



**Association of Accounting Technicians of Sri Lanka**

**July 2018 Examination - AA3 Level**

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

**CORPORATE AND PERSONAL TAXATION  
(CPT)**

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**THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA**

EDUCATION AND TRAINING DIVISION

**AA3 Examination - July 2018  
(AA35) Corporate and Personal Taxation**

**SUGGESTED ANSWERS**

**SECTION – A**

**Four (04) compulsory Questions**

(Total 20 marks)

***Suggested Answers to Question One:***

Mr. Steven is a non resident for the year of assessment 2016/17. Since he resided in Sri Lanka only 168 days which is less than 183 days rule. The computation is as follows:

No of days 15/09/2016 to 31/03/2017	=	198
(16 + 31 + 30 + 31 + 31 + 28 + 31)		
Spend in Canada	=	(30)
No of days spent in Sri Lanka	=	<u>168</u>

(05 marks)

***Suggested Answers to Question Two:***

- a) The appeals to be made within 30 days of the notice of assessment. (01 mark)
- b) The Commissioner General of Inland Revenue may grant an extension of time for the submission of late appeal under following instances;
- Tax payer is absence from Sri Lanka.
  - Sickness prevail with tax payer.
  - Other reasonable cause such as natural disaster.
- (02 marks)
- c) 1. Through seizure of property.  
2. Through recovery out of debts.  
3. Recovery out of an employee's remuneration.  
4. Recovery through magistrates court by filing a case.  
5. Transfer of immovable property in lieu of payment.  
6. Recovery from the income of a child.  
7. Recovery from trust.  
8. Recovering from executor.

9. Prevention of persons leaving Sri Lanka.  
10. Recovery from the assets of a partnership.

(02 marks)

(Total 05 marks)

**Suggested Answers to Question Three:**

**B Limited**

**Year of assessment 2016/17**

- a) 2015/16 Tax liability = Rs. 10,235,000 / 4  
2016/17 Quarterly minimum payment = Rs. 2,558,750/-

(01 mark)

- b) Due dates = 2016/17

Quarter	Quarter ended	Due date
1	30.06.2016	15.08.2016
2	30.09.2016	15.11.2016
3	31.12.2016	15.02.2017
4	31.03.2017	15.05.2017

(04 marks)

(Total 05 marks)

**Suggested Answers to Question Four:**

According to the case of Rajapaksa Vs CIT.

Cost of travelling from his chambers at home to court can be claimed as a deduction for income tax on the following grounds:

- That expenses incurred by an advocate in travelling from his and his chambers to the Supreme Court are not cost of travelling between his residence and place of business.
- That the chamber of an advocate and the court are the place of business of an advocate: that therefore his movement from one place of business to another can be claimed.

Therefore, **Mr. Sadun's** travelling between his chambers which is at home to Department of Inland Revenue is claimable as an expense in arriving at his income liable to tax.

**Alternative Answer**

As per the section 26(01)(a) domestic or private expenses including cost of travelling between the residence and place of business is not allowed.

However, in the instances where an individual's residence could also be a place of business then travelling from his residence to another place of work could be an allowable expense.

(05 marks)

**End of Section A**

Three (03) compulsory questions  
(Total 30 marks)

***Suggested Answers to Question Five:***

**Shakthi Partners**

**Year of Assessment 2016/17**

a) **Calculation of divisible profit.**

Details	Rs.	
	+	-
Profit before Tax	15,620,000	-
Partners salary - Disallowed	1,200,000	-
Salary paid to Nuwan's wife - Allowed	-	-
Building Rates - allowed (since building used for business)	-	-
Rent expenses - allowed (since the building used for business)	-	-
Depreciation	144,000	-
Tax depreciation 960,000 x 33 1/3	-	320,000
Interest Income	-	14,000
	16,964,000	334,000
<b>Divisible Profit</b>	<b>16,630,000</b>	

*(04 marks)*

b) **Calculation of Income Tax liability of Partnership.**

	Rs.
Divisible Profit	16,630,000
<b>Other income:</b>	
Interest income - since no WHT deducted	14,000
	16,644,000
<b>Less:</b>	
Allowance	(1,000,000)
	15,644,000
Tax Rate	8%
<b>Partnership Tax payable</b>	<b>1,251,520</b>

*(03 marks)*

c)

