

PILOT PAPER – 2023-2027 SYLLABUS

ML3.4 Corporate Law & Advanced Taxation (Advanced Taxation)

Managerial Level

Time allowed: 1 and ½ Hours.

Total Marks: 50

Exam Structure

This exam is consisting with three parts:

Part-I

- 05 Multiple Choice Questions (MCQ)
- Each 02 marks and 10 marks in total.

Part-II

- Two Case Based Objective Test Questions.
- Each 10 marks and 20 marks in total

Part-III

- Two Structured Questions.
- Each containing a case which relates to one or more requirement(s).
- Answers are required be provided in spreadsheet on given format.
- Each 10 marks and 20 marks in total

All questions are compulsory.

Practice Examination – Part I

Exam Structure

- 05 Multiple Choice Questions (MCQ)
 - Segment A 01 MCQ
 - Segment B 01 MCQ
 - Segment C 01 MCQ
 - Segment D 02 MCQs
- Each 02 marks and 10 marks in total.

Segment A

1. Identify which of the companies are resident in Sri Lanka:
 - a) Mega (Pvt.) Ltd incorporated under the Companies Act, No. 07 of 2007 and carried out operations in Hambantota.
 - b) Mr. Madura has incorporated a company in Australia, and the affairs of the company is controlled and managed by Mr. Madura from Sri Lanka.
 - c) Elmo Lanka (Pvt.) Ltd established a company in the USA to carry out the business under the control of management recruited from America.
 - d) The company in the UK exports goods to Sri Lanka.

Segment B

2. Omega (Pvt.) Ltd is a VAT registered company that entered into an agreement with Mega Holdings (Pvt.) Ltd on 4th March 2023 to provide staff training for the group. As per the agreement Omega (Pvt.) Ltd conducted its first training session on 23rd March 2023. However, the company invoiced on 6th April 2023, and the payment was received for the invoice on 12th April 2023.

What is the date/time of supply that Omega (Pvt.) Ltd is liable to pay VAT:

- a) 04/03/2023 b) 23/03/2023 c) 06/04/2023 d) 12/04/2023

Segment C

3. Assistant Commissioner of Inland Revenue issued the default assessment to Nimal on 9th May 2020 for the non-filing of his income tax return for the year of assessment 2018/2019. Later, on 15th August 2021, the amended assessment was issued to increase the tax charged on default assessment.

Assistant Commissioner seeks to issue a further additional assessment to Nimal for the year of assessment 2018/2019.

What would be the last day that Assistant Commissioner can issue further additional assessment:

- a) 30/09/2021 b) 08/05/2024 c) 30/11/2023 d) 30/05/2023

Segment D

4. As per the Gazette Notification No. 2217/7 dated 02nd March 2021, Transfer Pricing Regulation to which of the transaction (other than international transactions) made between associated enterprises are listed below:

- a) There are tax exemptions granted to any one of the associate enterprises.
- b) Same tax rate applies to both associate enterprises.
- c) Any loss incurred by any of the associated enterprises.
- d) Different tax rate applies to both associate enterprises.

5. Enterprises carrying out transactions with associated enterprises be responsible for preparing and maintaining which of the following documents:

- a) Enterprises carrying out aggregate control transactions with associate enterprises exceeding Rs.200Mn shall prepare and maintain local file.
- b) Enterprises that have declared group revenue exceeds 50Mn Euro or its equivalent in Sri Lankan Rupees shall prepare and maintain master file.
- c) Any enterprises carrying out business with enterprises in another country shall prepare and file Country-by-Country Report.
- d) Consolidated Financial Statements.

Practice Examination – Part II

Exam Structure

- Two Case-Based Objective Test Questions.
 - Segment A 01 Question
 - Segment B, C & D 01 Question
- 20 marks in total

Question No. 01 - each question 02 marks in maximum, total 10 marks - Segment A

Parul International (Pvt.) Ltd was established in 2020 and in the first two years company incurred a loss of Rs.10,016,900/-. During the year 2022/2023 company obtained a bank loan to meet working capital needs.

