



Association of Accounting Technicians of Sri Lanka

July 2015 Examination - AA2 Level

**Questions and Suggested Answers
Subject No : 24**

**CORPORATE AND PERSONAL TAXATION
(CPT)**

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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

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 Assessment 2013/2014.**

Type of Asset	Cost of Construction or Acquisition	Depreciation allowance Rate	Rs. Depreciation allowance
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-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. <i>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)</i>	-	-	-
Total Depreciation Allowance entitled for Seya Fashions (Pvt) Ltd for the Y/A 2013/2014.	-	-	1,277,500

Suggested Answers to Question Three:

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

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

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
<u>Less: Input NBT</u>		
NBT on raw material purchased	23,800	
NBT on maintenance expenses	-	
<i>Note: NBT paid on services cannot be claimed</i>		
Excess input Nation Building Tax (NBT) brought forward from previous quarter	12,000	(35,800)
NBT liability for the Quarter		77,600
Less: NBT paid in monthly installments		(60,000)
Balance NBT payable for the quarter ended 31st December 2014 By Busy Bees (Pvt) Ltd.		17,600

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

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 (+) Rs.	Less (-) Rs.
Net Profit as per account	681,650	
Less: Interest income on savings account <i>Note: Separate source of income and taxable under interest income category.</i>		3,650
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 $60,000/60 \times 11$		11,000
Lease Allowance		
Lease rentals paid for the year $15,000 \times 11 = 165,000$		
Lease allowance $(15,000 \times 60) / 5 = 180,000$		
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 $(150,000 \times 25\%) = 37,500$		
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	

Suggested Answers to Question Eight:

Taxable Income of Perera for the Year of Assessment 2013/2014.

Description	Rs.	Rs.
Employment Income		
Salary 120,000 x 12	1,440,000	
Entertainment allowance	240,000	
Vehicle benefit		
Vehicle allowance 70,000x12 = 840,000		
Less: Tax free vehicle allowance 50,000x12 = (600,000)		
Taxable vehicle/travelling allowance = <u>240,000</u>	240,000	
Housing benefit		
Rent paid by employer to house owner 30,000x12 = 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	
<i>Note: Gross remuneration is more than 1,800,000/- and therefore maximum housing benefit that can be taxed is 180,000/-</i>		
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)	
	252,000	
Less: 25% allowance for repair & maintenance 252,000 x 25%	(63,000)	
Net Rent	<u>189,000</u>	
Annual Value of rented out house	120,000	
Less: 25% allowance for repair & maintenance 120,000 x 25%	(30,000)	
Net Annual Value	<u>90,000</u>	
<i>Note: Net Rent > Net Annual Value and therefore taxable rent is Net rent</i>		
Statutory Income from Rent	189,000	189,000
Prize from a Lottery		
Prize of Rs.500,000/- from the National Lottery	-	
<i>Note: Since the prize is Rs.500,000/- it is exempt from tax</i>		
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)

(b)

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 (719,000 x 8%)	57,520

(c)

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

Description	Mrs. Perera Rs.	Mrs. Fonseka Rs.	Total 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

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 (+) Rs.	Less (-) 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)	-	-
<u>Staff welfare</u>		
(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
<u>Profit from disposal of Machine</u>		
Sale proceeds of the Machine	120,000	
Less: Tax written down value		
Cost of Machine	450,000	
Less: Accumulated depreciation allowance (450,000 x 12.5% x 4)	<u>(225,000)</u> (225,000)	
Taxable profit / (loss) from disposal of Machine	<u>(105,000)</u>	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)	-	-

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