

Executive Level
Fundamentals of Tax & law
(Pilot Paper)

Instructions to candidates

- (1) Time allowed: Reading and planning – 20 minutes
Writing – 3 hours

Part A-Taxation

- (2) Section 1(a): 5 multiple choice questions (MCQs) – **all questions are compulsory**

Section 1(b): 5 sub-questions – **all questions are compulsory**

Section 2: 1 questions – **compulsory**

Section 3: 1 question – **compulsory**

Part B- Legal Fundamentals

- (3) Section 1(a): 5 multiple choice questions (MCQs) – **all questions are compulsory**

Section 1(b): 5 sub-questions – **all questions are compulsory**

Section 2: 3 questions – **compulsory**

- (4) Answers to Section 1(a) should be in the special paper given to you. The most suitable answer (A, B, C or D) should be entered in the paper against the relevant question number.

Answers to questions in all other sections should be in the answer booklet provided to you.

- (5) Begin each answer in Section 2 and Section 3 on a separate page in the answer booklet.

- (6) All answers should be in **one language** and in the **medium applied for**.

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Part A

Taxation

Total marks for Part A is 40 marks.

A minimum score of 20 marks for this part is needed to pass the module.

SECTION 1

All questions are compulsory.
Total marks for Section 1 is 20 marks.
Recommended time for the section is 36 minutes.

Question 01

1(a): You are required to choose the most appropriate answer. (Total 10 marks)

1.1. Select the correct category that represents the principles of taxation.

- A. Equity, progressivity, simplicity, stability
- B. Economy, effectiveness, stability, efficiency
- C. Equity, progressivity, fairness, cost effectiveness
- D. Efficiency, effectiveness, progressivity, transparency

(2 marks)

1.2. Araliya Limited received a net dividend of Rs. 540,000 after deduction of dividend tax at 10%, from a resident company in Sri Lanka. Select the correct statement with regard to the income tax liability of Araliya Limited.

- (i) This dividend forms a part of the business income,
- (ii) The company is entitled for a tax credit of Rs. 60,000.
- (iii) This dividend does not form a part of the assessable income

- A. (i) only
- B. (ii) only
- C. (i) and (ii) only
- D. (iii) only

(2 marks)

1.3. Identify the income or the receipt given below which does not constitute a source of income of a resident person, under Section 03 of the Inland Revenue Act.

- A. Singapore Dollars 1,000 being interest on a fixed deposit maintained with a bank in Singapore.
- B. Rs. 420,000 being interest (net of withholding tax at 8%) on a fixed deposit maintained with a bank in Sri Lanka.
- C. Rs. 1,800,000 being net sale proceeds of his residential house in Kandy.
- D. Rs. 900,000 being a prize won at a lottery conducted by the National Lotteries Board.

(2 marks)

1.4. The turnover of Kamal Enterprises for the quarter ended 31st March 2014 includes Rs. 2,400,000 from the paint shop in Nugegoda and Rs. 1,200,000 from distribution of paint products of a well-known paint brand. The liable turnover for Nation Building Tax for the quarter ended 31st March 2014 was:

- A. Rs. 3,600,000
- B. Rs. 1,500,000
- C. Rs. 2,400,000
- D. Rs. Zero

(2 marks)

1.5. The distributable profit of Rajarata (Pvt.) Limited for the year of assessment 2013/14 was Rs. 12 million. In addition to the interim dividend of Rs. 800,000 paid in June 2014, the company declared a final dividend of Rs. 400,000 in October 2014 out of this profit. The tax payable by the company on deemed distributions out of the above profit is:

- A. Rs. Zero
- B. Rs. 400,000
- C. Rs. 480,000
- D. Rs. 120,000

(2 marks)

1(b): You are required to write short answers or provide calculations to all questions, with attention given to action verbs.

(Total 10 marks)

1.6. There are a number of Government Departments which function as tax authorities for collection of various taxes in the present tax system of Sri Lanka.