Net profit for the year of assessment 2022/2023	Rs. 13,632,620/-
Interest paid for the year of assessment 2022/2023	Rs. 2,165,175/-
Depreciation for 2022/2023	Rs. 1,071,875/-
Replaced the engine of the Delivery Van during the year 2022/2023	Rs. 1,250,000/-
Share capital as at 31 st March 2023	Rs. 1,500,000/-
Loan outstanding as at 31 st March 2023	Rs. 25,150,000/-

Written down value of the Delivery Van as at 31st March 2022 is Rs.5,145,000/-. Delivery Van was purchased in the year of the business was established.

Net profit is included a gain on the realization of investment assets of Rs.783,165/-

1. Identify how Parul International (Pvt.) Ltd can adjust the loss brought forward to the year of assessment 2022/2023.
 - a) Unrelieved loss shall be claimed within the first two years and not allowed to be carried forward for future years and adjust against the profit.
 - b) Unrelieved business loss can be carried forward to six years and adjusted against other business profits only.
 - c) Unrelieved business loss can be carried forward to six years and adjust against other business profit and investment income.
 - d) Unrelieved investment loss can be adjusted against investment income only.

2. What is the amount of interest allowed to claim for the year of assessment 2022/2023: (Rs.)

3. What is the amount of improvements allowed to claim for the year of assessment 2022/2023: (Rs.)

4. What is the Capital Allowance shall be claimed on delivery van for the year of assessment 2022/2023: (Rs.)

5. What is the income tax payable by Parul International (Pvt.) Ltd for the year of assessment 2022/2023: (Rs.)

Question No. 02- each question 02 marks in maximum, total 10 marks - Segment B, C&D

Ms. Aruni is joined as a Trainee in the tax department where you work for. The Head of Tax has assigned Ms. Aruni to assist you in computing and filling of the VAT Returns of the client you are looking for. She seeks your support to clarify the followings:

6. Help Aruni to select which of the following are true and which are false.

Description	True/False
Corporate Societies are liable to pay Financial VAT.	
The Exchange of Currencies is a financial service liable for VAT.	
Financial VAT Returns shall be filed every three months.	
To apply for RIP status the zero-rated supply shall be exceeding.	
50% of the total supply.	

True

False

Mr.Sanath is working as an education consultant on his own after he resigned from his job at Lanka Mesh Corporation Ltd (LMC) in 2021. While he was in LMC, he submitted an income tax return and after his resignation, he did not file an income tax return with CGIR since his income is below the tax-paying threshold. However, Assistant Commissioner has estimated his income and issued a default assessment for the year of assessment 2022/2023 asking him to pay the tax with penalties and file the income tax return for the year 2022/2023.

7. What is the penalty Mr. Sanath shall pay for non-filing of his income tax return for the of assessment 2022/20:

- a) Penalty equal to 20% of taxes due but not paid.
- b) Penalty equal to 10% of the amount of tax due, but not paid.
- c) 5% of the amount of tax owing plus 1% of the amount of tax owing for each month or part thereof.
- d) Rs. 50,000/- plus Rs. 10,000/- of the amount of tax owing for each month or part thereof up to a maxim of Rs. 400,000/-.
- e) 5% of the amount of tax owing plus 1% of the amount of tax owing for each month or part thereof or Rs. 50,000/- plus Rs. 10,000/- of the amount of tax owing for each month or part thereof up to the maxim of Rs. 400,000/-.

8. Identify where Mr. Sanath has to appeal on the following situation.

Situation	Place to Appeal
Sanath earned Rs.1,150,000/- income for the year of assessment 2022/2023. However, Assistant Commissioner issued an assessment for the estimated income of Rs.11,250,000/-.	
Sanath is not satisfied with the decision given after hearing his appeal for the above situation.	

