



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA3 EXAMINATION - JULY 2019

(AA35) CORPORATE AND 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) **100 Marks.**

21-07-2019
Afternoon
[1.45 – 5.00]

No. of Pages : 08
No. of Questions : 09

SECTION A

Four (04) compulsory questions

(Total 20 marks)

Question 01

Taxable income of a person for a year of assessment comprises with the four main sources of income as per the provisions of the Inland Revenue Act No. 24 of 2017.

You are required to:

(a) **Identify** the four(04) main sources of income as per the Inland Revenue Act. (02 marks)

(b) **State** three(03) persons who can be “an authorized representative” as per the provisions of the Inland Revenue Act. (03 marks)

(Total 05 marks)

Question 02

A2Z Inc. is a multinational company based in New Zealand. It has a subsidiary company in Sri Lanka, which was registered on 01st December 2017 under the Companies Act No. 07 of 2007.

You are required to:

Explain the resident status of that subsidiary company for taxation purposes in Sri Lanka in relation to the year of assessment 2018/19. (05 marks)

Question 03

Sarasi Fabrics (Pvt) Ltd. has made the following payments during the month of March 2019.

- Shop rent to **Silva** (a resident person) - Rs.40,000/-.
- Consultancy Fee to a tax consultant, **Raj** (a resident person) - Rs.75,000/-.
- Fee paid to **Easy Health (Pvt) Ltd.** for janitorial services - Rs.150,000/-

You are required to:

- (a) **State** the obligation to deduct withholding tax (WHT) on each of the above payments. (03 marks)
- (b) **Calculate** the amount of total WHT deducted by **Sarasi Fabrics (Pvt) Ltd.** for the month of March 2019. (02 marks)
(Total 05 marks)

Question 04

Perera has estimated his income tax liability for the year of assessment 2018/19 as Rs.750,000/-. He has paid Rs.300,000/- for first and second installments.

You are required to:

- (a) **Calculate** the amount of income tax to be paid as third installment payment. (03 marks)
- (b) **State** the due date for the payment of third installment payment. (02 marks)
(Total 05 marks)

————— *End of Section A* —————

SECTION B

Three (03) compulsory questions

(Total 30 marks)

Question 05

PN Brothers is a partnership formed by two brothers, **Praveen** and **Nissan**. It engages in the business of wholesale and retail sale of stationery items. As per the partnership agreement, it was agreed to share profits and losses equally between **Praveen** and **Nissan**.

As per the financial statement for the year ended 31st March 2019, turnover and net profit of the partnership were Rs.54,350,000/- and Rs.12,100,000/- respectively.

- (1) The following expenses have been deducted when arriving at the net profit:

	Rs.
Salaries paid to partners	2,640,000
Salaries to office staff	3,950,000
Depreciation on assets	190,000

- (2) **Praveen** and **Nissan** draw monthly salary of Rs.120,000/- and Rs.100,000/- respectively for their involvement in the business.
- (3) Capital allowance on assets for tax purposes for the year of assessment 2018/19 was Rs.175,000/-.

You are required to:

Calculate the following:

- (a) The partnership income for tax purpose for the year of assessment 2018/19. (03 marks)
- (b) The withholding tax payable by the partnership for the year of assessment 2018/19. (02 marks)
- (c) The share of partnership income of each partner for the year of assessment 2018/19. (03 marks)
- (d) The withholding tax credit available to each partner for the year of assessment 2018/19.

(02 marks)

(Total 10 marks)

Question 06

Ransalu Enterprises (Pvt) Ltd. is engaged in the business of manufacturing and selling of handloom sarees. It also purchases handloom household items from local suppliers and sells those in their showrooms.

The following information was extracted from the books of accounts of **Ransalu Enterprises (Pvt) Ltd.** for the quarter ended 31st December 2018:

- (1) Sales of the company:

	Rs.
Sale of handloom sarees manufactured by the company	8,340,000
Sale of items locally purchased by the company	5,340,000
Total	13,680,000

- (2) The company has received Rs.500,000/- from sale of an old sewing machine.
- (3) The company has paid Nation Building Tax (NBT) as follows:

	Rs.
On imported raw material used in manufacturing process	126,000
On purchase of household items locally	65,000

- (4) Rs.50,000/- has been paid as monthly installments of NBT for the quarter ended 31st December 2018.

You are required to:

- (a) **Assess** the balance NBT payable for the quarter ended 31st December 2018. (06 marks)
- (b) **State** the due date for submitting NBT return for the quarter ended 31st December 2018. (01 mark)
- (c) **Assess** the Economic Service Charge (ESC) payable for the quarter ended 31st December 2018. (03 marks)
- (Total 10 marks)

Question 07

Samanala Creations (Pvt) Ltd. is a registered Value Added Tax (VAT) company engaged in the business of manufacturing bags for local and foreign customers. The following information was extracted from the books of the company for the quarter ended 31st December 2018:

- (1) Details of sales (exclusive of VAT):

	Rs.
Sales to local market	6,084,000
Sales to Exporters - Under SVAT scheme	1,716,000
	7,800,000

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

	Rs.
On purchase of raw materials	843,000
On repairs to motor car used by CEO	24,000
	867,000

- (3) The company has collected all the simplified VAT (SVAT) credit vouchers of Rs.257,400/- relevant to the period.

