

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

FINAL EXAMINATION – JANUARY 2014

(58) TAXATION

Time: 03 hours

18-01-2014
Morning
[9.00 – 12.00]

▪ **Instructions to candidates:**

No. of Pages : 06
No. of Questions : 05

- (1) **All questions should be answered.**
- (2) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (3) **Use of calculators is permitted.**
- (4) **Attach all workings and computations. State clearly assumptions made by you, if any.**
- (5) **100 Marks.**

01. Kids World (Pvt) Ltd., which is a subsidiary of **Mega Toys PLC** is engaged in manufacturing soft toys for export.

You are provided with the following summarized Income Statement of **Kids World (Pvt) Ltd.**

**Kids World (Pvt) Ltd.
Income Statement for the year ended 31st March 2013**

	Rs.	Rs.
Turnover - Exports	140,800,000	
Gross Profit		27,456,000
Add: Other Income		
Profit on disposal of Machine	412,500	
Insurance claim received	307,500	
Interest income received	67,500	787,500
Less:		
Administration Expenses	8,363,250	
Distribution Expenses	2,988,775	
Finance and Other Expenses	1,932,500	(13,284,525)
Net Profit / (Loss) Before Taxation		14,958,975

Net profit before taxation for the year ended 31st March 2013 is arrived at after charging all the expenses including the following:

	Rs.
Depreciation	2,386,692
Entertainment expenses	191,250
Lease Interest	118,825
Provision for bad and doubtful debts	370,500
Provision for gratuity	765,000
Donations	250,000
Advertising - Staff recruitment	67,500
- Others (outside Sri Lanka relating to export trade)	850,000
Foreign travelling	843,000
Legal fees	132,000
Rent paid for factory Manager's residence	216,000
Stamp duty paid on lease agreement	20,700

Notes to the accounts:

Note 1

Property, Plant and Equipment

Cost

Particulars	Balance as at 01.04.2012 Rs.	Additions Rs.	Disposals Rs.	Balance as at 31.03.2013 Rs.
<u>Freehold Assets</u>				
Land	1,850,000	-	-	1,850,000
Building	2,325,000	-	-	2,325,000
Furniture	635,500	-	-	635,500
Sewing Machines	2,550,000	1,440,000	1,275,000	2,715,000
Factory Equipment	360,000	900,000	-	1,260,000
Computers	406,000	-	-	406,000
Motor Vehicles	3,650,000	2,500,000	-	6,150,000
<u>Leased Assets</u>				
Cutting Machine	-	840,000	-	840,000
Total	11,776,500	5,680,000	1,275,000	16,181,500

Depreciation

Particulars	Balance as at 01.04.2012 Rs.	Charge for the year Rs.	Disposals Rs.	Balance as at 31.03.2013 Rs.
<u>Freehold Assets</u>				
Building	50,000	51,667	-	101,667
Furniture	285,975	95,325	-	381,300
Sewing Machines	1,530,000	543,000	765,000	1,308,000
Factory Equipment	270,000	67,500	-	337,500
Computers	243,600	81,200	-	324,800
Motor Vehicles	2,190,000	1,380,000	-	3,570,000
<u>Leased Assets</u>				
Cutting Machine	-	168,000	-	168,000
Total	4,569,575	2,386,692	765,000	6,191,267

- (1) The building in which the operations are carried out was constructed during the year of assessment 2011/12.
- (2) The company has sold a sewing machine on 01st May 2012 and a new sewing machine was purchased on 01st September 2012.
- (3) During the year, the company has purchased an energy efficient factory equipment to be used in the production line.
- (4) Opening balance of motor vehicles consists of Lorries used for the purpose of transport of raw material and finished goods. During the year, the company has purchased a car for the use of the Managing Director for Rs.2,500,000/-.
- (5) A cutting machine was obtained under a finance lease agreement for a period of 48 months from 15th June 2012. Monthly installment of the lease is Rs.25,500/-. The company has paid 10 installments during the year.
- (6) Unless stated otherwise, all items of Property, Plant and Equipment as at 01st April 2012 have been acquired in the year of assessment 2009/10 when the company commenced its operations.

