



Association of Accounting Technicians of Sri Lanka

July 2017 Examination - AA3 Level

**Questions and Suggested Answers
Subject No : AA35**

**CORPORATE AND PERSONAL TAXATION
(CPT)**

Association of Accounting Technicians of Sri Lanka
No. 540, Ven. Muruththettuve Ananda Nahimi Mawatha,
Narahenpita, Colombo 05.

Tel : 011-2-559 669

A publication of the Education and Training Division

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EDUCATION AND TRAINING DIVISION

**AA3 Examination - July 2017
(AA35) Corporate and Personal Taxation**

SUGGESTED ANSWERS

SECTION – A

Four (04) compulsory Questions

(Total 20 marks)

Suggested Answers to Question One:

- a. Based on the following conditions, residency states of the company have to be decided
- Registration or incorporation is made in Sri Lanka or
 - Head office or registered office is situated in Sri Lanka or
 - Control and management decision are taken in Sri Lanka

(03 marks)

- b. 30th November 2016

(02 marks)

(Total 05 marks)

Suggested Answers to Question Two:

On supplies							
Sales of imported goods	4,600,000	50%	1/2	2,300,000	2%	1/2	46,000
Sale of locally purchased goods	2,340,000	50%	1/2	1,170,000	2%	1/2	23,400
							69,400
NBT Paid							
On imports				Not entitled			--
On local purchases				Not entitled			--
							69,400
Less - paid by installments							(20,000)
NBT payable							49,400

(05 marks)

Suggested Answers to Question Three:

Suwa Divi Foundation
Year of assessment 2015/16
Calculation of Income Tax Liability

Deem profit from Grant Received from foreign donors 1,440,000 * 3%	43,200
Net Interest income – 46,000 final tax paid income	---
Expenses – Fee for Resource person Administrative expenses Not allowed to deduct form deem income	---
Taxable Income	43,200
Tax Liability - 43,200 * 28 %	12,096

No tax on other sources (Interest – WHT was paid)

(05 Marks)

Suggested Answers to Question Four:

In the case of Davoodbhoy Vs. Commissioner General of Inland Revenue, Mr. Davoodbhoy who was a partner of a partnership, drew up a sub partnership agreement with his children to share the profits of the main partnership with them.

It was held that any partnership to share the profit share of another partnership is valid in law. However, section 217 of the IR Act was introduced stating that “partnership” shall not include any disposition, trust, grant, covenant, agreement, assignment, settlement or other arrangement by which the share of the divisible profits or the divisible loss of a partner of any partnership is shared with any other person or partnership.

In view of this amendment, any agreement with his children will not constitute a partnership and **Ahamed** will be liable to tax on the entire share of profit of the main partnership.

(05 Marks)

End of Section A

**Three (03) compulsory questions
(Total 30 marks)**

Suggested Answers to Question Five:

**Rosy (Pvt) Ltd
Value Added Tax computation
For the month ended 31st December 2016**

Local Sales	5,325,000	15%		798,750
Exports	2,175,000	0%		--
Sale of a computer	300,000	Exempt		--
				798,750
Input Tax				
Imports		636,000		
Local purchases		244,000		
Insurance	Not claimable	--		
Claimed input tax				880,000
Add: Input tax brought forward				24,000
				904,000
Input tax attributable to zero rated supplies	<u>880,000</u> 7,500,000	x 2,175,000	255,200	
Balance claimable maximum of 100% of output tax		648,800		
		798,750	648,800	
Total Claimable				904,000
Refund receivable				<u>(105,250)</u>

(10 marks)

Suggested Answers to Question Six:

(a)

Sayuru Products (Pvt) Ltd
For the year of assessment 2014/15
Calculation of Distributable profit

Profit before Tax		15,678,000
<u>Add</u>		
Depreciation for assets acquired	0	0
<u>Less</u>		
Capital Assets acquired	3,100,400	
Gross Income Tax Payable	4,937,800	(8,038,200)
Distributable profit		<u>7,639,800</u>

(05 marks)

(b) 10 % of Distributable profit have to be distributed for avoiding the tax on distributable profit

$$7,639,800 * 10\% = \underline{\underline{763,980}}$$

(02 marks)

(c) 1/3 of distributable profit 2,546,600

Less - Dividend paid (500,000)

2,046,600

Tax on distributable Profits @ 15% **306,990**

(03 marks)

(Total 10 marks)

Suggested Answers to Question Seven:

(a) Calculation of the Divisible Profit

**Modern Look Partnership
For the year of Assessment 2015/2016
Calculation of the Divisible Profit**

	+	-
Net Profit As Accounts	3,711,940	
Accounting Depreciation - Disallowed	236,000	
Depreciation Allowance on assets - Allowed		96,000
Salary for David's wife Rose Rs 240,000- Allowed Since she worked as administrative officer. but Such salary have to be considered as Mr. David's Income		
Interest on loan provided by David – Allowed Normal Business expenses	0	
Other expenses- allowed for tax Purpose	0	
	3,947,940	96,000
Divisible Profit	<u>3,851,940</u>	

(05 marks)

(b) Calculation of the Partnership Tax Liability

Divisible Profit	3,851,940
Other Sources of Income	0
	3,851,940
Partnership Tax free Allowance	<u>(1,000,000)</u>
Taxable Income	<u>2,851,940</u>
Partnership Tax Liability	2,851,940/- * 8%
	<u>228,155</u>

(02 marks)

(c)

	David	Edward	Total
David wife's Salaries	240,000	--	240,000
Distribution of Divisible Profit (1:1)	1,925,970	1,925,970	<u>3,851,940</u>
Loan Interest	56,000		
Profit Share	2,221,970	1,925,970	

(03 marks)

(Total 10 marks)

Two (02) compulsory questions.