Appeal to Board of

Appeal to Tax Appeal

Appeal to Court of Appeal

Micro Tech Inc. (MTI) is a company incorporated in Silicon Valley in the USA and engages in manufacturing microchips. After seeing the potential of Sri Lanka, the company, in 2021, Micro Tech Lanka (Pvt.) Ltd (MTL) was incorporated as a 100% subsidiary of Micro Tech Inc. to manufacture microchips in Sri Lanka.

During the year of assessment 2022/2023, MTL paid the following to MTI

Royalty USD 25,000/-

Technical fees USD 15,000/-

Head office expenses allocated to MTI is USD 5,325/-

(1 USD = LKR 350)

9. What is the income tax payable for the year of assessment 2022/2023: (Rs.)

10. What is the remittance tax paid for the year of assessment 2022/2023: (Rs.)

Practice Examination – Part III

Exam Structure

- Two Structured Questions.
- Each containing a case that relates to one or more requirement(s).
- Answers are required to be provided in a spreadsheet in the given format.
- Each 10 marks and 20 marks in total.

Question 01 - Total 10 marks – Segment A

ATM Global Pvt. Ltd is manufacturing AMT machines for the local market, and the tax computation for the year of assessment 2022/2023 is given below.

	Rs. '000
Assessable income from business	218,500
Assessable income from investment	2,160
Aggregated Assessable Income	220,660
Less: Qualifying Payment	1,500
Taxable Income	219,160
Tax Payable	39,449

The following adjustments have been made to the tax computation by the company.

- Gratuity provisions for Rs. 2,150,150/- is allowed.
- Entertainment expenses of Rs. 850,160/- is allowed.
- VAT paid on local purchases for Rs. 34,721,903/- is disallowed.
- Out of total marketing expenses of Rs. 5,450,345/- only 25% allowed.

Other information:

- Interest income is earned on the deposit made in the Foreign Currency Banking Unit (FCBU) in a commercial bank.
- Qualify payments included Rs. 1,500,00 incurred for the Corporate Social Responsibility program.
- During the year company paid Rs. 1,543,675/- as gratuity.

YOU ARE REQUIRED TO:

1. Review the tax computation and prepare the correct tax computation and tax payable, given the reason for correction. (Use the below format)

ATM Global Pvt. Ltd			
Computation of Income Tax Payable for the Year of Assessment 2022/2023			
	(+)	(-)	Remarks/Notes
Assessable income from business			
Assessable income from investment			
Depreciation			
Capital Allowance			
Donation			
Gratuity			
Advertising			
Research and Development Expenses			
Doubtful debts			
Penalty			
Entertainment expenses			
Other Expenses			
Interest income			
Dividend			
Adjusted Business Profit/(Loss)			
Less: Qualify Payments			
Donation to approved charity			
Donation to government/government institution/fund			
Other donations			
Deductible donations			
Taxable Profit/(Loss)			
Gross Tax Payable			
Less: Tax Credits			
Self-Assessment Payment			
WHT		-	
Balance Tax Payable/(Refund)			

Question 02 - Total 10 marks – Segment B

ATM Global (Pvt.) Ltd is a VAT registered company. And the company registered under the Simplified Value Added Tax (SVAT) scheme and obtained RIS status.

During the quarter that ended 31st March 2023, the following transactions were reported in the company's books. All transactions are extracted from the books excluding the VAT. Out of total revenue, 20% of the revenue was received from foreign clients.

