

Strategic Level Exam – June 2026

Strategic Tax Planning – Question bank 3

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Question 1

Araliya Resort (Pvt) Ltd is an approved hotel registered with the Sri Lanka Tourism Development Authority (SLTDA). The profit before tax for the financial year 2025/26 amounts to Rs. 165 million.

In arriving at the profit before tax, the following expenses have been deducted under the administrative and selling expenditure:

1. Depreciation charged for the year amounting to Rs. 23 million.
2. Gratuity provision for the year amounting to Rs. 13 million.
3. Provision for bad and doubtful debts amounting to Rs. 5 million, made after assessing and reviewing the recoverability of receivables based on experience and recommended by independent consultant.
4. Provision for marketing expenses amounting to Rs. 10 million, aligned with the budgeted marketing expenditure for the upcoming year as advised by the Company's Treasury division.
5. Bonus provision amounting to Rs. 25 million, based on the company's consistent experience of incurring bonus expenses at approximately this level annually.

The finance division has also provided the following additional information for the year:

- a) Out of the total depreciation expense, Rs. 7 million relates to the depreciation of Right-of-Use (RoU) assets.
- b) During the year, the company made lease payments to the RoU lease creditor amounting to Rs. 5.5 million, and lease interest of Rs. 1.2 million was charged to the Income Statement under finance costs.
- c) As per the Cash Flow Statement, the company has made a gratuity payment of Rs. 10 million during the year.
- d) The company has also paid bonuses amounting to Rs. 20 million, relating to the previous year's performance.
- e) A bad debt write-off of Rs. 2 million has been recorded during the year and has been set off against the current year's provision for bad and doubtful debts.

Required:

Compute the assessable income from the business in respect of the Y/A 2025/26.

Question 2

Agarwood Plantation (Pvt) Ltd is engaged with agricultural undertaking. The profit before tax for the financial year 2025/26 amounts to Rs. 85 million.

In arriving at the profit before tax, the following expenses have been deducted under the administrative and selling expenditure:

1. Depreciation charged for the year amounting to Rs. 13 million.
2. Gratuity provision for the year amounting to Rs. 8 million.
3. Details of assets acquired during the year are as follows.

Description	Cost Rs. million
Land	16
Buildings	8
Furniture and fittings	2.5
Office equipment	7.5
Motor vehicles	95
Computer and equipment	4
Intangible assets (system software)	2
Work-in-progress	10.2

Estimated useful life of the system software is 4years.

During the year, the company purchased motor vehicles for executive staff and senior management, at a total cost of Rs. 70 million. The balance amount represents the cost of a motor lorry acquired for the transportation of goods.

According to the income tax computation submitted for the Year of Assessment 2024/25, the capital allowance claimed amounted to Rs. 12 million. It was further noted that none of the assets had completed their eligible number of years for capital allowance as at the end of Y/A 2024/25.

Company disposed of a few office equipment and machinery (fully depreciated for accounting purposes) during Y/A 2025/26. The total sale price of the said assets was Rs. 2.5 million. Other details of these assets are as follows.

Description	Year of purchased	Cost Rs.
Office equipment	2021/22	5Mn
Computer software	2022/23	2Mn

Required:

Compute the assessable income from the business in respect of the Y/A 2025/26.

Question 3

Galewela Milk products Ltd is engaged with manufacturing liquid milk and dairy products using the local liquid milk.

