



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

AA2 EXAMINATION - JULY 2015

(AA24) CORPORATE AND PERSONAL TAXATION

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

02-08-2015
Afternoon
[2.00 – 5.00]

- (1) **Time:** 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 begins with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (7) **100 Marks.**

No. of Pages : 11
No. of Questions : 10

SECTION A

Objective Test Questions (OTQs)

Ten (10) compulsory questions

(Total 20 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.9. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Profits and income arising in or derived from Sri Lanka include profits and income from:

- (1) Services rendered in Sri Lanka.
- (2) Property in Sri Lanka.
- (3) Business transacted in Sri Lanka.
- (4) All of the above. (02 marks)

1.2 Silva's taxable income for the year of assessment 2013/14 is Rs.1,200,000/-. The income tax payable by him for the year of assessment 2013/14 amounts to:

- (1) Rs.10,500/-.
 - (2) Rs.84,000/-.
 - (3) Rs.36,000/-.
 - (4) Rs.28,000/-.
- (02 marks)

1.3 Which one of the following is **incorrect** for the year of assessment 2013/14:

- (1) Dividend paid to a unit holder of a unit trust may be exempt from income tax.
- (2) An individual who is physically present in Sri Lanka for 183 days or more during any year of assessment is deemed to be resident in Sri Lanka throughout that year of assessment.
- (3) Interest income of an individual is subjected to withholding tax (WHT) at 8%, if the assessable income of such individual is more than Rs.1,500,000/-.
- (4) None of the above. (02 marks)

1.4 **Fernando** is an employee of a private firm. He receives Rs.50,000/- per month as salary and is provided with a rent free residence in Colombo. The net annual value of the house is Rs.45,000/-. Rates are paid at 30%, which is borne by the company.

The rental value to be added to employment income is:

- (1) Rs.78,000/-.
 - (2) Rs.45,000/-.
 - (3) Rs.60,000/-.
 - (4) Rs.50,000/-.
- (02 marks)

1.5

- (a) A generator owned by the company but used at the residence of Chief Executive officer.
- (b) The motor coach used by the company to transport employees from their residences to office.
- (c) Rs.100,000/- worth of tools purchased for use of factory.
- (d) A car used solely for business travelling by the owner.

Which of the above qualifies for depreciation allowance?

- (1) (a) and (c) only.
 - (2) (b) and (d) only.
 - (3) (b) only.
 - (4) None of the above.
- (02 marks)

1.6 **Sun Ray PLC** is exempted from income tax for a period of five years from the year of assessment 2011/12. Its turnover for the quarter ended 31st March 2014 is Rs.75,000,000/-.

Which one of the following statement is correct regarding the Economic Service Charge (ESC)?

- (1) ESC payable is Rs.625,000/-.
 - (2) ESC payable is Rs.375,000/-.
 - (3) ESC payable is Rs.187,500/-.
 - (4) The company is not liable to pay ESC.
- (02 marks)

1.7 Which one of the following is correct with regards to a partnership?

- (1) A partnership is not entitled to deduct the payment of annuity, ground rent, royalty or interest in computing the divisible profit.
- (2) Where there is a divisible loss for any year of assessment, that loss can be claimed against the other income of the partnership.
- (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.
- (4) Partnership tax is payable on the divisible profits and other income at the rate of 10%.

(02 marks)

1.8 Fifty years old **Sumathipala** has deposited Rs.5,000,000/- in a commercial bank at the rate of 10% per annum. He has made a declaration to the bank that his assessable income is Rs.1,200,000/- per annum. The amount to be deducted by the bank as WHT on interest income is:

- | | |
|------------------|-------------------|
| (1) Rs.50,000/-. | (2) Rs.12,500/-. |
| (3) Rs.25,000/-. | (4) Rs.100,000/-. |

(02 marks)

1.9 Select the most suitable word to fill the following blank:

“Every person chargeable with income tax for any year of assessment is required to furnish a return on or before following the end of that year of assessment.”

- | | |
|--------------------------------|---------------------------------|
| (1) 30 th November. | (2) 30 th September. |
| (3) 31 st October. | (4) 31 st March. |

(02 marks)

1.10 State whether each of the following statements are **TRUE** or **FALSE**. Write the selected answer (True / False) in your answer booklet with the number assigned to the question.

- (1) From rent income, rates and repair expenditure are deductible without any restriction.
- (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.
- (3) A child's income of a resident person has to be aggregated with his father's income, if the parent's' marriage subsists.
- (4) The penalty that could be imposed for making an incorrect return is a sum not exceeding Rs. 20,000/-.

(02 marks)

SECTION B

Five (05) compulsory questions

(Total 25 marks)

Question 02

Seya Fashions (Pvt) Ltd. was incorporated on 01st April 2013 and engaged in the business of exporting of garments.

