

ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JANUARY 2026

(304) CORPORATE & PERSONAL TAXATION

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

(1) <i>Time Allowed:</i>	<i>Reading : 15 minutes.</i>	08-02-2026
	<i>Writing : 03 hours.</i>	Afternoon
		[01.45 – 05.00]
(2) <i>All questions should be answered.</i>		No. of Pages : 10
(3) <i>Answers should be in one language, in the medium applied for, in the booklets provided.</i>		No. of Questions : 09
(4) <i>Submit all workings and calculations. State clearly assumptions made by you, if any.</i>		
(5) <i>Use of Non-programmable calculators is only permitted.</i>		
(6) <i>Action Verb Check List with definitions is attached. Each question will begin with an action verb.</i>		
	<i>Candidates should answer the questions based on the definition of the verb given in the Action</i>	
	<i>Verb Check List.</i>	
(7) <i>100 Marks.</i>		

SECTION A

(Total 20 marks)

Question 01

Rajesh Dairy Ltd. is one of the largest milk producing companies in India. **Krisudu (Pvt) Ltd.** is a company incorporated in Sri Lanka and it is a subsidiary of **Rajesh Dairy Ltd.** and is engaged in the business of producing milk for the local market. **Krisudu (Pvt) Ltd.** is planning to obtain a technology platform from **Rajesh Dairy Ltd.** to produce milk. **Krisudu (Pvt) Ltd.** will be required to pay a royalty to **Rajesh Dairy Ltd.** for the use of the technology.

You are required to:

(a) Explain the residence status of Krisudu (Pvt) Ltd. in Sri Lanka.	(03 marks)
(b) State two(02) indirect taxes applicable in Sri Lanka.	(02 marks)
	(Total 05 marks)

Question 02

Nishantha, a doctor by profession plans to migrate Canada with his family. Therefore, **Nishantha** has made the following capital nature transactions during the year of assessment 2024/25:

(Rs.)

Type of Asset	Cost of construction/ Acquisition	Market Value as at 30.09.2017	Consideration Received	Broker Fees
Residence House used from 2010 (Inherited)	2,000,000	10,000,000	13,500,000	1,350,000
Rubber Estate (Earned income from rubber)	5,000,000	6,300,000	8,100,000	810,000
Bare Land at Matale (Purchased in 2014)	9,400,000	11,850,000	16,470,000	1,947,000

You are required to:

Calculate the Capital Gain Tax (CGT) payable by **Nishantha** on the above transactions.

(N.B. The reasons for considering or not considering capital gain tax for each transaction should be clearly stated.) (05 marks)

Question 03

X & Co., a construction firm in Colombo, operates as a partnership between **Arjun** and **Priyal**. They have agreed to share profits / losses equally. **Arjun** decided to create a sub-partnership with his friend, **Sameera**. Under the sub-partnership agreement, **Sameera** is entitled to receive a 25% of **Arjun's** share of profits from **X & Co.** The sub-partnership has a separate agreement between **Arjun** and **Sameera** and does not affect **Priyal's** share.

You are required to:

Explain income tax implications of this arrangement between **Arjun** and **Sameera** by referring to "A. A Davoodbhoy Vs CGIR".

(05 marks)

Question 04

(A) **Millenium Hotels (Pvt) Ltd.** runs a tourist hotel in Colombo. During the quarter ended 31st March 2025, the hotel derived the following sources of income and also service charge is calculated on total income:

Type of Income	Rs.
Income received from Rooms	1,650,000
Income received from Food & Beverages	2,758,000
Income received from Spa	876,500
Total Income	5,284,500
Service Charge	528,450
	5,812,950

You are required to:

Assess the Tourism Development Levy (TDL) for the quarter ended 31st March 2025.

(03 marks)

(B) **XYZ Ltd.** has invested in quoted shares of **ABC PLC** (a quoted company listed in Colombo Stock Exchange). On 10th March 2025, 10,000 shares of **ABC PLC** were sold at Rs.35/- per share by **XYZ Ltd.**

You are required to:

Calculate the share Transaction Levy Payable by **XYZ Ltd.**

(02 marks)

End of Section A

(Total 05 marks)

SECTION B

(Total 30 marks)

Question 05

DGB (Pvt) Ltd. is engaged in manufacturing and selling footwear and is a registered company for Value Added Tax (VAT).

The following information for the quarter ended 31st March 2025 was extracted from the books of accounts of the business:

(1) Details of sales (exclusive of VAT) made by **DGB (Pvt) Ltd.**, during the quarter ended 31st March 2025 are given below:

	Rs.
Local sales	36,672,000
Export sales	5,254,000

(2) Following other income (exclusive of VAT) also received during the quarter:

	Rs.
Rent income received from a subsidiary company (not a registered company for VAT)	225,000
Sale proceed from disposal of a motor lorry	3,540,000

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

	Rs.
On import of raw materials	2,423,000
On local purchases of raw materials	1,473,000
On repairs made to a motor car used by a director	32,000

(4) The excess input VAT brought forward from the previous quarter amounts to Rs.524,520/-.

