



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL III EXAMINATION - JULY 2022

(304) CORPORATE & PERSONAL TAXATION

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

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

21-08-2022
Afternoon
[01.45 – 05.00]

No. of Pages : 08
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

Millar International Ltd. (MIL) is a company incorporated in India. The directors of the company plans to expand their operations to Sri Lanka. For this purpose, a subsidiary of **MIL** will be incorporated in Sri Lanka with 90% of the shareholding of **MIL** while the balance 10% of the shareholding will be owned by a Sri Lankan investor. This subsidiary company will import raw materials from India and re-export the finished product to the holding company in India.

You are required to:

- (a) **Explain** the residence status of the subsidiary company in Sri Lanka. (03 marks)
- (b) **State** two(02) direct taxes applicable in Sri Lanka. (02 marks)

(Total 05 marks)

Question 02

Ramis (Pvt) Ltd., a resident company in Sri Lanka has disposed the following assets during the year of assessment 2021/22:

Type of asset	Date of Acquisition	Purchase Cost (Rs.)	Date of Disposal	Sale Proceeds (Rs.)	Market Value as at 30.09.2017 (Rs.)
Land	15.04.2015	3,000,000	01.12.2021	5,500,000	4,000,000
Quoted shares	01.09.2020	540,000	15.12.2021	650,000	590,000

You are required to:

- (a) **Calculate** the capital gain from each of the above transaction. (03 marks)
- (b) **Calculate** the total capital gain tax payable on above transactions. (02 marks)
- (Total 05 marks)

Question 03

Ran Kahata Ltd. is a company engages in the business of exporting tea. Rs.10 million worth of tea stock was damaged due to a flood during the year of assessments 2019/20 and Rs. 8 million were recovered through the insurance claim. Balance amount of Rs. 2 million was charged as an expense by the company and claimed for income tax purposes.

You are required to:

Explain whether the stock loss which was not recovered through the insurance is allowable to deduct for income tax by referring to "*Hayley & Co. Ltd. Vs. CIR*". (05 marks)

Question 04

Maheshi received a land from her father as a gift in 2018. The market value of the land as at the date of transfer was Rs.5,000,000/-.

On 30th May 2021, **Maheshi** sold this land to **Kasun** at a price of Rs.7,500,000/- which was equal to its market value as at the date of sale.

You are required to:

- (a) **State** the person liable to pay stamp duty on each of the instances. (02 marks)
- (b) **Assess** the stamp duty to be paid on each transaction above. (03 marks)
- (Total 05 marks)

End of Section A

SECTION B

(Total 30 marks)

Question 05

Kesuke Bakers is a registered person for Value Added Tax (VAT) engaged in bakery industry. The following information for the quarter ended 31st March 2022 was extracted from the books of the business:

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

	Rs.
Sale of breads	37,037,000
Sale of confectionery	44,340,000
Sale of a van used for delivery of bakery items	650,000

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

	Rs.
On purchases related to confectionery	1,653,000
On purchases related to breads	96,000
On common expenses (related to both breads and confectionery)	234,000
On repairs made to a director's motor car	16,000

- (3) The excess input VAT brought forward from the previous quarter amounts to Rs.64,000/-.

- (4) The company has paid Rs.1,000,000/- 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

JJ Stars PLC is a company incorporated in Sri Lanka and engaged in producing tyres to the local and foreign markets. The company has not furnished the return of income yet for the year of assessment 2020/21.

Using available information, the Assistant Commissioner has issued a default assessment on 31st March 2022. The directors of the company wish to appoint an authorized representative to negotiate with the Department of Inland Revenue.

You are required to:

- (a) **State** three(03) items to be included in a default assessment. (03 marks)
- (b) **State** four(04) persons that can be appointed as an authorized representative by the company. (04 marks)
- (c) **State** three(03) conditions to be complied by **JJ Stars PLC** when making an appeal for an administrative review. (03 marks)
- (Total 10 marks)

Question 07

Ceylonstar is a partnership carried out by **Iresh** and **Ajith** sharing profits / losses at the ratio of 2 : 1 respectively and it manufactures and distributes spices island-wide.