Required:

State three (03) tax authorities responsible for collection of tax in Sri Lanka. **(2 marks)**

1.7. A lorry acquired in the year of assessment 2009/10 on a hire purchase agreement for hiring purpose was sold for Rs. 520,000 during the year of assessment 2013/14. The cash price of the lorry and the hire purchase interest paid up to the date of sale were Rs. 2,000,000 and Rs. 810,000 respectively.

Required:

Calculate the profit or loss on disposal of the lorry for tax purposes.

(2 marks)

1.8. Mr. Ajith completed construction of a house in June 2012 and immediately given on rent at a monthly rent of Rs. 15,000 for a period of three years. The house is assessed by the local government authority for Rs. 200,000 for rating purposes. Mr. Ajith has incurred rates at 10% and another sum of Rs. 48,000 to repair the drainage system.

Required:

1. **Calculate** the statutory rent income of the owner for the year of assessment 2013/14.
2. **State** the requirements to be satisfied in order to exempt this income.

(2 marks)

- 1.9. Supreme Industries manufactures two products namely Alfa and Beta. Beta is an exempted product under the Value Added Tax Act.

Value of supplies – Alfa Rs. 4,500,000

Value of supplies – Beta Rs. 1,500,000

VAT paid on purchases Rs. 360,000

VAT component of a Tax Credit Note received from a supplier Rs. 30,000

Required:

Calculate the Value Added Tax (VAT) payable for the quarter ended 31st March 2014 with the above information.

(2 marks)

- 1.10. Soft toys manufactured by Creative Toys PLC are distributed to retail dealers through authorised distributors including its subsidiary company, Toy Land (Pvt) Limited. The following information has been provided for the year of assessment 2013/14.

Company	Turnover (Rs. million)	Taxable Income (Rs. million)
Creative Toys PLC	600.0	40.0
Toy Land (Pvt) Limited	108.0	04.2

Required:

Calculate the gross income tax liability of Creative Toys PLC and Toy Land (Pvt.) Limited for the year of assessment 2013/14.

(2 marks)

SECTION 2

Compulsory question.

Total marks for Section 2 is 20 marks.

Recommended time for the section is 36 minutes.

Question 02

Mr. Uthpala Perera is an Engineer employed in a mercantile organisation. Following information relates to her receipts and payments for the year ended 31/03/2014.

Employment

Item	Rs.
Net salary (refer note below)	1,305,000
EPF 12%	180,000
PAYE	75,000

Note: Net salary is arrived after deducting due proportion of EPF and PAYE.

In addition to that the company paid him a festival allowance of Rs. 50,000 in December 2013 and also reimbursed a medical bill of his minor son (10 years), amounting to Rs. 60,000 in March 2014.

Mr. Uthpala is residing in a house provided by the company. The company pays a monthly rent of Rs. 25,000 to the owner of the house. Rating assessment of the house is Rs. 200,000 and the rates payable at 20%.

Profession

During the weekends he undertakes independent consultancy assignments and had earned a net profit of Rs. 600,000 during the year. In arriving at this profit he had deducted following expenses.

Expense	Rs.
Salaries to assistants	240,000
Printing and stationary	50,000
Newspaper advertisements	60,000
Purchase of a computer	80,000
Entertainment expenses for clients	20,000
Depreciation	32,000
Electricity & telephone	84,000

Salaries include Rs. 150,000 paid to his wife for preparation of reports. Advertising expenses includes Rs. 12,000 paid for a staff vacancy notice. The total residential

electricity and telephone cost has been charged to the income. It is estimated that approximately 20% of this cost is relevant to his professional service.

In addition to the computer purchased during the year, there is an office table and few chairs purchased in 2011/12 for Rs. 60,000.

Other income

Item	Rs.
Interest on fixed deposit (net)	276,000
Interest on son's bank account (gross)	45,000
Profit on sale of shares	300,000

Payments

Interest paid on loan obtained for the purpose of purchase a building block and the interest paid on Credit Card were Rs. 123,000 and Rs. 18,000 respectively.

