

**THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA**

**FINAL EXAMINATION – JANUARY 2012**

**(58) TAXATION**

21-01-2012  
Morning  
[9.00 – 12.00]

**Time: 03 hours**

No. of Pages : 07  
No. of Questions : 05

▪ **Instructions to candidates:**

- (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. **Vitra (Pvt) Ltd.** is a resident company incorporated in January 2009 having its factory and office in the Ratnapura district. The company is in the business of manufacturing of floor tiles and wall tiles. 60% of the share capital of **Vitra (Pvt) Ltd.** is owned by **Vitra Holdings PLC.**

The net profit before income tax for the year ended 31<sup>st</sup> March 2011 after charging all expenses and crediting all income was Rs.1,250,000/-. Turnover of the company for the year was Rs.230,000,000/-.

**Notes to the accounts:**

**Note 1**

**Property, Plant and Equipment**

**Cost**

Particulars	Balance as at 01.04.2010 Rs.	Additions Rs.	Disposals Rs.	Balance as at 31.03.2011 Rs.
Freehold Land	-	1,000,000	-	1,000,000
Buildings	11,000,000	1,200,000	-	12,200,000
Machinery & Equipment	24,000,000	3,600,000	-	27,600,000
Motor Vehicles	15,800,000	3,000,000	2,500,000	16,300,000
Computer Hardware	1,000,000	750,000	-	1,750,000
IT Software	800,000	-	-	800,000
Furniture	900,000	400,000	-	1,300,000
<b>Total</b>	<b>53,500,000</b>	<b>9,950,000</b>	<b>2,500,000</b>	<b>60,950,000</b>

## Depreciation

Particulars	Balance as at 01.04.2010 Rs.	Charge for the year Rs.	Disposals Rs.	Balance as at 31.03.2011 Rs.
Buildings	1,100,000	580,000	-	1,680,000
Machinery & Equipment	960,000	1,440,000	-	2,400,000
Motor Vehicles	3,950,000	3,160,000	625,000	6,485,000
Computer Hardware	1,000,000	750,000	-	1,750,000
IT Software	400,000	100,000	-	500,000
Furniture	225,000	400,000	-	625,000
<b>Total</b>	<b>7,635,000</b>	<b>6,430,000</b>	<b>625,000</b>	<b>13,440,000</b>

- (1) All items of Property, Plant and Equipment as at 01<sup>st</sup> April 2010 were acquired or constructed in January 2009.
- (2) The company has constructed factory building, office buildings and dwelling house for the manager on the leasehold land which was obtained under an operating lease agreement. The lease period is 30 years commencing from 01<sup>st</sup> January 2009. Annual lease rent was Rs.500,000/-and it was charged to the income statement. Another land was acquired to construct a building for a stores during the year. Construction of building work has been completed and the stores was being used from March 2011.
- (3) The cost of buildings which were constructed on the leasehold land consisted of the following:

	Rs.
Factory and office buildings	9,000,000
Dwelling house for the Manager	2,000,000
<b>Total</b>	<b>11,000,000</b>

- (4) The cost of Motor Vehicles as at 01<sup>st</sup> April 2010 consisted of the following:

	Rs.
2 Motor Cars used for business travelling	5,800,000
4 Motor Lorries	10,000,000
<b>Total</b>	<b>15,800,000</b>

- (5) A new lorry was purchased on 01<sup>st</sup> December 2010 and an old lorry was disposed on 31<sup>st</sup> January 2011.
- (6) Computer hardware as at 01<sup>st</sup> April 2010 was obtained under a finance lease agreement for a 3 year period from 01<sup>st</sup> January 2010. Monthly installment of the lease was Rs.35,000/-. Other computers were purchased during the year.
- (7) The IT software in use as at 01<sup>st</sup> April 2010 had been developed in Sri Lanka.

