



**Institute of Certified Management Accountants of Sri Lanka Managerial Level  
Model Paper with effect from May 2019.**

**Instructions to Candidates**

1. Time allowed is **two (2) hours.**
2. Total **50** Marks
3. Answer **all** questions.
4. Encircle the number of your choice in relation to Multiple Choice Questions.
5. Candidates are allowed to use non-programmable calculators.
6. The answers should be given in **English Language.**

| Subject                         | Subject Code |
|---------------------------------|--------------|
| Advanced Taxation (Model Paper) | (CLT/ ML 4)  |

**Part I**

- 1) As per the charging provision of Inland Revenue Act No 24 of 2017. Who is liable to pay income tax? You may provide the most suitable answer?
  - a. Every Person for that year.
  - b. Person who has taxable income for that year.
  - c. Person who has taxable income or a person who receives a final withholding payment during the year.
  - d. All residence and non-residence Individual for that year.

- 2) What is the correct answer to consider a partnership is residence for tax for the year of assessment 2018/19?
- a. When the partners are residence of Sri Lanka partnership also residence otherwise non residence.
  - b. It was formed in Sri Lanka or at any time during the year the management and control of the affairs of the partnership are exercised in Sri Lanka
  - c. It was formed in Sri Lanka and at any time during the year the management and control of the affairs of the partnership are exercised in Sri Lanka
  - d. It was established in Sri Lanka and any time during the year partners become residence of Sri Lanka.
- 3) How to calculate assessable income of a Business for the year of assessment 2018/19?
- a. Aggregate of Employment income, Business income, Investment income and other sources of income.
  - b. Aggregate of Employment income, Business income, Investment income and other sources of income and less qualifying payment and relief.
  - c. Aggregate of Business income, Investment income and other sources of income and less qualifying payment and relief.
  - d. Aggregate of Business income, Investment income and other sources of income.
- 4) What is the tax rate applicable for the year of assessment 2018/19 in the case of a company predominantly providing information technology services?
- a. 10%
  - b. 12%
  - c. 14%
  - d. 28%
- 5) What is the disallowable expense to calculate business profit out following expenses for the year of assessment 2018/19?
- a. Business Foreign travelling expenses in the case of business loss for the year
  - b. Advertisements expenses made during the year
  - c. Nation Building Tax paid on company turnover for the year of assessment 2018/19.
  - d. Security bill paid to residence individual who is providing security services and no withholding tax deducted at the time of payment.

- 6) What is the most acceptable transfer pricing method for international transaction?
- a. Profit split method
  - b. cost plus method
  - c. resale price method
  - d. comparable uncontrolled price method
- 7) RM Distributors is engaged in distributing activities of several local manufacturers. Revenue for the quarter ended 31.03.2019 was Rs. 124,400,000. What is the Nation Building Tax liability of the quarter?
- a. Rs. 2,488,000
  - b. Rs. 1,296,387
  - c. Rs. 1,244,000
  - d. Rs. 622,000
- 8) What is the correct answer about the liability of Economic service charges for quarter ended 31.12.2018 in the case of filling station. Turnover was Rs. 112,800,000 and Profit on disposal fixed asset was Rs. 1,500,000.
- a. Rs. 282,000
  - b. Rs. 564,000
  - c. Rs. 1,128,000
  - d. Rs. 11,280,000
- 9) Mr. Kapila must pay income tax Rs. 1,825,000 for the year of assessment 2018/19. He has paid two instalments amounting to Rs. 400,000 and PAYE tax paid amounting 625,000. Further WHT tax paid for the rent income was 100,000. What would be the 3<sup>rd</sup> instalment and due date for the 3<sup>rd</sup> instalment for the year.
- a. 3<sup>rd</sup> Instalment to be paid is Rs. 700,000 and due date for the instalment is on or before 15<sup>th</sup> of February 2019.
  - b. 3<sup>rd</sup> Instalment to be paid is Rs. 350,000 and due date for the instalment is on or before 15<sup>th</sup> of February 2019.
  - c. 3<sup>rd</sup> Instalment to be paid is Rs. 400,000 and due date for the instalment is on or before 15<sup>th</sup> of February 2019.
  - d. 3<sup>rd</sup> Instalment to be paid is Rs. 350,000 and due date for the instalment is on or before 15<sup>th</sup> of May 2019.

