



**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) – 2024

May – 2026

**BCOM E 3063 - Taxation**

**No. of Questions: Three (03)**

**Time: 03 hours**

**Answer all the questions**

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**Question No. 01**

You are provided with the following information of Mr. Nuwan Perera for the year of assessment 2025/2026.

1. Mr. Nuwan is the finance manager of Neta Ltd, which is a cable manufacturing company in Sri Lanka and the started his career in Neta Ltd in January of 2005 and continue to serve as the finance manager by 31<sup>st</sup> March 2026. His income from employment in Neta Ltd. are as follows.
  - i. The regular profits from employment up to the date of termination of employment are as follows.

• Monthly Salary	Rs. 275,000
• Professional Allowance	Rs. 10,000
  - ii. A vehicle with an engine capacity of 1500 cc. has been provided with a driver and fuel.
  - iii. The company also bears the cost of maintenance and fuel of another vehicle owned by the spouse of Mr. Nuwan at a cost of Rs. 60,000 per month.
  - iv. Mr. Nuwan is provided with a furnished residential apartment by the employer. Rental value of the apartment, Rs. 250,000 is computed based on the rating assessment. Further, Rs. 25,000 per month has been added to his salary, as for the wages of his domestic servant provided by the company.
  - v. For the entire year telephone bills of his residence as well as his mobile phone bills amounting to Rs. 40,000, were reimbursed by the employer.

- vi. Under an employment share option plan, an option has been given to Mr. Nuwan to purchase 1000 shares at Rs. 50 each whereas the market value of a share is Rs. 110. He has exercised 75% of this option during this year of assessment.
- vii. In February 2026, Mr. Nuwan underwent some medical checkups at a private hospital and the cost of the bill of the hospital amounted Rs. 200,000 was reimbursed by the company. This benefit is available only for the managerial level employees of Neta Ltd.
- vi. In April 2025, the company has paid Rs. 75,000 as a reimbursement of expenses of a personal travel to Maldives by Mr. Nuwan.
- ix. APIT deducted is Rs. 74,034.

2. Mr. Nuwan owns a furniture shop and the status of his business for the year ended 31<sup>st</sup> March 2026 is as follows.

The financial statements for the year ended 31<sup>st</sup> March 2026 disclosed the total turnover of Rs.700,000,000 and a net profit of Rs. 32,500,000 before taxation after deducting administration, selling and distribution and finance expenses. The relevant information is given below.

a. Business has capitalized the following capital assets during the year of assessment 2025/2026.

Van for transportation	Rs. 4,200,000
Machinery	Rs.10,500,000
Car	Rs.7,500,000
Furniture	Rs.1,500,000
Buildings	Rs.20,000,000
Computers	Rs.7,500,000

b. The Business has claimed depreciation allowances in full for all the assets held as at 01.04.2018 except the following.

- Factory building constructed in 2017/2018 at a cost of Rs.19,800,000.

Business has disposed the following assets during the year of assessment 2025/2026.

Assets	Selling Price (Rs)	Date of Purchase	Cost(Rs.)
Machinery	2,200,000	02/06/2017	3,600,000
Furniture	60,000	05/08/2021	120,000



Compute the followings ,

- a) The taxable profits from each source (Employment Income/ Business Income/ Investment Income) of Mr. Nuwan for the year of assessment 2025/2026. (25 Marks)
- b) The total assessable income of Mr. Nuwan for the year of assessment 2025/2026. (06 Marks)
- c) The total taxable income of Mr. Nuwan for the year of assessment 2025/2026. (03 Marks)
- d) The total income tax liability of Mr. Nuwan for the year of assessment 2025/2026. (04 Marks)
- e) The balance tax payable by Mr. Nuwan for the year of assessment 2025/2026. (02 Marks)
- (Total 40 Marks)**

**Question No. 02**

a) Aero Innovations (Pvt) Ltd. is a registered entity for Value Added Tax (VAT), specializing in the manufacturing and sale of cutting-edge drones. The subsequent financial data for the quarter ending 31st March 2025 was retrieved from the company's accounting records:

