

CA Strategic Level Exam – June 2026

CA SL 25 4 Strategic Tax Planning – Target Questions pack 002

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Question 1

Soft Tour Lanka PLC (STL) is a company incorporated in Sri Lanka and is engaged in the business of providing destination management and tour operating services. The following information relating to the year ended 31 December 2025 is also made available.

- (i) The detailed unaudited income statement of STL for the year ended 31 December 2025 is given below.

Description	Notes	Rs. million
Revenue	Note 1	90,400
Direct costs	Note 2	(46,600)
Gross profit		43,800
Administrative costs	Note 3	(14,500)
Selling and distribution costs	Note 4	(9,900)
Impairment loss	Note 5	(485)
Other income	Note 6	286
Operating profit		19,201
Finance income	Note 7	898
Finance costs	Note 8	(4,656)
Net foreign exchange gain/(loss)	Note 9	4,652
Profit before tax		20,095
Income tax expense		(6,000)
Profit for the year		14,095

Note 1: Revenue:

Considering the business opportunities available in the region, STL established a branch office in the Maldives in 31st December 2024. The turnover recorded by the Maldives branch amounted to Rs. 40,100,000,000/- (equivalent Sri Lankan Rupee value). The remaining balance of the turnover is attributable to the tour operating services rendered through the Sri Lanka operations of STL.

Note 2: Cost of Sales:

Description	Sri Lanka – Head office (Rs.)	Maldives Branch (Rs.)
Direct salaries	24,350,000,000	5,650,000,000
Indirect cost	7,600,000,000	2,300,000,000
Office cost	3,000,000,000	3,700,000,000

Note 3: Extract of certain expenses recorded under administrative costs.

Description	Sri Lanka – Head office (Rs.)	Maldives Branch (Rs.)
Directors' fees	2,100,000,000	-
Salaries and wages	3,500,000,000	500,000,000
Depreciation and amortisation	400,000,000	50,000,000
Amortisation of right-of-use (ROU) assets	150,000,000	75,000,000
Communication Cost	50,000,000	20,000,000
Office Rent	10,000,000	-
Provision for retirement benefits	60,000,000	-
Professional fees	15,000,000	20,000,000
Legal fees	30,000,000	15,000,000
License fees	85,000,000	12,500,000
Staff welfare	2,500,000	3,000,000
Maintenance cost	34,500,000	5,500,000
Accommodation	1,300,000	5,200,000
Fines and penalties	1,200,000	-
CSR expenses	3,500,000	4,500,000
Health insurance	1,800,000	2,200,000
Foreign Travelling	24,500,000	

Unless otherwise stated, any other expenditure may be assumed to have been incurred in relation to the Sri Lanka operations and allowed for tax purpose.

Note 4: Extract of certain expenses recorded under selling and distribution costs

Description	Sri Lanka – Head office (Rs.)	Maldives Branch (Rs.)
Marketing and advertising costs	3,500,000,000	2,500,000,000
Research and development expenses (R&D)	50,000,000	-
Bad and doubtful debts	23,000,000	17,000,000
Donation	-	8,000,000

Unless otherwise stated, any other expenditure may be assumed to have been incurred in relation to the Sri Lanka operations and allowed for tax purpose.

Note 5: Impairment of property held at Sri Lanka operation are recorded here

Note 6: Other income

Description	Sri Lanka – Head office (Rs.)	Maldives Branch (Rs.)
Rental income (Gross)	84,000,000	
Dividend income (Net)	126,000,000	
Profit on disposal of fixed assets	66,000,000	
Commission	-	10,000,000

Note 7: Finance income

Description	Sri Lanka – Head office (Rs.)	Maldives Branch (Rs.)
Interest on Treasury Bills	650,000,000	
Fixed Deposit (Net)	180,000,000	
Saving Accounts	-	68,000,000

Savings account interest was earned from the branch bank account maintained in the Maldives. It may be assumed that the amount represents the gross interest income recorded in the books of the Maldives branch, and that no withholding tax or any other tax has been deducted or incurred in relation to such interest income.

Note 8: Finance cost

Interest on loan Rs. 4,448,000,000 and Interest cost on ROU Rs. 156,000,000
Bank charges Rs. 52,000,000.

