



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) – 2023

November – 2025

BCOM E 3063 - Taxation

No. of Questions :Four (04)

Time: 03 hours

Answer all questions

Question No. 01

Mr. Rohana Bandara is a sole proprietor of a wholesale business. He requested you to calculate his final income tax liability for the year of assessment 2024/2025. The following information has been provided.

01. Business income/ expenses

- Net profit as per financial statements - Rs. 19,875,000. This net profit includes the following other income. Except the asset disposal profit.
 - Net interest from fixed deposits – Rs. 380,000
 - Rent income from renting out the shop building – Rs. 1,800,000. (This building has been constructed for investment purposes).
- Expenses include the following.
 - Salaries to employees – Rs. 1,800,000
 - Employee Provident Fund contribution – Rs. 216,000
 - Employee Trust Fund contribution – Rs. 54,000
 - Entertainment expenses for customers – Rs. 1,000,000
 - Employee welfare expenses – Rs. 750,000
 - Depreciation – Rs. 800,000
 - Closing stock is recorded at its cost of Rs. 650,000. The market value of the stock at the balance sheet date was Rs. 630,000.
 - He paid Rs. 180,000 as interest during the year on a loan obtained for the purchase of a distribution lorry, and paid Rs. 20,000 as interest on another loan obtained to refinance his personal credit facility.
 - Repair and maintenance expenses for the rented-out building – Rs. 100,000.
 - One of his debtors was declared bankrupt, and the outstanding balance of Rs. 400,000 due from that debtor was written off as a bad debt.
 - Provision for gratuity made during the year - Rs. 500,000.

- Gratuity paid during the year – Rs. 200,000
- Donations made during the year
 - Rs. 60,000 in cash to an approved childcare home.
 - Rs. 100,000 worth of dry foods to the same institution.
 - Rs. 100,000 worth of books to a University
- Details related to property, plant and equipment

Asset	Cost (Rs.)	Purchased year and remarks
Land	3,000,000	2012/2013
Building – 01	5,500,000	2016/2017
Building - 02	3,000,000	2023/2024 Rented out building
Motor car	6,500,000	2021/2022
Distribution lorry	2,500,000	2024/2025
Equipment	600,000	2022/2023 Sold during the year for Rs. 550,000. The Net Book Value in the Financial Statements at the time of disposal was Rs. 400,000.
Computers	500,000	2018/2019

02. Other information

- Mr. Bandara received Rs. 170,000 as dividends from his investments in a quoted company after deducting AIT at 15%.
- He paid Rs. 200,000 per quarter as self-assessment-based taxes during the year.

Required:

Compute the following for Mr. Rohana Bandara for the Year of Assessment 2024/2025. Please show all workings clearly.

- a) Assessable income (30 Marks)
 - b) Taxable income (05 Marks)
 - c) Total tax liability (02 Marks)
 - d) Final tax payable (03 Marks)
- (Total 40 Marks)**

Question No. 02

Mr. Aruna Silva received the following income and benefits from his employment during the year of assessment 2024/2025:

- Salary – Rs. 3,600,000
- Allowances – Rs. 600,000
- Bonus – Rs. 100,000 (declared in March 2024)
- Leave pay – Rs. 15,000
- Car, driver and fuel for both personal and official use. (No records were maintained for his actual vehicle usage).
- House located in a municipal area.
- Water bill of the house reimbursed by the company – Rs. 35,000
- Medical expenses of his wife reimbursed by the company – Rs. 150,000
- The company paid a monthly health insurance premium of Rs. 20,000 on his behalf. This benefit is provided only to him in his employment grade.
- He travelled to India during the year to attend a business conference. The company paid Rs. 500,000 for his air tickets and hotel accommodation.
- Telephone bill reimbursed by the company – Rs. 80,000
- He received a T-shirt printed by the company to free of charge. The cost to the company was Rs. 1,800.
- He obtained a company loan of Rs. 1,000,000 at a concessionary interest rate of 4%, and paid Rs. 40,000 as interest.
- The company reimbursed Rs. 6,000 for travel expenses incurred during a client visit.
- He received hampers from the company with a market value of Rs. 25,000.

Required:

Calculate the taxable employment income of Mr. Aruna Silva for the Year of Assessment 2024/2025:

(Total 30 Marks)

Question No. 03

You have been hired by Mr. Kamal Perera as his tax consultant and has requested advice on the income tax liabilities related to each of the following transactions occurred during the year of assessment 2024/2025.

1. Mr. Kamal transferred his land located in Athurugiriya to his son free of charge. The cost of the asset at the time of purchase was Rs. 2,000,000, and the market value at the time of transfer was Rs. 15,000,000. He paid stamp duty amounting to Rs. 750,000 at the time of transfer.
2. He sold a house situated in Kelaniya for Rs. 7,000,000, which he had owned, but not occupied since 1998. The cost of the house at the time of purchase was Rs. 150,000 and the market

value of the same on 30th September 2017 was Rs. 5,500,000. He incurred broker fees of Rs. 150,000 and advertising expenses of Rs. 50,000 in relation to the sale.

3. He sold shares in quoted public companies, originally worth Rs. 200,000, for Rs. 450,000. Additionally, he transferred shares in a private company worth Rs. 2,000,000 to his son free of charge. The market value of those shares at the time of transfer was Rs. 2,200,000.

Required:

Advise Mr. Kamal Perera on the income tax liability arising from each of the above transactions for the Year of Assessment 2024/2025.

(Total 15 Marks)

Question No. 04

- a) Explain the residence law in Sri Lanka.

(04 Marks)

- b) Describe the self-assessment basis in income tax payments, including the relevant payment due dates.

(05 Marks)

- c) Discuss the four principles of income taxation.

(06 Marks)

(Total 15 Marks)