

THE ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA EDUCATION AND TRAINING DIVISION

AA2 Examination - July 2015 (24) CORPORATE AND PERSONAL TAXATION

SUGGESTED ANSWERS

SECTION – A

ALL questions are to be answered.

(Total 20 marks)

Suggested Answers to Question One:

The expected answer at the examination is only the number assigned to the answer. Here the answer is also given for clarity.

- 1.1 (4) All of the above.
- 1.2 (2) Rs.84,000/-.
- 1.3 (4) None of the above.

[Note: Answer (1) - Dividend paid to a unit holder of a unit trust may be exempt from income tax may also be selected, since the word used in the question is "may be exempt"]

- 1.4 (1) Rs.78,000/-.
- 1.5 (3) (b) only.
- 1.6 (3) ESC payable is Rs.187,500/-.
- 1.7 (3) Income received by one spouse for services rendered to a partnership business of which other spouse is a partner shall be deemed to be income of that other spouse.
- 1.8 (2) Rs.12,500/-.
- 1.9 (1) 30th November.
- 1.10 (1) From rent income, rates and repair expenditure are deductible without any restriction.

Answer: False

(2) If the lottery prize received is less than Rs.500,000/-, income tax is not required to be paid by a person on such income.

Answer: True

(3) A child's income of a resident person has to be aggregated with his father's income, if the parent's' marriage subsists.

Answer: True

(4) The penalty that could be imposed for making an incorrect return is a sum not exceeding Rs. 20,000/-.

Answer: False

End of Section A

AA2 / CPT



All Five questions are to be answered.

(Total 25 marks)

Suggested Answers to Question Two:

Allowance for depreciation for tax purposes and assets not entitled to Depreciation allowance with reasons for Seya Fashions (Pvt) Ltd for the

Year of Assess	Rs.		
Type of Asset	Cost of	Depreciation	Depreciation
	Construction	allowance	allowance
	or	Rate	
	Acquisition		
Office building was constructed during the year	1,250,000	10%	125,000
Computers purchased during the year	350,000	25%	87,500
Locally Developed software system purchased during the year	140,000	100%	140,000
Software system developed in India and purchased during the year	100,000	25%	25,000
Three high took goving machines averaged		- <u>A</u>	
Three high-tech sewing machines purchased during the year	1,800,000	50%	900,000
A photo copying machine was obtained under a			
finance lease agreement for a period of 24			
months from 01st May 2013.	-	-	-
Note: Since the ownership of the photo			
copying machine is with lessor/Leasing			
company (No ownership for lessee/user) until			
the total lease rental paid lessee/user of such			
asset is not entitled to claim depreciation allowance.			
(But lease allowance can be claimed as per the provision of the law)			
Total Depreciation Allowance entitled for Seya			
Fashions (Pvt) Ltd for the			
Y/A 2013/2014.	-	-	1,277,500

02



Suggested Answers to Question Three:

Description		Benefit	Tax Liable amount
			Rs.
Salary	120,000x12	1,440,000	1,440,000
Travelling allowance	40,000x12	480,000	
Less: Tax free vehicle allowance	50,000x12	<u>(600,000)</u>	
Taxable vehicle/travelling allowance		<u>NIL</u>	-
<i>Note:</i> Since the travelling allowance is less than Rs.5 month it is exempt from tax.	50,000/= per		
Reimbursement of Medical bills		85,500	85,500
Reimbursement of personal telephone bills		64,500	32,250
Note: 50% of telephone bill is treated for official call	ls and balance		
50% treated for private calls as per the Gazette.			
Bonus Received in April 2013 on the profit of 2012/2	2013	360,000	360,000
Note: Bonus taxable on cash basis		Δ	
Commission for sales arrangement regarding "Aged	Stocks".	50,000	50,000
Statutory income from employment		-	1,967,750

Statutory income from employment of Mr.Maliyadda for the Year of Assessment 2013/2014

Suggested Answers to Question Four:

(a) Due dates for the payment of income tax for the year of assessment 2013/2014, under the self-assessment scheme by **Sooriya (Pvt) Ltd.**

First Installment	- On or before 15.08.2013
Second Installment	- On or before 15.11.2013
Third Installment	- On or before 15.02.2014
Fourth Installment	- On or before 15.05.2014
Final Payment	- On or before 30.09.2014





(b) Minimum tax payable for each quarter in order to avoid a penalty under self-assessment scheme by **Sooriya (Pvt) Ltd** for the year of assessment 2013/2014.

For First Quarter	-	Rs.350,000/-
For Second Quarter	-	Rs.350,000/-
For Third Quarter	-	Rs.350,000/-
For Fourth Quarter	-	Rs.350,000/-
As Final Payment	-	The balance tax payable for Y/A 2013/2014 (Amount payable in excess of Rs.1,400,000/-)

Note: If the answer does not mention about **final tax payment** and the **payable amount**, the answer will not be considered for allocation of full marks.