He donated Rs. 100,000 to construct a laboratory in a national school and a further sum of Rs. 80,000 in cash to an approved charity which provides institutional care for sick and needy. Insurance premia paid on a medical insurance policy to cover incurable diseases was Rs. 48,000. Self-assessment tax installments paid for 2013/14 Rs. 40,000.

Required:

1. **Compute** the total statutory income, assessable income, taxable income, gross income tax liability and the balance tax payable for the year of assessment 2013/2014.

(15 marks)

2. Since the full amount of income tax payable by Mr. Perera was duly paid he did not file a return of income for the year of assessment 2012/13. **Explain** his legal obligation if any, with due dates, stating whether he is correct or not.

(2 marks)

3. Due to non-submission of a return he has received a Notice of Assessment with an estimated income exceeding his actual liability. **Explain** the procedure to be followed in order to make a valid appeal.

(3 marks)

(Total 20 marks)

PART B

Legal Fundamentals

Total marks for Part B is 60 marks.

A minimum score of 30 marks for this part is needed to pass the module.

SECTION 1

All questions are compulsory.

Total marks for Section 1 is 30 marks.

Recommended time for the section is 54 minutes.

Question 01

1(a): You are required to choose the most appropriate answer.

(Total 10 marks)

- 1.1. Saman borrows Rs. 2,400 from his friend Muru promising to return the same in three months and subsequently refuses to repay the sum. This dispute should go first:
- A. To the District Court.
 - B. To the Magistrate's Court.
 - C. To the High Court.
 - D. To the Mediation Board.

(2 marks)

- 1.2. Kumar sends a SMS to Mahela, offering to sell 100 packets of 'Chicken Sausages' at Rs. 500 per packet. Mahela replies back stating "*I can accept your offer of 100 packets of 'SLEEK Chicken Sausages' at Rs. 500 per packet*". Identify the correct answer on the formation of valid contract between Kumar and Mahela.

- A. Kumar's SMS to sell 100 packets of Chicken Sausages is not an offer but an invitation to treat.
- B. Mahela's reply to Kumar is the counter offer to Kumar's initial offer.
- C. There was a meeting of minds between Kumar and Mahela to form a valid contract.
- D. Contracts cannot be formed via SMS messages; hence there is no valid contract.

(2 marks)

- 1.3. Subject to the provisions in the partnership deed there are certain rights and duties between partners. Select from the following which cannot be considered as a right of a partner.
- A. All partners are entitled to share equally in the capital and profits of the partnership.
 - B. No partner is entitled to interest on capital before the profits are ascertained.
 - C. No partner is entitled to remuneration for acting in the partnership business, unless remuneration is specifically provided for in the partnership deed.
 - D. Every partner is not entitled to take part in the management of the partnership business.

(2 marks)

- 1.4. What is not considered as a computer crime out of the following?
- A. Unlawfully causing a computer to perform a function which will result in damages or modifications to the computer system or the computer.
 - B. Endangering national security or national economy, by making a computer perform certain functions.
 - C. Illegal interception of data, to or from a computer.
 - D. Authorised disclosure of information, which enables another to access any service provided by a computer.

(2 marks)

- 1.5. The new rules for Uniform Customs and Practice (UCP 600) relates to;
- A. Documentary Credits.
 - B. Electronic Transactions.
 - C. Sale of Goods
 - D. Carriage of goods by sea.

(2 marks)

1(b): You are required to write short answers with attention given to action verbs.

(Total 20 marks)

- 1.6. Presenting a bill for acceptance is generally not compulsory for a holder of a bill, to present the bill for acceptance. However it is done in order to safeguard the holder.

Required:

List out the instances where it is compulsory to present a bill for acceptance.
(4 marks)

- 1.7. Syril plans to obtain a life insurance on his insurance agent's advice. He got to know that the insurance contracts are based on "Uberrimae fidei". Siril wants to know the meaning of this term and its application in insurance contracts.

Required:

Explain the meaning of the term "Uberrimae fidei" and its application in insurance contracts.