Note 2

- (1) (i) The bad debts of Rs.68,000/-, which had been provided as doubtful debts earlier, has been written off during the year. In addition to that, a trade debt of Rs.75,000/- was estimated to have become a bad debt during the year.
- (ii) The company has recovered Rs.248,000/- during the year from **ABC (Pvt) Ltd.** which had been provided for in the previous year as a doubtful debt. This amount has been credited to provision for bad and doubtful debts account.
- (2) During the year, company has donated plastic waste bins worth of Rs.200,000/- to the Pradeshiya Saba and cash donation of Rs.50,000/- was made to the company's employees welfare society.
- (3) The company has paid Rs.425,000/- for air tickets of Managing Director who visited China to inspect a new sewing machine. Balance of foreign travelling expenses was incurred in respect of participation to a trade fair in Germany.
- (4) During the year, legal fees of Rs.72,000/- has been incurred for a labour case in District Court. In addition to that, the company has paid Rs.60,000/- to a Consultant in respect of an appeal made against an additional assessment of income tax.
- (5) The company has paid Rs.216,000/- for the year to owner of the house in respect of rent free residence provided to the Factory Manager, who was employed throughout the year and received a salary of Rs.100,000/- per month.
- (6) During the year, part of the material was damaged due to a fire inside the store. The cost of the damaged goods amounted to Rs.410,000/-. The company has received Rs.307,500/- as an insurance claim for the goods. Except recording the receipt of insurance claim, no other adjustment has been made regarding this damage.
- (7) No payment has been made as gratuity during the year.
- (8) Interest income is the net interest received on treasury bills.
- (9) Taxable business loss brought forward from the year of assessment 2011/12 was Rs.6,223,500/-.

From the foregoing information,

You are required to compute:

- (a) Statutory Income from each source of income,
- (b) Total Statutory Income,
- (c) Assessable Income,
- (d) Taxable Income,
- (e) Gross Income Tax Payable,
- (f) Loss to be carried forward, if any,

of **Kids World (Pvt) Ltd.** for the year of assessment 2012/13.

(Ignore implications of VAT, NBT and tax on under-distributed profit) (35 marks)

02. Gamage, who is the Head of marketing of **New Fashions (Pvt) Ltd.** is a resident individual.

The following information relating to **Gamage** is provided in respect of the year of assessment 2012/13 (hereinafter referred to as the 'year').

- (1) Gross salary received was Rs.130,000/- per month. The company pays him a commission based on volume of sales and he received a commission of Rs.465,000/- during the year.
- (2) He owns a motor car and it is used for official purposes as well as private purposes. He was paid Rs.25,000/- per month as vehicle allowance by his employer. The company has paid him Rs.24,000/- during the year as maintenance expenses of the vehicle.
- (3) The company bears his mobile phone bills and the company has reimbursed Rs.26,500/- during the year to **Gamage**.
- (4) He has been paid an entertainment allowance of Rs.35,000/- per month.
- (5) He was provided a rent free house and a sum of Rs.20,000/- per month is paid to the owner by the company as the rent. The company pays rates at 25% and the rating assessment of the house is Rs.100,000/-.
- (6) The company has a medical scheme and he has been reimbursed an amount of Rs.38,000/- during the year in respect of illness of his wife.
- (7) PAYE deducted for the year was Rs.220,092/-.
- (8) He has constructed a house having a floor area of 3,000 square feet and the construction was completed in May 2012. This house was rented from June 2012 at a rent of Rs.65,000/- per month. Rating assessment of this house is Rs.300,000/- and rates paid for the year were Rs.75,000/-. He has obtained a housing loan in respect of construction of this house from a commercial bank for which he has paid Rs.117,000/- and Rs.55,130/- during the year as interest and capital repayment respectively.
- (9) **Gamage** is the owner of another house which is occupied by his brother on his behalf. Net annual value of this house is Rs.150,000/-.
- (10) Treasury bills interest received during the year was Rs.108,000/-. In addition to that, he has earned an interest of Rs.76,000/- (net of withholding tax) on the fixed deposit in Bank of Ceylon.
- (11) He got married in 2010 and is having a son, one year old. He deposited Rs.100,000/- in a children's savings account to celebrate the birth of the son. During the year, an interest of Rs.15,000/- has been received to that account. No tax has been deducted on such interest.
- (12) **Gamage** received Rs.26,700/- as dividends from quoted public companies. Withholding tax at 10% has been deducted on these dividends.
- (13) Cost of books donated by him to the library of Daham (Sunday) school was Rs.35,000/-. Further, he donated Rs.25,000/- to the Ministry of Disaster Management for the relief of flood victims.