Sales ATM Machines:

Sales of ATM Machines to local Market	Rs. 165,657,890
ATM Machines sold to foreign customers	Rs. 65,150,450
Repair of ATM machines for local customers	Rs. 41,235,789
Sales of ATM machines for SVAT Customers	Rs. 39,125,678

Annual Maintenance Charges (AMC):

AMC charges received from local customers	Rs. 9,250,000
AMC charges received from foreign customers	Rs. 10,150,000
AMC charges received from SVAT customers	Rs. 6,230,000

Expenses incurred during the period:

Electricity	Rs. 3,150,900
Water charges	Rs. 548,950
Import of machine parts	Rs. 110,865,000
Clearing charges of machine parts	Rs. 5,120,345
Telephone and Internet	Rs. 1,258,120
Repair charges of the motor car used by MD	Rs. 2,120,560
Material purchased locally to assemble the ATM Machines	Rs. 12,235,890

Other information:

- Unabsorbed excess input VAT brought forward from the previous quarter is Rs.12,678,920/-.
- VAT instalment paid for the quarter ended 31st March 2023 is Rs.1,678,345/-.
- Machine repair charges Rs.35,150,000/- invoices for the foreign client in Sri Lankan Rupees and the client has settled in Sri Lankan Rupees.
- SVAT vouchers received from customers appropriately for the quarter.

YOU ARE REQUIRED TO:

2. Calculate the balance VAT payable for the quarter that ended 31st March 2023.

ATM Global Pvt. Ltd				
Computation of VAT Payable				
for the quarter ended 31.03.2023				
Out Put Tax	Value of Supply	Rate	Tax	Remarks/ Notes
Liabe Supply				
Excluded Supplies				
Exempted Supplies				
Wholesale and Retail Taxable Supplies				
VAT Suspended Taxable Supplies				
Zero Rated Supplies				
Total Output Tax				
Input Tax				
VAT Liabe Imports				
Local Purchases on which VAT is not charged				
Goods Purchased from Non VAT Registered Persons				
Other supply				
VAT Exclude purchases				
Disallowable Input Tax on Imports				
Adjustments				
Disallowable Input Tax Other Purchases				
Disallowable Input on non-business transactions				
Allowable Input Tax Excluding B/F Amounts				
Brought Forward Input Tax				
Allowable Input Tax				

Zero Rated Supplies/Suspended Supplies/22(7)				
Not belongs to above				
Allowable Input				
Unabsorbed Excess Input Tax				
Gross VAT payable				
Less: Installment Payment				
SVAT Credit Vouchers				
Total Tax Credits				
Balance VAT Payable				
Balance VAT Refund				



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Managerial Level

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Total Marks: 50

Exam Structure

This exam is consisting with three parts:

Part-I

- 05 Multiple Choice Questions (MCQ)
- Each 02 marks and 10 marks in total.

Part-II

- Four Case Based Objective Test Questions.
- 30 marks in total

Part-III

- One Structured Questions.
- Each containing a case which relates to one or more requirement(s).
- Answers are required be provided in spreadsheet on given format.
- 10 marks in total

All questions are compulsory.

Practice Examination – Part I

Exam Structure

- 05 Multiple Choice Questions (MCQ)
 - Segment A 01 MCQ
 - Segment B 01 MCQ
 - Segment C 01 MCQ
 - Segment D 01 MCQ
 - Segment E&F 01 MCQ
- Each 02 marks and 10 marks in total.

Segment A

1. Registration of a company is called incorporation. Which of the following is not a legal consequence of incorporation:
 - a) Company is a body corporate separate from shareholders.
 - b) It is a corporate entity continue to exist indefinitely.
 - c) Shareholders are personally liable to creditors.
 - d) Shareholders can take legal actions against the incorporated body.

Segment B

2. Select the correct answer from the followings with regard to the effects of shareholding:
 - a) Shareholders own assets and properties of the company.
 - b) Shareholders can involve in the day-to-day decision making of the company.
 - c) Capital is returned to members in proportion to their shareholding in the winding-up.
 - d) Share ownership can be transferred freely, even in private companies.

Segment C

3. Directors and Secretaries are considered as company officers. However, Auditor is an employee. Select the incorrect statement from the following:
- a) Directors are trustees of the company, not of the shareholders.
 - b) A body corporate can become a director of a limited liability company.
 - c) Secretary of a company can also become a director of the same company.
 - d) Partnership can become the auditor of a company.

