

Question No. 01

You are required to prepare the **Income Tax Computation of Test B39 (Pvt) Ltd**, for the **Year of Assessment 2022/23** using the following information extracted from the books of accounts of the company. **Model B39 (Pvt) Ltd** is a company engage in manufacturing of educational toys for local & export markets and providing of educational services.

(A) Information Extracted From Draft Financial Statements
MODEL (PVT) LTD
STATEMENT OF INCOME
FOR THE YEAR ENDED 31ST MARCH
(All Amounts Are In Sri Lanka Rupees)

	Note	2023	2022
Revenue	01	560,000,000.00	350,000,000
Direct Cost	02	(29,100,000.00)	(105,000,000)
Gross Profit / (Loss)		530,900,000.00	245,000,000
Other Income	03	2,100,000.00	500,000
Profit / (Loss) Before Operating Expenses		533,000,000.00	245,500,000
Administrative Expenses	04	(26,365,000.00)	(2,100,000)
Distribution Expenses	05	(7,241,000.00)	(7,270,000)
Other Operating Expenses	06	(7,186,000.00)	(10,000,000)
Profit/(Loss) From Operating Activities		492,208,000.00	226,130,000
Finance Expenses	07	(1,363,000.00)	(2,500,000)
Net Profit/(Loss) Before Taxation		490,845,000.00	223,630,000
Tax Expenses		?	?
Net Profit/(Loss) After Taxation		490,845,000.00	223,630,000

Notes on pages xx to xx form an integral part of these Financial Statements.

MODEL (PVT) LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH

(All Amounts Are In Sri Lanka Rupees)



	Note	2023	
NOTE 01 - REVENUE			
Local Sales of Educational Toys		200,000,000.00	214,808,300
Export Sales of Educational Toys		300,000,000.00	
Providing of Educational Services		<u>60,000,000.00</u>	6,500,600
Total		<u>560,000,000.00</u>	221,308,900
NOTE 02 - DIRECT EXPENSES			
Work in Progress At The Beginning of the Year		18,000,000.00	9,637,200
Manufacturing Costs Incurred During the Year	02.01	<u>5,600,000.00</u>	47,539,764
Sub Total		23,600,000.00	57,176,964
Work in Progress At The End Of The Year		<u>(8,000,000.00)</u>	(9,587,650)
Total Cost of Manufacturing		15,600,000.00	
Sub Contracted Manufacturing Fee		7,000,000.00	
Others		<u>6,500,000.00</u>	9,853,750
Total Direct Cost		<u>29,100,000.00</u>	9,853,750
NOTE 02 . 01 MANUFACTURING COST			
Raw Materials		35,000,000.00	11,308,000
Staff Remuneration		7,000,000.00	956,780
Designing Fee		3,000,000.00	115,787
Purchase of Semi-Manufactured Products		8,700,000.00	1,555,070
Other Materials		<u>1,500,000.00</u>	85,000
Sub Total			14,020,637
Direct Expenses			
Factory Management Staff Remuneration		2,800,000.00	3,170,327
Factory Supervisory Staff Remuneration		2,200,000.00	29,468,350
Sundry Expenses		<u>600,000.00</u>	880,450
Total		<u>5,600,000.00</u>	47,539,764
NOTE 03 - OTHER INCOME			
Profit on Disposal of a Vehicle		350,000.00	-
Quality Award Received from a Chamber		280,000.00	750,090
Net income received from Sale of Agricultural Produce from own estate		315,000.00	180,645
Consultancy Fee from Abroad		900,000.00	
Bank & TB Interest Income		<u>255,000.00</u>	64,900
Total		<u>2,100,000.00</u>	814,990
NOTE 04 - ADMINISTRATIVE EXPENSES			
Salaries & Wages (Including Teachers Remuneration)		11,000,000.00	8,764,000
Directors' Fees		2,000,000.00	993,400
Employees' Provident Fund		3,000,000.00	1,051,000
Employees' Trust Fund		450,000.00	262,900
Gratuity Provision/(Reversal of over Provision)		300,000.00	333,790
Electricity		900,000.00	793,455
Telephone		600,000.00	94,375
Water		100,000.00	11,250
Printing, Stationery & Postage		250,000.00	300,500
Store Rent		350,000.00	367,000
Legal Fees		360,000.00	82,100
Donation		280,000.00	2,500
Management Fee		2,700,000.00	27,000
Staff Welfare		<u>280,000.00</u>	205,766
Sub Total C/F		22,570,000.00	13,289,036

(Contd...)