(5) The company has paid Rs.1,500,000/- as monthly VAT installments.

(Consider the standard VAT rate as 18%)

You are required to:

Assess the balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st March 2025. (10 marks)

Question 06

“Event Planners” is a partnership business carried out by two partners, **Ruwan** and **Madhu**. They have agreed to share profits and losses at the ratio of 3:2 respectively. The business provides equipment on hire for various functions such as weddings, almsgiving, and corporate events.

The extract of Income Statement of the partnership for the year ended 31st March 2025 is given below:

	Rs.
Gross Profit	25,200,000
Other Income:	
Interest on Fixed Deposits (Gross)	250,000
	25,450,000
Expenses:	
Administration Expenses	(5,250,000)
Distribution Expenses	(3,100,000)
Finance Expenses	(650,000)
Net Profit of the Partnership	16,450,000

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

(1) Salaries to the partners:

Ruwan : Rs.2,400,000/-

Madhu : Rs.3,600,000/-

(2) **Madhu's** son works as a manager of partnership and an amount of Rs.1,000,000/- was paid to him during the year.

(3) Lorry belongs to **Ruwan** is used to deliver the equipment and a rent of Rs.80,000/- per month has been paid to him.

(4) An amount of Rs.300,000/- was paid as a donation to a Government Hospital during the year of assessment.

(5) During the year, an advanced audio equipment was purchased at a cost of Rs.1,000,000/- and an amount of Rs.100,000/- has been recorded as depreciation under the administration expenses. All other assets were fully depreciated for accounting purpose as well as for tax purpose as at 01st April 2024.

You are required to:

Assess the Income Tax Payable by the partnership for the year of assessment 2024/25.

(10 marks)

Question 07

(A) **Sunny Drinks (Pvt) Ltd.** is a resident company in Sri Lanka. The company has not finalized its financial statements for the year ended 31st March 2025. Hence, the return of income for the year of assessment 2024/25 has not been submitted on or before the due date.

You are required to:

(a) **State** the due date to submit the return of income for the year of assessment 2024/25. (02 marks)

(b) **State** the penalties that could be imposed on failure to furnish a return of income as per the provisions of the Inland Revenue Act No. 24 of 2017. (03 marks)

(B) (a) **State** the time bar provisions of the following instances under the Section 135 of Inland Revenue Act No. 24 of 2017, in which the Assistant Commissioner may amend an original assessment and issue an amended / additional assessment:

(i) When a tax payer has filed a self-assessment return.

(ii) In the cases of fraud or gross or willful neglect by a tax payer. (03 marks)

(b) **State** two(02) matters to be included in an advance assessment. (02 marks) (Total 10 marks)

End of Section B

SECTION C

(Total 50 marks)

Question 08

Crystal Beverages (Pvt) Ltd. is a resident company in Sri Lanka engaged in the business of manufacturing and selling of bottled fruit drinks.

The following information was extracted from the Financial Statements of **Crystal Beverages (Pvt) Ltd.** for the year ended 31st March 2025:

(1) Summarized Income Statement of **Crystal Beverages (Pvt) Ltd.** for the year ended 31st March 2025 is as follows:

	Rs.
Turnover	325,110,000
Cost of sales	(260,088,000)
Gross Profit	65,022,000
Other Income	25,890,000
Distribution Expenses	(22,842,000)
Administration Expenses	(35,470,000)
Net Profit Before Tax	32,600,000

(2) Other Income includes the following:

	Rs.
Interest Income on Fixed Deposits (Gross)	8,950,000
Rent Income on Warehouse(Gross)	16,940,000

(3) Administration Expenses include the following:

- Depreciation charge for the year was Rs.8,870,000/-.
- Gratuity provision for the year was Rs.2,500,000/-.
- Entertainment Expenses were Rs.750,000/- This includes Rs.300,000/- paid for a client's reception and Rs.450,000/- paid for the company's annual staff trip to a resort.
- An amount of Rs.800,000/- was incurred on Managing Director's foreign travelling to inspect a new manufacturing plant.
- Accounting loss from disposal of a motor lorry was Rs.150,000/-.
- Legal and Professional fees amounted to Rs.650,000/- This includes Rs.200,000/- related to the registration of a new trademark, and the remaining amount was for routine audit and legal advisory services.