(4 marks)

- 1.8. "The establishment of a formal stock exchange took place in 1985 with the incorporation of the Colombo Stock Exchange (CSE), which took over the Stock Market from the Colombo Share Brokers Association. It currently has a membership of 15 institutions, all of which are licensed to operate as stockbrokers"

Required:

State the Regulatory Role and Main Functions of the CSE

(4 marks)

- 1.9. Parliamentary Ombudsman's powers and functions are to investigate and report on complaints of the infringement of fundamental rights and other injustices committed by public officers, public sector bodies and institutions.

Required:

List out the matters which are not within his purview of Parliamentary Ombudsman.

(4 marks)

- 1.10. Shop & Office Employees (Special Provisions) Act No. 19 of 1954 provides regulations of employment, hours of work and remuneration of persons in shops and offices. Act further state that there are certain facilities that an Employer should provide to its Employees

Required:

List four (04) of such facilities that an Employer should provide to its Employees.

(4 marks)

SECTION 2

Three out of four questions should be answered
Total marks for Section 2 is 30 marks
Recommended time for the section is 54 minutes

Question 02

Siri made an offer to Ruvin to sell his land for a sum of Rs. 2 million on 1st of January 2014. In his offer, Siri clearly stated that the offer has to be accepted on or before 10th January 2014 and only by post. Ruvin decided to buy the land and posted the acceptance letter on 8th January to the post box. On 9th January Siri decided that he will not sell the property and decided to revoke his offer and called Ruvin to tell that he will be withdrawing his offer. Ruvin seeks your advice whether his acceptance is valid against the revocation of offer made by Siri.

Based on the above scenario, you are required to answer the following questions. Justify your answer by using the relevant legal principles.

Required:

1. **Explain** whether there is a valid acceptance. If the answer to your question is yes, when? **(2 marks)**
2. **Explain** the legal principle relevant to the answer in question (1) above. **(4 marks)**
3. **Discuss** the principles relating to revocation of an offer. **(4 marks)**

(Total: 10 marks)

Question 03

Sue has appointed Rue as his agent to sell 2nd hand motor vehicles in Jaffna region. While Sue was not well and admitted to a hospital Rue wanted to sell one of the motor vehicles at a lower price what Sue agreed and instructed. Rue in his discussion informed the 3rd party that he is acting as an agent to Sue for the sale of the vehicle. On the day of the transaction the 3rd party offered a Rs. 50, 000 gift voucher to Rue for selling the vehicle at a lower price than the market price.

Required:

1. **Explain** whether Rue can request Sue to ratify the transaction entered with the 3rd party according to the legal provisions available under the Law of Agency.

(7 marks)
 2. **Explain** the nature of the transaction of Rs. 50,000 that took place among the parties under the Law of Agency.

(3 marks)
- (Total: 10 marks)**

Question 04

A Hire Purchase contract is a type of finance lease where the user has the option to purchase the asset at the end of the hire period, usually for a nominal sum. In terms of economic effects the differences between a hire purchase contract and an ordinary finance lease are limited. When a lessee fails to make a payment when due or repudiates with respect to a part or the whole, the lessor can exercise his rights over the lessee.

Required:

1. **Explain** the difference between a finance lease contract and a hire purchase contract.

(6 marks)
 2. **Discuss** the rights available for a lessor against the lessee over the lease contract.

(4 marks)
- (Total: 10 marks)**

Question 05

Karen delivered some jewels to Warren, on a “sale or return” basis, on Monday.

On Wednesday, Warren mortgages these jewels to Morty, and this mortgage is to be settled on Sunday.

But on Thursday, Morty sold these jewels to Jonny

Required:

1. **Discuss** The passing of the property in these jewels, to Warren, with reference to a decided case.

(4 marks)

2. **Discuss** the passing of the property in these jewels to Jonny from Morty.

(4 marks)

3 **Discuss** the remedy/ies available to Karen if Warren refuses to pay for the jewels.

(2 marks)

(Total: 10 marks)