Details of capital assets acquired during the year are given below:

- (1) Office building was constructed during the year and the cost of construction was Rs.1,250,000/-.
- (2) During the year, the company has purchased computers at a cost of Rs.350,000/-, and a locally developed software system for Rs.140,000/-. Further, a software system developed in India was purchased for Rs.100,000/-.
- (3) Three high-tech sewing machines were purchased at a cost of Rs.1,800,000/-.
- (4) A photo copying machine was obtained under a finance lease agreement for a period of 24 months from 01st May 2013. Monthly installment of the lease was Rs.12,000/-.

You are required to:

Assess the depreciation allowance for tax purpose and **state** reasons for any asset that is not entitled to claim depreciation allowance. (05 marks)

Question 03

Maliyadda is a resident individual who is an executive officer of a private firm. Information relating to his employment income for the year of assessment 2013/14 is given below:

- (1) His monthly salary is Rs.120,000/-. Further a travelling allowance of Rs.40,000/- was paid monthly. In addition, his medical bills amounting to Rs.85,500/- and personal telephone bills amounting to Rs.64,500/- were reimbursed by the company during the year of assessment 2013/14.
- (2) He received a bonus of Rs.360,000/- in April 2013 based on the profit relevant to the year of assessment 2012/13.
- (3) The company paid him during the year a commission of Rs.50,000/- for sales arrangement regarding "Aged Stocks".

You are required to:

Assess the statutory income from employment of **Maliyadda** for the year of assessment 2013/14, and **state** reasons, if any receipt is considered exempt from tax. (05 marks)

Question 04

Sooriya (Pvt) Ltd. is a company incorporated in Sri Lanka. The income tax payable by the company for the year of assessment 2012/13 was Rs.1,400,000/-.

You are required to:

- (a) **Identify** the due dates for the payment of income tax for the year of assessment 2013/14, under the self assessment scheme.
- (b) **State** the minimum tax payable for each quarter in order to avoid a penalty.

(Assuming that the tax payable for the year of assessment 2013/14 will be more than Rs.1,400,000/-.)

(05 marks)

Question 05

Following information for the quarter ended 31st December 2014 were extracted from the records of **Busy Bees (Pvt) Ltd.** a resident company engaged in manufacturing of stationary items:

	Rs.
Sales	5,670,000
NBT on raw material purchased	23,800
NBT on maintenance expenses	18,000
NBT paid in monthly installments	60,000
Excess input Nation Building Tax (NBT) brought forward from previous quarter	12,000

You are required to:

Assess the balance amount of Nation Building Tax payable for the quarter ended 31st December 2014.

(05 marks)

Question 06

State the meaning of "Time of Supply" in respect of goods, according to the provisions of Value Added Tax Act.

(05 marks)

End of Section B

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

On completion of diploma in graphic designing, **Saman** commenced his own business on 01st May 2013. He entered into an operating lease agreement to pay Rs.60,000/- as a lump sum payment and Rs.15,000/- per month for 5 years from 01st May 2013. He has prepared the following income statement for the year ended 31st March 2014.

	Rs.	Rs.
Income:		
Gross Revenue		1,120,000
Interest income on savings account		3,650
Total income		1,123,650
Less: Expenses		
Rent paid for one year	180,000	
Rent - lump sum payment	60,000	
Purchase of a computer	150,000	
Purchase of imported software	25,000	
Electricity, office maintenance	15,000	
Stamp duty on Lease agreement	9,000	
Donation	3,000	442,000
Net Profit		681,650

You are required to:

Assess the Statutory Income (profit or loss) of the business for tax purposes for the year of assessment 2013/14. (10 marks)

Question 08

Following information relates to **Perera** who was an employee of a private company for the year of assessment 2013/14:

- (1) He received a monthly salary of Rs.120,000/- and entertainment allowance of Rs.240,000/- per annum. He is paid a monthly allowance of Rs.70,000/- in lieu of a vehicle.
- (2) He rented his own house rated at Rs.120,000/- for a monthly rent of Rs.24,000/-. He lives with his family in a house provided by the company. The company pays a monthly rent of Rs.30,000/- for that house and rates are borne by the company. The rating assessment of the house is Rs.80,000/-.

- (3) Rates are paid for both houses at 30%.
- (4) He received a prize of Rs.500,000/- from the National Lottery on which withholding tax of Rs.50,000/- was deducted.
- (5) Interest paid for the housing loan obtained from the Bank of Ceylon was Rs.125,000/-. Capital repayment was Rs.54,000/-.
- (6) He has donated Rs.50,000/- to the Cancer Society, an institutionalized approved charity. He paid a life insurance premium of Rs.86,000/-.