Segment D

4. What is a resolution in lieu of a meeting:
- a) It is a written resolution that is passed by not less than 75% of the total voting rights of eligible shareholders.
 - b) It is a written resolution that is passed with a simple majority of the total voting rights of eligible shareholders.
 - c) It is a written resolution that is passed by not less than 85% of the total voting rights of eligible shareholders.
 - d) It is a written resolution that is unanimously passed with the voting rights of all eligible shareholders.

Segment E & F

5. Select the most suitable answer which reflects the main market offences recognized under the new Securities Exchange Commission Sri Lanka Act No 19 of 2021:
- a) False Trading and Market Rigging.
 - b) Use of manipulative and deceptive devices.
 - c) Phishing.
 - d) Answers (a) and (b) above.

Practice Examination – Part II

Exam Structure

- Four Case-Based Objective Test Questions.
 - Segment A 01 Question
 - Segment B 01 Question
 - Segment C 01 Question
 - Segment D 01 Question
- 30 marks in total

Question 01 - Each question 02 marks in maximum, total 07 marks - Segment A

Rane designs a website to sell fruits and vegetables online. He financially contributes to developing the business from scratch. Anil and Bimal, who are his friends, join to manage and operate the business. "Digi-Tale" is the hosting partner of Rane's website, and they mutually agreed to provide storage, web maintenance, hosting facilities, etc. for the business model. After the agreement, he plans to register the business as a company without diluting the ownership.

1. What is the type of company that best suits Rane's business:
 - a) Unlimited company.
 - b) Single shareholder company.
 - c) Private limited company.
 - d) Overseas company.

2. Which of the following statements correctly contains documents needed by Rane for incorporation:
 - a) Declaration on business owner's name, Consent from directors, Consent from shareholders, Consent from Secretary, Memorandum of Association.
 - b) Declaration on business name, Consent from the first directors, Consent from the first shareholders, Consent from the first Secretary, Articles of Association.
 - c) Declaration on name of the company, Consent from directors, Consent from members, Consent from Auditor, Articles of Association.
 - d) Declaration on corporate name, Consent from managers, Consent from Chief Executive Officer, Consent from the first employees, Articles of Association.

3. Which of the following statements made by Rane is true regarding companies:

	Statement	True/False
a	Rane thinks a single-shareholder company has only one share, which is held by one person.	
b	Rane thinks companies that are duly incorporated by law receive a certificate of registration and a company number.	
c	Rane thinks it is compulsory to state the objects of the business in the Articles of Association, and it will be a restriction on business operations.	
d	Rane thinks one director is enough to incorporate a private limited company, and it cannot be a body corporate.	

True

False

4. Which of the following statements is INCORRECT regarding Rane's agreement with "Digi-Tale":

- Rane contracted personally for an unincorporated business; therefore, he is personally liable for payment to the hosting partner.
- Rane contracted on behalf of the future company; therefore, the company can be held liable for payment to the hosting partner.
- Rane's company has the option to ratify the same contract; therefore, Rane is not personally liable.
- Rane's company has the option to form a fresh contract with "Digi-Tale"; therefore, the company can be held liable.

Question 02 - Each question 02 marks in maximum, total 08 marks - Segment B

Ma-Ney is interested in the stock market and shares. He claims a 51% shareholding in a public limited company, and all are ordinary shares carrying voting rights. He has a 30% debenture holding at the same company. The company's performance reports a drastic decline at the end of 2022. Therefore, Ma-Ney wants to replace two directors on the board at the 2023 annual general meeting. Ru-One, who has a 12% shareholding in the company, argues management should not be compensated.