## Note 2

Details of some of the expenses charged and income credited to Income Statement in arriving at the net profit of the company for the year ended 31<sup>st</sup> March 2011 were as follows:

- (1) Interest on finance lease Rs.120,000/-.
- (2) Foreign travelling expenditure of Rs.825,000/- has been incurred by the Technical Director for a visit to Italy to inspect a new tile polishing machine.
- (3) Management fee paid to **Vitra Holding PLC** was Rs.4,500,000/-.
- (4) Entertainment expenses of Rs.75,000/- has been incurred.
- (5) Details of bad debts charged to income statement are as follows:

	<b>Rs.</b>
Loan given to an employee who resigned	10,000
<b>Jayawardena</b> (a customer who died leaving no assets)	45,000
5% of the balance debtors	120,000
<b>Total</b>	<b>175,000</b>

- (6) A legal expense of Rs.120,000/- has been incurred to acquire a land. Further, Rs.30,000/- has been incurred on a labour case in district court.
- (7) Advertising cost is as follows:

	<b>Rs.</b>
Cost of launch of a high quality floor tile	2,512,000
Advertisements on electronic media	1,950,000
<b>Total</b>	<b>4,462,000</b>

- (8) Details of repairs & maintenance of vehicles are as follows:

	<b>Cars used by Managers Rs.</b>	<b>Lorries Rs.</b>
Fuel	158,000	245,000
Repair & maintenance	45,000	120,000
<b>Total</b>	<b>203,000</b>	<b>365,000</b>

Non cash benefit of free transportation provided to Managers has been considered for PAYE tax.

- (9) The company has made a donations amounting to Rs.480,000/- to the government and a cash donation of Rs.50,000/- to Help Age which is an approved charity.
- (10) Summary of other Income:

	<b>Rs.</b>
Profit on sale of lorry	100,000
Interest received from investments in Treasury Bills	450,000
Dividend received from an associate company	100,000
Income from sale of empty containers	480,000

(11) The company has made a provision for gratuity of Rs.1,200,000/- for the year. No payment was made during the year.

(12) Details of stamp duty charged to income statement were as follows:

	<b>Rs.</b>
Cost of stamp affixed on receipts	23,000
Stamp duty paid for acquisition of land	120,000
Stamp duty on lease agreement	25,000

(13) Other expenses include the following:

	<b>Rs.</b>
Expenses for annual Pirith Ceremony	270,000
Floor Tiles stolen by labourer	25,250
<b>Total</b>	<b>295,250</b>

**Note 3**

Adjusted taxable business loss brought forward from the year of assessment 2009/10 was Rs.10,652,000/-.

**Note 4**

Economic service charge (ESC) paid for the period was Rs.500,000/- and self assessment tax payment for the year of assessment 2010/11 was Rs.1,000,000/-.

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) Balance Income Tax Payable,

of **Vitra (Pvt) Ltd.** for the Year of Assessment 2010/11.

(Ignore implications of VAT, NBT and deemed dividend tax)

(35 marks)

02. **Abeynayaka**, a retired Army Officer, is 65 years of age, and is a resident individual. He is at present in full-time employment as a Senior Security Officer of **Lion Security (Pvt) Ltd.**

Following information relating to **Abeynayake** is provided in respect of the year of assessment 2010/11 (hereinafter referred to as the 'year').

- (1) Pension received from the government of Sri Lanka Rs.35,000/- per month.
- (2) Salary received from **Lion Security (Pvt) Ltd.** is Rs.70,000/- per month. A bonus of Rs.150,000/- was paid to him in December 2010. Another bonus for the year 2010/11 amounting to Rs.200,000/- was paid in April 2011. EPF deduction is 8% of the salary.
- (3) **Abeynayaka** was provided with a jeep (3,000 CC) with fuel for his official and private use. **Abeynayaka** did not pay to employer for private use and a running chart has not been maintained.
- (4) He lives with his family in an apartment purchased in March 2010. The apartment which was constructed in June 2008 has an area of 2,500 square feet. The rating Assessment was Rs.140,000/-.
- (5) The ancestral home inherited by him from his parents, situated in his village was rented for Rs.25,000/- per month from April 2010. The house was situated in an unrated area. The repairs incurred by him on the house amounting to Rs.40,000/- for the year.
- (6) Interest received by **Abeynayaka** on a fixed deposit of Rs.2,000,000/- at the National Savings Bank was Rs.180,000/- for the year. Interest income received on the Treasury Bill was Rs.120,000/-.
- (7) **Abeynayaka's** daughter **Shinidu**, who was born on 03<sup>rd</sup> April 1994, has a minor's savings account at **Sampath Bank PLC**, on which interest amounting to Rs.8,000/- (gross) for the year has been credited.
- (8) **Abeynayaka's** daughter bought a lottery from money given by her father and won the first prize of Rs.1,000,000/-. She received Rs.900,000/- after deducting With Holding Tax.
- (9) **Abeynayake** has received a dividend from **Toyoda PLC** and the following particulars are stated in the dividend warrant counterfoil:

