Fundamentals Level – Skills Module

Taxation (Pakistan)

Monday 2 June 2008

Paper F6 (PKN)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 3–4.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

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The question paper begins on page 3.

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest rupee.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

A. Tax rates for individuals

where salary income exceeds 50% of taxable income for the tax year 2008.

Taxable income	Rate of tax
Up to Rs. 150,000*	0%
Rs. 150,001 – Rs. 200,000	0.25%
Rs. 200,001 – Rs. 250,000	0.50%
Rs. 250,001 – Rs. 300,000	0.75%
Rs. 300,001 – Rs. 350,000	1.50%
Rs. 350,001 – Rs. 400,000	2.50%
Rs. 400,001 – Rs. 500,000	3.50%
Rs. 500,001 – Rs. 600,000	4.50%
Rs. 600,001 – Rs. 700,000	6.00%
Rs. 700,001 – Rs. 850,000	7.50%
Rs. 850,001 – Rs. 950,000	9.00%
Rs. 950,001 – Rs. 1,050,000	10.00%
Rs. 1,050,001 – Rs. 1,200,000	11.00%
Rs. 1,200,001 – Rs. 1,500,000	12.50%
Rs. 1,500,001 – Rs. 1,700,000	14.00%
Rs. 1,700,001 – Rs. 2,000,000	15.00%
Rs. 2,000,001 – Rs. 3,150,000	16.00%
Rs. 3,150,001 – Rs. 3,700,000	17.50%
Rs. 3,700,001 – Rs. 4,450,000	18.50%
Rs. 4,450,001 – Rs. 8,400,000	19.00%
Rs. 8,400,001 and over	20.00%

* For a woman taxpayer where salary income exceeds 50% of taxable income for the tax year 2008, no tax is chargeable if taxable income does not exceed Rs. 200,000

B. Tax rates for individuals

to whom the rates given in A are not applicable.

Taxable income	Rate of tax
Up to Rs. 100,000	0%
Rs. 100,000 – Rs. 110,000	0.50%
Rs. 110,001 – Rs. 125,000	1.00%
Rs. 125,001 – Rs. 150,000	2.00%
Rs. 150,001 – Rs. 175,000	3.00%
Rs. 175,001 – Rs. 200,000	4.00%
Rs. 200,001 – Rs. 300,000	5.00%
Rs. 300,001 – Rs. 400,000	7.50%
Rs. 400,001 – Rs. 500,000	10.00%
Rs. 500,001 – Rs. 600,000	12.50%
Rs. 600,001 – Rs. 800,000	15.00%
Rs. 800,001 – Rs. 1,000,000	17.50%
Rs. 1,000,001 – Rs. 1,300,000	21.00%
Rs. 1,300,001 and over	25.00%

C. **Tax rates for companies**

Tax year	Public company	Private company	Small company
2008	35%	35%	20%

D. **Rates of advance collection or deduction of tax**

For the rendering of or providing of services	6% of the gross amount payable

E. **Other tax rates**

On dividends received from a company	10% of the gross amount of the dividend
On income from property	5% of the rent chargeable to tax

F. **Capital allowances**

Depreciation		
Buildings (all types)	10%	of the tax written down value
Furniture and fittings	15%	of the tax written down value
Plant and machinery (not otherwise specified)	15%	of the tax written down value
Motor vehicles (all types)	15%	of the tax written down value
Computer hardware	30%	of the tax written down value
Initial allowance	50% of cost	

G. **Pre-commencement expenditure**

Rate of amortisation of pre-commencement expenditure	20% (straight-line basis)

ALL FIVE questions are compulsory and MUST be attempted

1 PQR (Pakistan) Ltd (PQR), incorporated on 1 January 2007, commenced its business operations on 1 March 2007. PQR is a public company under the Companies Ordinance, 1984. The company was granted permission by the commissioner to use a twelve-month period ending 31 December as its tax year. The company applied for listing on the Lahore Stock Exchange and its shares were traded on that exchange for the first time on 31 December 2007. The company remained listed on that exchange until 1 July 2008 on which date the company was delisted on the exchange.