The finance division has also provided the following additional information for the year:

Assets [at Cost]	Balance as at 01.04.2025 (Rs.)	Additions / Acquisitions (Rs.)	Disposals (Rs.)	Balance as at 31.03.2026 (Rs.)
Land	15,000,000			15,000,000
Manufacturing Plant	50,000,000			50,000,000
Machinery and equipment	30,000,000	25,000,000	10,000,000	45,000,000
Factory Furniture	40,000,000			40,000,000
Motor Cars	25,000,000			25,000,000
Specialized bowser	40,000,000	25,000,000		65,000,000
Computers and equipment	5,000,000	8,000,000		13,000,000
Computer Software	2,000,000	3,500,000		5,500,000
Capital Work-in- progress	12,000,000	8,000,000		20,000,000

- The company is currently constructing new manufacturing plant, and the related expenditure has been classified under capital work-in-progress.
- On 1st February 2026, the company disposed of equipment originally acquired during the 2019/20 assessment year at a cost of Rs. 10,000,000. The disposal proceeds amounted to Rs. 5,000,000.
- During the year company has purchased Rs. 20 Mn of milking machinery with latest technology.
- Motor cars and bowser have been utilized primarily for the transportation of guests, aligning with the company's hospitality service objectives.
- In line with company policy, computer software is amortized over a five-year period. The previous software system was developed and used in the 2020/21 financial year, and a new software solution was implemented during the current year to enhance hotel booking management. This system was developed by a Sri Lankan software firm, and the total cost was settled via bank transfers.
- The capital allowance claimed in the 2024/25 assessment year was based on eligible assets which was acquired in the year 2022/23. Unless specifically stated otherwise, none of the assets held as of 1st April 2025 had reached the end of their depreciable life by the end of the previous

Required:

Compute the Capital allowance that can be claimed for the computation of assessable₃ income from the business in respect of the Y/A 2025/26.

Question 4

Red Heart (Pvt) Ltd, is a supermarket. Company has obtained few banking facilities and during the year 2025/26 has paid interest as follows.

- i. Director's personal loan interest Rs. 200,000/-.
- ii. Interest of Rs. 1,250,000/- paid on a loan for the importation of a motor car. This car was gifted to one of the directors as a birthday gift.
- iii. Interest of Rs. 1,025,000/- on the temporary overdraft facility used for the payment of staff salary bill and bonus for the month of April 2025.
- iv. Term loan obtained for the construction of new store. Interest cost incurred for the year was Rs. 550,000/-. The new store has occupied at the new year day auspicious time on 14th April 2026.

What is the allowable interest cost for the computation of assessable income form the business?

Question 5

ACD Company Ltd has incurred machinery repair cost of Rs. 2,300,000/- and building repair cost of Rs. 3,000,000/- during the year 2025/26. Tax written down vale of the machinery and building as at the end of the year 2024/25 were Rs. 12,000,000/- and Rs. 50,000,000/- respectively.

What is the amount that shall be allowed in the computation of assessable income form the business?

Question 6

Cost of the construction of an Office building used by the PTK Fresh milk (Pvt) Ltd was Rs. 100Mn. Company is engaged in producing fresh milk and supply to domestic market. Building construction was started in the year 2018/19 and completed in the year 2021/22. The building used for the business in the same year 2021/22.

Based on the above information what is the amount that shall be claimed as capital allowance in the computation of the assessable income form the business for the year 2025/26?

Question 7

Cost of the purchase of milking machinery used by the Kotma milk (Pvt) Ltd was Rs. 50Mn. Company is engaged in producing fresh milk and supply to domestic market. This Machinery is with the latest technology and was purchased/used in the year 2023/24.

Based on the above information what is the amount that shall be claimed as capital allowance in the computation of the assessable income form the business for the year 2025/26?

Question 8

Cost of the purchase of machinery used by the Thasma Aluminum works (Pvt) Ltd was Rs. 100Mn. Company is engaged in the business of building construction and fabrication. This Machinery is with the latest technology and was purchased/used in the year 2022/23. During the year 2024/25 improvement to the machinery of Rs. 15Mn was made.

Based on the above information what is the amount that shall be claimed as capital allowance in the computation of the assessable income form the business for the year 2025/26?

Question 9

Cost of the purchase of 10 lorries used by the Sandun Transport (Pvt) Ltd was Rs. 75Mn. Company is rendering distribution service. These lorries were purchased and used in the year 2022/23. Out of these 10 lorries, company has disposed Two lorries during the year 2024/25.