	<b>Rs.</b>
Dividends out of profits liable for tax, Net dividend	45,000
Dividend tax	5,000
<b>Gross dividend</b>	<b>50,000</b>
Dividend out of exempt dividends	70,000
	<b>120,000</b>

- (10) **Abeynayaka** has paid interest of Rs.132,000/- and repayment of capital of Rs.115,000/- on the loan obtained from **Sampath Bank** to purchase the house.

(11) He has made the following donations during the year:

	<b>Rs.</b>
Cash donation to an approved charity	50,000
Donation of paint to re-paint ward 48 of the National Hospital, Colombo	90,000
	<b>140,000</b>

(12) Annual premium paid by **Abeynayake** on a policy of medical insurance for himself and his family was Rs.8,500/-.

(13) PAYE deducted for the year was Rs.64,600/-.

From the foregoing information,

**You are required to compute Abeynayake'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, and,
- (g) Exempt income, if any

for the year of assessment 2010/11.

(30 marks)

03. **Prema** and **Ama**, Mother and daughter carry on a partnership business of beauty saloon, sharing profits and losses in the ratio of 3:1 respectively.

The particulars for the year of assessment 2010/11 are as follows:

	<b>Rs.</b>	<b>Rs.</b>
Turnover	-	2,200,000
Add: Interest on drawings:		
<b>Prema</b>	25,000	
<b>Ama</b>	8,000	33,000
		2,233,000
Less: Direct cost		(430,000)
		<b>1,803,000</b>
Other expenses:		
Salaries		
<b>Prema</b>	180,000	
<b>Ama</b>	80,000	
<b>Clinton</b>	120,000	
<b>Book-keeper</b>	144,000	
Interest on capital		
<b>Prema</b>	120,000	
<b>Ama</b>	-	
Depreciation	50,000	
Stationery	120,000	
Rent for building	180,000	
Advertising (Promotional)	80,000	(1,074,000)
<b>Net Profit</b>		<b>729,000</b>

They have purchased a hair cutting machine amount of Rs.100,000/- for the use of the business during the year. Other than that, there are no assets in the business.

**Clinton** who is the husband of **Prema** owns the building. He serves the partnership as cashier.

**From the particulars given, you are required to compute:**

- (a) The divisible profit / loss of the partnership.
- (b) Gross partnership tax payable of the partnership.
- (c) Apportion the divisible profit / loss between the partners and the statutory income from business of each partners.
- (d) The partnership tax credit available to the two partners.

For the year of assessment 2010/11.

(ignore Nations Building Tax [NBT])

(16 marks)

04. (a) What is the threshold for “Optional VAT” registration for taxable periods in 2011? (04 Marks)

(b) What particulars should a valid “Tax Invoice” contain according to the provisions of the Value Added Tax Act? (04 Marks)

(Total 08 Marks)

05. (a) According to the charging section, who are the persons liable to pay the “Nation Building Tax”? (04 marks)

(b) State briefly the difference between an appeal and an objection according to the provisions of the Inland Revenue Act.

*(A candidate does not have to state all the conditions necessary to make a valid appeal under the Inland Revenue Act)* (04 marks)

(c) Briefly explain the benefits of the filing the return of income on or before the due date. (03 marks)

(Total 11 marks)