5. Which of the following is NOT a difference between a share and a debenture:
- Shareholding shares the ownership of a company while holding debentures becomes a liability to a company.
 - In exchange for their shareholding, shareholders receive fixed dividends, whereas debenture holders receive variable interest.
 - Shares do not carry any charge but debentures generally have a charge.
 - Shareholders are paid after all other liabilities are settled and debenture holders are paid first at the time of liquidation.
6. Which of the following statements is correct regarding Ma-Ney's 51% shareholding in a public limited company:
- Ma-Ney's returns on 51% shareholding come from appreciation in the market value of shares and receiving company dividends.
 - With a 51% stake in the company, Ma-Ney believes he owns the company's assets and properties, therefore, he can command directors to sell some unwanted assets.
 - As the major shareholder, Ma-Ney believes he has significant voting power to control the management, so he can dismiss directors at the AGM on personal grounds.
 - Ma-Ney believes his approval is enough for any transaction initiated by the company which is more than half the value of the total assets of the company.
7. Which of the following statements are true regarding Ma-Ney's 30% debenture holding in the public limited company:

	Statement	True/False
a	Ma-Ney has 30% voting rights in the company over his debenture holding.	
b	Ma-Ney is entitled to the interest payment until the principal sum (30%) is paid back.	
c	Ma-Ney is a creditor to the company and he is entitled to be paid the principal sum at a specified date.	
d	Ma-Ney can convert his debentures into shares while he can also convert his shares in the same company into debentures.	

True

False

8. What is the most suitable action available to Ru-One against Ma-Ney:
- a) Ru-One can file an action against oppression and mismanagement.
 - b) Ru-One can make an application to court requiring a restraining order.
 - c) Ru-One can file a derivative action for the best interest of the company.
 - d) Ru-One can require company to exercise minority-buy-out right.

Question 03 - Each question 02 marks in maximum, total 07 marks - Segment C

Samudra is the managing director of a shipping line. She is fully aware of the recent issue of shares at a discount by the company. As a result, her husband, Rakitha, was able to acquire 30% of the shareholding. Other directors are totally ignorant of this incident, and Samudra accepts an invitation to become a directress at a competing shipping line. The majority of directors including Samudra decide to expand their business towards the construction of ships. Rakitha, who knew the deal, was disappointed about the ignorance of members.

9. Which of the following duties breached by Samudra as a director:
- a) Duty to act in good faith for promotion of shareholder's interest in the company.
 - b) Duty to accept competing directorships in the same industry to improve her managerial skills for the betterment of the present company.
 - c) Duty to disregard Company Act and articles in situations where her personal judgment is correct.
 - d) Duty to disclose her personal interests that conflict with the company interests to other board members.
10. Which of the followings is a qualification of directors:
- a) Director should be between 18-65 years.
 - b) Director should be professionally & academically qualified.
 - c) Director should be a natural person or body corporate.
 - d) Director should be solvent.

11. What are the TWO statements from the followings are correct regarding duties and responsibilities of executive & non-executive directors:

- a) The non-executive director attends business meetings, advising, & involves in market decision making.
- b) The executive director is an employee of the company who executes managerial decisions on a daily basis.
- c) The executive director has a special responsibility to bring more knowledge from macro business environment.
- d) The non-executive director is expected be impartial and independent in corporate decision making.

12. What is most suitable & lawful method to remove Samudra from directorship:

- a) Shareholders can file an action for oppression & mismanagement.
- b) Shareholders can dismiss her with a simple majority.
- c) Shareholders can file a derivative action.
- d) Shareholders can dismiss her by passing a unanimous resolution.

13. What is the INCORRECT statement regarding board decision to expand their business:

- a) Board of directors can start a similar business against objects and consent from members is immaterial.
- b) Board of directors cannot start a different business even it is close to objects without the consent from member's special majority.
- c) Board of directors can start any business and it should not be a restriction on third parties.
- d) Shareholders can file an action for oppression and mismanagement for breach of Companies Act & Articles.

Question 04 - Each question 02 marks in maximum, total 08 marks - Segment D

Bruno is a member of a company limited by guarantee incorporated under the Companies Act. The objective of forming the company is to facilitate and carry out the work for the establishment and operation of the Green City of the Colombo Industrial City Project. A committee of experts observed that the continuation of this company is no longer necessary. Members of the company unanimously decide to wind-up but the entire company does not want to see any involvement by the court of law. Bruno believes he must be paid first before other securities.