Suggested Answers to Question Five:

Nation Building Tax payable for the quarter ended 31st December 2014 By Busy Bees (Pvt) Ltd.

Description		Rs.
NBT on sales	5,670,000 x 2%	113,400
Less: Input NBT	22 000	
NBT on raw material purchased	23,800	
NBT on maintenance expenses	-	
Note: NBT paid on services cannot be claimed		
Excess input Nation Building Tax (NBT) brought	12,000	(35,800)
forward from previous quarter	12,000	(22,000)
NBT liability for the Quarter		77,600
		((0,000)
Less: NBT paid in monthly installments		(60,000)
Delance NDT merchle for the merchan and 121 f		
Balance NBT payable for the quarter ended 31st December 2014 By Busy Bees (Pvt) Ltd.		17,600
December 2014 by Dusy Dees (FVI) Liu.		, -

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Suggested Answers to Question Six:

Meaning of "Time of Supply" in respect of goods, according to the provisions of the Value Added Tax Act No. 14 of 2002.

- (a) An invoice is issued in respect of the goods by the supplier.
- (b) A payment including advance for the goods is received by the supplier.
- (c) A payment for the goods is due to the supplier in respect of such supply.
- (d) Delivery of goods have been effected.

(If the invoice is issued within ten days from the date of delivery of such goods, the time of supply is the time in which the invoice was issued)

Note: If the following answers are given to this question, **full marks could be earned** treating them as alternative answers.

- (a) An invoice is issued for goods.
- (b) A payment is received for goods.
- (c) A payment is due for goods.
- (d) Delivery of goods.

(If the invoice is issued within ten days from the date of delivery, the time of supply is the date of invoice)

End of Section B

AA2 / CPT



ALL questions are to be answered.

(Total = 30 marks)

Suggested Answers to Question Seven:

Statutory Income (profit or loss) received by **Saman** from the business for tax purposes for the Year of Assessment 2013/14.

Description	Add (+)	Less (-)
	Rs.	Rs.
Net Profit as per account	681,650	
Less: Interest income on savings account		3,650
Note: Separate source of income and taxable under interest income		
category.		
Rent paid for one year on operating lease agreement	180,000	
Rent - lump sum payment on operating lease agreement	60,000	
Rent – allowance portion of lump sum payment 60,000/60 x 11		11,000
Lease Allowance		
Lease rentals paid for the year15,000x11=165,000		
Lease allowance (15,000x60)1/5=180,000		
Allowable Lease allowance (Whichever is less) =165,000	-	165,000
Cost of purchase of a computer	150,000	
Cost of purchase of imported software	25,000	
Allowance for depreciation		
On computer $(150,000 \ge 25\%) = 37,500$		
On imported software $(25,000 \times 25\%) = 6,250$		
Total $=$ <u>43,750</u>		43,750
Electricity, office maintenance (Allowable as per tax law)		
Stamp duty on Lease agreement	9,000	
Donation	3,000	
	1,108,650	223,400
	(223,400)	
Statutory Income (profit or loss) of the business	885,250	

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Suggested Answers to Question Eight:

Taxable Income of Perera for the Year	of Assessment 2013/2014.
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Description	Rs.	Rs.
Employment Income		
Salary 120,000 x 12	1,440,000	
Entertainment allowance	240,000	
Vehicle benefit		
Vehicle allowance $70,000 \times 12 = 840,000$		
Less: Tax free vehicle allowance $50,000 \times 12 = (600,000)$		
Taxable vehicle/travelling allowance $=$ <u>240,000</u>	240,000	
Housing benefit		
Rent paid by employer to house owner $30,000 \times 12 = 360,000$		
Rental Value of the house [80,000+(80,000x30%)] = 104,000		
The higher amount of the above two items $= 360,000$		
Limit as per the Act $= 180,000$		
Taxable housing benefit (Whichever is lowest) $= 180,000$	180,000	
Note: Gross remuneration is more than 1,800,000/- and therefore		
maximum housing benefit that can be taxed is 180,000/-		
Statutory income from employment	2,100,000	2,100,000
Rent Income		
Gross Rent 24,000 x 12	288,000	
Less: Rates paid by the owner 120,000 x 30%	(36,000)	
SRILANK	252,000	
Less: 25% allowance for repair & maintenance 252,000 x 25%	<u>(63,000)</u>	
Net Rent	189,000	
Annual Value of rented out house	120,000	
Less: 25% allowance for repair & maintenance 120,000 x 25%	(30,000)	
Net Annual Value		
<i>Note:</i> Net Rent > Net Annual Value and therefore taxable rent is	<u>90,000</u>	
Net rent		
Statutory Income from Rent	189,000	189,000
Prize from a Lottery		
Prize of Rs.500,000/- from the National Lottery	-	
<i>Note:</i> Since the prize is Rs.500,000/- it is exempt from tax		
Statutory income from Lottery prize	-	-
Total Statutory Income		2,289,000
Less: Deductions Under Section 32		
Housing loan Interest on Bank of Ceylon Loan	125,000	
Total Deductions Under Section 32	125,000	(125,000)