Based on the above information what is the amount that shall be claimed as capital allowance in the computation of the assessable income form the business for the year 2025/26?

Question 10

JNC (Pvt) Ltd – Summary of Financial Information for the Year 2025/26

JNC (Pvt) Ltd is engaged in providing consultancy services. The following information relates to the company's operations for the year ended 31 March 2026:

1) Capital Structure (as at 31.03.2026)

Issued Share Capital: Rs. 50 million

Reserves: Rs. 30 million

2) Profit and Loss Summary

Profit Before Tax: Rs. 25 million

The following income and expenses have been included in arriving at the above profit:

- Salaries paid to employees: Rs. 8 million.
- EPF and ETF contributions: Rs. 1.2 million (related to above remuneration)
- Gain on disposal of computers: Rs. 1,750,000
- Office rent paid: Rs. 3.6 million (Monthly rent is Rs. 200,000. As per the property owner's request, a two-year advance payment was made during the year. According to the agreement, Rs. 100,000 is recovered monthly from the advance, and Rs. 100,000 is paid monthly in cash.)
- Finance cost: Rs. 15 million
- Stationery sales: Rs. 700,000 (income)
- Land transferred to employee: A block of land valued at Rs. 6.6 million was transferred to an employee in recognition of outstanding service. The land was originally purchased

in 2015/16 for Rs. 2 million. The market value at the date of transfer was Rs. 6 million, and as at 01.10.2017, it was Rs. 4.5 million. An expense of Rs. 6 million was recognized in the income statement as a loss on disposal of assets.

- Company has made a cash donation of Rs. 2Mn to an approved charity and Rs. 1Mn worth of printing materials for knowledge sharing event conducted by business chamber.
- Finance Income:
 - ✓ Interest income from USD savings account: Rs. 500,000 (gross)
 - ✓ Interest income from LKR fixed deposit: Rs. 950,000 (net)

3) Extract of Assets and Liabilities (as at 31.03.2026)

- Addition to Computers Rs. 15 Mn (Cost)
- Furniture Rs. 10 Mn (Cost), purchased in the year 2020/21
- Other equipment Rs. 5 Mn (Cost), Purchased in the year 2021/22
- Motor vehicle car Rs. 8Mn (Cost), Purchased in the year 2022/23
- Trade Debtors: Rs. 30 million
- Cash and Bank Balances: Rs. 7 million
- Trade Creditors: Rs. 30 million
- Bank Loans:
 - ✓ Bank Loan 1: Rs. 5 million (Original loan of Rs. 15 million obtained in 2021/22 to finance a motor car purchased for a company director's private use. Capital repayment and interest paid during the year were Rs. 5 million each.)
 - ✓ Bank Loan 2: Rs. 13 million (Loan obtained for purchase of computers for office use during the year was Rs. 15 million. Capital repayment was Rs. 2 million; interest paid was Rs. 2 million.)
 - ✓ Bank Loan 3: Rs. 30 million (New loan obtained during the year to construct a new office building. There is a one-year grace period for capital repayment. Interest paid during the year was Rs. 8 million. The construction period is three years.)

4) Other Information

- ✓ Company has disposed computers purchased during the year 2020/21 for Rs. 12Mn (Cost) and disposal proceeds was Rs. 5Mn
- ✓ Revaluation Reserve: The company revalued all its assets in 2021/22, resulting in a revaluation reserve of Rs. 20 million.
- ✓ Capital allowance claimed for the year 2024/25 was Rs. 5.4Mn. None of the assets reached their full tax depreciated levels in Y/A 2024/25.
- ✓ Unless otherwise specified, it may be assumed that all company payments are made via account payee bank cheques or bank transfers

Required:

Compute the assessable income and taxable income from the business in respect of the Y/A 2025/26.