PQR is an industrial undertaking engaged in the business of manufacturing pharmaceuticals and its summarised accounts for the period from 1 January 2007 to 31 December 2007 are as follows:

	Notes	Rupees	Rupees
Sales		98,000,000	
Cost of sales	1	(69,500,000)	
Gross profit			28,500,000
Less: Administration expenses	2	6,900,000	
Selling and distribution expenses	3	4,750,000	
Financial charges	4	2,250,000	
Provision for bad debts	5	300,000	
Income tax	6	1,100,000	15,300,000
			13,200,000
Other income	7		1,650,000
Net profit			14,850,000

The following additional information is provided:

	Rupees
(1) Cost of sales includes:	
(i) Accounting depreciation.	5,948,000
(ii) The first instalment of lease rent paid to an approved leasing company for the lease of a liquid filling plant which is being used by PQR for its business. The ownership of the plant is to be transferred to PQR on payment of the sixth and final instalment.	300,000
(iii) Depreciation on the leased liquid filling plant used by PQR in its business.	165,000
(iv) Payment to the Workers' Welfare Fund under the Workers' Welfare Fund Ordinance, 1971.	195,000
(v) Donation to a charitable hospital established by a private trust.	300,000
(2) Administration expenses include:	Rupees
(i) Accounting depreciation.	1,650,000
(ii) Tax collected by the Collector of Customs:	
– On the import of raw materials for the company's own use.	965,000
– On imported injections in finished form, for sale.	837,000
(iii) Legal expenses:	
– For an amendment in the memorandum and articles of association to incorporate changes required by the corporate law authority.	100,000
– For increasing the share capital of the company.	625,000

(3) Selling and distribution expenses include a penalty of Rs. 650,000 paid to a customer in settlement of a claim for damages under a clause of a contract for the supply of a batch of influenza vaccines. Laboratory tests and in-house investigations revealed that the vaccines exceeded the accepted level of impurities specified in the contract and that this was due to the negligence of employees of PQR's production department.

(4) Financial charges include reimbursement to the promoters of the company for expenditure incurred in taking legal advice on certain matters raised by the company law authorities at the time of the incorporation of PQR of Rs. 600,000.

(5) The movement in the provision for bad debts comprises:

		Rupees	Rupees
30 June 2007	Provision made (5% of debtors)		300,000
30 July 2007	Loan given to an employee written off	10,000	
	Trading debts written off	90,000	
	Excess provision written back	100,000	(200,000)
31 December 2007	Balance carried forward		100,000

(6) Income tax represents a payment in discharge of a demand raised by the commissioner on completion of the tax audit for the tax year 2006.

(7) Other income includes:

		Rupees
(i)	Share of profit received from an association of persons (AOP) in which PQR is a member. The AOP was in the business of manufacturing spare parts. No tax was deducted from the payments received for the sale of goods as the payers were not prescribed persons who are required to deduct tax. The taxable income of the AOP was Rs. 1,500,000 and the tax assessed and paid by the AOP was Rs. 375,000.	550,000
(ii)	Excess provision for bad debts written back (as per (5) above)	100,000
(iii)	Net income on the sale of imported injections The net income has been adjusted for tax purposes including the apportionment of common expenses and allowances allocated to the sale of the imported injections.	67,000

(8) During the period from 1 January 2007 to 28 February 2007 PQR incurred expenses on the construction of prototypes and trial production activities aggregating Rs. 3,000,000, which has been debited to the preliminary expenses account and is shown as an asset in the balance sheet as on 31 December 2007.

(9) Advance tax paid for the tax year 2008 on 15 December 2007 was Rs. 900,000.

(10) Assets purchased during the tax year and shown as fixed assets in the balance sheet as on 31 December 2007 were:

Fixed assets	Rupees
Plant and machinery	17,500,000
Buildings	15,700,000
Motor cars	12,900,000
Furniture	8,750,000
Computers	20,900,000

(i) All the above assets are new assets except for the following which have been used previously in Pakistan:
- second-hand plant costing Rs. 10,000,000
- a factory building costing Rs. 11,700,000

(ii) The amount for computers of Rs. 20,900,000 is made up as follows:

	Rupees
Computer hardware	10,900,000
Computer software	10,000,000
	20,900,000

The computer software was acquired on 1 November 2007, but was not used by PQR in its business chargeable to tax before 1 February 2008. The normal useful life of the software is estimated to be five years.

Required:

(a) Briefly state with reasons:

(i) whether or not PQR (Pakistan) Ltd is a public company for tax purposes; and (2 marks)

(ii) whether you consider PQR (Pakistan) Ltd to be a resident company or a non-resident company. (1 mark)

(b) Compute the taxable income of PQR (Pakistan) Ltd for the relevant tax year under the appropriate heads of income, giving clear reasons/explanations for the inclusion in or exclusion from the computation of taxable income of each of the items listed above.