	<b>Total</b>	<b>Ruwan</b>	<b>Nuwan</b>
Salary	1,200,000	600,000	600,000
Interest	14,000	7,000	7,000
Trade profit	15,430,000	7,715,000	7,715,000
	16,644,000	8,322,000	8,322,000
Rent	480,000	480,000	-
Wife's salary	600,000	-	600,000
	<b>17,724,000</b>	<b>8,802,000</b>	<b>8,922,000</b>

(03 marks)

(Total 10 marks)

**Suggested Answers to Question Six:**

**DPL Limited**

**Distributor**

**Quarter ended 31st March 2017**

(a)

	<b>Liabe Turnover</b>		<b>Balance Liabe Turnover</b>	<b>Rate</b>	<b>Tax</b>
Sale of Sugar	8,400,000	25%	2,100,000	2%	42,000
Whole sale & Retail sale of food items	3,130,000	50%	1,565,000	2%	31,300
Sale proceed on lorry disposal	1,620,000		Not liable		
<b>Total</b>					<b>73,300</b>
Less: Tax Credits					
On purchase of sugar	Not entitled				
On locally purchased of goods	Not entitled				
NBT Payable					73,300
Less: Installment Payment					(30,000)
<b>Balance NBT Payable</b>					<b>43,300</b>

(08 marks)

b) Due date for submitting the NBT return for quarter ended 31st March 2017 is on or before 20th April 2017.

(02 marks)

(Total 10 marks)

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***Suggested Answers to Question Seven:***

**Sumudu Tours and Transporters Ltd**  
**Quarter ended 31st March 2017**

<b>a) Value Added Tax Computation</b>		<b>Rs.</b>
<b>Output Tax</b>		
Income from transport tourists	3,280,000 x 15%	= 492,000
Hiring of cars	3,625,000 x 15%	= 543,750
Public passenger transport service income	1,430,000 - Exempt	= -
<b>Total Output Tax</b>		= <b>1,035,750</b>
<b>Input Tax</b>		
For hiring cars on insurance		= 248,000
For expenses on transport tourist		= 137,000
For public passenger service can not be claimed		= -
<b>Total Input Tax</b>		= <b>(385,000)</b>
		= 650,750
Less: Installment payment		= (220,000)
<b>Balance VAT payable</b>		= <b>430,750</b>

*(08 marks)*

**b)**

As per the section 22 (6) (iv) (a), input tax can be deducted from the output tax for any taxable period ending **on or before the expiry of twelve months from the date of such tax invoice**. Accordingly this input tax can be claimed up to the taxable period ended June 30, 2017.

*(02 marks)*

*(Total 10 marks)*

Two (02) compulsory questions.

(Total 50 marks)

**Suggested Answers to Question Eight:**

**Supipi (Pvt) Ltd**  
**Computation of Income Tax Liability for the Y/A 2016/17**

			+	-
Profit before Tax			24,650,000	
Less: other sources of income				
Interest on treasury bills	Other source of income			2,205,000
Dividend income	Other source of income			564,000
Gain on disposal of Machine				1,000,000
Rent Income	Part of business income		-	-
Depreciation			11,800,000	
Sale proceeds		1,300,000		
Tax Written Down Value [5,000-(5,000x12.5%x6)]		(1,250,000)		
Taxable profit on disposal of machine		50,000		
This is qualified as replacement				
Acquisition cost		5,360,000		
Less: profit on disposal of old machine		(50,000)		
Cost for depreciation		5,310,000		
Depreciation allowance		33.33%		1,770,000
Depreciation allowances on other assets				
Computers	600,000	25%		150,000
Software imported	350,000	25%		87,500
Motor car for the use of CEO	4,600,000	not entitled		-
Furniture	165,000	20%		33,000
Repairs	645,000			
Maximum claim 25% of Gross rent	450,000		195,000	
Management fee			6,000,000	
Actual Amount		6,000,000		
1% of turnover		5,646,000		
Maximum claimable amount		2,000,000		
Whichever lower is allowed				2,000,000
Market survey	Allowable		-	
Research expenses	300% claimable			5,000,000
Community Development Project	(Deducted from assessable income)		12,000,000	
Interest paid to holding company				
Loan from Holding Company	90,000,000			
(20,000,000 + 8,800,000) x 3	86,400,000			
	3,600,000			

