



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA3 EXAMINATION - JANUARY 2018

(AA35) CORPORATE AND PERSONAL TAXATION

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

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

21-01-2018
Afternoon
[1.45 – 5.00]

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

Four (04) compulsory questions

(Total 20 marks)

Question 01

“Profit or income means the net profit or income from any source for any period calculated in accordance with the provisions of the Inland Revenue Act No. 10 of 2006.”

You are required to:

State five(05) sources of income as per the provisions of the Inland Revenue Act No. 10 of 2006.

(05 marks)

Question 02

Senarath is a resident individual and he has filed his return of Income for the Year of Assessment 2015/16 on time. The Assistant Commissioner has rejected the return and issued an assessment. You are the Tax Consultant of **Senarath** and you wish to appeal against the assessment of **Senarath**.

You are required to:

State three(03) conditions required to be satisfied to make a valid appeal against the assessment.

(05 marks)

Question 03

Sunimal Flora (Pvt) Ltd. is a commercial grower and an exporter of Floriculture Products in Sri Lanka. The following information was extracted from the books of the company for the quarter ended 31st March 2017:

	Rs.
Sale of flowers – Exports	17,600,000
Sale of flowers – To Local market	72,400,000
Sale proceeds on disposal of office furniture	996,000
Interest Income from a fixed deposit	457,000
	91,453,000

You are required to:

Assess the Economic Service Charge (ESC) payable for the quarter ended 31st March 2017.

(05 marks)

Question 04

Extract of income statement of **Rantharu Sport Club** for the year ended 31st March 2017 is as follows:

	Rs.	Rs.
Membership fees	2,165,000	
Interest (net) – fixed deposits	224,000	
Interest from loans given to members	146,000	2,535,000
Expenses allowable for income tax		(1,894,000)
Surplus of Income over Expenditure		641,000

You are required to:

Identify whether **Rantharu Sports Club** can be deemed to have carried out a business for the year of assessment 2016/17.

(You should show required calculations.)

(05 marks)

End of Section A

SECTION B

Three (03) compulsory questions

(Total 30 marks)

Question 05

Meera (Pvt) Ltd. is a Value Added Tax (VAT) registered company engaged in the business of manufacturing and selling bags. The following information for the quarter ended 31st March 2017 was extracted from the books of the company:

(1) Sales (exclusive of VAT):

Direct Exports (USD 1 = Rs.150/-)	USD 8,000
Sales to local customers – Registered for SVAT	Rs.758,400/-
Sales to local customers – Others	Rs.4,161,600/-

(2) Input VAT paid:

	Rs.
On imported raw materials	364,500
On local purchases	245,500

(3) The company has paid Rs.10,000/- for the quarter on installment basis.

(4) Simplified VAT Credit Vouchers (SVCV) of Rs.113,760/- have been collected on SVAT sales.

You are required to:

(a) **Assess** the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st March 2017. (08 marks)

(b) **State** the due date for submitting Value Added Tax return for the quarter ended 31st March 2017. (02 marks)

(Total 10 marks)

Question 06

Sahan and **Pahan** are partners of "**Business Solutions**" partnership and are carrying on a business of providing management consultancy services. They have agreed to share the profit and losses at the ratio of 2 : 1. The Income Statement of the partnership for the year ended 31st March 2017 is given below:

Income Statement of the partnership for the year ended 31st March 2017

	Rs.	Rs.
Consultancy services		21,500,000
Rent income on building		120,000
Interest on fixed deposit – net		5,520
		21,625,520
Expenses:		
Salaries paid to partners		
Sahan	250,000	
Pahan	250,000	
Salaries to staff	3,567,000	
Rates on building	30,000	
Accounting depreciation	48,000	
Other expenses allowable for tax purposes	3,588,000	(7,733,000)
Net Profit		13,892,520

Notes:

- (1) A computer was purchased on 01st April 2015 at a cost of Rs.400,000/-. All other assets are fully depreciated for tax purposes as at 01st April 2016.
- (2) Half of the building was given on rent to another third party. Rates for the entire building was paid by the partnership.

