



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JANUARY 2022

(304) CORPORATE & PERSONAL TAXATION

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time Allowed:** Reading : 15 minutes.
Writing : 03 hours.

20-03-2022
Afternoon
[01.45 – 05.00]

No. of Pages : 09
No. of Questions : 09

- (2) **All questions should be answered.**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**
- (5) **Use of Non-programmable calculators is only permitted.**
- (6) **Action Verb Check List with definitions is attached. Each question will begin with an action verb. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (7) **100 Marks.**

SECTION A

(Total 20 marks)

Question 01

Nisal who is a Sri Lankan citizen, migrated to Australia with his family on 10th June 2018 and started his own business in Australia. His main business' customers are in Sri Lanka. Therefore, he frequently visits Sri Lanka. During the year of assessment 2020/21, he visited Sri Lanka on 05th July 2020 to attend business meetings with customers and departed from Sri Lanka on 14th November 2020.

You are required to:

Explain the residence status of **Nisal** for taxation purpose in Sri Lanka for the year of assessment 2020/21 as per the provisions of the Inland Revenue Act No 24 of 2017.

(05 marks)

Question 02

Happy Ltd., is a resident company engaged in manufacturing of garments for foreign buyers. It has over 100 executive employees of which most of them have given their consent to deduct Advance Personal Income Tax (APIT) from their remuneration. **Happy Ltd.** deducts APIT from employees and issue a certificate of tax deduction for each applicable employee.

You are required to:

- (a) **State** three(03) obligations of an employer under the APIT scheme. (03 marks)
- (b) **State** two(02) items included in the certificate of tax deduction issued by an employer under the APIT scheme. (02 marks)
- (Total 05 marks)

Question 03

Star View Hotel (Pvt) Ltd. is running a tourist hotel with a license obtained under the Tourism Development Act. The following information was extracted for the quarter ended 31st March 2021 of **Star View Hotel (Pvt) Ltd.:**

Type of Income	Rs.
Income from Rooms	12,540,000
Income from Beverages	3,450,000
Dividend Income	245,800
	16,235,800

Note: Room income includes service charges of Rs.1,140,000/-.

You are required to:

Assess the Tourism Development Levy (TDL) for the quarter ended 31st March 2021. (05 marks)

Question 04

Sunil resides in Kandy with his family. During the year of assessment 2020/21, he entered in to an agreement with a landlord, **Perera** to purchase his land of 2 acres near a famous national school for a price of Rs. 200 million and paid a forfeitable deposit of Rs. 2 million. Soon after the agreement he blocked the land with slots of 10 perches each. Thereafter three slots were transferred to **Perera** and the balance were sold to others within two months period. From sale proceeds, he paid the balance Rs. 198 million to **Perera**. **Sunil** earned a profit of Rs. 6 million from this entire transaction.

You are required to:

Explain whether the profit earned by **Sunil** is a taxable income by referring to the case of “Ram Ishwara Vs. C.I.R”. (05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

New Fashions (Pvt) Ltd. was incorporated under the Companies Act No.07 of 2007 on 01st April 2020. As per the draft tax computation prepared by the Chief Accountant, the company has a taxable income for the year of assessment 2020/21. The company approached you as the tax consultant.

You are required to:

- (a) **State** whether the company is required to submit the return of income for the year of assessment 2020/21 with reasons for your answer. (04 marks)
- (b) **State** the due date to submit the return of income for the year of assessment 2020/21. (02 marks)
- (c) **State** the penalties that could be imposed on failure to submit the return of income as per the provisions of the Inland Revenue Act No. 24 of 2017. (04 marks)
- (Total 10 marks)

Question 06

Sunera Ltd. is a registered company for Value Added Tax (VAT), engaged in making handmade greeting cards and other gift items. The following information for the quarter ended 31st March 2021 was extracted from the books of the company:

- (1) Details of sales during the quarter ended 31st March 2021 are given below (exclusive of VAT):

	Rs.
Export sales	3,390,000
Local sales to SVAT registered persons	4,237,500
Local sales to other persons	77,122,500

- (2) The company has paid following input tax during the quarter:

	Rs.
On import of raw material	825,000
On local purchase of material	1,454,000
On repair expense of a motor lorry used for delivery of goods	28,540

- (3) The excess input VAT brought forward from the previous quarter was Rs.350,000/-.
- (4) All the Simplified VAT (SVAT) credit vouchers relevant to the quarter were collected by the company.
- (5) The company has paid Rs.3,000,000/- as monthly VAT instalments.

(Consider the standard VAT rate as 8%)

You are required to:

Assess the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st March 2021. (10 marks)

Question 07

GS Traders is a partnership business carried out by **Peter** and **Soysa** sharing profits and losses at the ratio of 1:2 respectively. Their business is providing outdoor catering services.

- (1) The income statement of the partnership for the year ended 31st March 2024 is given below:

	Rs.
Gross Profit	12,854,000
Accounting profit from a sale of a land	4,750,000
Interest income received on fixed deposits (Gross)	150,000
	17,754,000
Less: Distribution Expenses	(2,554,000)
Administration Expenses	(4,580,000)
Finance Expenses	(540,000)
Net Profit of the Partnership	10,080,000

- (2) The following expenses have been deducted when calculating the above net profit:

- Salaries to partners: **Peter** - Rs.1,600,000/-
Soysa - Rs.2,400,000/-
- Peter** has given a loan to the partnership and interest paid to him on the loan by the partnership was Rs.325,000/-.
- Salary paid to **Soysa's** daughter for bookkeeping work of the partnership was Rs.120,000/-.

- (3) A land acquired on 01st January 2016 for Rs.4,500,000/- has been sold on 15th February 2021 for Rs.9,250,000/-. This land was never used for the business and market value of this land as at 30th September 2017 was Rs.6,000,000/-.