Assessable Income			2,164,000
Less: Deductions Under Section 33			
(a)Tax free allowance		500,000	
(b)Allowance for qualifying payments			
(i) Cash donation to the Cancer society	50,000		
(ii) Life insurance premium paid	86,000		
Total qualified amount	<u>136,000</u>		
Allowable amount for deduction	75,000		
Note: 1/3 of assessable income or Rs.75,000/- whichever is lower		64,000	
No deductions from employment income. \Box Income j	from rent can		
be used, to deduct these qualifying payments subject	t to the		
available balance remaining after the deductions un	der section 32.		
(189,000 - 125,000) = 64,000			
(c) Additional qualifying payment on employment in	ncome		
Note: Excess amount received from employment that	n Rs.500,000/-	100,000	
(2,100,000-500,000 = 1,600,000) or Rs.100,000/- with	hichever is		
lower.			
Total Deductions Under Section 33		664,000	(664,000)
Taxable Income			1,500,000

Note:

1. The answer of "prize from lottery up to Rs.500,000 is exempt from tax" or answer of "10% final With Holding Tax paid and not a part of assessable income" based on facts given in the question, both those answers are acceptable as correct.

Suggested Answers to Question Nine

(a)

Divisible profit of the partnership of **Mrs. Perera & Mrs. Fonseka** for the Year of Assessment 2013/2014.

Description	Add (+)	Less (-)
	Rs.	Rs.
Net profit as per the accounts	1,274,000	
Partners Salaries- Mrs. Perera240,000		
Mrs. Fonseka 180,000	420,000	
Amount paid to daughter of Mrs. Fonseka for preparing of accounts		
Rs.18,000 (It is allowable as per the tax law)	-	-
Rent paid to Mrs. Perera for business premises (12,000 x 12)		
Rs.144,000 (It is allowable as per the tax law)	-	-
Depreciation on capital assets	25,000	
Divisible profit of the partnership	1,719,000	

AA2 / CPT



Income tax liability of the partnership of **Mrs. Perera & Mrs. Fonseka** for the Year of Assessment 2013/2014.

Description	Rs.
Divisible profit of the partnership	1,719,000
Less: Tax free divisible profit/income of partnership	(1,000,000)
Taxable divisible profit of the partnership	719,000
Income tax liability of the partnership	57,520
(719,000 x 8%)	

(c)

Income received by each partner from the partnership for the Year of Assessment 2013/2014.

Description	Mrs. Perera	Mrs. Fonseka	Total
	Rs.	Rs.	Rs.
Partners Salaries	240,000	180,000	420,000
Balance share of Profit	866,000	433,000	1,299,000
Total	1,106,000	613,000	1,719,000
Other Income			
Rent	144,000	· ^ -	144,000

Note: Computation of **distribution of other Income** is not expected in the answer, though shown above.

End of Section C

AA2 / CPT



(b)

One (01) Compulsory Question to be answered.

(Total = 25 marks)

Suggested Answers to Question Ten :

Statutory/Adjusted business profit received by Little Stars (Pvt) Ltd for the Year of Assessment 2013/2014.

Description	Add (+)	Less (-)
	Rs.	Rs.
Net Profit Before Tax as per account	8,212,850	
Less: other income		
Gain on disposal of machine 120,000		
Interest income -net of withholding tax @10% 67,500		187,500
Salaries & Wages (Paid to staff and Allowable deduction as per the tax	-	-
law)		
Employees provident and Trust Fund (Includes only contribution for	-	-
those funds and Allowable deductions as per the tax law)		
Staff welfare		
(a) Annual get together of employees Rs.25,000 (Disallowed)	25,000	
(b) Balance staff welfare Rs.13,000 (It includes only allowable		
expenses as per the tax law)	-	-
Provision for gratuity (Provisions are not allowed)	84,755	
Gratuity paid		54,000
Depreciation as per the account (Accounting purposes)	688,000	
Depreciation Allowance (As per tax law)		426,500
Profit from disposal of Machine		
Sale proceeds of the Machine 120,000		
Less: Tax written down value		
Cost of Machine 450,000		
Less: Accumulated depreciation allowance		
$(450,000 \text{ x } 12.5\% \text{ x } 4) \qquad (225,000) (225,000)$		
Taxable profit / (loss) from disposal of Machine(105,000)		105,000
Electricity & Telephone (Includes Electricity & Telephone bills of the		
business which relates to year of assessment and Allowable deductions		
as per the tax law)	-	-
Local travelling (does not include any disallowable expense as per the		
tax law and therefore no adjustment)	-	-



