person has filed a return and specified as assessable income more than 25% of the assessable income for the previous year of assessment.
 - such person has filed a return and specified as assessable income more than 20% of the assessable income for the previous year of assessment.
 - such person has filed a return and paid income tax not less than 120% of the income tax paid for the previous year of assessment.

- (10) If any person could not have made a claim within three years from the end of the year of assessment in which the excess income tax was paid by deduction, he is entitled to claim it, if such claim is made,
- (a) within four years from the year of assessment in which the deduction of the tax was made.
 - (b) within three years from the year of assessment in which the deduction of the tax was made.
 - (c) within two years from the end of the year of assessment in which the deduction of the tax was made.
 - (d) within one year from the year of assessment in which the deduction of the tax was made.

(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)

Nihal gifts a cash cheque for Rs.25,000/- to his daughter Nilu on her birthday. Nilu loses the cheque. Sena who finds the cheque passes it to Kamal, who takes it in good faith for value. When the cheque is presented for payment, the Town Bank on whom the cheque is drawn dishonours the cheque as Nihal has stopped the payment on the cheque.

Explain the nature of Kamal's title and his legal right to receive the proceeds of the cheque.

Would your answer be different if Sena has found an order bill and has forged Nilu's endorsement?

(Total 20 Marks)

Question No. 03 (20 Marks)

- (a) Arun offered to sell his tea estate to Banu for Rs.10 million. Banu offered Rs.9 million which Arun refused. After some time Banu wrote to Arun accepting the original offer of Rs.10 million. Arun refused to sell the property. Now Banu wishes to file an action against Arun for specific performance.

Advise Banu.

(08 Marks)

- (b) Mahen offers by post to sell a house to Ratna on 1st July 2012. Ratna receives the letter on 3rd July 2012 and posts letter of acceptance on the same day. Meanwhile Mahen revokes his offer by a letter dated 2nd July 2012 which is received by Ratna on 4th July 2012.

Explain whether there is a contract between Mahen and Ratna.

(12 Marks)

(Total 20 Marks)

Question No. 04 (20 Marks)

- (a) Amal goes to Highway Motors and selects a car for Rs. 2 million. Amal does not like the original colour of the car and Highway Motors agrees to change the colour of the car and to deliver it at Amal's residence, in two weeks time. Amal pays Rs. 1 million immediately and agrees to pay the balance amount of the price after the delivery of the car. A fire broke out in the Highway Motors the very next day and all the vehicles were destroyed.

Explain whether Highway Motors can sue Amal for the price.

(12 Marks)

- (b) State the basic differences between a lease and a hire purchase.

(08 Marks)

(Total 20 Marks)

End of Section A

Section B: Taxation

Answer any two (2) questions

Question No. 05 (20 Marks)

Employment Income

Sirisara (Pvt) Ltd. has made the following payments to Mr. Mihira Kalpage during the year of assessment 2010/2011, Further; he has received the following non cash benefits from the employer as well.

- Gross Salary is Rs.125,000/- per month.
- He was paid a bonus amounting to Rs.200,000/- from the profits of the previous year.
- Rs.150,000/- was paid by the insurance company as medical reimbursement over a medical insurance policy in respect of a heart surgery performed on his mother.
- Mr. Kalpage uses his own vehicle for official purpose and private purpose. He was paid a vehicle allowance of Rs.40,000/- per month.
- Residence provided to him is totally rent free. Rating assessment of the residence is Rs.200,000/- and the rates payable is at 20% of the rating assessment.

Interest income

- Mr. Kalpage has a savings account in a commercial bank, and Rs.43,000/- has been credited to his account during this year of assessment without deducting withholding tax.
- Interest paid to him on a treasury bill was Rs.40,000/-.

Dividend Income

Mr. Kalpage is a share holder of a BOI company which has entered into an agreement prior to 6th November 2002 and that company is still enjoying the tax holiday under the terms of the agreement. It has distributed dividends amounting to Rs.484,000/-.

Further, he is a unit holder of NAMAL Unit Trust and received Rs.17,500/-.

Income from properties

The only residence he owns has now been given on rent to a doctor and he is using that residence for his medical dispensary. This house was constructed by him and the construction was completed during the year of assessment 2005 / 2006. It has a floor area of 1,300 sq. ft. The rent per month is Rs.40,000/- and the house has been assessed by the local authority for Rs.300,000/- on which rates are payable at 20%. He incurred a repair expenditure amounting to Rs.30,000/-.