10) What is the **incorrect** statement related to eligibility for Tourist VAT Refund Scheme (TVRS)

- a. Should be a Non-Citizen and Non-Resident of Sri Lanka.
- b. Visa type - Visitor Visa issued by the Controller General of Immigration and Emigration of Sri Lanka
- c. Should have stayed in Sri Lanka less than 183 days at the date of refund claim
- d. Should be not less than eighteen years old as of the date they visit Sri Lanka

(1 marks \* 10 - 10 Marks)

## Part II

### Question No. 02 (20 Marks)

ADAM (Pvt) Ltd is soft toy manufacturing company in Sri Lanka. Company was established in the year 2010 and Share capital & Reserve for the year ended 31.03.2019 was Rs. 20,000,000. Income statement and other information for the year of assessment 2018/19 given below to compute assessable income of the company.

|                                   |          | Rs. 000'       |
|-----------------------------------|----------|----------------|
| Gross Revenue                     | 560,000  |                |
| Less: Nation Building Tax         | (11,200) | 548,800        |
| Cost of Sales                     |          | (384,160)      |
| <b>Gross Profit</b>               |          | <b>164,640</b> |
|                                   |          |                |
| Other income                      |          | 9,416          |
| Administrative expenses           | (45,600) |                |
| Selling and distribution expenses | (18,120) |                |
| Finance cost                      | (38,400) | (102,120)      |
|                                   |          |                |
| <b>Profit before tax</b>          |          | <b>68,936</b>  |

a. Summary of other income for the year of assessment 2018/19 as follow.

|                           | <b>Rs. 000'</b> |
|---------------------------|-----------------|
| Dividend (Net)            | 1,032           |
| Interest on Treasury Bond | 1,634           |
| Disposal loss of Lorry    | (1,350)         |
| Net rent received         | 8,100           |
|                           | <b>9,416</b>    |

b. Property Plant & Equipment

| <b>Assets</b>      | <b>Cost (Rs.)<br/>000'<br/>As at<br/>01.04.2018</b> | <b>Opening<br/>Assets<br/>Acquired</b> | <b>Addition<br/>2018/19</b> | <b>Disposal</b> | <b>Balance<br/>As at<br/>31.03.2019</b> |
|--------------------|---|--|-----------------------------|-----------------|---|
| Office Building    | 20,000  | 2015/16                                |                             |                 | 20,000                                  |
| Machines           | 12,000  | 2015/16                                | 3,500                       |                 | 15,500                                  |
| Furniture          | 4,000   | 2015/16                                | 350                         |                 | 4,350                                   |
| IT Equipment       | 2,000   | 2015/16                                | 1000                        |                 | 3,000                                   |
| Locally Develop SW | 1,000   | 2017/18                                | 500                         |                 | 1,500                                   |
| Motor Vehicle      | 10,000  | 2016/17                                | 8,400                       | (5000)          | 13,400                                  |
| Intangible Asset   |   |  | 3,000                       |                 | 3,000                                   |
| <b>Total</b>       | <b>49,000</b>                                       |  | <b>16,750</b>               | <b>(5,000)</b>  | <b>60,750</b>                           |

Cumulative depreciation as follow

| <b>Assets</b>      | <b>Cost (Rs.)<br/>000'<br/>As at<br/>01.04.2018</b> | <b>Opening<br/>Assets<br/>Acquired</b> | <b>Addition<br/>2018/19</b> | <b>Disposal</b> | <b>Balance<br/>As at<br/>31.03.2019</b> |
|--------------------|---|--|-----------------------------|-----------------|---|
| Office Building    | 3,000   | 2015/16                                | 1,000                       |                 | 4,000                                   |
| Machines           | 4,500   | 2015/16                                | 1,920                       |                 | 6,420                                   |
| Furniture          | 2,400   | 2015/16                                | 870                         |                 | 3,270                                   |
| IT Equipment       | 1,200   | 2015/16                                | 600                         |                 | 1,800                                   |
| Locally Develop SW | 1,000   | 2017/18                                | 200                         |                 | 1,200                                   |
| Motor Vehicle      | 2,500   | 2017/18                                | 1,675                       | (1,250)         | 2,925                                   |
| Intangible Asset   |   |  | 300                         |                 | 300                                     |
| <b>Total</b>       | <b>14,600</b>                                       |  | <b>6,565</b>                | <b>(1,250)</b>  | <b>19,915</b>                           |

During the year company has repaired its stores by spending Rs. 850,000 repair cost has been charged to administration expenses.