Legal fees (Recovery of bad debts Rs.12,000/- is allowable expense as		
per the tax law)	-	-
Donations (Not incurred in the production of income)	125,000	
Stamp Duty	- ,	
(a) Stamp duty paid on share issue (Not allowed as per the tax law)	22,500	
(b) Stamp duty paid on receipts Rs.8,000/- (It is allowable	,0 0 0	
deduction as per the tax law)	_	
Repairs and maintenance (Not includes any capital expenditure and		
therefore total amount can be allowed as deduction)	_	-
,		-
Advertising Expenses		
(a) Foreign Media Rs.250,000/- (company engage in the business of export soft toys and above expense is relevant to the export		
promotion and therefore totally allowed as a deduction for tax		
purpose)		
(b) Local Media 25,000 x 25%	6,250	
Provision for Bad and Doubtful Debts	,	
(a) Bad debts written off - Panda Enterprises, a customer who is		
bankrupt during the year (It is an allowable deduction as per the	-	
tax law and no adjustment)		
(b) Bad debts general provision - 5% of balance debtors	94,325	
(c) Bad debt recovered out of the bad debts written off and allowed	71,525	
in previous years (Adjustment made in the accounts is		
acceptable for tax purpose as per the tax law and no other	-	
adjustment)		
Lease interest	15,200	
Lease allowance		
Total lease value $5,800 \ge 36 = 208,800$		
Lease rentals paid during the year $5,800 \ge 11 = 63,800$		
Lease allowance $(208,800)1/5 = 41,760$		41,760
Allowable Lease allowance (Whichever is less) $= 41,760$		
Bank charges (It is paid on normal transaction of the business and not		
relevant to any capital asset or capital expenditure and therefore		
allowable deduction as per the tax law)		
	9,273,880	814,760
	(814,760)	
Statutory/Adjusted business profit	8,459,120	



Description		Rs.	Rs.
Statutory/Adjusted business profit		8,459,120	
Interest income -net of withholding tax @10%	67,500		
Add: withholding tax (67,500	x 1/9) <u>7,500</u>		
Gross Interest income	75,000	75,000	
(a) Total Statutory Income		8,534,120	8,534,120
Less: Deductions Under Section 32			
Loss brought forward from Y/A 2012/2013	3,223,500		
35% of Total Statutory Income (8,534,120 x 35%)	2,986,942		
Deductible losses (Whichever is lower)		2,986,942	
Note: Loss carry forward to Y/A 2014/2015			
Loss brought forward from Y/A 2012/2013	3,223,500		
Less: Loss deducted during the Y/A	<u>(2,986,942)</u>		
Loss carry forward to Y/A 2014/2015	236,558		(2,986,942)
(b) Assessable Income			5,547,178
Less: Deductions Under Section 33			
Donation to the Government		100,000	
Note: Goods donation to the Help Age (an approve	ed charity) is not a		
qualifying payment			(100,000)
(c) Taxable Income			5,447,178

Total Statutory/Assessable/Taxable Income of Little Stars (Pvt) Ltd for the Year of Assessment 2013/2014.

Income tax liability of **Little Stars (Pvt) Ltd** for the Year of Assessment 2013/2014.

Description			Rs.
(d) Income tax on Taxable Income			
On Interest income	75,000 x 28%	$i_0 = 21,000$	
On business profit (5,447,178 – 75,000)	5,372,178 x 10%	= <u>537,218</u>	
Income tax on Taxable Income		= <u>558,218</u>	558,218
Note: Since the turnover of the business is less that	n Rs.300,000,000/- c	company is	
entitled for concessionary tax rate of 10% which is	s applicable for SME	(instead of	
12% concessionary tax rate which is applicable fo	r export business.)		
(e) Tax Payable on dividend distributed	250,000 x 10%		25,000
Total tax liability of the company			583,218
Less: Tax Credits			
With Holding Tax paid on interest		7,500	(7,500)
Tax paid on dividends as per taxation		<u>25,000</u>	
Total Tax liability		32,500	(32,500)
(f) Balance Tax payable			575,718

AA2 / CPT



Note:

** Adding back bad debts Rs.97,125 which is claimed in accounts and deducting bad debt written off Rs.50,000 for Panda Enterprises and adding back Rs.47,200 as bad debts recovered / collected during the year in the tax computation are also considered as correct.



End of Section D

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