Question 11

Sadamini (Pvt) Ltd (SPL) is a company incorporated in Sri Lanka. The entity is engaged in the business of providing financial advisory service with higher standards.

As of 31st March 2026, SPL also holds a 10% equity interest in Vikasitha (Pvt) Ltd (VPL).

The financial information presented below has been extracted from the audited financial statements of SPL for the year ended 31st March 2026.

The total turnover for the period amounted to Rs. 164,600,000, indicating robust operational activity within the service sector. For the financial year ended 31st March 2026, SPL reported a net profit before taxation of Rs. 69,150,000, reflecting the company's performance after accounting for all recognized income, expenses and the share of profit of Rs. 18,650,000 recognized on the investment made in Vikasitha (Pvt) Ltd.

As of 31st March 2026, the company's issued share capital stood at Rs. 35,000,000, while total reserves amounted to Rs. 26,000,000. The reserve balance comprised an asset revaluation reserve of Rs. 6,000,000 and a general reserve of Rs. 5,000,000, highlighting the company's efforts to maintain financial stability and support future growth.

- 1) Break-up of other income
 - a) A profit of Rs. 1,500,000 was realized from the disposal of Computer equipment.
 - b) Net interest income earned from fixed deposit with bank amounted to Rs. 2,850,000.
 - c) Net dividend income recognized during the year totaled Rs. 1,568,500.
- 2) Administration expenses include the following:
 - a) Depreciation amounted to Rs. 12,800,000.
 - b) Amortization expenses related to right-of-use (RoU) assets totaled Rs. 1,200,000.
 - c) A gratuity provision of Rs. 3,100,000 was recognized.
 - d) The company incurred Rs. 1,000,000 in connection with a staff entertainment event, and Rs. 500,000 was expended on the provision of liquor and tobacco for staff cricket match.
 - e) Additionally, a fee and penalties amounting to Rs. 660,000 were paid due to late payment of Advance Income Tax (AIT).
 - f) The company incurred foreign travel expenses amounting to Rs. 2,300,000 during the period, primarily in relation to travel undertaken by its directors. This was attributed to a private trip to Australia, which included travel costs.

- g) The company incurred repair costs of Rs. 750,000 and maintenance expenses of Rs. 550,000 on computers. Additionally, an amount of Rs. 1,500,000 was spent on upgrading older equipment, originally acquired during the 2019/20 financial year at a cost of Rs. 3,000,000.
- h) An amount of Rs. 500,000 was paid as penalties to the Employees' Provident Fund (EPF), arising from delays in remitting contributions over multiple periods.
- i) Legal expenses amounting to Rs. 700,000 were paid for professional services rendered by a lawyer in connection with finalizing customer's sales agreements. The applicable Advance Income Tax (AIT) was duly deducted and remitted to the Commissioner General in accordance with regulatory requirements. At the request of the legal counsel, the outstanding invoice balance was settled in cash.
- 3) Distribution expenses include the following:
- a) Advertising costs of Rs. 100,000 were paid to a leading newspaper for the purpose of recruiting a secretary staff and office staffs, supporting the company's growth .
- b) The company made food donations totaling Rs. 1,000,000, to flood victims further Rs. 600,000 donated to elderly home classified as an approved charitable institution.
- c) Business promotion expenses amounting to Rs. 250,000 were incurred in connection with printing business brochures.
- 4) Details of Property, Plant and Equipment are as follows:

Assets [at Cost]	Balance as at 01.04.2025(Rs.)	Additions / Acquisitions (Rs.)	Disposals (Rs.)	Balance as at 31.03.2026 (Rs.)
Land	1,000,000			1,000,000
Office Building	5,000,000			5,000,000
Computer Equipment	3,000,000	2,500,000	1,000,000	4,500,000
Office Furniture	4,000,000			4,000,000
Motor Cars	5,000,000			5,000,000
Computer Software	1,000,000	3,500,000		4,500,000