MODEL (PVT) LTD
NOTES TO THE FINANCIAL STATEMENTS (Contd...)
FOR THE YEAR ENDED 31ST MARCH
(All Amounts Are In Sri Lanka Rupees)

	Note	2023	
Note 04 Sub Total B/F		22,570,000.00	13,289,036
Stamp Duty <i>(on payment vouchers Rs. 12,000 & the balance on issuing receipts)</i>		30,000.00	2,070
Entertainment		60,000.00	2,357
Rates & Taxes		16,000.00	18,300
Audit Fees		135,000.00	156,560
Tax Fees		190,000.00	25,500
Staff Training Expenses		135,000.00	50,700
Research Centre Rent		124,000.00	112,840
Repair & Maintenance		185,000.00	177,920
Office Building Maintenance Expenses		50,000.00	32,900
Accounting Fees		860,000.00	960,500
Security Charges		530,000.00	560,250
Royalty Paid On Using of a IT Software		1,000,000.00	25,402
APIT on Directors Remuneration		380,000.00	75,350
Depreciation		100,000.00	125,750
Total		<u>26,365,000.00</u>	<u>15,615,435</u>
NOTE 05 - DISTRIBUTION EXPENSES			
Sundry Expenses		170,000.00	212,400
Foreign Travel		430,000.00	795,000
Trade License Fees		41,000.00	
Vehicle License, Insurance & Maintenance		1,660,000.00	976,235
Staff Educational Tours		900,000.00	1,778,229
Market Promotion		1,100,000.00	85,705
Commissions		750,000.00	55,375
Travelling		400,000.00	375,850
Depreciation		1,400,000.00	526,505
Advertising		390,000.00	5,500
Total		<u>7,241,000.00</u>	<u>4,810,799</u>
NOTE 06 - OTHER OPERATING EXPENSES			
Exchange Losses		240,000.00	113,270
Penalties & Surcharges Paid to Trade Association		16,000.00	24,600
Irrecoverable VAT on Car Maintenance		120,000.00	
Irrecoverable VAT on Other Revenue Expenses		45,000.00	95,405
B/F WHT on Service Fee Income Written-off		80,000.00	12,000
Time Expired ESC Written off		300,000.00	40,500
Cost of Conducting Employee Childrens English Language Course		155,000.00	12,380
Initial Expenses on a Medical College Project which was abandond due to failear of approvals		5,870,000.00	-
Loss On Sale of Old Machines		360,000.00	-
Total		<u>7,186,000.00</u>	<u>298,155</u>
NOTE 07 - FINANCE EXPENSES			
Bank Loan Interest		575,000.00	975,550
Bank O/D Interest & Charges		88,000.00	758,990
Lease Interest (On Machine Rs. 156,000 and on newly leased vehicle Rs. 185,000)		345,000.00	
Other Expenses		355,000.00	123,450
Total		<u>1,363,000.00</u>	<u>1,857,990</u>
			<i>Contd..</i>

AS AT 31st MARCH
2023
-
NOTE 12 - RETIREMENT BENEFIT OBLIGATIONS

Balance As At The Beginning Of The Year	190,000.00	118,515
Provision For The Year	350,000.00	333,790
Payments Made During The Year	(250,000.00)	(123,800)
Balance As At End Of The Year	290,000.00	328,505

(B) Other Relevant Information
1. Breakup Of Legal Fees Paid to Mr Hope

Notary Fees on thirty years BOI Land Agreement	25,000.00	12,000
Special Tax Consultancy Fees	65,000.00	22,000
Educational Consultant's Retainer Fee	125,000.00	18,000
Action Against Patent Copying by a Ex-staff	82,500.00	-
Attestation of suppliers yearly service contract agreement	25,000.00	12,500
Fees Paid to Tax Appeal Commission	2,500.00	
Fees paid to legal advisor to settle a customer dispute	65,000.00	17,600
Total	390,000.00	82,100

