

Strategic Level Exam –December 2023

Corporate Taxation

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Taxation – PIM USJP

SECTION 2

Question 03

ABC Company (Pvt) Ltd is engaging in manufacturing and sales of leather based products. As at 31st March 2023, issued share capital and total reserves of the company were Rs.25,000,000/- and Rs.5,000,000/- respectively.

The following information was extracted from the financial statements of ABC Company (Pvt.) Ltd:

- (1) The net profit before income tax of the company for the year ended 31st March 2023 is Rs.25,375,000/-.

- (2) Other income comprised the following:

	Rs.
Building Rent Income	600,000
Interest Income – Fixed Deposit	425,000
Dividend Income – distributed out of profits	686,000
Profit on disposal of Quoted Shares	750,000

The net profit was arrived at after charging all the expenses:

- (3) Administration expenses include the following:

- i. Accounting depreciation charged for the year was Rs. 7,225,000/-.
- ii. Gratuity provision for the year was Rs.2,150,000/-.
- iii. Entertainment expenses was Rs.435,000/-.
- iv. During the year, the company has paid Rs.500,000/- to the pradeshiya sabha as fines for violating environmental regulations.
- v. The company has donated Rs.1,000,000/- to the National Hospital to purchase medical equipment. (the hospital has issued a receipt in this regard) and Rs.200,000/- worth of Food items to an approved charity that maintains Elderly in the home.
- vi. A sales team of the company has been sent to Singapore for negotiations with prospective buyers. Cost of air tickets purchased for the team was Rs.248,000/-.
- vii. Further, Rs.600,000/- incurred on a foreign tour organized to entertain the managing Director and his family.
- viii. The company has incurred Rs.245,000/- for painting of the building given on rent.
- ix. In December 2022, the company has paid Rs.750,000/- as a fine on the violation of law and it was paid to provincial council.

- (4) Distribution expenses include the following:
- Remaining loan balance of Rs.75,000/- from an employee has been written off. In addition to that, the company has made a general provision of Rs.420,000/- for doubtful debts from trade debtors. Further, a trade debt of Rs.15,000/- was estimated to have become doubtful during the year.
 - Cost of TV commercials of Rs.3,500,000/- and the cost of Rs.25,000/- for paper notices published to recruit new workers were included in advertising expenses.
- (5) Finance cost include the following:
- Loan interest paid on bank loan obtained for working capital purposes was Rs.6,483,000/-.
 - On 01st July 2022, Building was obtained under an operating lease agreement for a period of 60 months. Monthly installment of the lease was Rs.31,200/-. The company has paid 9 installments during the year. Lease Interest charged to Income statement was Rs.514,000/-. This building was recognized under Right of Use asset to the Statement of Financial position.
- (6) As at 31st March 2023, following liabilities were in the books of the company:
- | | |
|----------------|------------|
| | Rs. |
| Bank Loan | 20,500,000 |
| Lease Creditor | 1,591,200 |
| | 42,091,000 |
- (7) Rs.1,345,000/- has been paid as gratuity for retired employees during the year.
- (8) Unless otherwise stated all the expenses are incurred to produce income.

Required:

Compute the assessable income from business of ABC Company (Pvt.) Ltd (ABC) in respect of the Y/A 2022/23.