Note 9: Net foreign exchange gain/(loss)

Description	Sri Lanka – Head office (Rs.)	Maldives Branch (Rs.)
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Exchange gain - realized	3,895,000,000	1,300,000,000
Exchange loss - unrealized	(1,243,000,000)	700,000,000

i. Details of assets acquired during the year were as follows:

	Sri Lanka - Head office (Rs.)	Maldives Branch (Rs.)
Buildings	300,000,000	
Equipment Computer equipment	345,000,000	55,000,000
Furniture and fittings	250,000,000	50,000,000
Motor vehicles - Buses	258,000,000	
Motor vehicles - Cars	440,000,000	
Motor Vehicles - Jeep	52,000,000	
Computer software	50,000,000	15,000,000
Capital work-in-progress	33,000,000	

- ii. Depreciation allowances claimed during Y/A 2024/25 for property, plant, and equipment and intangible assets were Rs. 11,335 million. None of the assets reached their full tax depreciated levels in Y/A 2024/25.
- iii. Computer software is considered an intangible asset and the estimated useful life of the same is 4 years.
- iv. STL has disposed of a few equipment and computers during Y/A 2024/25. The total sale price of the said assets was Rs. 54.9 million. The details are as follows:

Description	Year of purchase	Cost (Rs.)
Office Equipment	Y/A 2020/21	85,500,000
Computers	Y/A 2022/23	64,500,000

- v. The company has purchased Rs. 440 million worth of motor cars for the use of its executive staff which is included under motor vehicle purchases, and the balance amount relates to Tourist transport jeep and buses used for tour operation and staff transportation.
- vi. An impairment loss has been identified against the equipment.
- vii. The right-of-use (ROU) asset represents several leased-out premises and the actual lease payment for the year was Rs. 1,720.5 million.
- viii. Directors' fees and salaries have been considered for APIT purposes.
- ix. The company has not deducted WHT on office rent expenses which is made in respect of its ticketing office located in the Central and Southern Provinces. Monthly rental exceeds Rs. 200,000 for each and every office.
- x. Gratuity payment made during the year was Rs. 28.5 million.
- xi. Bad and doubtful debts include a bad debt write-off amounting to Rs. 680 million. Adequate action was taken to recover this debt before it was written off. The balance amount relates to the provision made in respect of debtors exceeding a credit period of 180 days.
- xii. Professional fees include a payment made to an advisory firm amounting to Rs. 7.5 million, for obtaining advice on the acquisition of shares by Mr. Jayasundara – Managing director in his personal capacity. Further, it includes a cash payment of Rs. 1.5 million made to a third-party consultant for obtaining advisory services relating to the business.
- xiii. Legal fees were paid to a lawyer (practicing in his individual capacity) for debt recovery actions and labour tribunal cases. Monthly payments made exceeded Rs. 100,000 and WHT has not been deducted on payments.
- xiv. Staff welfare includes expenses relating to training sessions conducted for junior level staff of the company.
- xv. An amount of Rs. 18.8 million included under maintenance cost was incurred as an improvement expense which constituted a major modification to an equipment that was purchased during Y/A 2023/24 at a cost of Rs. 58.5 million.
- xvi. CSR expenses relate to a donation made to the Ministry of Education for the purpose of building some smart classrooms for schools in rural areas.

- xvii. Fines and penalties relate to a payment made to the Inland Revenue Department (IRD) for surcharges/penalties on several late payments.
- xviii. License fees include payments relating to the purchase of software licenses internationally, and royalty payments made to foreign vendor. A royalty amount of Rs. 9 million has been set off against the amount receivable from the vendor entity without obtaining a clearance for outward remittance from the IRD. Further, license fees include a provision made during the year amounting to Rs. 12.5 million. All these are related to Sri Lanka operation.
- xix. An amount of Rs. 22.5 million booked under marketing and advertising cost was incurred for the purchase of smart boards to be used for internal training purposes.
- xx. The health insurance expense is incurred in respect of all employees, but the limit varies based on the grade of the employees. It has not been considered as an employment benefit for APIT purposes.
- xxi. R&D expenses were incurred in relation to developing a new system for customer relationship management to improve efficiency and ensure the quality of services.
- xxii. It is assumed that the total interest income on fixed deposits has been received during the year and no accrued interest has been identified.
- xxiii. The loan has been obtained to be used for the production of income.
- xxiv. The exchange gain and loss were related to trade creditors and trade debtors.
- xxv. Rental income represents the income earned from renting out of Busses. The total monthly rental income of each is around Rs. 150,000. The rental income received is after deducting WHT. It is expected to consider this income as effectively connected to the business.
- xxvi. Received has been recorded during the year of assessment and the relevant WHT has been deducted and paid to the IRD.
- xxvii. The company made income tax payments amounting to Rs. 2,400 million during Y/A 2025/26.

You are required to compute the tax liability for the year. You may assume that no tax is applicable on the branch operations and that the company is not entitled to any preferential tax rates under the BOI regulations.