2. Breakup Of Foreign Travel Expenses

To get down an Overseas Clients	200,000.00	279,000
Managing Directors Overseas Tour for a Business Conference	175,500.00	320,000
CFO's Overseas Visit to see his Wife	125,000.00	196,000
Sending Staff for Overseas Training Workshops	220,000.00	
Total	720,500.00	795,000

3. Disposal of Assets During the Year

3.1 A Lorry, purchased in 2019/20 for Rs 2,500,000/-, was exchanged on 01st March 2023 with a new Lorry costing Rs. 3,250,000/- by paying the value difference of Rs. 800,000/- in cash.

3.2 As detailed in **Note 7.2** below, a machine which was purchased on 30.11.2017 to speed up the manufacturing process under finance lease terms is sold during the year.

4. Other Income

Received a fee of Rs.900,000 from an overseas client in foreign currency through a bank for providing of consultancy services.

5. Interest Income

Bank Fixed Deposits	160,000	52,000
Treasury Bills Invested Through Banks	100,000	12,900
Total	260,000.00	64,900

6. Details of Staff Training Expenses

The Marketing Manager's Tax Workshop Fee	70,000.00	
The Managing Director's MBA Course Fee	650,000.00	
Total	720,000.00	

7. Finance Lease Purchase Arrangements

7.1 A copier having a fair value of Rs 2,000,000/- is purchased on 1st March 2022 on three years lease terms at a monthly rental of Rs 90,000/-.

7.2 A machine used for the production having a fair value of Rs 2,700,000/-, purchased on 30.11.2017 under three years finance lease terms at a monthly rental of Rs 100,000/- is sold for 1,500,000/- on 01.12.2022.

8. Exchange Loss

This includes a foreign currency exchange loss of Rs.120,000/- incurred on Medical College Project initial expenses.

9. Market Promotion

The expense of Rs.1,140,000 was incurred for a Promotional Campaign on introducing the new Degree Program advertised through mainstream media and social media.

9. Donation

Friends In Need Society	150,000.00	
The Cancer Hospital (in goods)	80,000.00	
For an employee's Medical Surgery	50,500.00	
Total	280,500.00	-

9. Economic Service Charge (ESC)

Unclaimed ESC brought forward from last years are as follows;

2016/2017	20,000.00	200,000.00
2017/2018	145,000.00	200,000.00
2018/2019	150,000.00	25,000.00
2019/2020	200,000.00	-
Total	515,000.00	425,000.00

10. Self Assessment Income Tax Payments for the year 2021/22 are as follows;

1st Quarter	2,500,000.00	200,000.00
2nd Quarter	2,500,000.00	200,000.00
3rd Quarter	2,500,000.00	200,000.00
4th Quarter	3,800,000.00	250,000.00
Total	11,300,000.00	850,000.00

11. Capital allowance for taxation for the year of assessment 2021/22 (Rs. 1,780,000/= on assets acquired after 31.03.2018 and the balance on assets B/F from 2017/18) Computed to be..

2,150,100.00 **475,600.00**

12. Unclaimed taxable trade loss on the business B/F from year of assessment 2021/22

1,476,300.00

MODEL (PVT) LTD
TIN : xxxxxxxx
INCOME TAX COMPUTATION
YEAR OF ASSESSMENT 2022 / 2023



(All Amounts are In Sri Lanka Rupees)

