



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JANUARY 2023

(304) CORPORATE & PERSONAL TAXATION

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

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

26-02-2023
Afternoon
[01.45 – 05.00]

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

(Total 20 marks)

Question 01

Angela, is a citizen of Sri Lanka. Commencing from 01st June 2021, she was appointed as an officer of the embassy of Sri Lanka in Japan for a period of 2 years. She was provided an apartment in Tokyo and her salary will continue to be paid to her bank account in Sri Lanka with an additional allowance. **Angela's** husband, **Thilina** too accompanied her to Japan.

You are required to:

Explain the residence status of **Angela** for taxation purpose in Sri Lanka for the year of assessment 2021/22 as per the provisions of the Inland Revenue Act No 24 of 2017. (05 marks)

Question 02

Suresh, purchased a bare land in Kandy on 21st October 2018 for Rs.10,000,000/-. He had to spend Rs.399,000/- as stamp duty and Rs.100,000/- as lawyer's fee on that. Soon after the purchase, he constructed a parapet wall around the land by spending Rs.500,000/-. He sold that land on 15th December 2021 for Rs.15,000,000/- to his cousin brother when the market value of the land as at that date was Rs.18,000,000/-.

You are required to:

(a) **Calculate** the Capital Gain Tax payable by **Suresh** on sale of the land. (04 marks)

(b) **State** the due date to submit the Capital Gain Tax Return by **Suresh**. (01 mark)

(Total 05 marks)

Question 03

Anura is the Assistant Accountant of **Karunarathna Ltd.** and during the year of assessment 2021/22, he was hospitalized for a kidney transplant. Medical bill was reimbursed to **Anura** by **Karunarathna Ltd.** considering his loyalty towards the company. Further, reimbursement of medical bills is not applicable to all employees of the company in equal terms.

You are required to:

Explain whether the medical bill reimbursement received from **Karunarathna Ltd.** is part of taxable income of **Anura** referring to *Cribs Vs CIT* and provisions of the Inland Revenue Act No 24 of 2017. (05 marks)

Question 04

(A) **Riverston Leisure (Pvt) Ltd.** is registered with Tourism Development Board to run a tourist hotel. The following information was extracted for the quarter ended 31st March 2022:

Type of Income	Rs.
Income from Rooms	11,250,000
Bar Sales	3,300,000
Income on Service Charge	2,250,000
Total Income	16,800,000

You are required to:

Assess the Tourism Development Levy (TDL) for the quarter ended 31st March 2022.

(03 marks)

(B) **Sarath** owns 10,000 shares of **ABC PLC** (a quoted company in Colombo Stock Exchange). He sold 5,000 shares on 12th January 2022 through his broker, **Asia Stock Brokers (Pvt) Ltd.** Price per share was Rs.140/-.

You are required to:

Calculate the Share Transaction Levy payable by **Sarath**.

(02 marks)

(Total 05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

Rushi Ads (Pvt) Ltd. is a registered person for Value Added Tax (VAT), engaged in advertising and event organizing services. The following information for the quarter ended 31st March 2022 was extracted from the books of accounts of the company:

- (1) Details of income earned during the quarter ended 31st March 2022 are given below (exclusive of VAT):

Income received from foreign clients for services provided to be utilized outside Sri Lanka. <i>(Income received in foreign currency through a bank account in Sri Lanka and USD 1 = Rs.200/-)</i>	USD 150,000
Services provided to local clients - SVAT	Rs.22,671,600
Services provided to local clients - Non SVAT	Rs.44,868,400

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

	Rs.
On office expenses	950,000
On purchase of advertising material	1,264,000
On insurance premium on motor car used by CEO	12,500

- (3) The excess input VAT brought forward from the previous quarter amounts to Rs.486,000/-.

- (4) All the Simplified VAT (SVAT) credit vouchers relevant to the period were collected.

- (5) The company has paid Rs.500,000/- as monthly VAT installments.

(Consider the standard VAT rate as 8%)

You are required to:

Assess the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st March 2022. (10 marks)

Question 06

Rosi Textiles (Pvt) Ltd. is a company incorporated in Sri Lanka and is operating a textile shop. It has submitted the Statement of Estimated Tax payable (SET) for the year of assessment 2021/22 with an estimated tax liability of Rs.3,500,000/-. An amount of Rs.1,800,000/- has been paid as first and second quarterly installments. No payment was made after that due to financial difficulties faced by the company.

The Assistant Commissioner has issued a reminder for the third installment payment and the company wishes to appoint you as the authorized representative to negotiate with the Inland Revenue Department in future.

You are required to:

- (a) **Calculate** the amount payable as the third installment payment for the year of assessment 2021/22. (02 marks)
 - (b) **State** the due dates of income tax installment payments for the year of assessment 2021/22. (04 marks)
 - (c) **State** a step that could be taken by the company to avoid penalties on late payment. (02 marks)
 - (d) **State** two(02) methods available to recover the taxes in default by Inland Revenue Department. (02 marks)
- (Total 10 marks)

Question 07

Laa Fashion is a partnership carried out by two sisters namely **Nelum** and **Manel** and runs a beauty salon in Colombo. They have agreed to share profits/losses at the ratio of 1:1 respectively.