You are required to:

- (a) **Calculate** the Divisible Profit of the partnership for the year of assessment 2016/17. (05 marks)
- (b) **Calculate** the income tax payable by the partnership for the year of assessment 2016/17.

(05 marks)

(Total 10 marks)

Question 07

- (A) **Sirimewan** is a retired government employee aged 58 years and he receives a director fee (from **Suhada (Pvt) Ltd.**) of Rs.40,000/- for every board meeting he attends. He is not considered as an employee of **Suhada (Pvt) Ltd.** in the payroll prepared for PAYE purpose. During the Year of Assessment 2016/17 he has received Rs.369,600/- (net of tax) as Director fee for participating in such board meetings. He has also received fixed deposit interest income of Rs.92,000/- for the year 2016/17. During the same year of assessment he has won a cash prize of Rs.720,000/- (net of tax) from a lottery.

You are required to:

Compute the withholding tax (WHT) deducted at each of the above sources of income of **Sirimewan** for the Year of Assessment 2016/17. (06 marks)

- (B) **State** two(02) conditions that should be satisfied for an individual to be considered as a child under the Inland Revenue Act. (04 marks)

(Total 10 marks)

————— *End of Section B* —————

SECTION C

Two (02) compulsory questions.

(Total 50 marks)

Question 08

Anne (Pvt) Ltd., which is a resident company is engaged in manufacturing and selling electrical equipment for the local market.

- (1) Summary of the income statement for the year ended 31st March 2017 is as follows:

	Rs.
Sales	246,000,000
Cost of Sales	(198,040,000)
Gross Profit	47,960,000
Other Income	2,110,000
Administration Expenses	(25,450,000)
Distribution Expenses	(9,302,000)
Finance Expenses	(3,120,000)
Profit Before Tax	12,198,000

(2) Summary of Other Income is as follows:

	Rs.
Interest Income on listed debentures	1,700,000
Profit on disposal of fixed assets	210,000
Bad debt recovered out of the bad debts written off and allowed for tax purposes in previous years	200,000
	2,110,000

(3) Administration expenses include the following:

- Rent expense includes the three months' rent advance paid for the next year of assessment (2017/18) amounting to Rs.525,000/-.
- Accounting depreciation charged for the year of assessment 2016/17 was Rs.4,105,000/-.
- During the year, the company has paid Rs.150,000/- as fines for violating rules and regulations of health authorities.
- Gratuity provision for the year was Rs.876,000/-.

(4) Distribution Expenses include the following:

- During the Year of Assessment, a sales team of the company has been sent to Europe for negotiations with prospective buyers. Cost of air tickets purchased for the team was Rs.354,000/-. Statutory income of the trade for the Year of Assessment 2015/16 was Rs.16,900,000/-.
- Total advertising cost was Rs.343,000/- which includes Rs.63,000/- incurred on a paper notice published for recruiting an accountant.
- During the year **Anne (Pvt) Ltd.** has donated a motor lorry with a value of Rs.3,000,000/- to the Ministry of Health.

(5) Finance expenses include the following:

	Rs.
Lease Interest	325,000
Overdraft Interest	428,000

(6) Details of assets as at 31st March 2017 are given below:

Assets	Cost (Rs.)
Motor Lorry (Note 1)	6,500,000
Air Conditioner acquired during the year	150,000
Furniture acquired during the year which is to be used in new building being constructed	825,000
Cost incurred for the building being constructed (Note 2)	65,000,000

Note 1

A Motor lorry was obtained under a finance lease agreement for a period of 5 years on 01st January 2012. Monthly lease rental was Rs.160,000/- and 9 installments have been paid during the year of assessment 2016/17. The cost of this lorry of Rs.6,500,000/- was transferred to free hold property, plant and equipment from the leased assets.

Note 2

Anne (Pvt) Ltd. is constructing a building for office and it will be completed in November 2017.

Note 3

A lorry which has been sold during the year for Rs.1,500,000/- was purchased in June 2014 at cost of Rs.2,000,000/-. Cost of that lorry was not included in the above assets details.