- a) On 1st February 2026, the company disposed of Computer equipment originally acquired during the 2019/20 assessment year at a cost of Rs. 2,000,000. The disposal proceeds amounted to Rs. 1,000,000.
- b) Motor cars have been utilized by the company director.
- c) In line with company policy, computer software is amortized over a five-year period. The previous software system was developed and used in the 2020/21 financial year, and a new software solution was implemented during the current year to enhance client supporting service. This system was developed by a Sri Lankan software firm, and the total cost was settled via bank transfers.
- d) The capital allowance claimed in the 2024/25 assessment year was based on eligible assets which was acquired in the year 2022/23. Unless specifically stated otherwise, none of the assets held as of 1st April 2025 had reached the end of their depreciable life by the end of the previous year.

5) Details of Right of Use assets (RoU) are as follows:

Assets Cost	Balance as at 01.04.2025(Rs.)	Additions / Acquisitions (Rs.)	Balance as at 31.03.2026 (Rs.)
Land	1,000,000	6,000,000	7,000,000

The subject properties are presently utilized by the company as a designated vehicle parking area for customers.

6) Finance cost/Income

- a) During the financial year 2025/26, the company incurred interest expenses amounting to Rs. 200,000 on a working capital loan facility of Rs. 2,000,000. The loan was obtained during the year, and proceeds were utilized to meet operational expenditures.
- b) Interest expenses totaling Rs. 800,000 were incurred on a bank overdraft facility of Rs. 2,000,000 obtained during the year to support short-term liquidity requirements.
- c) Lease interest payments related to Right-of-Use (RoU) assets amounted to Rs. 1,350,000, in accordance with applicable lease accounting standards.
- d) Realized exchanged loss on imports of printing materials Rs. 2,000,000. Unrealized loss on the same is Rs. 5,000,000.

7) The following other information is also provided:

- a) Gratuity payments totaling Rs. 2,500,000 were made to retired employees during the year, in line with the company's obligations under its employee benefits policy.

- b) The company remitted Rs. 3,400,000 as quarterly income tax installments, demonstrating compliance with applicable statutory tax requirements.
- c) Lease rental payments amounting to Rs. 1,560,000 were made during the year to settle liabilities associated with assets classified under the Right-of-Use (RoU) category. The relevant withholding tax was duly deducted, and payments were made via account payee cheques.
- d) In relation to its investment in Vikasitha (Pvt) Ltd (VPL), the company has adopted the Fair Value Through Profit or Loss (FVTPL) accounting method, as it does not exercise significant influence over VPL.
- e) Unless otherwise specifically stated, all expenses incurred by the company are settled through formal payment methods of bank transfers and account payee cheques, in accordance with internal financial controls and regulatory compliance requirements.

Part [b].

Sandamini (Pvt) Ltd (SPL) is a business consulting firm, currently assessing a strategic expansion initiative for its client, Raja Sault (Pvt) Ltd, which operates in the salt manufacturing sector. The proposed investment of USD 3.5 million aims to establish a new production facility, with potential sites identified in Sri Lanka's Northern Province.

As part of the planning process, the company is evaluating two structural options: proceeding under the existing corporate framework of Raja Sault (Pvt) Ltd or forming a new legal entity to independently manage the new operations.

To support this strategic decision, SPL's senior consultant is analyzing the tax implications associated with the investment.

You, as the external tax advisor, have been engaged to conduct a comprehensive assessment of the potential tax impact related to the proposed project.

Note. Please note that the exam question is currently being developed for the examination scheduled to be conducted in June 2026.

For this purpose, the Year of Assessment (Y/A) to be tested will be 2025/2026, which corresponds to the basis period ending on 31 March 2026.

Accordingly, all technical content, computations, and legislative applications will assume that the Year of Assessment 2025/26 has ended, and the relevant provisions in force for that period will be applied when finalizing the question.