(4) Distribution expenses include the following:

- The bad debt directly written off to the income statement in respect of a customer who was declared bankrupt was Rs.150,000/- Additionally, a general provision of Rs.95,000/- was made to the income statement.
- Fines and Penalties of Rs.120,000/- were charged due to non-payment of income tax on time.
- The company has donated Rs.500,000/- worth of bottled fruit drinks to the "Pradeshiya Sabha".

(5) Details of Property, Plant and Equipment as at 31st March 2025 are as follows:

Asset (At Cost)	Balance as at 01.04.2024 (Rs.)	Additions (Rs.)	Disposal (Rs.)	Balance as at 31.03.2025 (Rs.)
Land	4,500,000	-	-	4,500,000
Buildings	15,000,000	1,500,000	-	16,500,000
Plant and Machinery	7,000,000	4,500,000	-	11,500,000
Furniture and Fittings	2,800,000	-	-	2,800,000
Motor Vehicles	18,600,000	-	3,200,000	15,400,000,
Total	47,900,000	6,000,000	3,200,000	50,700,000

- A motor lorry which was purchased in the year of assessment 2022/23 at a cost of Rs.3,200,000/- has been disposed in December 2024 for Rs.2,850,000/-. This lorry was used for delivery of goods.
- During the year, the company purchased a new machinery for Rs.4,500,000/-.
- Except the Managing Director's car, worth of Rs.6,000,000/-, all other motor vehicles represent the delivery vehicles.
- None of the assets were fully depreciated as at 01st April 2024 for tax purposes.

(6) An amount of Rs.900,000/- was paid as gratuity to a retired employee during the year.

(7) The adjusted tax loss brought forward for the year of assessment 2024/25 was Rs.650,000/-.

(8) The bank has deducted at 5% of Advance Income Tax (AIT) / Withholding Tax (WHT) on the interest income.

(9) The company has paid Rs.6,500,000/- as quarterly installments of income tax on self-assessment basis for the year of assessment 2024/25.

(10) The company has received Withholding Tax (WHT) certificates on rent income from the tenant.

You are required to:

Assess the following of **Crystal Beverages (Pvt) Ltd.** for the year of assessment 2024/25:

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

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

(25 marks)

Question 09

Mevan is a resident individual and presently working as a Senior Manager in an apparel company in Sri Lanka.

The following information relating to **Mevan** is provided in respect of the year of assessment 2024/25 (*hereinafter referred to as the 'year'*):

(1) Income from employment:

- Gross salary - Rs.560,000/- per month.
- The company has provided him a motor car (2,000cc) with fuel.
- During the year, he had to undergo a surgery and entire hospital bill of Rs.480,000/- was borne by the company. Medical benefits are available to all the employees of the company, on equal terms.
- He went a foreign tour with his family and accommodation and air ticket cost of Rs.960,000/- was borne by the company.
- **Mevan** lives in an apartment provided by the company for which company pays a rent of Rs.90,000/- per month and 50% of the amount is deducted on a monthly basis from his salary in respect of the residence provided by the company.
- Advance Personal Income Tax (APIT) deducted for the year was Rs.2,250,000/-.

(2) Mevan provides business management advisory services to corporate clients on ad hoc basis. Income and expenses details relating to advisory services for the year of assessment 2024/25 are as follows:

	Rs.
Income on Consultancy Services	5,840,000
Less: Expenses	
Printing and Stationery	630,000
Office Rent	1,000,000
Electricity and Telephone Charges	280,000
Bank Loan Interest	230,000
Net Profit	3,700,000

Bank loan interest has been made on a loan obtained to construct a house to his son.

(3) He owns an inherited house in Matale, which was rented out to a neighbour at a monthly rent of Rs.75,000/- per month. Rating Assessment of this house is Rs.150,000/- and rates were paid at 30% by the tenant.

(4) During the year, **Mevan** received the following interest income: (Rs.)

Description	Date Received (maturity date)	Amount (Gross)	AIT/WHT Deducted
Interest on Fixed Deposit	15.12.2024	800,000	40,000
Interest on Treasury Bills	30.01.2025	1,000,000	-

(5) During the year, **Mevan** has received the following income from his investments:

- **Mevan** has earned a profit on sale of shares in Quoted Public Companies amounting to Rs.195,000/- in September 2024.
- Dividend Income received from the Quoted Public Companies (paid out of dividend received) was Rs.240,000/- in March 2025.

(6) In April 2024, he donated books worth of Rs.400,000/- to the "*Buddhist and Pali University of Sri Lanka*".

(7) **Mevan** has paid Rs.900,000/- as quarterly installment payments of income tax for the year of assessment 2024/25.

You are required to:

Assess the following for **Mevan** for the year of assessment 2024/25:

- 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.