14. What is the most appropriate method of winding-up of the above company:

- a) Winding-up by tribunal.
- b) Winding-up subject to the supervision of government.
- c) Voluntary winding-up.
- d) Winding-up subject to the supervision of court.

15. Match the definitions and write appropriate letter in the box.

	Term	Rank	Definition
A	Compulsory winding-up		Possible when the company is solvent and upon certification by directors on the same and will be able to pay debts.
B	Member's winding-up		Possible when the company is or will be insolvent & unable pay its debts in full.
C	Creditor's winding-up		Possible to wind-up the company by passing an ordinary resolution subject to declaration of solvency of board of directors.
D	Voluntary winding-up		Possible after application for winding-up by way of a petition to the court subject to a special resolution passed by members.

16. Rank the priority of distribution assets during liquidation.

1.Equity shareholders	
2.Unsecured creditors	
3.Liquidation expenses	
4.Secured creditors	

17. Which of the following statements is NOT a case for compulsory winding-up:

- a) The company has by special resolution resolved that the company be wound up by the court.
- b) The company has by special resolution resolved that the company be wound up by members.
- c) The number of company's members falls below the minimum number required by law and no directors.
- d) No directors on the board to make any decision for the company.

Practice Examination – Part III

Exam Structure

- One Structured Questions.
- Each containing a case that relates to one or more requirement(s).
- Answers are required to be provided in a spreadsheet in the given format.
- 10 marks in total.

Practice Question 01 - Total 10 Marks - Segment A, B, C & D

“Red-Cloud”, is a software development team and they are a limited liability company and retained “Honey-Pot”, a well-known company for secretarial practices to act as their secretary.

Description	Rs.	Rs.	Rs.
Particulars	Process – A	Process – B	Process – C
Direct Material cost	7,800/-	5,940/-	8,886/-
Direct Wages	6,000/-	9,000/-	12,000/-
Production Overheads	6,000/-	9,000/-	12,000/-

However, “Honey-Pot” failed to furnish the annual return of “Red-Cloud” for the year 2022/23 to the Registrar of Companies. “Red-Cloud” appointed “Scorpio”, a registered audit firm as their auditor but it was revealed that one of the partners at “Scorpio” is a close friend of “Red-Cloud” team. As a result, “Scorpio” falsified the audit report stating that the company is highly profitable. Meanwhile, the directors of “Red-Cloud” are proposing to declare a dividend payment. They have approached you with an extract of the Statement of Financial Position which shows the status of company assets and liabilities after accounting for the proposed dividend.

Red-Cloud PVT LTD		
Extract of Statement of Financial Position as at 31/03/2023.		
Property, Plant & Equipment		500,000
Current Assets	30,000	
Total Assets		530,000
Stated Capital		100,000
Retained Earnings		6,000
Current Liabilities		50,000
Non-current Liabilities	60,000	
Total Liabilities		110,000

YOU ARE REQUIRED TO:

- 1) Calculate balance sheet limb of the solvency test according to the Companies Act, No. 07 of 2007 and write whether the proposed dividend should be declared. (Imagine liquidity limb is satisfied).

- 2) Can “Honey-Pot” become the secretary of “Red-Cloud”? Select TWO answers.

- a) Yes it can, it should not be a firm. b) No it cannot, it is a body corporate.
c) Yes it can, it is a body corporate. d) No it cannot, it should be firm.

- 3) Explain duties breached by “Honey-Pot”.

- 4) Can “Scorpio” become the auditor of “Red-Cloud”? Select TWO answers.

- a) Yes it can, it is a firm. b) No it cannot, it is not a body corporate.
c) No it cannot, it is a firm. d) Yes it can, it is not a body corporate.

- 5) Explain duties breached by “Scorpio”.