Assessable Income	Schedule	Basis/Remark	1st Period (6 months)	2nd Period (6 months)
Employment Income.....			N/A	N/A
Business Income.....	01	<i>Actual/ Proportionate *1</i>	319,680,579	71,428,571
Business Losses B/F (Investment losses not permitted)		<i>Sec. 19(2) N/A</i>	<i>(1,476,300) *2</i>	-
			<u>318,204,279</u>	<u>71,428,571</u>
Investment Income.....	xx	<i>Actual/ Proportionate *1</i>	260,000	100,000
Investment Loss B/F and Business Losses			-	-
			<u>260,000</u>	<u>100,000</u>
Other Sources of Income	xx		-	-
Total Assessable Income.....			<u>318,464,279</u>	<u>71,528,571</u>
Less; Deductions From Assessable Income				
Qualifying Payments		<i>Optional?</i>	0	(230,000)
Personal Allowance			N/A	N/A
Employment Allowance			N/A	N/A
25% Repair Allowance against Rent Income			N/A	N/A
Relief on Payments (Expenditure/ Investment)			N/A	N/A
Taxable Income.....			<u>318,464,279</u>	<u>71,298,571</u>
Tax Liability				
Tax on Taxable Income @ 14 % - Business Income of SME's		14%		
Tax on Taxable Income @ 14 % - Exports (Specified Businesses)	318,204,279	14%	44,548,599	
Tax on Taxable Income @ 14 % - Agriculture Processing		14%		
Tax on Taxable Income @ 14 % - Education		14%		
Tax on Taxable Income @ 14 % - Tourism		14%		
Tax on Taxable Income @ 14 % - Construction Services		14%		
Tax on Taxable Income @ 18 % - Manufacturing		18%		
Tax on Taxable Income @ 40 % - Liquor, Tobacco, Gambling business		40%		
Tax on Taxable Income @ 24 % - Balance Profit including Investments	260,000	24%	62,400	
Tax on Taxable Income @ 30 % - Business income w.e.f. 01.10.2022	71,198,571	30%		21,359,571
Tax on Taxable Income @ 30 % - Investment income w.e.f. 01.10.2022	100,000	30%		30,000
Total.....	<u>389,762,850</u>		<u>44,610,999</u>	<u>21,389,571</u>
Tax Payable / (Refund Claimed)				Income Tax (Y/A)
Tax Liability.....				<u>66,000,570</u>
Less: Tax Credit				
With Holding Tax.....	1.5		-	-
ESC Claimed During The Year.....	02			(200,000)
Self Assessment Payment.....	03			<u>(11,300,000)</u>
Tax Payable / (Overpaid)				<u>54,500,570</u>
Remarks:-				

PART II

Exempt Income

Net income received from Sale of Agricultural Produce from own estate	(Agriculture Farming)	315,000.00
Consultancy Fee from Abroad	(Received in foreign currency through a bank)	900,000.00
Total		<u>1,215,000.00</u>

Remarks/Notes

**1 Sec. 120(1) A taxpayer engaged in business or investment activity or required under this Act to make a return shall keep and maintain in Sri Lanka records and accounts sufficient to record all transactions and to ascertain the gains and profits made or the loss incurred in respect of those transactions.*

Sec. 120(1A) Provided however, in the case where such person has commonly incurred expenses or commonly used any assets, on all business or investment activities and any expense or deduction cannot be separately identified for the purpose of this subsection, it shall be lawful to divide such expenses or deductions on a proportionate basis (according to the proportion of turnover or proportion of asset usage) in preparing such financial statements.

**2 To get the maximum tax benefit it is better to claim this loss from 2nd period.*

MODEL (PVT) LTD

TIN : xxxxxxxxx

SCHEDULE 01 - COMPUTATION OF ADJUSTED BUSINESS PROFIT

YEAR OF ASSESSMENT 2022 / 2023

(All Amounts are In Sri Lanka Rupees)