Note: the reasons/explanations for the items not listed in the computation of taxable income should be shown separately. Specific marks are allocated for this part of the requirement.

(23 marks)

(c) Calculate the tax payable by/refundable to PQR (Pakistan) Ltd for the relevant tax year. (4 marks)

(30 marks)

2 For the purpose of this question you should assume that today's date is 15 August 2008.

The following information is provided by Mr Qureshi.

(1) Qureshi, a citizen of Pakistan, retired from the services of XYZ Private Ltd (XYZ) on 29 June 2007. On retirement, Qureshi was eligible to receive the following from XYZ:

(i) A monthly pension of Rs. 20,000 payable from 1 July 2007.

(ii) Rs. 100,000 in lieu of unavailed privileged leave.

(iii) Rs. 350,000 as a gratuity. The gratuity payable was under a gratuity scheme of XYZ, which is applicable to all the company's employees. The gratuity scheme has been approved by the then Central Board of Revenue.

The pension is deposited at the end of each month into Qureshi's bank account. The amounts for the leave pay (leave encashment) and gratuity were paid by XYZ to Qureshi on 5 July 2007. No taxes were deducted by XYZ from the above payments.

(2) Qureshi commenced employment with Superior Steel Ltd (SSL) on 1 July 2007 as the factory accountant. In accordance with the terms of his employment the following remuneration and benefits were received by Qureshi for the year ended 30 June 2008:

(i) A basic monthly salary of Rs. 200,000.

(ii) Monthly allowances of Rs. 20,000 for housing and Rs. 30,000 each for utilities and medical treatment.

(iii) A company maintained motor car for his business and private use.

(iv) Reimbursement of all medical treatment or hospitalisation charges for Qureshi and his wife.

(v) Two months notice in writing on either side in case of cessation of employment.

(3) As a policy matter of SSL, which is applicable to all employees, the basic salary for the month is deposited into each employee's bank account on the first working day of the following month. The monthly allowances are to be collected by the employees from the cashier on the last working day of each month.

(4) (i) In order to provide the benefit of a car to Qureshi, a new Toyota Saloon was taken on lease by SSL on 1 August 2007 from an approved leasing company, for an annual lease rental of Rs. 400,000 payable for four years. If the car had been purchased outright by SSL, the cash price would have been Rs. 1,200,000.

(ii) For the year ended 30 June 2008, SSL paid Rs. 210,000 as hospitalisation charges for the treatment of Qureshi's wife.

(iii) SSL made a one time payment of Rs. 500,000 to Qureshi on his agreement to give six months notice of cessation of employment instead of the two months notice agreed to in the original terms of employment.

(iv) During the month of June 2008, Qureshi was on vacation. On resuming his duties on 7 July 2008, he collected his monthly allowances from the cashier for the month of June 2008.

(v) Tax deducted at source by SSL from Qureshi's salary income for the relevant tax year was Rs. 767,000.

(5) (i) On 1 July 2007, Qureshi rented an apartment owned by SSL, located in a building adjoining the SSL's factory premises. The apartment had recently been vacated by a tenant. The tenant, who had no connection with SSL, had paid a monthly rent of Rs. 15,000. A deduction of Rs. 10,000 per month is being made by SSL from the basic salary of Qureshi as rent for the use of the apartment.

(ii) Due to the constantly fluctuating power supply, SSL agreed to supply electricity to the apartment rented by Qureshi from the factory generator. The electricity units consumed during the year ended 30 June 2008 as per the meter installed in the apartment, if purchased from an independent power company, would have cost Rs. 123,800.

(6) Qureshi is the owner of a piece of land in Sadar.
On 1 September 2007, Qureshi entered into a contract with Mr Govind for the sale of the land for Rs. 20,000,000. Under the terms of the sale contract, Govind paid Rs. 300,000 as a deposit and the balance of Rs. 19,700,000 was payable at the latest by 1 October 2007, failing which the deposit would stand forfeited. Govind failed to pay the balance amount of Rs. 19,700,000 and the deposit of Rs. 300,000 was forfeited.

On 1 October 2007, Qureshi rented the land to Govind on a monthly rental of Rs. 250,000. Govind paid the rent in advance up to 30 June 2008. On 1 October 2007 Govind also paid Qureshi a refundable deposit of Rs. 3,000,000 which was not adjustable against the rent payable.