- (1) The summarized Income statements for the year ended 31st March 2022 is as follows:

	Rs.
Gross Profit	22,750,000
Interest Income	452,000
	23,202,000
Distribution Expenses	(8,625,000)
Administration Expenses	(9,785,400)
Net Profit of the Partnership	4,791,600

- (2) The following expenses have been deducted when arriving at the above profit:
- (i) **Iresh** draws a monthly salary of Rs.180,000/- and **Ajith** receives 10% from gross profit in each year as special payment for maintaining the customer base.
- (ii) Details of depreciation charged on distribution vehicles are as follows:

Distribution vehicles	Cost (Rs.)	Date of Acquisition	Depreciation for the Year (Rs.)
Motor lorry	12,000,000	01.04.2018	1,500,000
Motor bike	480,000	01.04.2018	120,000
Three wheeler	580,000	01.04.2019	145,000

- (3) A rent of Rs.360,000/- per year has been paid to **Ajith** for the use of first floor of his residence as the office of the partnership.

You are required to:

Assess 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

Kids Toys (Pvt) Ltd. is a company incorporated in Sri Lanka, engaged in the business of importing toys and selling those in wholesale market.

The following information was extracted from the financial statements of **Kids Toys (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.13,150,000/-. Total turnover of the company was Rs.570,000,000/-.

(2) Break-up of other income:

	Rs.
Dividend Income from A Ltd. (distributed out of profit)	840,000
Interest Income from Fixed Deposits	1,930,000
Rent Income	360,000
Profit on disposal of motor vehicle	470,000

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

Assets (Cost)	Balance as at 01.04.2021 (Rs.)	Additions (Rs.)	Disposals (Rs.)	Balance as at 31.03.2022 (Rs.)
Land	1,970,000	600,000	-	2,570,000
Office Building	3,230,000	-	-	3,230,000
Motor Vehicles	3,200,000	-	1,100,000	2,100,000
Furniture and Fittings	1,100,000	80,000	-	1,180,000
Total	9,500,000	680,000	1,100,000	9,080,000

- A motor lorry purchased in May 2016 was sold for Rs.1,600,000/- during the year and rest of the motor vehicles represents delivery vans.
- Other than those mentioned specifically, all the assets as at 01st April 2021 have been acquired in April 2018 and claimed capital allowances from the date of acquisition.

(4) Administration expenses include the following:

- Depreciation charge for the year was Rs.3,536,000/-.
- Gratuity provision for the year amounting to Rs.1,910,000/-.
- The company has donated medical equipment worth of Rs.1,000,000/- to Health Ministry.

(5) Distribution expenses include the following:

- During the year of assessment, the Marketing Manager was sent to Dubai to meet suppliers and the cost incurred on his tour was Rs.536,000/-.
- An amount of Rs.135,000/- was spent to entertain the company's prospective buyers.
- Advertisements in local media were Rs.435,000/-.

(6) An amount of Rs.625,000/- has been paid as gratuity to a retired employee during the year.

(7) The company had paid Rs.4,200,000/- as quarterly installments of income tax for the year of assessment 2021/22.

You are required to:

Assess the following of **Kids Toys (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

Ravi is an engineer and works in a leading Apparel Company in Sri Lanka.

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

(1) Income from Employment:

- Gross salary – Rs.390,000/- per month.
- Travelling Allowance – Rs.60,000/- per month
- During the year, his son was hospitalized and the total bill of Rs.314,000/- has been reimbursed by the company. However, the company does not maintain an equal term policy for all employees in respect of medical reimbursements.

- One month bonus was paid in December 2021.
 - He lives in a rented house by paying a monthly rent of Rs.50,000/- and the company reimburses his rent.
 - The company bears his mobile phone bills and reimbursed Rs.40,000/- during the year.
 - Tax deducted for the year as Advance Personal Income Tax (APIT) was Rs.266,880/-.
- (2) He owns an inherited house in Kegalle and rented out it to a neighbour at a monthly rent of Rs.25,000/- per month. Rating assessment of this house is Rs.150,000/- and rates are paid by the tenant at the rate of 30%.
- (3) He has received interest income of US \$ 300 (US \$ 1 = Rs.210/-) on a RFC account during the year.
- (4) During the year, **Ravi** obtained a housing loan from a state bank at a monthly installment of Rs.80,000/- and interest and capital repayment made on the loan during the year were Rs.490,000/- and Rs.470,000/- respectively.
- (5) Dividend received from a quoted public company (paid out of dividend received) was Rs.225,000/-.
- (6) Rs.800,000/- worth of water filters were donated to Pradeshiya Sabha in Pollonnaruwa to distribute among kidney patients.
- (7) **Ravi's** son is following a degree in a foreign University and **Ravi** has remitted US \$ 270 during the year as course fees. (US\$ 1 = Rs.210/-)
- (8) He has paid Rs.60,000/- as quarterly installment payments of income tax for the year of assessment 2021/22.

You are required to:

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

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