Interest paid	7,127,500			
Disallowed interest	$7,127,500/90,000,000 \times 3,600,000$ Or $+7,127,500 - 6,842,400$		285,100	
			54,930,100	12,809,500
Profit from trade, business				42,120,600
Add: Interest received			2,205,000	
Notional Tax Credit			245,000	2,450,000
Dividend Income - not a part of Total Statutory Income				-
<b>Total Statutory Income</b>				<b>44,570,600</b>
Less:				
Losses Brought Forward			20,000,000	
35% of Total Statutory Income			15,599,710	(15,599,710)
Loss Carried forward			4,400,290	
<b>Assessable Income</b>				<b>28,970,890</b>
Less: <u>Allowance for qualifying payments</u>				
Community Development Project			12,000,000	
	<b>Maximum</b>		10,000,000	(10,000,000)
<b>Taxable Income</b>				<b>18,970,890</b>
<b>Tax liability at 28%</b>				<b>5,311,849</b>
<u>Tax credits</u>				
Notional Tax Credit				(245,000)
Economic Service Charge				(2,832,000)
Self-Assessment payments				(1,000,000)
<b>Balance payable</b>				<b>1,234,849</b>

(25 marks)



***Suggested Answers to Question Nine:***

**Ramal**  
**Year of Assessment 2016/17**  
**Income Tax Computation**

<b><u>Employment income</u></b>				
Salary (160,000 x 12)			1,920,000	
Bonus			200,000	
Rent reimbursed (35,000 x 12)			420,000	
Gift (child)		not taxable	-	2,540,000
<b><u>Net Annual Value</u></b>				
Annual value		60,000		
less: 25% allowance		(15,000)		
Net Annual Value		45,000		
	One resident is exempt			
<b><u>Rent Income From House</u></b>				
Gross rent = rental value				
Annual Value		240,000		
Add: Rates		72,000		
Rental Value		312,000		
Gross Rent		312,000		
Less: Rates		(72,000)		
		240,000		
25% allowance		(60,000)		
Net rent		180,000	Taxable	180,000
<b><u>Net Income from furnishing (other source of income)</u></b>				
Gross Income (40,000 x 12)		480,000		
Less: Gross rent		(312,000)		
		168,000		
Less: repairs for furniture		(26,000)		
Income from furnishing		142,000		142,000
<b><u>Interest Income</u></b>				
Treasury Bills		Not taxable		
<b><u>Dividend income</u></b>				
Dividends - from profits exempt from tax			exempt	
Dividends - received from other companies, which have been subject to 10% WHT			final tax	
<b>Total statutory income</b>				<b>2,862,000</b>
Child income				
Income interest			Exempt	-
<b>Total aggregated statutory income</b>				<b>2,862,000</b>
Less: Statutory deductions				
Loss on sale of shares	Not claimable, since profits are exempted			-

<b>Assessable income</b>				<b>2,862,000</b>
Less: Allowance for qualifying payments				
Donation - to temple	Not claimable			
Donation to National Kidney Fund				(100,000)
Tax free allowance				(500,000)
Allowance for employment				(250,000)
<b>Taxable income</b>				<b>2,012,000</b>
Tax Liability				
On first - 500,000		4%		20,000
Next - 500,000		8%		40,000
Next - 500,000		12%		60,000
On balance - 512,000		16%		81,920
				201,920
Less: Tax Credits				
Self-assessment payments				(10,000)
PAYE				(166,400)
<b>Balance payable</b>				<b>25,520</b>

(25 marks)


  
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*End of Section C*

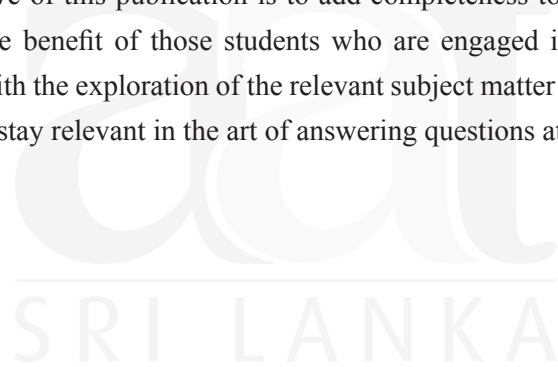
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