1. Details of sales during the quarter ended 31st March 2025 are given below (exclusive of VAT):

	Rs.
Export sales of Drones	137,660,000
Local sales of Drones	87,764,000

2. The company has paid the following input tax during the quarter:

	Rs.
On import of components	12,375,000
On local purchase of raw materials	765,000
<b>On administrative supplies</b>	<b>124,000</b>

3. The available excess input VAT carried forward from the preceding quarter amounts to Rs. 48,000/-.
4. The company remitted Rs. 500,000/- during the quarter as its monthly VAT installment.  
(Consider the standard VAT rate as 18%)

You are required to Calculate .

The balance payable / (overpaid) of Value Added Tax (VAT) for the quarter ended 31st March 2025.

(15 Marks)

- b) Liam and Ethan are partners in "Synergy Consultants," a successful business management consultancy firm. They have an agreement to share profits and losses in the ratio of 2:1 respectively. The Income Statement for the partnership for the year ended 31st March 2025 is provided below:

Income:	Rs.	Rs.
Consultancy Services		31,340,000
Rent Income		216,000
Interest on Fixed Deposit (Net)		5,700
Total Income		31,561,700
Expenses:		
Salaries	12,870,000	
Rates on Building	30,000	
Accounting Depreciation	48,000	
Donation	75,000	
Other Expenses	3,564,000	(16,587,000)
Net Profit		14,974,700

Further information:

1. Following payment for the Partners are including in salary.
  - \* Liam: Rs. 1,800,000/-
  - \* Ethan: Rs. 2,400,000/-

2. Accounting depreciation is relevant to computers purchased in December 2022 at a cost of Rs. 400,000/-. All other assets are fully depreciated for accounting purposes as well as for tax purposes.
3. Half of the building was leased out to another party, and the rates for the entire building were paid by the partnership.
4. A cash donation of Rs. 75,000/- was made to a local community temple.
5. All other expenses are permissible for tax purposes.

Advance Income Tax (AIT) / Withholding Tax (WHT) was deducted on the interest from the fixed deposit.

You are required to:

Assess the Income Tax Payable by the partnership for the year of assessment 2024/25.

(15 Marks)

**(Total 30 Marks)**

**Question No. 03**

- a) Analyze the primary objectives of taxation and provide a comprehensive explanation of the fundamental principles that underpin a sound tax system.

(10 Marks)

- b) You have been given the following information:

- i) Ravi is a citizen of India. He was employed in a Sri Lankan ship from 01st May 2022 to 30<sup>th</sup> April 2025.
- ii) Amara was born in Sri Lanka and migrated to Australia for employment in January 2025. He earns a rent income from a house in Sri Lanka.
- iii) Sarah, a citizen of United Kingdom was appointed as an officer in UK High Commission in Sri Lanka with effect from 15th March 2024 for a period of three years. She was provided an apartment in Colombo and after assuming duties, she had not left from Sri Lanka.

You are required to:

Explain the residence status of the above individuals for taxation purpose in Sri Lanka for the year of assessment 2024/25 as per the provisions of the Inland Revenue Act No 24 of 2017.

(10 Marks)

c) Celestial Solutions (Pvt) Ltd., a resident company in Sri Lanka, submitted its Statement of Estimated Income Tax Payable (SET) for the Year of Assessment (Y/A) 2024/25 with an estimated tax liability of Rs. 600,000/-. However, upon the final tax computation, the company identified that it had incurred a taxable loss.

You are required to:

i) Specify the deadline for filing the Statement of Estimated Income Tax payable for the Y/A 2024/25.

(06 Marks)

ii) Outline the due dates for the quarterly installments of income tax for the Y/A 2024/25.

(02 Marks)

iii) Name two (02) individuals who are legally authorized to act as an "authorized representative" for tax purposes.

(02 Marks)

**(Total 30 Marks)**

