



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA3 EXAMINATION - JULY 2018

(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.**

22-07-2018
Afternoon
[1.45 – 5.00]

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

SECTION A

Four (04) compulsory questions

(Total 20 marks)

Question 01

Steven is a citizen of Canada. He was appointed as the Chief Operating Officer of the Sri Lankan branch of a multinational company. He arrived in Sri Lanka on 15th September 2016 to assume duties for the first time. During the year of assessment 2016/17, he has visited Canada twice and total number of days spent there was 30.

You are required to:

Identify the resident status of **Steven** for taxation purposes in Sri Lanka for the year of assessment 2016/17.

(Your answer should be supported with required calculations.)

(05 marks)

Question 02

Wijesinghe has received a notice of an assessment for the year of assessment 2015/16. Any person who is not satisfied with the assessment can submit an appeal to the Commissioner General of Inland Revenue against that assessment. However, **Wijesinghe** has failed to make an appeal within the prescribed period.

You are required to:

- (a) **State** the prescribed period to make an appeal against an assessment. (01 mark)
 - (b) **State** two(02) instances where the Commissioner General of Inland Revenue may grant an extension of time for the submission of late appeals. (02 marks)
 - (c) **State** two(02) methods by which the Commissioner General of Inland Revenue may recover the taxes in default. (02 marks)
- (Total 05 marks)

Question 03

Tax on taxable income of **B Ltd.** for the year of assessment 2015/16 was Rs.10,235,000/-. The company has not paid the quarterly self-assessment income tax payments for the year of assessment 2016/17.

You are required to:

- (a) **Compute** the minimum amount of quarterly income tax payable for each quarter as per the provisions of the Inland Revenue Act to avoid penalty. (01 mark)
 - (b) **State** the due dates for the payment of income tax for each quarter. (04 marks)
- (Total 05 marks)

Question 04

Sandun, who is carrying on an accountancy firm in his residence, provides accounting, auditing and tax consultancy services. He has to attend discussions at the department of Inland Revenue regularly on behalf of his clients and has claimed the cost of travelling between his residence and the department of Inland Revenue as a deduction from his professional income. However, the Assistant Commissioner has disallowed this expense.

You are required to:

Explain whether the Assistant Commissioner can disallow this expense.

(You may refer to decided cases)

(05 marks)

End of Section A

SECTION B

Three (03) compulsory questions

(Total 30 marks)

Question 05

Shakthi Partners is a partnership business carried out by two friends, **Ruwan** and **Nuwan**, sharing profits and losses equally. They are engaged in manufacturing and selling cement paving blocks for the domestic market.

As per the financial statements for the year ended 31st March 2017, the turnover and net profit of the partnership were Rs.32,354,000/- and Rs.15,620,000/- respectively.

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

	Rs.
Salaries paid to partners	1,200,000
Salary paid to Nuwan's wife	600,000
Rates on the building	25,000
Rent paid to Ruwan	480,000
Depreciation on concrete mixing machines purchased for Rs.960,000/- during the year of assessment	144,000

- (2) Both partners participate to manage the business and each of them draws a monthly salary of Rs.50,000/-. A salary of Rs.50,000/- per month is paid to **Nuwan's** wife who is the accountant of the partnership.
- (3) The business premises is owned by **Ruwan** and the partnership pays him a rent of Rs.40,000/- per month and rates of the premises of Rs.25,000/- is borne by the partnership.
- (4) Net profit of the partnership includes an interest income of Rs.14,000/- which is received from a commercial bank, on a fixed deposit. No withholding tax has been deducted on such interest.
- (5) All assets as at 01st April 2016 are fully depreciated for tax purposes.
- (6) All other expenses are allowable for tax purposes.

You are required to:

- (a) **Calculate** the divisible profit of the partnership. (04 marks)
- (b) **Calculate** the income tax liability of the partnership. (03 marks)
- (c) **Prepare** a statement of distribution of profit and other income of the partners arising from the partnership. (03 marks)

(Total 10 marks)

Question 06

DPL Ltd. is the distributor of local sugar manufacturer. The company also engages in the wholesale and retail trade of other food items. The following information was extracted from the books of accounts for the quarter ended 31st March 2017:

- (1) Sales of the company were as follows:

	Rs.
Sale of sugar	8,400,000
Wholesale & Retail sale of food items	3,130,000
Total	11,530,000

- (2) Sale proceeds from disposal of a lorry was Rs.1,620,000/-.
- (3) The amounts of Nation Building Tax (NBT) paid by the company are as follows:

	Rs.
On purchase of sugar	120,000
On locally purchased food items	27,000

- (4) Rs.30,000/- has been paid as monthly installments of NBT for the quarter ended 31st March 2017.

You are required to:

- (a) **Assess** the balance amount of Nation Building Tax (NBT) payable for the quarter ended 31st March 2017. (08 marks)
- (b) **State** the due date for submitting NBT return for the quarter ended 31st March 2017. (02 marks)
- (Total 10 marks)

Question 07

Sumudu Tours & Transporters Ltd. is a Value Added Tax (VAT) registered company providing transport services. The following information for the quarter ended 31st March 2017 was extracted from the books of the company:

- (1) Sales (exclusive of VAT):

	Rs.
From transport of tourists	3,280,000
From public passenger transport	1,430,000
From hiring cars	3,625,000
Total	8,335,000

(2) Input VAT paid by the company:

	Rs.
On insurance of cars - used for hiring	248,000
On expenses relating to transport of tourists	137,000
On expenses relating to public passenger transport service	86,000

(3) The company has paid Rs.220,000/- for the quarter ended 31st March 2017 as installments.