(7) After seeking permission from SSL, Qureshi commenced his own part-time business, under the name of Taxhelp, of preparing returns of income of salaried individuals for the year ended 30 June 2007 which were to be furnished to the tax authorities by 30 September 2007. The permission granted by SSL was on the understanding that on working days Qureshi could devote his time to the business only after 7 pm and that his business should not interfere with his official duties as the factory accountant.

Qureshi closed the first accounts of Taxhelp for the period ended 30 June 2008. The summarised income and expenditure account for that period is as follows:

	Rupees	Rupees
Receipts		
Fees received (net of tax) from Rose Pakistan Ltd (RPL) for		
preparing the tax returns of all the employees of RPL – category 1	282,000	
Fees received from other individuals – category 2	100,000	382,000
Expenditure		
Salaries to part-time employees working exclusively on the RPL assignment		(155,600)
Expenditure common to both categories 1 and 2		
Salaries to part-time employees	64,000	
Stationery, computer hire and conveyance of staff	24,432	(88,432)
Surplus of receipts over expenditure		137,968

The above expenditure is only for the business of Taxhelp and is not allocable to any other head of income.

(8) Other information submitted by Qureshi.

(i) On 13 June 2008, Qureshi donated Rs. 150,000 to an educational institution established in Karachi by the Federal Government.

(ii) Qureshi received a dividend of Rs. 45,000 (net of tax) from a private company on 10 January 2008.

(iii) Qureshi paid Rs. 15,000 as zakat under the Zakat and Ushr Ordinance, 1980 in the year ended 30 June 2008.

Required:

(a) Compute the taxable income of Mr Qureshi for the relevant tax year under the appropriate heads of income, giving clear reasons/explanations for the inclusion in or exclusion from the computation of taxable income of each of the items listed above.

Note: the reasons/explanations for the items not listed in the computation of taxable income should be shown separately. Specific marks are allocated for this part of the requirement.

(20 marks)

(b) Calculate the tax payable by/refundable to Mr Qureshi for the relevant tax year. (5 marks)

(25 marks)

3 For the purpose of this question, you should assume that today's date is 15 August 2008.

Mr Tausif is preparing his return of income for the tax year 2008 and furnishes you with the following information for his accounting year ended 30 June 2008.

(1) He has been a member of the Karachi Stock Exchange since 2 January 2006. He is self-employed and is the sole proprietor of Tausif Associates, which is engaged in the business of stocks and shares and finance brokers. Due to his indifferent health, he has been in the process of winding up the business of Tausif Associates since 1 January 2007 and since that date he has not transacted any business for his clients. The transactions in the books of Tausif Associates for the year ended 30 June 2008 are as follows:

(i) Disposal of shares on 7 January 2008 held as stock-in-trade in the books of Tausif Associates.

– Gain of Rs. 143,000 on the sale of shares in Ebu Ltd, a listed company on the Karachi Stock Exchange.

– Gain of Rs. 360,000 on the sale of shares in Aromatic Coffee (Pakistan) Ltd (ACL) a company incorporated under the Companies Ordinance, 1984. ACL is not listed on any stock exchange in Pakistan. 50% of the shares in ACL are held by Aromatic Coffee Kenya which is owned by the Government of Kenya.

– Loss of Rs. 180,400 on the sale of shares in Alibaba Ltd, a company whose shares are listed on the Lahore Stock Exchange.

– The shares in Ebu Ltd, ACL and Alibaba Ltd were all purchased on 16 January 2006.

(ii) Membership rights in the Karachi Stock Exchange (KSE)
On 14 February 2008, Tausif gave up his membership rights in the KSE and transferred his one share in Karachi Stock Exchange (Guarantee) Ltd (KSEGL) to Billimoria Pakistan Ltd along with a room occupied by him in the KSE building, for a total consideration of Rs. 50,000,000. Tausif had acquired the one share in KSEGL on 31 December 2005 for Rs. 35,000,000 but had not paid anything at the time of occupying the room in the KSE.

(2) As a past employee of Safe Bank Inc (SBI), Tausif had participated in the SBI Employee Share Scheme (Scheme). The details of his participation in the Scheme are as follows:

(i) Tausif was given the right to acquire 1,500 shares in SBI at the exercise price of US$10 per share.

(ii) On 16 July 2003, Tausif acquired 1,000 shares in SBI on making payment of the exercise price of US$10 per share.