- (4) Assume that all other expenses are allowable for the purpose of taxation.

You are required to:

Assess the following of **GS Traders** for the year of assessment 2023/24:

- (a) Partnership Business Income. (04 marks)
- (b) Taxable Income of the partnership. (03 marks)
- (c) Gross Income Tax Payable of the partnership. (03 marks)

(Total 10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

Mega (Pvt) Ltd. (MPL) which was incorporated under the Companies Act No. 07 of 2007 on 01st April 2017, is a fully owned subsidiary of **Raava Ltd.**, a company incorporated in India. **MPL** manufactures automotive batteries and exports to its holding company in India.

The following information was extracted from the financial statements of **MPL** for the year ended 31st March 2024.

(1) Summarized Income Statement of **MPL** for the year ended 31st March 2021 is as follows:

	Rs.
Export Revenue	1,454,200,000
Cost of Sales	(896,500,000)
Gross Profit	557,700,000
Other Income	6,589,400
Administration and Distribution Expenses	(403,500,000)
Finance Expenses	(5,989,400)
Net Profit Before Tax	154,800,000

(2) Break-up of Other Income:

	Rs.
Interest Income on Fixed Deposits (Gross)	1,589,400
Gain on disposal of quoted shares	5,000,000
	6,589,400

(3) Administration and Distribution Expenses include the following:

- Depreciation charge for the year was Rs.34,250,000/-.
- Gratuity provision for the year of assessment 2020/21 amounted to Rs.15,425,000/-.
- A technical team from India has visited during the year and the company has incurred Rs.1,145,000/- for their entertainment expenses.
- Furniture which was purchased in the year of assessment 2019/20 at a cost of Rs.2,250,000/- has been disposed in December 2023 for Rs.265,000/-. The accounting loss on disposal was Rs.96,000/-.
- The company has donated Rs.1,000,000/- to the COVID-19 Relief Fund of the Government. Further, Rs.500,000/- has been donated to the COVID-19 affected employees of the company.

- (4) Finance Expenses include the interest of Rs.5,989,400/- paid on the term loans.
- (5) Details of equity and liabilities as at 31st March 2021 are as follows:

	Rs.
Issued Share Capital	10,000,000
Retained Earnings	5,500,000
Term Loan Payable	50,000,000

- (6) Details of Property, Plant and Equipment as at 31st March 2021 are as follows:

Asset	Year of Purchase	Cost (Rs.)
Land	2017/18	86,000,000
Buildings	2017/18	64,000,000
Machinery	2017/18	48,453,000
Machinery	2020/21	12,500,000
Motor Car used for Director's travelling	2019/20	18,450,000
Lorries to transport goods	2018/19	64,120,000
Office Equipment	2018/19	12,656,000
Computers	2019/20	1,875,000
		308,054,000

- (7) The company has paid Rs.10,000,000/- as quarterly installments of income tax for the year of assessment 2023/24.

You are required to:

Assess the following of **Mega (Pvt) Ltd.** for the year of assessment 2023/24:

- (a) Assessable Income.
- (b) Taxable Income.
- (c) Gross Income Tax Payable, and,
- (d) Balance Income Tax Payable.

(N.B: The reasons for allowing or disallowing any expenses should be clearly stated.)

(25 marks)

Question 09

Rathnasinghe, a resident individual is a software engineer. He works in a leading software company in Sri Lanka.

The following information is available regarding his income for the year of assessment 2020/21 (*hereinafter referred to as the 'year'*):

(1) Income from Employment:

- Gross salary - Rs.375,000/- per month.
- Bonus paid in April 2020 - Rs.200,000/- (out of profits of previous year) and in December 2020 - Rs.100,000/- (Out of current year profits).
- The company has provided him a motor car (1,000 CC) with a monthly fuel allowance of Rs.60,000/-.
- The company has reimbursed his mobile phone bills of Rs.36,000/- during the year.
- **Rathnasinghe** has not declared his employer, his consent to deduct Advance Personal Income Tax (APIT).

(2) **Rathnasinghe** lived in a rented apartment with his family. He has a bungalow in Bandarawela which was inherited from his father. He operates it as a holiday bungalow. The details of income and expenses are given below:

	Rs.
Revenue from guests	12,000,000
Less:	
Salary paid to bungalow staff	3,480,000
Electricity, Water and Telephone expenses	1,721,000
Penalty paid to Municipal Council due to violation of safety rules	1,000,000
Fee paid to a lawyer to get advices in the case against Municipal Council	500,000
Maintenance expenses of bungalow	658,000
Net Profit	4,641,000

(3) **Rathansinghe** has received the following interest income during the year of assessment:

- On LKR Fixed Deposits - Rs.84,500/-
- On Foreign Currency Banking Unit (FCBU) Savings Account - US \$ 315 (US \$ 1 = Rs.200/-)

He has not opted to deduct Advance Income Tax on interest income.

(4) **Rathnasinghe** has made the following payments during the year of assessment:

- A cash donation of Rs.100,000/- to an approved charity established for the provision of institutionalized care for elderly persons.
- Annual medical Insurance premium of Rs.150,000/-.
- Fee paid to a private university for his son's higher studies Rs.700,000/-.
- Hospital bill of Rs.445,000/- of his wife who had undergone a surgery in a private hospital.

(5) **Rathnasinghe** has paid Rs.500,000/- as quarterly installment payments of income tax for the year of assessment 2020/21.

You are required to:

Assess the following for **Rathansinghe** for the year of assessment 2020/21:

- (a) Taxable Income.
- (b) Gross Income Tax Payable.
- (c) Balance Income Tax Payable / (overpaid), and,
- (d) Exempt Income, if any.

(N.B: If any income is not taxable, it should be clearly stated.)

(25 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.