You are required to:

(a) **Assess** the balance amount of VAT payable / (overpaid) for the quarter ended 31st March 2017. (08 marks)

(b) The tax paid on a tax invoice dated 05th May 2016 has not been claimed by the company as an allowable input tax for the quarter ended 30th June 2016 and thereafter in any subsequent taxable periods. The company wishes to claim this for the quarter ended 31st March 2017.

State the statutory time limit to claim this input tax as per the provisions of the VAT Act.

(02 marks)

(Total 10 marks)

End of Section B

SECTION C

Two (02) compulsory questions.

(Total 50 marks)

Question 08

Supipi (Pvt) Ltd. (SPL) is engaged in the business of manufacturing and selling of dried flower arrangements to the local market. As at 31st March 2017, issued share capital and total reserves of the company were Rs.20,000,000/- and Rs.8,800,000/- respectively.

The following information was given in respect of the year of assessment 2016/17 for **SPL**:

(1) Turnover and net profit before income tax of the company for the year of assessment 2016/17 were Rs.564,600,000/- and Rs.24,650,000/- respectively:

(2) Other Income includes the following:

	Rs.
Interest received on Treasury Bills	2,205,000
Net dividend received	564,000
Profit on disposal of machinery	1,000,000
Rent Income	1,800,000
	5,569,000

(3) Details of Property , Plant and Equipment:

- Acquisitions made during the year:

	Rs.
Computers	600,000
Software - Imported	350,000
Motor Car used by the Chief Executive Officer	4,600,000
Furniture	165,000
Machinery	5,360,000
	11,075,000

- Disposal made during the year:

The machinery which was sold for Rs.1,300,000/- on 30th June 2016 was acquired during the year of assessment 2010/11 at a cost of Rs.5,000,000/-. A new machinery was purchased at a cost of Rs.5,360,000/- on 01st July 2016 to replace the old one.

- Depreciation allowance for tax purposes on assets as at 01st April 2016 has been claimed in full except for the disposed machinery.

(4) Expenses include the following:

- Accounting depreciation charged for the year ending 31st March 2017 was Rs.11,800,000/-.
- The company has incurred Rs.645,000/- for repairs of the building given on rent. This building was constructed by **SPL** and it has been given on rent for Rs.150,000/- per month.
- **SPL** has paid a management fee of Rs.6,000,000/- to its holding company, **Best Homes PLC**.
- **SPL** wanted to carry out their production in accordance with the customers' needs. Accordingly during the year of assessment 2016/17, a market survey was conducted by incurring a cost of Rs.1,650,000/-.
- Based on the outcome of the market survey, an industrial research was carried out by an external institution to improve the quality. The company has paid Rs.2,500,000/- as research fee during the year.
- The company has obtained a loan of Rs.90,000,000/- from its holding company **Best Homes PLC**. During the year, the company has paid Rs.7,127,500/- as interest to the holding company and charged it to the finance expenses.
- During the year of assessment 2016/17, the company has made a donation of Rs.12,000,000/- for a community development project in a rural area which has been gazetted as an economically marginalized village.

- (5) All other expenses are allowable for the purposes of taxation.
- (6) The company has a brought forward tax loss from the year of assessment 2015/16 amounting to Rs.20,000,000/-.
- (7) The company has paid Rs.1,000,000/- as self-assessment income tax payments.
- (8) Economic Service Charge (ESC) payments for the year of assessment 2016/17 was Rs.2,832,000/-.

You are required to:

Assess the following for the year of assessment 2016/17:

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

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

Question 09

Ramal who is a resident individual works as a factory manager of a reputed manufacturing company. The following information relating to him is provided in respect of the year of assessment 2016/17. (hereinafter referred to as the 'year').

- (1) During the year, he has received the following from his employer:
 - Gross salary - Rs.160,000/- per month.
 - Bonus of Rs.200,000/- was received in March 2017.
 - He lives with the family in a rented house near the factory, for a rent of Rs.35,000/- per month. The company reimburses the rent paid by him.
 - During the year, his son **Hirun** passed the Year 5 scholarship examination and the company gifted Rs.50,000/- for his achievement.
- (2) The ancestral house inherited from his father which is situated in Ingiriya (assessed as Rs.60,000/- for rating purposes) is used by him for occasional visits.
- (3) In addition, **Ramal** has an apartment in Colombo which is rated at Rs.240,000/-. This apartment is given on rent with furniture at Rs.40,000/- per month to a foreigner. Rates at 30% and repairs to furniture amounting to Rs.26,000/- were paid during the year by **Ramal**.

- (4) His son **Hirun** has a savings account at a commercial bank and a gross interest of Rs.29,250/- was received during the year.
- (5) **Ramal** has received Rs.121,500/- during the year as interest from Investment in Treasury Bills.
- (6) Dividends received during the year were as follows:

	Rs.
Dividends - from profits exempt from tax	17,500
Dividends - received from other companies, which have been subject to 10% withholding tax	27,000
	44,500

- (7) **Ramal** has invested in shares of some listed companies and he has incurred a loss of Rs.56,000/- during the year from trading shares.
- (8) During the year **Ramal** has made the following donations:
- Cash donation of Rs.50,000/- to his village temple.
 - Cash donation of Rs.100,000/- to National Kidney Fund.
- (9) He has paid income tax of Rs.10,000/- on the self-assessment basis.
- (10) PAYE deduction for the year was Rs.166,400/-

From the foregoing information,

You are required to:

Assess the following for **Ramal** for the year of assessment 2016/17:

- (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.