You are required to:

- (a) **Assess** the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st December 2018. (07 marks)
- (b) **State** three(03) particulars to be included in a tax invoice as per the Value Added Tax Act. (03 marks)
- (Total 10 marks)

End of Section B

SECTION C

Two (02) compulsory questions.

(Total 50 marks)

Question 08

Sahasra International (Pvt) Ltd. (SIL), was incorporated on 01st April 2016 under the Companies Act and commenced its operations on the same date. It is engaged in the business of importing and selling building materials in the local market. The following information has been extracted from the financial statements of **Sahasra International (Pvt) Ltd.** for the year ended 31st March 2019.

(1) Summarized Income Statement for the year ended 31st March 2019 is as follows:

	Rs.
Turnover	565,750,000
Cost of Sales	(339,450,000)
Gross Profit	226,300,000
Other Income:	
Interest income from Fixed deposit - Gross	350,000
Dividend received - Net	122,980
Profit on disposal of delivery van	84,000
	226,856,980
Administration expenses	(114,500,000)
Distribution expenses	(43,650,000)
Finance expenses	(4,350,000)
Profit Before Income Tax	64,356,980

(2) Administration expenses include the following:

- Depreciation charge for the year was Rs.4,876,000/-.
- Gratuity provision for the year was Rs.764,000/- and no gratuity payments have been made during the year.
- The company has donated Rs.1,000,000/- to the Api Wenuwen Api Fund.
- A penalty of Rs.53,500/- has been paid to pradeshiya sabhha on delay in renewal of trade license.
- The company has incurred Rs.800,000/- on a foreign tour to entertain the CEO and his family.

(3) Distribution expenses include the following:

- Entertainment expenses were Rs.225,000/- and it was spent to entertain customers who had come for business negotiations.
- Advertisements in local media were Rs.675,000/- and the cost of Rs.50,000/- was spent for a paper advertisement to recruit the Accountant.
- The company has written off Rs.250,000/- receivable from a trade debtor due to bankruptcy and a general provision of Rs.500,000/- has been made on doubtful debts from remaining debtors.

(4) Details of Property, Plant and Equipment are as follows:

Cost

Assets	Balance as at 01 st April 2018 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31 st March 2019 (Rs.)
Machinery	2,475,000	1,200,000	-	3,675,000
Motor Vehicles	5,675,000	4,000,000	2,400,000	7,275,000
Office Equipment	477,000	-	-	477,000
Computers	265,000	435,000	-	700,000
Total	8,892,000	5,635,000	2,400,000	12,127,000

- A delivery van was sold for Rs.1,200,000/-, on 01st January 2019. The company has purchased a new lorry for Rs.4,000,000/- on 10th January 2019 to replace the sold vehicle.
- Balance motor vehicles represent a car used by CEO.
- All assets as at 01st April 2018 were purchased at the time of incorporation of the company.

(5) The company has a brought forward taxable loss from business of Rs.5,678,000/- from year of assessment 2017/18.

(6) Economic Service Charge (ESC) payments for the year of assessment 2018/19 was Rs.2,828,750/-.

(7) The company has paid Rs.8,000,000/- as quarterly installments of income tax for the year of assessment 2018/19.

(8) WHT at relevant rate has been deducted by the bank on fixed deposit interest.

You are required to:

Assess the following for the year of assessment 2018/19:

- Assessable Income,
- Taxable Income,
- Gross Income Tax Payable, and
- Balance Tax Payable.

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

Question 09

Ms.Sarala, an attorney at law by profession, works as a legal officer of a leading bank. The following information relating to **Ms.Sarala** is provided in respect of the year of assessment 2018/19 (*hereinafter referred to as the 'year'*):

(1) She received following from the bank during the year:

- Gross salary - Rs.200,000/- per month.
- Travelling Allowance - Rs.35,000/- per month.
- One month bonus received in December 2018 - Rs.200,000/-.
- She lives in a rent free house provided by the employer. The employer paid a monthly rent of Rs.50,000/- to the landlord. Rating assessment of the house is Rs.1,200,000/-.
- The bank has reimbursed her telephone bills for the year amounting to Rs.64,000/-.
- She received a gift of Rs.100,000/- at her 10th year work anniversary at the bank.
- EPF and ETF contributions by the employer are at 12% and 3% respectively of the gross salary.

(2) **Ms.Sarala** has received the following interest income during the year:

- On a Fixed Deposit - Rs.243,750/- (net of WHT).
- On a loan given to a friend - Rs.100,000/-.

(3) **Ms.Sarala** has a house in Rathnapura which is rated at Rs.250,000/-. This house was rented out at a monthly rent of Rs.45,000/-. Rates were paid at 25%.

(4) She has invested in shares of some companies listed in Colombo Stock Exchange. During the year, she has received a net dividend income of Rs.43,000/-.

(5) During the year, she has donated goods worth of Rs.100,000/- to Ministry of Disaster Management to distribute to flood victims.

(6) **Ms.Sarala** has paid Rs.50,000/- as quarterly installments of income tax for the year of assessment 2018/19.

(7) PAYE deduction for the year was Rs.190,720/-.

You are required to:

Assess the following for **Ms.Sarala** for the year of assessment 2018/19:

- (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.