



UNIVERSITY OF KELANIYA – SRI LANKA
Centre for Distance and Continuing Education
Faculty of Commerce & Management Studies

Bachelor of Commerce (Special) Degree Third Year Examination (External) – 2021
August – 2024

BCOM E 3063- Taxation

No. of Questions : Four (04)

Time: 02 hours

Answer all questions.

Question No. 01

Mr. Dhanuka Rathnayake is a resident individual in Sri Lanka. You have been provided with his income and expenditure information for the year of assessment 2022/2023.

01. Information related to employment.

- Monthly Salary – Rs. 250,000
- Monthly travelling allowance – Rs. 50,000
- Monthly cost of living allowance – Rs. 15,000
- Monthly other allowances – Rs. 15,000
- Employer's contribution to Employee Provident Fund – Rs. 594,000
- Employer's contribution to Employee Trust Fund – Rs. 213,840
- Bonus received in April 2022 that declared in January 2022 – Rs. 500,000
- Electricity bill reimbursement – Rs. 75,000
- Telephone bill reimbursed during the year – Rs. 72,000
- Company reimbursed his health insurance premium of Rs. 750,000 during the year. This reimbursement option is available for all the employees of the company.
- He lives in a rented house in Kaduwela Municipal area by paying Rs. 35,000 monthly. Company reimburses Rs. 25,000 each month for rent expenses.
- He has been provided with a car and fuel. The company does not record his travel records.

- In January 2023, Mr. Rathnayake exercised an option to buy 2000 shares of the company for Rs. 100 each. The market value per share at the time of the option and the time of the purchase was Rs. 75 and Rs. 150 respectively.
- The company reimbursed his travelling expense to visit a customer amounted to Rs. 25,000.
- Rs. 925,000 of Advanced Personal Income Tax (APIT) has been deducted by the Company from his salary during the year.

02. Other information

- Mr. Rathnayake has a house in Kandy City which has been rented out from January 2021 for a monthly rent of Rs. 80,000.
- He has a fixed deposit at a commercial bank and received Rs. 503,500 as net interest income.
- He received a net dividend income of Rs. 50,000 from a resident company on his share investments.
- He donated Rs. 200,000 in cash and Rs. 300,000 worth dry foods to an approved childcare institution
- He paid Rs. 500,000 each per quarter as Self-Assessed based taxes to the Department of Inland Revenue.

You are required to compute the following for the year of assessment 2022/2023 for Mr. Dhanuka Rathnayake. (Ignore the income tax law applicable to the first nine months of the period).

a) Assessable income

b) Taxable income

c) Final tax liability

(25 Marks)

(10 Marks)

(05 Marks)

(Total 40 Marks)

Question No. 02

Below information are related to the sole proprietorship business of Mr. Jaliya Silva for the year of assessment 2022/2023.

Net profit as per financial statements – Rs. 6,750,000

Other income of Rs. 550,000 is included in the net profit. Details are as follows.

- Net interest income – Rs. 142,000
- Rent income from the building acquired for investment purposes – Rs. 120,000
- Machine disposal profit – Rs. 288,000

Special expenses

- Salaries & Wages – Rs. 1,250,000
- Employee Provident Fund – Rs. 187,500
- Electricity – Rs. 75,000
- Provision for doubtful debts – Rs. 100,000
- Provision for Gratuity – Rs. 720,000 (Opening balance and Closing balance of the Gratuity provision account was Rs. 650,000 and Rs. 770,000 respectively).
- Course fee paid to an External Business Management degree of an University for Production Supervisor – Rs. 550,000
- Depreciation – Rs. 875,000
- Donations made to Api Wenuven Api Fund in Cash – Rs. 500,000
- Repair expenses to lorry – Rs. 200,000
- Entertainment expenses – Rs. 100,000
- Bonus paid – Rs. 200,000
- Fines – Rs. 15,000
- Lawyer's fee to settle a Dengue rule violation case – Rs. 10,000
- Payment to Tax consultant – Rs. 15,000
- Finance cost – Rs. 90,000 (This represents the interest payment for a loan obtained in the previous year to manage the operational expenses requirement of the business).
- Cost of sales – Rs. 950,000 (This calculation includes a closing stock cost of Rs. 100,000. However, the market value of such stocks was Rs. 125,000 at the balance sheet date)

Property, Plant & Equipment

Asset	Cost (Rs)	Purchase year and Remarks
Land	7,500,000	2016/2017
Office Building	5,500,000	2017/2018
Building - 2	1,500,000	2018/2019
Machine	500,000	2021/2022 (This machine was sold out during the year for Rs. 550,000)

Distribution Lorry	4,500,000	2018/2019 (Repair expenses has been done for this lorry)
Computer	150,000	2022/2023
Office furniture	750,000	2016/2017

You are required to compute the Taxable business profit of Mr. Jaliya Silva for the Year of Assessment 2022/2023.

(Total 30 Marks)

Question No. 03

You have been appointed as the tax consultant for three individual clients by your Tax Consultancy Firm. Information related to each client is given below.

Client 1

He purchased a land for Rs. 5,500,000 on 13th August 2016 and held it as his investment property. At the time of the acquisition, he paid Rs. 275,000 as stamp duty and Rs. 55,000 as lawyer's fee. On 01st February 2024, he sold this land for Rs. 9,000,000 and incurred Rs. 100,000 for Brokerage fee. The market value of the land on 30th September 2017 was Rs. 6,000,000 and that of the date of sale was Rs. 9,500,000.

Client 2

In the Year of Assessment 2020/2021, he received 10 perches of land as the bonus from his Company. The market value of the land was Rs. 5,200,000 at the time of receipt. He sold the land for Rs. 6,800,000 in the Y/A 2022/2023. He incurred Rs. 10,000 advertising cost at the time of sale.

Client 3

He sold his inherited house situated in Gampaha for Rs. 9,000,000 on 1st January 2024. He received this house from his father on 31st December 2019. His Father constructed this house in March 2012 for Rs. 6,000,000. From the date of inheritance to the date of sale, he lived in this house with his family.

Draft an advice notes to each client for their income tax liability by evaluating the given scenarios for the year of assessment 2022/2023.

(05 Marks each)

(Total 15 Marks)

Question No. 04

a) Differentiate between a citizen and a resident with regard to individual income tax rule in Sri Lanka.

(03 Marks)

b) List out the key principles of taxation and briefly explain the importance of maintaining them in imposing individual income taxation laws in a country.

(06 Marks)

c) Explain any three key changes to the Individual Income Tax law w.e.f. 01st January 2023 in Sri Lanka.

(06 Marks)

(Total 15 Marks)