(iii) The price quoted on the New York Stock Exchange on 16 July 2003 was US$15 per share.

(iv) Under the terms of the Scheme, 50% of the shares acquired were subject to a restriction on the transfer of the shares. An employee only had the free right to dispose of the said 50% of the shares after a holding period of three years.

(v) On 15 July 2006 (the date when Tausif had the free right to transfer the shares), the price of one share in SBI on the New York Stock Exchange was US$20.

On 7 January 2008, Tausif sold the unutilised right to purchase 500 shares for Rs. 200,000. On the same day, Tausif also disposed of the 1,000 shares in SBI as under:

(i) 200 shares were sold to Mr Khalid Maqbool, an ex-employee of the Pakistan branch of SBI, for Rs. 300,000.

(ii) 500 shares were gifted to his wife Nilufer who is a citizen of Pakistan. Nilufer left Pakistan to reside in New York on 29 December 2007 and has been living in New York since then.

(iii) 300 shares were gifted to his daughter Nasreen who is a citizen of Pakistan and living with her mother in New York. Nasreen left Pakistan on 1 August 2007 and has been living in New York since then. Nasreen is the manager of the visa section of the Government of Pakistan in New York and is an employee of the Federal Government.

(3) Disposal of other assets

(i) As a founder member of Cuppa Tea (Private) Ltd (CTP), Tausif purchased 70,000 shares in CTP at Rs. 10 per share in the year 2004. He sold these shares in CTP on 7 January 2008 for Rs. 400,000.

(ii) On the death of Tausif's father in the year 2004, Tausif had inherited two oil paintings. The two paintings, 'A' and 'B', were valued by an expert art dealer at the time of his father's death at Rs. 1,700,000 and Rs. 100,000 respectively. On 11 June 2008 Tausif sold painting 'A' for Rs. 1,448,000 and painting 'B' for Rs. 1,000,000. The paintings had been retained by Tausif for his own use in the intervening period.

(4) Tausif has also furnished you with the following information:

(i) In the accounting year ended 30 June 2008, Tausif paid Rs. 9,000 as zakat under the Zakat and Ushr Ordinance, 1980.

(ii) On 16 June 2008 Tausif invested Rs. 100,000 in the purchase of new shares offered to the public by NewCo Ltd, a public company listed on the Islamabad Stock Exchange. Tausif is an original allottee of the shares.

The rate of exchange is to be taken as US$1 = Rs. 60 at all relevant dates.

Required:

(a) Compute the taxable income of Mr Tausif under the appropriate heads of income for the relevant tax year, giving clear reasons/explanations for the inclusion in or exclusion from the computation of taxable income of each of the items listed above.

Note: the reasons/explanations for the items not included in the computation of taxable income should be shown separately. Specific marks are allocated for this part of the requirement.

(17 marks)

(b) Calculate the tax payable by or refundable to Mr Tausif for the relevant tax year. (3 marks)

(20 marks)

4 Sunflowers Oil Pakistan Ltd (SOPL) is in the business of manufacturing edible oils. The company was incorporated on 1 January 2007 and was allowed by the commissioner to use a twelve-month period ending on 31 December each year as its tax year. The company's first accounts were made up to 31 December 2007.

(1) You were invited to a meeting on 3 September 2007 when the following issues relating to the income tax return of income for the tax year 2008 were discussed with the Finance Director of SOPL.

(i) Advance tax
The company has not paid any instalments towards advance tax for the tax year 2008.

(ii) Machinery Supplies plc (MS)
SOPL had entered into a contract with MS on 1 February 2007 (MS contract) for the purchase of a new seed crushing plant to be shipped from the London docks at the latest by 31 May 2007. The MS contract provided that, if for any reason, SOPL failed to open a letter of credit for the sale value of the plant in favour of MS by 1 March 2007 the contract would stand terminated and SOPL would have to pay a penalty of Rs. 1,500,000 for breach of the terms of the contract. Within a week of entering into the contract with MS, SOPL were able to acquire a locally manufactured seed crushing plant. The MS contract was terminated and SOPL paid Rs. 1,500,000 to MS as the penalty for breach of the contract.

The decision to terminate the contract was in the interest of the business, since with the locally manufactured seed crushing plant the production target for the year 2007 could be achieved thereby maximising the profitability of the company. This was possible because the locally manufactured seed crushing plant could be commissioned for use immediately as against a waiting period of three to four months before the imported plant could be commissioned for use.