The bare land owned by him was given to a Financial Institution and it is used as a parking place. Rs.30,000/- is paid to him as ground rent. Rates were paid for the bare land amounting to Rs.8,000/-.

Other income

He has sold public listed company shares and earned profit of Rs.43,000/-.

PAYE deductions - Rs.328,750/-.

Employer has contributed 12% of the salary to an approved provident fund and his contribution is deducted from his salary and it is 8% of his salary.

Payments

- Interest paid on a loan taken for the purchase of a motor car is Rs.38,000/-.
- Interest paid to a bank on a loan obtained for the construction of the house is Rs.172,600/- and the capital repayment is only Rs. 64,000/-.
- Donation made to an approved charity is Rs.45,000/-.

You are required to compute his total statutory income, Assessable Income, Taxable Income, income tax liability, tax credits and balance tax payable for the year of assessment 2010/2011.

Any income exempt from tax, or any deductions not allowed should be stated.

(Total 20 Marks)

Question No. 06 (20 Marks)

- (a) (i) “Cascading effect has been removed with the introduction of Value Added Tax”.

Describe the above statement with the existing provisions relating to value added tax. **(03 Marks)**

- (ii) Any person or partnership who is carrying on any trade, business, profession or vocation has to contribute to the national economy by paying taxes whether he is chargeable to tax or not under Inland Revenue Act. Explain the above statement. **(03 Marks)**

- (b) State whether the following statements are true or false. Justify your answers with relevant statutory provisions related to Value Added Tax.

- (i) Input tax can only be claimed on zero rated supply.
(ii) Optional VAT threshold for registration per quarter in respect of the period relating 1st January 2010 to December 2010 was Rs.650,000/-.
(iii) A tax invoice is to be issued only on a request made by a purchaser.
(iv) Exempt supply is given in the fourth schedule. **(4 × 2 Marks = 08 Marks)**

- (c) XYZ (Pvt) Ltd. is a furniture manufacturing company and during the year of assessment 2010/2011, it has constructed a building to display products of the company. The total expenditure incurred on the construction of the building is Rs.1,530,000/-. This expenditure has been charged to the profit and loss account under advertisement expenditure account. The total advertisement expenditure charge is Rs.3,342,000/-. Compute the disallowable amount, if any, in ascertaining the profit and income of XYZ (Pvt) Ltd and state the reasons. **(06 Marks)**

(Total 20 Marks)

Question No. 07 (20 Marks)

Star Packaging Industries is a partnership which manufactures packing materials. Nalaka and Malaka are the partners of the partnership and their profits sharing ratio is 1:1. Turnover of the partnership is Rs.263,000,000/-

The profit and loss account for 2010 / 2011 is as follows:

	Rs.	Rs.
Gross Profit	39,450,000	
Dividend (net)	90,000	
Interest Income (net)	639,000	
Interest on drawing – Nalaka	64,000	
Total Income		40,243,000
Salaries and wages	13,600,000	
Selling and distribution expenses	5,774,000	
Interest expenses	960,000	
Depreciation	1,700,000	
Donation to the government	10,000	
Bad debt written off	66,000	
Royalty paid	680,000	
Legal cost	18,000	
Audit fees	154,000	
Total Expenses		(22,962,000)
Net Profit		<u><u>17,281,000</u></u>

Notes

- (1) Each partner was paid a salary of Rs.500,000/-.
- (2) Selling and Distribution expenditure includes expenditure on advertising. Advertising cost is Rs.234,000/- and it includes Rs.64,000/- as payment made to a newspaper on recruitment of a clerk.
- (3) Partnership has purchased a lorry on 14th March 2011 for Rs.2,800,000/- on hire-purchase terms. Soon after its purchase, it was handed over to a motor garage to get a body fixed and it took 18 days. Book depreciation has been claimed at the rate of 25% for this year of assessment. In addition to that, Rs.1,000,000/- has been charged as depreciation for the motor car purchased in the year 2009 for the use of the business.
- (4) Rs.10,000/- worth of food items have been donated to an approved charity.
- (5) Bad debt written off is in relation to a loan given to an employee who died in an accident.
- (6) Legal cost incurred on trade debt recovery case is Rs.18,000/-.
- (7) Audit fees includes Rs.100,000/- paid to a tax consultant in respect of an appeal made against an additional assessment on income tax.

You are required to compute the divisible profit, partnership tax credit and Economic Service Charge (ESC) credit available for partners. Clearly state any amount that can be carried forward.

(Total 20 Marks)

End of Section B

End of Part II

End of Question Paper
