



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) – 2022

March – 2025

BCOM E 3063 - Taxation

No. of Questions :Four (04)

Time: 03 hours

Answer all questions

Question No. 01

You are working as Mr. Rohitha Perera's tax consultant for the year of assessment 2023/2024. Mr. Perera is an employee of Marawila Traders and received the following benefits from his employment and other income sources during the year.

01. Employment income

- Salary – Rs. 10,200,000
- Fuel allowance – Rs. 600,000
- Entertainment allowance – Rs. 1,200,000
- Cost of living allowance – Rs. 134,400
- Bonus declared during the year – Rs. 500,000 (Rs. 300,000 of this bonus was received in December 2023 and the balance was received in April 2024).
- Hampers received in April 2023 – Rs. 50,000
- Scholarship money paid by the company to his son for his outstanding achievements at the GCE (Ordinary Level) examination – Rs. 500,000
- His wife was hospitalized during the year, and the company reimbursed medical expenses of Rs. 175,000.
- Mr. Perera lives in a house provided by his company, which is located in a rated area. The company deducted Rs. 5,000 monthly from his salary for housing benefits.
- The company has provided him with a car and fuel for his office and personal use. The company does not maintain accurate records of his travelling.
- Mr. Perera received an option to purchase 1000 shares from the company for Rs. 200 each when the market value per share was Rs. 100. He bought 1000 shares during the year paying Rs. 200,000. The market value per share at the time of purchase was Rs.500.
- Telephone bill reimbursed – Rs. 120,000

- He received an air ticket worth Rs. 375,000 for his business travel to Singapore.
- The company reimbursed Mr. Perera Rs. 30,000 for incurring an expense on the company's behalf.

02. Other income receipts

- Dividend received from a resident company after deducting Advance Income Tax (AIT) – Rs. 300,000
- Net interest income received from a bank on his fixed deposits – Rs. 190,000
- He has a house in Kelaniya and rented out it for Rs. 60,000 monthly rents.

03. Mr. Perera paid Rs. 50,000 per quarter on a self-assessment basis for income taxes. Marawila Traders deducted Rs. 5,090,000 as Advance Personal Income Tax (APIT) from his salary.

You are required to compute the following for Mr. Rohitha Perera for the Year of Assessment 2023/2024.

a) Assessable income

(30 Marks)

b) Taxable income

(05 Marks)

c) Final tax liability

(05 Marks)

(Total 40 Marks)

Question No. 02

The information below relates to Mr. Namal Ekanayake's retail business for the year ended 31st March 2024.

- Net profit as per financial statements – Rs. 14,587,500
- Details of other income included in the net profit, in addition to the Motor Van disposal profit
 - Net interest income received on fixed deposit – Rs. 199,500
 - Rent income received from letting out one floor of the commercial building, which is not in use for business purposes – Rs. 205,500
- Expenditure includes the following.
 - Salaries – Rs. 1,116,000
 - Employee Provident Fund – Rs. 167,700
 - Employee Trust Fund – Rs. 33,480
 - Depreciation – Rs. 1,875,000
 - Petty cash expenses – Rs. 300,000
 - Entertainment – Rs. 37,500

- Donations to approved cancer care society in goods – Rs. 75,000 and in cash – Rs. 150,000.
- Books donation to University of Kelaniya Library – Rs. 200,000
- Repair for distribution lorry – Rs. 500,000
- Provision for gratuity – Rs. 900,000 (One of the employees resigned during the year and paid Rs. 330,000 as a gratuity)
- Bonus paid – Rs. 900,000
- Provision for doubtful debts – Rs. 750,000
- Interest expenses – Rs. 300,000 (This interest expense is paid for a bank loan obtained in April 2023. Mr. Ekanayake used 1/3rd of the loan for personal purposes. The balance of the loan money is used for working capital purposes)
- Cost of sales – Rs. 900,000 (This includes Rs. 200,000 of the cost of closing inventories, which had a market value of Rs. 210,000 on the balance sheet date).
- Fines – Rs. 30,000
- Payment of course fee to follow a Certificate course in English to the receptionist – Rs. 150,000.
- Health insurance reimbursement for its executive-level employees – Rs. 75,000
- Property, plant and equipment

Asset	Cost (Rs)	Purchase year and Remarks
Land	6,500,000	2014/2015
Shop building	5,000,000	2018/2019
Old store building	1,500,000	2014/2015
Motor Van	2,500,000	2021/2022 Sold during the year 2023/2024 for Rs. 1,570,000.
Distribution Lorry	1,200,000	2022/2023 Repair expenses incurred for this distribution lorry.
Office furniture	500,000	2020/2021
Computers and Accessories	450,000	2023/2024

You are required to calculate Mr. Namal Ekanayake's Taxable Business Income for the year of assessment 2023/2024.

(Total 30 Marks)

Question No. 03

You are a tax consultant for three individuals and received the following information related to their investment income for the Year of Assessment 2023/2024.

Mr. Dasanayake

He purchased land & building for Rs 7,500,000 on 01.12.2016 and held it as his investment. The land and building value as of 30.09.2017 was Rs 9,000,000. He sold the land & building for Rs 15,000,000 on 01.07.2023 and incurred expenses for advertising - Rs 200,000, brokerage fee - Rs 50,000, and legal fee - Rs 900,000.

Mr. Gamage

He sold his investment of 10000 shares of a quoted public company for Rs.150 each on 01.09.2023. The cost of the shares at the time of purchase was Rs. 1,000,000,

Further, he received Rs. 212,500 of net dividend as a return for the above shares during the year of assessment 2023/2024.

Ms. Kalyani

She inherited a house in Galle after her father's death in February 2020. Her father constructed this house 20 years before for Rs. 3,000,000. The market value of the house at the time of the father's death was Rs. 9,000,000. It was vacant since then. She sold this house to her younger brother for Rs. 10,500,000 in January 2024. She incurred Rs. 525,000 as stamp duty and Rs. 105,000 as a lawyer's fee.

You are required to identify the income tax liabilities of the three clients for the year of assessment 2023/2024.

(Total 15 Marks)

Question No. 04

- a) Differentiate between Direct tax and Indirect tax with examples.

(05 Marks)

- b) Explain the residence rule for individuals as per the Inland Revenue Act No. 24 of 2017.

(05 Marks)

- c) Discuss the importance of Equity and Progressivity principles in Income Tax law.

(05 Marks)

(Total 15 Marks)