Company has purchased a new lorry instead of old lorry disposed during the year under five years finance lease with effect from 1.7.2018.

Other Motor vehicle includes motor car purchased for official travelling.

Administration expenses

**Rs. 000'**

| <b>Description</b>                | <b>Note</b> | <b>Amount</b> |
|-----------------------------------|-------------|---------------|
| Salary & Wages (PAYE deducted)    |             | 20,150        |
| Advertisement cost                |             | 1,870         |
| Foreign Travelling                | Note i      | 1,500         |
| Donation made to approved charity | Note ii     | 1,000         |
| Gratuity provision                | Note iii    | 1,200         |
| Provision for bad debt            | Note iv     | 2,000         |
| Depreciation                      |             | 6,565         |
| Repair expenses                   |             | 950           |
| Audit fees                        |             | 300           |
| Tax fees                          |             | 100           |
| Security Fees                     |             | 1,200         |
| Janitorial Fees                   | Note v      | 900           |
| Other expenses                    | Note vi     | 7,865         |
|                                   |             | <b>45,600</b> |

- i. Foreign travelling includes Rs. 300,000 related to private traveling of Managing Director of the company.
  - ii. Donation amounting Rs. 750,000 to approved charity established for sick and needy people and balance for the village temple.
  - iii. During the year company has paid gratuity amounting to Rs. 900,000
  - iv. Provision for bad debt include specific debtors amounting to Rs. 500,000
  - v. Janitorial fees paid to sole proprietorship and no withholding tax deducted on these payments.
  - vi. Other expenses include School fees of MD's daughter amounting to Rs. 450,000 and Rs. 150,000 for the entertainment of MD.
- e. Finance cost included the following:
- i. Lease Interest amounting to Rs. 945,000
  - ii. Other Finance cost was for Bank overdraft

- g. All other expenses are allowable for the purpose of taxation.

### Required

Based on the above information, you are required to calculate Business income of Adam (Pvt) Ltd for the year of assessment 2018/19

**(Total 20 Marks)**

### Question No. 03 (20 Marks)

- i. ABC Fashion (Pvt) Ltd is garment manufacturing company in Sri Lanka. Following information for the quarter ended 31st December 2018. Company is registered with VAT and NBT as they are exporting more than 50% supplies. Company has registered under SVAT both RIP and RIS status.

|   |                |
|---|----------------|
| Export of Garment                                   | Rs. 15,650,000 |
| Design work undertake by US client (LKR equivalent) | Rs. 15,950,000 |
| Embroidery services to RIPs                         | Rs. 12,650,000 |
| Supply of garment to deemed exporters               | Rs. 35,000,000 |
| Local Sales   | Rs. 12,500,000 |

Purchases during the quarter as follow

|                                     |               |
|-------------------------------------|---------------|
| Import Machine value (VAT deferred) | Rs. 7,000,000 |
| Material Import (VAT deferred)      | Rs. 7,500,000 |

|  |               |
|--|---------------|
| Local Purchase   |               |
| Purchase of Buttons (SVAT registered)                  | Rs. 654,000   |
| Purchase of materials for Local sales (VAT Registered) | Rs. 354,000   |
| Electricity purchase                                   | Rs. 8,500,000 |
| Telephone charges (SVAT Registered)                    | Rs. 2,450,000 |
| Other purchases (VAT Registered)                       | Rs. 200,000   |
| Cleaning services charges (VAT Registered)             | Rs. 450,000   |
| Security service charges (SVAT Registered)             | Rs. 1,500,000 |
| Salary paid  | Rs. 8,680,000 |

Monthly instalment paid during the quarter was Rs. 945,000

All SVAT Credit Vouchers has approved by RIPS

You are required to:

Assess the balance amount of VAT payable for the quarter ended 31st December 2018

(8 Marks)

- ii. Briefly explain Registered Identified Purchasers (RIP) and Registered Identified Suppliers (RIS)

(2 Marks)

- iii. Mr. Wijaya Bandara purchased an immovable property for the value of LKR 3.5 Mn on 15.12.2017. Its valuation on September 30, 2017 was Rs. 3,400,000. Mr. Wijaya Bandara incurred the following expenditure before selling the property for Rs. 6,000,000 on October 31, 2018.