Note 4

Depreciation allowances for tax purposes on other assets as at 01st April 2016 were fully claimed.

- (7) Rs.645,000/- was paid during the year as gratuity for retired employees.
- (8) All other expenses of the business are allowable for income tax purposes.
- (9) Income tax paid on self-assessment basis for the year of assessment 2016/17 was Rs.400,000/-.

You are required to:

Assess the following for the year of assessment 2016/17:

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

N.B: The reasons for allowing or disallowing any expenses should be clearly stated. (25 marks)

Question 09

Sudesh is a Chartered Accountant and furnishes the return of income as a resident individual to the Inland Revenue Department. The following information relating to him is provided in respect of the year of assessment 2016/17. (hereinafter referred to as the 'year').

- (1) **Sudesh** is working as the Chief Financial Officer of a leading bank. Benefits provided by the employer during the year were as follows:
 - Gross salary - Rs.250,000/- per month.
 - Vehicle allowance - Rs.60,000/- per month.
 - Medical insurance premium - Rs.5,000/- per month.
- (2) He lives in a rent free residence provided by the employer and Rs.20,000/- per month is paid by the employer to the landlord for the house. Rating assessment of that house is Rs.100,000/- and rates were paid by the employer at 25%.
- (3) **Sudesh** has rented out his own house at a monthly rent of Rs.50,000/-. Rating assessment of the house is Rs.200,000/- and rates were paid at 30%. He incurred an expenditure amounting to Rs.90,000/- to repair this house during the year.
- (4) During the year, he has received Rs.90,000/- as net dividend from a listed company in Colombo Stock Exchange.
- (5) He has made a fixed deposit of Rs.1,000,000/- in Bank of Ceylon. The bank has credited Rs.68,250/- to his account as interest for the year after deducting Withholding Tax (WHT) of 2.5%.
- (6) During the year, **Sudesh** obtained a housing loan from National Savings Bank to construct a house. He has paid Rs.241,000/- and Rs.200,000/- as interest and capital repayments respectively.
- (7) He has donated Rs.80,000/- to an approved charity which provides institutionalized care for needy children.
- (8) PAYE deduction for the year was Rs.197,600/-.

From the foregoing information,

You are required to:

Assess the following for **Sudesh** for the year of assessment 2016/17.

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

(25 marks)

End of Section C

ACTION VERB CHECK LIST

Knowledge Process	Verb List	Verb Definitions
Level 01 Comprehension Recall & explain important information	Define	Describe exactly the nature, scope, or meaning.
	Draw	Produce (a picture or diagram).
	Identify	Recognize, establish or select after consideration.
	List	Write the connected items one below the other.
	Relate	To establish logical or causal connections.
	State	Express something definitely or clearly.
	Calculate/Compute	Make a mathematical computation
	Discuss	Examine in detail by argument showing different aspects, for the purpose of arriving at a conclusion.
	Explain	Make a clear description in detail revealing relevant facts.
	Interpret	Present in an understandable terms.
	Recognize	To show validity or otherwise, using knowledge or contextual experience.
	Record	Enter relevant entries in detail.
Summarize	Give a brief statement of the main points (in facts or figures).	

Knowledge Process	Verb List	Verb Definitions
Level 02 Application Use knowledge in a setting other than the one in which it was learned / Solve closed-ended problems	Apply	Put to practical use.
	Assess	Determine the value, nature, ability, or quality.
	Demonstrate	Prove, especially with examples.
	Graph	Represent by means of a graph.
	Prepare	Make ready for a particular purpose.
	Prioritize	Arrange or do in order of importance.
	Reconcile	Make consistent with another.
	Solve	To find a solution through calculations and/or explanation.

Knowledge Process	Verb List	Verb Definitions
Level 03 Analysis Draw relations among ideas and compare and contrast / Solve open-ended problems.	Analyze	Examine in detail in order to determine the solution or outcome.
	Compare	Examine for the purpose of discovering similarities.
	Contrast	Examine in order to show unlikeness or differences.
	Differentiate	Constitute a difference that distinguishes something.
	Outline	Make a summary of significant features.