(Total 50 marks)

Suggested Answers to Question Eight:

				+	-
Profit before Tax				120,095,800	
Profit on disposal of machinery					340,000
Dividend received					108,000
Management fee paid			4,036,000		
1% of turnover			5,383,100		
Maximum amount			2,000,000		
Lower amount is claimable			2,000,000	2,036,000	
Donation				1,000,000	
Bad debts - Staff loan				75,000	
- Trade - General provision				25,000	
Gratuity - Provision				543,000	
Rent allowed				--	--
Advertising - Outside Sri Lanka		25% disallowed (no exports)	}	disallowed 190,000	125,000
- In Sri Lanka		25% disallowed			65,000
Entertainment - Disallowed				265,500	
Nation Building Tax		Claimable			
Economic Service Charge				4,000,000	
Accounting depreciation				4,710,400	
Depreciation allowance :					
Buildings	2005/06	(6.67%)	15,000,000		1,000,000
Computers	2015/16	25%	320,000		80,000
Motor vehicles	2015/16	Not entitled	--		--
Furniture	2015/16	20%	124,000		24,800
Disposed machine :					
Disposal of Machine Account					
Cost	3,850,000	Depreciation	1,540,000		
Profit - P & L	340,000	Cash	2,650,000		
	4,190,000		4,190,000		
Sale Proceeds:	2,650,000				
Tax WDV (3,850,000 x 33 1/3% x 3)	--				
Tax profit	2,650,000				
Cost of new machine			4,675,000		
Less - Disposal profit			2,650,000		
Cost of depreciation			2,025,000		
Despreciation	(2,025,000 @ 33 1/3%)		675,000		675,000
				132,940,700	2,227,800

Adjusted Trade Profit					130,712,900
Other sources of income :					
Dividend income					---
- not a part of TSI					
Total Statutory Income					130,712,900
Deductions under section 32					---
Assessable Income					130,712,900
Qualifying payments	Donations		1,000,000		
		500,000 or 1/5 of AI			(500,000)
Taxable Income					130,212,900
Gross Tax Liability		130,212,900	12%		15,625,548
Less -					
Self-assessment payments					(12,000,000)
Balance Income Tax Payable					3,625,548



Suggested Answers to Question Nine:

Ramya
Year of Assessment 2015/16
Income Tax Computation

Income from Employment :			
Salary (200,000 x 12)		2,400,000	
Value of conveyance - one vehicle exempted		--	
Telephone bills - 50%		16,000	
Medical bill		140,000	2,556,000
Net Annual Value :			
Apartment - exempt for one place of residence		--	--
Rent Income :			
Gross rent (35,000 x 12)	420,000		
Rates - (160,000 x 20%)	(32,000)		
	<u>388,000</u>		
25% repair allowance	(97,000)		
Net Rent	<u>291,000</u>		
Rating assessment	160,000		
25% Allowance for repairs	(40,000)		
NAV	<u>120,000</u>		
Higher Value is Taxable			291,000
Interest Income :			
Interest on minor savings account		18,000	
Interest on fixed deposit		250,000	
Interest - on loan to a friend		20,000	288,000
Lottery Prize - exempted up to Rs. 500,000/-			--
Total Statutory Income			3,135,000
Aggregate Total Statutory Income			3,135,000
Less - Interest on fixed deposit - not a part of Assessable Income			(250,000)
Deductions under section 32 :			
Loan interest - not entitled			--
Assessable Income			2,885,000
Tax free allowance			(500,000)
Allowance for Qualifying payments			
Donation to Government		(50,000)	
Donation to Api Wenuwen Api Fund		(50,000)	(100,000)
Allowance on Employment Income			(250,000)
Taxable Income			2,035,000

Tax Liability		
1st 500,000 - 4%	20,000	
Next 500,000 - 8%	40,000	
Next 500,000 - 12%	60,000	
Next 535,000 - 16%	85,600	205,600
Less - PAYE	(168,960)	
Self- Assessment Payments	(20,000)	(188,960)
Balance Payable		16,640



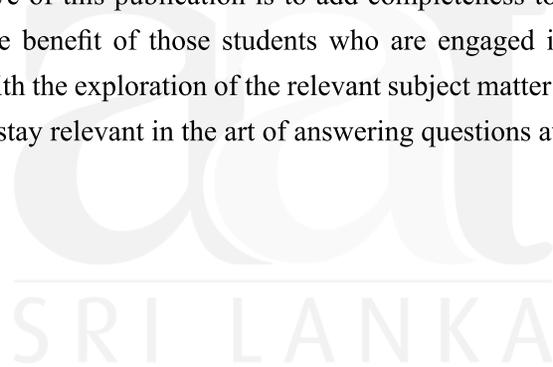
End of Section C

Notice :

These answers compiled and issued by the Education and Training Division of AAT Sri Lanka constitute part and parcel of study material for AAT students.

These should be understood as Suggested Answers to question set at AAT Examinations and should not be construed as the “Only” answers, or, for that matter even as “Model Answers”.

The fundamental objective of this publication is to add completeness to its series of study texts, designs especially for the benefit of those students who are engaged in self-studies. These are intended to assist them with the exploration of the relevant subject matter and further enhance their understanding as well as stay relevant in the art of answering questions at examination level.



© 2017 by the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka)

All rights reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka)