



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA
LEVEL III EXAMINATION – OCTOBER 2021
(304) CORPORATE & PERSONAL TAXATION

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

(1) *Time Allowed: Reading : 15 minutes.*

Writing : 03 hours.

(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) *Assume that provisions of the Income Tax Act No.24 of 2017 prevailed throughout the Year of Assessment 2019/20 without any amendments during the year.*

(8) *100 Marks.*

No. of Pages : 06
No. of Questions : 09

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SECTION A
(Total 20 marks)

Question 01

Teshani & Ushani are willing to start business in Sri Lanka. They want to clarify following interms of at Inland Revenue Act No 24th of 2017.

(a) Who is liable for income tax? (03 marks)

(b) How their residency apply for the tax liability? (02 marks)

(Total 05 marks)

Question 02

"Tax administration works are very important for compliance."

(a) What is the due date to submit income tax return for the year of assessment 2020/2021? (02 marks)

(b) What are the due dates to pay VAT liability of registered person? (03 marks)

(Total 05 marks)

Question 03

Miss.Randy was in a mood to acquire land at Kurunegala area and agreed to buy within a period. Later she did some alternative arrangement and acqure part of land and balance portion arranged to prospective buyers. Thereby she has gain on these arrangement.

You are required to explain whether this gain is a business income or not as per-D.S. Mahawithana case.

(05 marks)

Question 04

Stamp duty special provision Act. No 12th of 2006 imposed for the charging of stamp duty in Sri Lanka. Accordingly

- (a) List out three (03) transaction liable for stamp duty. (03 marks)
 - (b) List out the method that adopts to pay stamp duty. (02 marks)
- (Total 05 marks)

End of Section A

SECTION B
(Total 30 marks)

Question 05

Taxaco (Pvt) Ltd is engaged in providing professional services in Sri Lanka and for clients in different part of the world. The assistant commissioner has issued tax in default notice for the year of assessment 2019/2020 based on his judgment. You are the tax consultant of Texaco (Pvt) Ltd.

You are required to:

- (A) (a) State immediate remedy on the tax in default notice. (01 mark)
- (b) What are the actions that Inland Revenue Department will implement in recover tax in default. (04 marks)
- (B) They disposed some of their investment property during the year. Information are as follows purchased in 2019 for the cost of Rs. 19,000,000. Renovation made in 2020 Rs. 1,200,000. Sale proceed Rs. 26,000,000 on 16th of July 2020 brokerage Rs. 260,000.

You are required to:

- (a) Asses the capital gain tax on the transaction. (04 marks)
 - (b) What is the due date to remit this tax and submit the tax return? (01 mark)
- (Total 10 marks)

Question 06

P.S. Associates is a partnership carried out by AAT qualified Pawan & Sawan. They conduct a business of professional consultation and Accounting firm.

Following are the detailer and information of partnership agreement.

1. Net profit for the year ended 31st March 2021 Rs. 7,345,200.
2. Pawan and Sawan agreed to share profit and loss, 2:1
3. Sawan received a monthly salary of Rs. 100,000 for the active participation to day today business. This expenditure has been charged in arriving above profit.
4. Accounting depreciation charged in arriving above profit was Rs. 700,000.

5. Property plant and equipment as at 31/03/2021 are as follows.

Assets	Year acquired	Cost – Rs.
Travelling van	2018/19	7,8000,000
Computer	2019/20	1,800,000
Communication equipment	2020/21	2700,000
Accounting software	2020/21	800,000

You are required to:

Calculate following for the year of assessment 2020/2021.

- (a) Divisible profit for the year for income tax purpose. (04 marks)
- (b) Income tax payable by partnership for the year. (02 marks)
- (c) Statement of distribution to show share of profit and tax for each partner. (04 marks)
- (Total 10 marks)

Question 07

JMC consolidated Ltd is a registered company for Value Added Tax (VAT). They conduct business of manufacturing of elements to exporters (SVAT) and local manufacturers.

The following information for the quarter ended 31st December 2020 was extracted from the books of the company.

- (1) Details of sales for the quarter ended 31st December 2020.

Sales made on SVAT customers (on this SVAT credit voucher received)	Rs. 30,000,000
Sales made to local manufacturers	Rs. 45,425,000

- (2) The company has paid following input VAT during the quarter.

On imports of raw material	Rs. 2,250,000
On repair of machinery	Rs. 60,000
On repair of travelling vehicle	Rs. 48,000

- (3) SVAT credit vouchers received intact on SVAT sales
- (4) In addition to above sales ,company disposed used computer for Rs. 1,420,000
- (5) Input VAT brought forward Rs. 45,000
- (6) VAT Installment payment Rs. 800,000

You are required to:

Assess the balance payable (overpaid) of Value Added Tax (VAT) for the quarter ended 31st December 2020. (10 marks)

End of Section B

SECTION C
 (Total 50 marks)

Question 08

Elecrome (Pvt) Ltd is company engaged in manufacturing electric items and export to foreign buyers and sell at the local market.