From the foregoing information,

You are required to compute Gamage's:

- (a) Statutory Income from each source of income,
- (b) Total Statutory Income,
- (c) Assessable Income,
- (d) Taxable Income,
- (e) Gross Income Tax payable,
- (f) Balance Income Tax Payable / Refund Due, and,
- (g) Exempt income, if any

for the Year of Assessment 2012/13.

(30 marks)

Note: *If any expense is allowed as a deduction, state clearly reasons for allowing that deduction.*

- 03. Tom & Jerry** who are partners of **Jack Traders** are carrying on a business of drawing up cartoons for kids. **Twity** who is the wife of **Tom** serves as the Manager of the business. **Tom & Jerry** have agreed to share the profit / loss at the ratio of 3:2. Income statement for the year ended 31st March 2013 of **Jack Traders** is given below:

	Rs.'000	Rs.'000
Turnover		10,000
Less: Expenses		
Salaries to the staff	720	
Partners' salaries - Tom	600	
- Jerry	480	
Advertising (for promotion of goods)	400	
Accounting & Audit fees	450	
Office rent	120	
Utility bills	345	
Provision for Depreciation	80	(3,195)
Profit for the year		6,805

The following additional information is also provided:

- (1) Staff salaries include salary paid to **Twity** amounting to Rs.240,000/-.
- (2) All the capital assets have been fully depreciated for tax purposes.

You are required to Compute,

- (a) Divisible profit / loss of the partnership,
- (b) Gross partnership income tax liability,
- (c) Apportionment of the divisible profit / loss between the partners,

of **Jack Traders** for the year of assessment 2012/13.

(Ignore Nation Building Tax - NBT)

(15 marks)

04. (a) State two(02) business activities liable to pay Nation Building Tax (NBT). (02 marks)

(b) What are the deductions of withholding tax (WHT) rates applicable to income from interest received by individuals on deposits in Banks for the year of assessment 2012/13? (*Income limits should be stated*) (02 marks)

(c) (i) A company has registered under the "Simplified Value Added Tax" (SVAT) scheme.

State two(02) types of persons, who can register under this scheme as "Registered Identified Purchasers" (RIP). (02 Marks)

(ii) **Siril (Pvt) Ltd.** is a VAT registered company engaged in the business of importing and selling of bags. The following information is extracted for the quarter ended 30th September 2013:

	Rs.'000
Turnover (exclusive of VAT)	12,500
Input VAT paid on local purchases	120
Input VAT paid on imports	540
Payment of VAT for July & August 2013 to Inland Revenue Department	250

You are required to, compute the balance Value Added Tax (VAT) payable for the quarter ended 30th September 2013. (04 marks)
(Total 10 marks)

05. (a) **Green World (Pvt) Ltd.** is in the business of exporting artificial plants and enjoying a tax holiday of 5 years from the year of assessment 2010/11. You are the tax consultant of **Green World (Pvt) Ltd.** Turnover for the quarter ended 30th September 2013 is Rs.65 million.

You have been asked the following by the management:

(i) Is the company liable for Economic Service Charge (ESC) for the quarter ended 30th September 2013? State reasons. (04 marks)

(ii) When is the due date to file the ESC return for the year of assessment 2012/13? (02 marks)

(b) List two(02) methods of paying Stamp Duty. (02 marks)

(c) State two(02) characteristics of a valid income tax appeal. (02 marks)
(Total 10 marks)