You are required to:

Assess the Taxable Income of **Perera** for the year of assessment 2013/14. (10 marks)

Question 09

After retirement **Mrs. Perera** has commenced a flower nursery as a partnership business with her friend **Mrs. Fonseka**. **Mrs. Perera** and **Mrs. Fonseka** share profits and losses in the ratio of 2 : 1. The accounts of the partnership disclosed a net profit of Rs.1,274,000/- for the year ended 31st March 2014, after charging following:

- (1) Annual salaries paid to partners - **Mrs. Perera** Rs.240,000/-
- **Mrs. Fonseka** Rs.180,000/-
- (2) Amount paid to daughter of **Mrs. Fonseka** for preparing of accounts - Rs.18,000/-.
- (3) The business is carried on in a premise owned by **Mrs. Perera** and Rent paid was Rs.12,000/- per month.
- (4) Depreciation on capital assets is Rs.25,000/-. No depreciation allowance is available for current year of assessment.

You are required to:

Assess the following for the year of assessment 2013/14:

- (a) Divisible profit of the partnership.
- (b) Income tax liability of the partnership.
- (c) Income from business of each partner. (10 marks)

End of Section C

SECTION D

One (01) Compulsory Question

(Total 25 marks)

Question 10

The following information has been extracted from the financial statements of **Little Stars (Pvt) Ltd.** a company engaged in the business of manufacturing soft toys for the European market, for the year ended 31st March 2014:

Statement of Comprehensive Income for the year ended 31st March 2014

	Rs.	Rs.
Turnover - Exports		28,080,000
Cost of Sales		(16,848,000)
Gross Profit		11,232,000
Add: Other Income		
Gain on disposal of machine		120,000
Interest income -net of withholding tax @10%		67,500
		11,419,500
Less: Expenses		
Administration Expenses (Note 1)	2,810,825	
Selling & Distribution Expenses (Note 2)	372,125	
Finance & Other Expenses (Note 3)	23,700	(3,206,650)
Net Profit Before Taxation		8,212,850

Note 1 - Administration Expenses:

	Rs.
Salaries & Wages	1,461,800
Employees provident and Trust Fund	174,270
Staff welfare (Note 1.1)	38,000
Provision for gratuity (Note 1.2)	84,755
Depreciation	688,000
Electricity & Telephone	136,000
Local travelling	44,000
Legal fees (Note 1.3)	12,000
Donations (Note 1.4)	125,000
Stamp Duty (Note 1.5)	30,500
Repairs and maintenance	16,500
	2,810,825

Note 1.1 - Staff Welfare Expenses:

Staff welfare expenses includes an amount of Rs.25,000/-, incurred on Annual get together of employees.

Note 1.2 - Provision for Gratuity:

	Rs.
Opening Balance as at 01 st April 2013	244,500
Provision made during the year	84,755
Payments made during the year	(54,000)
Closing balance as at 31 st March 2014	275,255

Note 1.3 - Legal Fees:

Legal expense of Rs.12,000/- has been incurred on recovery of bad debts.

Note 1.4 - Donations:

During the year, the company has donated Rs.100,000/- to the government and goods worth Rs.25,000/- to Help Age which is an approved charity.

Note 1.5 - Stamp Duty:

During the year, the company has issued 100,000 new shares and stamp duty paid on share issue was Rs.22,500/-. Stamp duty paid on receipts was Rs.8,000/-.

Note 2 - Selling & Distribution Expenses:

	Rs.
Advertising Expenses (Note 2.1)	275,000
Provision for Bad and Doubtful Debts (Note 2.2)	97,125
	372,125

Note 2.1 - Advertising Expenses:

Advertising cost consists of following:

	Rs.
Foreign Media	250,000
Local Media	25,000
	275,000

Note 2.2 - Provision for Bad and Doubtful Debts:

Details of Bad and Doubtful debts charged to income statement are as follows:

	Rs.
Panda Enterprises (a customer who bankrupt during the year)	50,000
5% of balance debtors	94,325
Bad debt recovered out of the bad debts written off and allowed in previous years	(47,200)
	97,125

Note 3 - Finance and Other Expenses:

	Rs.
Lease interest (Note 3.1)	15,200
Bank charges	8,500
	23,700

Note 3.1 - Lease Interest

On 01st May 2013, a photo copying machine was obtained under a finance lease agreement for a period of 36 months. Monthly installment of the lease was Rs.5,800/- including interest. The company has paid 11 installments during the year.

Note 4 - Other Relevant Information:

- (1) A machine acquired in the year of assessment 2009/10 was sold on 15th June 2013 for Rs.120,000/-. Cost of the machine was Rs.450,000/- and it was fully depreciated for accounting purposes.
- (2) Depreciation allowance due for tax purposes for the year of assessment is Rs. 426,500/-.
- (3) The company has a loss for tax purposes of Rs.3,223,500/- brought forward from the year of assessment 2012/13.
- (4) The company has distributed a dividend of Rs.250,000/- from the profits of the company on 15th August 2013.

You are required to:

Assess following for the year of assessment 2013/14:

- (a) Total Statutory Income,
- (b) Assessable Income,
- (c) Taxable Income.
- (d) Gross Income Tax Payable on Taxable Income.
- (e) Tax Payable on dividend distributed.
- (f) Balance Tax Payable.

(Any amount that can be carried forward should be clearly stated.)

(25 marks)

End of Section D

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.