Rs. 150,000 in the provision of drainage facility in January 2018

Rs. 260,000 in fencing in April 2018

Rs. 600,000 in the construction of an addition room in May 2018

Rs. 80,000 as advertisement expenses for sales in Sept 2018.

Rs. 240,000 for broker fees in October 2018.

Calculate Capital Gain for the month of October 2018.

(6 Marks)

- iv. Tom & Jerry is carrying out partnership called TJ associates. Following information is given for the quarter ended 31.12.2018.

|  |                |
|--|----------------|
| Consultancy services - Local                         | Rs. 16,500,000 |
| Consultancy service – International (LKR equivalent) | Rs. 5,300,000  |
| Sales proceed from disposal of fixed assets          | Rs. 500,000    |

Instalments paid for the quarter was Rs. 175,000

Calculate balance NBT Payable for the quarter?

(4 Marks)

**(20 Marks)**

**End of Part II**



| Subject  | Subject Code       |
|--|--------------------|
| <b>Answers - Advanced Taxation (Model Paper)</b> | <b>(CLT/ ML 4)</b> |

**Question No 01 (10 Marks)**

| Question     | Answer | Marks     |
|--------------|--------|-----------|
| 11           | c      | 2         |
| 12           | b      | 2         |
| 13           | d      | 2         |
| 14           | c      | 2         |
| 15           | d      | 2         |
| 16           | a      | 2         |
| 17           | d      | 2         |
| 18           | b      | 2         |
| 19           | b      | 2         |
| 20           | c      | 2         |
| <b>Total</b> |        | <b>20</b> |

**Question 02 (20 Marks)****ADAM (Pvt) Ltd**

For the year of Assessment 2018/19

Calculation of Business Income

|   |        |           |                          |  | Rs. 000' |       |
|---|--------|-----------|--------------------------|--|----------|-------|
|   |        |           |                          |  | +        | -     |
| Accounting Profit before tax                            |        |           |                          |  | 68,936   |       |
| Nation Building Tax (Allowable)                         |        |           |                          |  | -        | -     |
| Dividend (Net) (WHT is final tax and investment income) |        |           |                          |  | -        | 1,032 |
| Interest on Treasury Bond (Investment Income)           |        |           |                          |  |          | 1,634 |
| Accounting loss on Disposal Lorry                       |        |           |                          |  | 1,350    |       |
| Rent income (Investment Income)                         |        |           |                          |  |          | 8,100 |
| Accounting Depreciation (Disallowed)                    |        |           |                          |  | 6,965    |       |
| Depreciation Allowances                                 |        |           |                          |  |          |       |
|   | Cost   | Purchased | Rate                     |  |          |       |
| Office Building   | 20,000 | 2015/16   | 10%                      |  | 2,000    | 0.5   |
| Machine   | 12,000 | 2015/16   | Fully Depreciated        |  |          | 0.5   |
| Machine   | 3,500  | 2018/19   | Depreciate over 5 years  |  | 700      | 0.5   |
| IT Equipment  | 2,000  | 2015/16   | 25%                      |  | 500      | 0.5   |
| IT Equipment  | 1,000  | 2018/19   | Depreciate over 5 years  |  | 200      | 0.5   |
| Locally Developed Software                              | 1,000  | 2017/18   | Fully Depreciated        |  | -        | 0.5   |
| Locally Developed Software                              | 500    | 2018/19   | Depreciate over 5 years  |  | 100      | 0.5   |
| Motor Car (road vehicle not allowed to claim Dep.)      | 5,000  | 2016/17   | No Capital allowances    |  | -        | 0.5   |
| Motor Lorry (Leased Vehicle)                            | 8,400  | 2018/19   | Depreciate over 5 years  |  | 1,680    | 0.5   |
| Intangible Assets                                       | 3,000  | 2018/19   | Depreciate over 20 years |  | 150      | 0.5   |
|   | 56,400 |           |                          |  |          |       |
|   |        |           |                          |  |          |       |