The summarized Income Statement for the year ended 31st March 2022 is as follows:

	Rs.
Gross Profit	9,250,000
Other Income	550,000
	9,800,000
Less: Administration & Other Expenses	(4,125,000)
Net Profit of the Partnership	5,675,000

The following expenses have been deducted when arriving at the above profit:

- (1) Both partners draw Rs.150, 000/- each as monthly salary.
- (2) **Nelum** had provided a working capital loan of Rs.800,000/- to the partnership for which Rs.120,000/- has been paid as interest.
- (3) **Manel's** daughter worked as Assistant during the weekend and an amount of Rs.260,000/- as an allowance was paid during the year.
- (4) Rs.100,000/- cash donation was made to an approved charity established for the provision of institutional care for elderly persons.
- (5) Other income includes Rs.200,000/- received from the bank as interest on the Saving Account and the balance represents the revenue from cosmetic sales.

You are required to:

Assess the Income Tax payable of the Partnership for the year of assessment 2021/22.

(10 marks)

_____ *End of Section B* _____

SECTION C

(Total 50 marks)

Question 08

Soorya (Pvt) Ltd. is a company incorporated in Sri Lanka, engaged in the manufacturing of handicrafts for export market.

The following information was extracted from the financial statements of **Soorya (Pvt) Ltd.** for the year ended 31st March 2022:

- (1) The net profit before tax for the year ended 31st March 2022 after charging all expenses and crediting all income was Rs.21,450,000/-. Total turnover of the company was Rs.430,500,000/-.
- (2) Break-up of other income:

	Rs.
Gain on disposal of quoted shares	1,230,000
Interest income from fixed deposits	2,395,000
Dividend income - Out of dividend received	3,840,000
Profit on disposal of computer tables	25,000

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

Assets (Cost)	Balance as at 01.04.2021 (Rs.)	Additions / Acquisitions (Rs.)	Disposals (Rs.)	Balance as at 31.03.2022 (Rs.)
Land	2,420,000	-	-	2,420,000
Office Building	8,250,000	-	-	8,250,000
Motor Vehicles	14,870,000	5,500,000	-	20,370,000
Furniture and Fittings	3,270,000	-	900,000	2,370,000
Total	28,810,000	5,500,000	900,000	33,410,000

- Except the 20 seater Mini bus purchased during the year for staff transportation, entire motor vehicles represent the delivery vans and lorries.
- Several computer tables bought in the year of assessment 2018/19 were sold for Rs.600,000/-.
- Other than those mentioned specifically, all the other assets as at 01st April 2021 have been acquired in the year of assessment 2019/20 and claimed for capital allowance from the date of acquisition.

(4) Administration expenses include the following:

- Depreciation charge for the year is Rs.4,150,000/-.
- Gratuity provision for the year Rs.2,190,000/-.
- Rs.300,000/- has been incurred during the year for repair and maintenance of office building.

(5) Distribution expenses include the following:

- During the year of assessment, Rs.1,900,000/- incurred on advertising campaign carried out in social media.
- The company has incurred Rs.1,425,000/- for entertainment of customers.
- The company has donated Rs.2,400,000/- worth of educational equipment to the medical faculty of the University of Colombo.
- The company has incurred Rs.1,500,000/- for a research on improving efficiency of production process.

(6) Taxes paid on self-assessment basis for the year of assessment 2021/22 was Rs.1,500,000/-.

(7) All other expenses of the business are allowed for income tax purposes.

You are required to:

Assess the following of **Soorya (Pvt) Ltd.** for the year of assessment 2021/22:

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

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

(25 marks)

Question 09

Ranjani, a resident individual is a Chartered Accountant and she works as the Chief Financial Officer in a company in Sri Lanka.

The following information relating to **Ranjani** is provided in respect of the year of assessment 2021/22 (*hereinafter referred to as the 'year'*):

(1) Income from Employment:

- Gross salary - Rs.350,000/- per month.
- A bonus equal to one month salary was paid in April 2021.
- The company has provided her a motor car (1000 cc) with fuel.
- She lives in a rented house in Kottawa by paying a monthly rent of Rs.40,000/-. The company reimbursed Rs.30,000/- per month.
- During the year, the company sent her to South Korea to represent the company in a regional conference of the group. The cost of the tour of Rs.350,000/- was reimbursed by the company.
- **Ranjani** has declared her consent to deduct Advance Personal Income Tax (APIT). Tax deducted for the year was Rs.143,400/-.

(2) She runs an accounting firm and the details of income and expenditure for the year are as follows:

	Rs.	Rs.
Revenue from clients		5,870,000
Less: Payments		
Salary to the assistant	900,000	
Stationery	465,000	
Depreciation on the computer (Purchased during the year for Rs.240,000/-)	60,000	(1,425,000)
Net Profit		4,445,000

(3) Her own house is situated at Mathugama and it has been given on rent for a monthly rent of Rs.30,000/-. Rating assessment of this house is Rs.150,000/- and rates are paid by the tenant at the rate of 25%.

(4) During the year, **Ranjani** has received the following interest income:

- On LKR fixed deposits Rs.245,300/-.
- On Resident Foreign Currency Account (RFC) Rs.1,200,000/-.

(5) **Ranjani** has made the following payments during the year:

- Contribution to a medical insurance Rs.300,000/-.
- Fee paid to a local institution to follow a six months course on taxation Rs.50,000/-.

(6) During the year, she has donated books worth of Rs.500,000/- to the Buddhist and Pali University of Sri Lanka and also she has donated goods worth of Rs.100,000/- to a charitable institution which maintains a home for disabled persons.

(7) **Ranjani** has paid Rs.300,000/- as installment payments for the year of assessment 2021/22.

You are required to:

Assess the following for **Ranjani** for the year of assessment 2021/22:

- Taxable Income.
- Gross Income Tax Payable.
- Balance Income Tax Payable / (overpaid), and,
- Exempt Income, if any.

(N.B: If any income is not taxable, it should be clearly stated.)

(25 marks)

End of Section C

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.