(iii) Forward contract for the purchase of raw materials
SOPL entered into a forward contract for the purchase of raw materials used in its business of manufacturing edible oils to guard against loss through price fluctuations. On the date of maturity of the forward contract, SOPL did not take delivery of the raw materials but the contract was settled by a payment of Rs. 950,000.

(iv) Repairs
SOPL purchased a labelling machine with the full knowledge that the machine was in an imperfect condition and was in need of repairs to render it serviceable. Rs. 790,000 was expended on repairs to bring the machine into a serviceable condition.

(v) Trade mark
On 1 January 2007 SOPL made a one time payment of Rs. 1,000,000 to EFG Ltd to acquire a valuable trade mark. The use of the trade mark in the business has substantially improved the image of SOPL's products and this advantage is expected to accrue for a fairly long time.

(2) The Finance Director's contentions in respect of each of the above transactions are as under:

(i) Advance tax
There is no obligation on the company to pay advance tax for the tax year 2008 since under the relevant provisions of the Income Tax Ordinance, 2001 (Ordinance) only a taxpayer whose income was charged to tax for the latest tax year is liable to pay advance tax. SOPL's first return of income is for the tax year 2008 which is due to be furnished to the commissioner on or before 30 September 2008 therefore, the issue of SOPL's income being charged to tax for any year prior to the tax year 2008 does not arise.

(ii) Machinery Supplies plc (MS)
Under the Ordinance any fine or penalty is not an allowable deduction. As the payment of Rs. 1,500,000 to MS was due to a breach of the terms of the contract between SOPL and MS, the payment is in the nature of a penalty and therefore, is not a deductible expenditure.

(iii) Forward contract
The forward contract for the purchase of raw materials was settled otherwise than by taking actual delivery of the raw materials. This transaction would be construed to be a speculative business and treated as distinct and separate from any other business of SOPL. Therefore, the Rs. 950,000 paid to settle the forward contract is a loss incurred in a speculative business and is not a deductible expenditure in computing income from SOPL's business.

(iv) Repairs
The Rs. 790,000 was expended solely for repairing the labelling machine. The expenditure was incurred wholly and exclusively for the purposes of business and therefore, is a deductible expenditure.

(v) Trade mark
As the acquisition of the trade mark for Rs. 1,000,000 has resulted in an advantage of an enduring nature, the expenditure is capital in nature and therefore, is not claimable as a deductible expenditure.

Required:

State, giving reasons, whether or not you agree with each of the five contentions of the Finance Director. If you are not in agreement with any of the contentions of the Finance Director, explain the correct treatment to be adopted under the provisions of the Income Tax Ordinance, 2001.

Note: the allocation of marks is 3 marks for each item. **(15 marks)**

5 **(a)** Mr Danny is registered under the Sales Tax Act, 1990 as a manufacturer of flavoured tea. He informs you that the Association of Tea Manufacturers has approached the then Central Board of Revenue about reducing the rate of sales tax from 15% to 12% on the sale of locally produced tea. He furnishes you with the following information for the month of October 2007:

	Rupees
Sale of flavoured tea from 1 October 2007 to 15 October 2007	4,580,000
Sale of flavoured tea from 16 October 2007 to 31 October 2007	8,779,000
Purchase of raw material on 3 October 2007 – paid by crossed cheque	2,635,000
Purchase of spares and supplies on 15 October 2007 – paid in cash	168,500
Payment of courier service charges on 9 October 2007 – paid by crossed cheque	1,703,333
Purchase of raw materials on 21 October 2007 – paid by crossed cheque	9,470,000

Notes:

(1) All payments for purchases are stated inclusive of sales tax at the rate applicable at the relevant date.

(2) The figures for the sales and courier services are stated exclusive of sales tax.

(3) All purchases made during the period 1 October 2007 to 15 October 2007 were consumed/utilised in producing the goods sold during the said period.

Required:

Assuming the rate of sales tax was reduced from 15% to 12% effective from 16 October 2007:

(i) State the manner in which the sales tax return for the month of October 2007 would need to be furnished. (3 marks)

(ii) Calculate the sales tax payable by Mr Danny for the month of October 2007. (5 marks)

(b) Under the Sales Tax Act, 1990, a person who is required to maintain any records or documents, shall retain such records and documents for a prescribed period of time.

Required:

State the period for which a person is required to retain records and documents under the Sales Tax Act, 1990. (2 marks)

(10 marks)

End of Question Paper