|  |            |            |     |  |       |     |
|--|------------|------------|-----|--|-------|-----|
| Profit from disposal Furniture   |            |            |     |  |       |     |
| Sales Proceed  |            | 2,400      |     |  |       |     |
| <u>TWV</u>   |            |            |     |  |       |     |
| Cost of Lorry  | 5,000      |            |     |  |       |     |
| Capital allowances   | -<br>2,000 | 3,000      |     |  |       |     |
| Trade Profit on Disposal   |            | -<br>600   |     |  |       | 600 |
|  |            |            |     |  |       |     |
| Sales Proceed  |            | 2,400      |     |  |       |     |
| Cost   | 5,000      |            |     |  |       |     |
| Depreciation Accounting  | -<br>1,250 | 3,750      |     |  |       |     |
| Accounting loss  |            | -<br>1,350 |     |  |       |     |
|  |            |            |     |  |       |     |
| Salary & Wages allowed<br>PAYE deducted  |            |            |     |  | -     | -   |
| Advertisement cost allowed   |            |            |     |  | -     | -   |
| Private Foreign Travelling<br>(Disallowed)   |            |            |     |  | 300   |     |
| Donation Disallowed  |            |            |     |  | 1,000 |     |
| Gratuity Provision<br>Disallowed   |            |            |     |  | 1,200 |     |
| Gratuity Paid Allowed  |            |            |     |  |       | 900 |
| Provision for Bad Debt<br>(General Provision<br>disallowed) ' 2000 -500'                             |            |            |     |  | 1,500 |     |
| Repair Expenses  |            |            | 950 |  |       |     |
| Maximum allowed 5% of<br>Tax Written DW value<br>(20,000 x 10% X 3) =<br>17,000 X 5%                 |            |            | 850 |  |       |     |
| Therefore disallowed repair<br>expenses  |            |            | 100 |  | 100   |     |
| (This should be added to<br>closing TWDV of Building<br>in order to claim<br>depreciation allowance) |            |            |     |  |       |     |
| Audit Fees Allowed   |            |            |     |  | -     | -   |
| Tax fees Allowed   |            |            |     |  | -     | -   |

|  |                |  |  |        |               |               |
|--|----------------|--|--|--------|---------------|---------------|
| Security Fees - Allowed                |                |  |  |        | -             | -             |
| Janitorial Services (WHT not deducted) |                |  |  |        | 900           |               |
| Entertainment expenses - Disallowed    |                |  |  |        | 150           |               |
| Private Expenses - Disallowed          |                |  |  |        | 450           |               |
| Lease Interest                         |                |  |  | 945    |               |               |
| Allowable Interest                     |                |  |  |        |               |               |
| (4 times share capital & reserve)      |                |  |  |        |               |               |
| (20,000 x 3)                           |                |  |  | 60,000 |               |               |
| Disallowed Interest                    |                |  |  | -      | -             | -             |
| OD interest                            | (38,400 - 945) |  |  | 37,455 |               |               |
| Allowable Interest                     |                |  |  |        |               |               |
| (4 times share capital & reserve)      |                |  |  |        |               |               |
| (20,000 x 3)                           |                |  |  | 60,000 |               |               |
| Disallowed Interest                    |                |  |  | -      | -             | -             |
|  |                |  |  |        |               |               |
|  |                |  |  |        | <b>88,181</b> | <b>12,271</b> |
| <b>Business Income</b>                 |                |  |  |        |               | <b>75,910</b> |
|  |                |  |  |        |               | <b>Total</b>  |