Following information extracted from the financial statement for the year ended 31st March 2021.

(1) Company turn over

On exports	Rs. 528,000,000
On whole sale	Rs. 175,400,000

(2) Net profit before tax for the year ended 31st March 2021 Rs. 81,341,400.

(3) Other income included in above profit.

Rent income from investment property	Rs.1800,000
Interest income on fixed deposit.	Rs.1,000,000
Profit on disposal of machinery	Rs. 665,000

(4) Administration and establishment expenses include the following.

- * Depreciation charged for the year Rs. 6,320,000
- * Donation to COVID 19 fund Rs. 1,420,000
- * Foreign travel expense of Director to meet foreign customer. Rs. 1,530,000
 On his private tour Rs. 2,150,000
- * Provision for gratuity charged Rs. 780,000
- * Repair expenditure on rented property Rs. 97,000

(5) Selling & Distribution expenses include the following.

- * Bad debit charged
 - i. On trade debtions Bad debts Rs. 445,000
 - ii. Staff loan write off Rs. 380,000
- * Foreign advertisement expenditure Rs. 1,472,000
- * Entertainment expenditure for sales manager Rs. 750,000

(6) Finance expenses include the following

- Company Bank O/D interest Rs. 1,756,000
- Director s Housing loan interest Rs. 710,000

(7) The following additional information also provided for to year.

i. Property plant and equipment held at 31st March 2021.

Assets	Year acquired	Cost
Investment property(land)	2014/2015	10,000,000
Building 1	2017/2018	7,000,000
Building 2	2019/2020	8,200,000
Car used by Director	2019/2020	12,000,000
Transport lorry	2020/2021	8,000,000
Machinery	2019/2020	6,700,000
Computer 1	2017/2018	720,000
Computer 2	2019/2020	1,250,000
Furniture	2017/2018	800,000
Computer software	2020/2021	1,950,000

- * Estimated useful life of the computer software is four (04) years.
- * In addition to above information.

A machinery purchased in 2018/2019 for 2,750,000 disposed during the year for Rs. 2,360,000. On this transaction accounting profit adjusted to profit before tax.

- I. Gratuity paid during the year Rs. 1,450,000
- II. Tax loss brought forward from previous year Rs. 6,850,000
- III. Self-assessment income tax payment for the year Rs. 6,000,000

You are required to:

Assess the following of Elecrome (Pvt) Ltd for the year of assessment 2020/2021.

- (a) Assessable income
- (b) Taxable income
- (c) Gross income tax payable
- (d) Balance tax payable

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

(Total 25 marks)

Question 09

Kaveesha is a chartered engineer attached to leading construction company in Sri Lanka. As site engineer. He has given following information for the year of assessment 2020/2021.

(Here after referred to as the year)

- (1) Income from employment
 - * Gross salary per month Rs. 300,000
 - * Arrears salary for the year 2019/20 received during 2020/2021 Rs. 300,000

- * the company has provided him car with fuel. Engine capacity 1500 cc
 - * His sons school fees paid by company Rs. 180,000 for the year
 - * Medical benefit received from common scheme operated by the company Rs. 300,000
 - * APIT deducted by company with the consent of Mr. Kaveesha Rs.36 000
- (2) He received a share of profit firm a partnership where he also was a partner during the year Rs. 2,300,000 on this applicable partnership tax Rs. 108,000 has been paid by the partnership.
- (3) He owns an electric shop also.

Income statement of that business for the year 2020/2021 is as follows.

Expense	Rs.	Income	Rs.
Purchase	4,100,000	Income	7,250,000
Start salary	900,000		
Rent	300,000		
Electricity	18,000		
Water	7,000		
Telephone	12,000		
Other expenses	112,000		
Depreciation	200,000		
Donation	50,000		
Net Profit	1,551,000		
	7,250,000		7,250,000

- * A computer purchased in 2019/2020, cost Rs. 800,000 was there in the business. There is no other asset to claim capital allowance.
- (4) Kaveesha rented his part of residence to a business. Monthly rent Rs. 60,000. No repair made during the year, but broker charge of Rs. 60,000 paid.
- (5) He has a fixed deposit in bank, on that interest received for the year Rs. 360,000.
- (6) Kaveesha made following expenses,
- * Donation to Covid fund of the government Rs. 100,000
 - * Donation to approved charity which provide care to needy people Rs. 100,000
 - * Housing loan interest Rs. 240,000
 - * He has paid self-assessment tax payment during the year Rs. 140,000

You are required to:

Asses the following for the year of assessment 2020/2021.

- (a) Taxable Income
- (b) Gross income tax payable
- (c) Balance tax payable and
- (d) Exempt income if any (25 marks)

End of Section C