**Question No 03 (20 Marks)**

|   |                                  |            |                  |      |           |
|---|----------------------------------|------------|------------------|------|-----------|
| i | ABC Fashion (Pvt) Ltd            |            |                  |      |           |
|   | For the quarter ended 31.12.2018 |            |                  |      |           |
|   | VAT Payable                      |            |                  |      |           |
|   |                                  |            |                  |      |           |
|   | <u>Out Put Tax</u>               |            | Value            | Rate | Tax       |
|   | <u>Taxable Supply</u>            |            |                  |      |           |
|   | Local Sales                      |            | 12,500,000       | 15%  | 1,875,000 |
|   |                                  |            |                  |      |           |
|   | <u>Zero Rated Supply</u>         |            |                  |      |           |
|   | Export Garments                  | 15,650,000 |                  |      |           |
|   | Design work of US Client         | 15,950,000 |                  |      |           |
|   | Deemed Export                    | 35,000,000 | 66,600,000       | 0%   | -         |
|   |                                  |            |                  |      |           |
|   | <u>Suspended Supplies</u>        |            |                  |      |           |
|   | Supply to RIPs                   |            | 12,650,000       | 15%  | 1,897,500 |
|   |                                  |            | 91,750,000       |      | 3,772,500 |
|   |                                  |            |                  |      |           |
|   | <u>Less: Input Tax</u>           |            | Vat<br>Deffered  |      |           |
|   | Import Machine                   | 7,000,000  |                  |      |           |
|   | Import Material                  | 7,500,000  |                  |      |           |
|   |                                  | 14,500,000 | 2,175,000        |      |           |
|   |                                  |            |                  |      |           |
|   | Local Purchase                   |            | Suspended<br>VAT |      |           |
|   | Buttons                          | 654,000    |                  |      |           |
|   | Telephone bills                  | 2,450,000  |                  |      |           |
|   | Security Services                | 1,500,000  |                  |      |           |
|   | SVAT                             | 4,604,000  | 690,600          |      |           |
|   |                                  |            |                  |      |           |

|     |   |         |                |                |                |
|-----|---|---------|----------------|----------------|----------------|
|     | Material  | 354,000 |                |                |                |
|     | Cleaning Charges  | 450,000 |                |                |                |
|     |   | 804,000 | 120,600        |                | -<br>120,600   |
|     | Electricity - Exempt from VAT   |         |                |                |                |
|     | Salaries - Not Vatable  |         |                |                |                |
|     | VAT Payable   |         |                |                | 3,651,900      |
|     |   |         |                |                |                |
|     | Less:   |         |                |                |                |
|     | SVAT Credit Vouchers  |         |                | 1,897,500      |                |
|     | Monthly Installment Paid  |         |                | 945,000        | -<br>2,842,500 |
|     | Balance VAT Payable   |         |                |                | <b>809,400</b> |
|     |   |         |                |                |                |
| ii  | <b>Registered Identified Purchaser (RIP)</b>  |         |                |                |                |
|     | RIPs are eligible to purchase goods or obtain services, for carrying on or carrying out any Respective taxable activity, without paying VAT |         |                |                |                |
|     | <b>Registered Identified Suppliers (RIS)</b>  |         |                |                |                |
|     | RISs are eligible to supply goods or Services to RIPs without charging VAT.   |         |                |                |                |
|     |   |         |                |                |                |
| iii | <b>Capital Gain of Mr. Wijaya Bandara</b>   |         |                |                |                |
|     | Realization Value from Property   |         |                | 6,000,000      |                |
|     | Less: -   |         |                |                |                |
|     | Cost of the Asset   |         | -<br>3,500,000 |                |                |
|     | drainage facility   |         | -<br>150,000   |                |                |
|     | fencing   |         | -<br>260,000   |                |                |
|     | construction of an addition room  |         | -<br>600,000   |                |                |
|     | Advertisement cost  |         | -<br>80,000    |                |                |
|     | Broker charges for sales  |         | -<br>240,000   | -<br>4,830,000 |                |
|     | Capital Gain  |         |                | 1,170,000      |                |
|     |   |         |                |                |                |

|    |   |  |            |    |                |
|----|---|--|------------|----|----------------|
| iv | <u>TJ Associate</u>   |  |            |    |                |
|    | <u>For the quarter ended 31.12.2018</u>                                 |  |            |    |                |
|    | <u>NBT Payable</u>  |  |            |    |                |
|    | -   |  |            |    |                |
|    | <u>Output Tax</u>   |  |            |    |                |
|    | Consultancy services - Local  |  | 16,500,000 | 2% | 330,000        |
|    | Consultancy services - International<br>(Exempt)                        |  | 5,300,000  |    | -              |
|    | Sales proceed from disposal of fixed assets<br>(Not Applicable for NBT) |  |            |    |                |
|    |   |  |            |    | 330,000        |
|    | Less:   |  |            |    |                |
|    | Installment paid for the quarter  |  |            |    | -<br>175,000   |
|    |   |  |            |    | <b>155,000</b> |
|    |   |  |            |    | <b>Total</b>   |

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