Schedule

Net Profit/(Loss) As Per Financial Statements		490,845,000
Disallowables		
Depreciation.....		1,500,000
Penalties & Surcharges (not to a Governmentl Org.)		-
Gratuity Provision.....	01.01	350,000
Legal Fees	01.02	107,500
Foreign Travel	01.03	125,000
Loss On Disposal Of Property, Plant & Equipment (Accounting Loss on Machines).....		360,000
Profit On Disposal Of Property, Plant & Equipment (Acc. Profit on Distribution Vehicle).....		(350,000)
Taxable Profit/(loss) On Disposal Of Property, Plant & Equipment	01.04	2,450,000
PAYE/APIIT Paid on Directors Fee by the Company		380,000
Advertising (<i>Assumed as for Business</i>)		-
Exchange Loss (Capital Nature)		120,000
Repair & Maintenance (<i>Assumed as within the limit</i>)		-
Irrecoverable VAT on Car Maintenance (on Revenue Expenses is allowable).....		-
Irrecoverable VAT on Other Revenue Expenses (on Revenue Expenses is allowable)		-
Royalty Payments		-
Donation (<i>Employee Medical Surgery treated as an welfare</i>)		229,500
Stamp Duty paid on payment Vouchers		12,000
Entertainment		60,000
WHT Write-off.....		80,000
Cost of Conducting Employee Childrens English Language Course		-
Cost of Initial Expenses on an Abandent Medical College Project.....		5,870,000
ESC Writtenoff During The Year.....		300,000
Management Fee		-
Staff Training (.....Domestic Expense.....)		650,000
Lease Interest		167,000
Interest on Bank Loan (<i>With in the limit</i>)		-
Bank O/D Interest & Charges (<i>With in the limit</i>)		-
Deductions & Other Income		
Capital Allowance (Allowable Depreciation).....		(2,150,100)
Market Promotion...(Sec. 15A).....		(1,100,000)
Interest Income.....		(460,000)
Services rendered to abroad (<i>remittance received in foreign currency</i>).....		(900,000)
Net income received from Sale of Agricultuiral Produce from own estate.....		(315,000)
Gratuity Paid.....	01.01	(250,000)
Allowable Lease Rentals on 2017/18 purchased Vehicle...(100,000* 8)		(800,000)
Allowable Lease Rentals on 2020/21 purchased Assets	N/A	-
Adjusted Trade Profit/(Loss)		497,280,900

SCHEDULE 01.01 - RETIREMENT BENEFIT OBLIGATIONS

Balance At The Beginning Of The Year	190,000.00
Provision For The Year	350,000.00
Paid During The Year	<u>(250,000.00)</u>
Balance At The End Of The Year	<u><u>290,000.00</u></u>

SCHEDULE 01.02 - LEGAL FEES

Name	Description	Total Amount	Disallowable
Mr. Faith	Notary Fees on thirty years BOI Land Agreement	25,000	25,000
Mr. Faith	Special Tax Consultancy Fees	65,000	-
Mr. Faith	Educational Consultant's Retainer Fee	125,000	-
Mr. Faith	Action Against Patent Copying by a Ex-staff	82,500	82,500
Mr. Faith	Attestation of suppliers yearly service contract agreement	25,000	-
Mr. Faith	Fees Paid to Tax Appeal Commission	2,500	-
Mr. Faith	Fees paid to legal advisor to settle a customer dispute	65,000	-
Total		<u>390,000</u>	<u>107,500</u>

SCHEDULE 01.03 - FOREIGN TRAVEL

	Designation	Country	Purpose	Total Amount	Disallowable
Mr. xxxxxx	Staff	?	Business Training	220,000	-
Mr. xxxxxx	CFO	?	Personal	125,000	125,000
Mr. xxxxxx	MD	?	Business Conference	175,500	-
Mr. xxxxxx	Overseas Clients	?	Business	200,000	-
Total				<u>720,500</u>	<u>125,000</u>

SCHEDULE 01.04 - PROFIT ON DISPOSAL OF PROPERTY, PLANT & EQUIPMENT

Description	Year of Purchase	Sales Proceeds	Cost	Tax WDV	Taxable Profit/(Loss)
Machine (Operations) - Financed Leased	2017/2018	1,500,000	N/A	N/A	1,500,000
Lorry	2019/2020	2,450,000	2,500,000	1,500,000	950,000
Total					<u>2,450,000</u>

Taxable Profit

SCHEDULE 01.05 - INTEREST INCOME

Description	Net Interest	WHT	Gross Interest
Bank Fixed Deposits	360,000	-	360,000
Treasury Bills Invested Through Banks	100,000	-	100,000
Total	<u>460,000</u>	<u>-</u>	<u>460,000</u>

SCHEDULE 01.05.01 - INTEREST INCOME ON SAVINGS ACCOUNTS (On Cash Basis)

Description	Net Interest Income	WHT	Gross Interest Income		
			Taxable	Exempt	
			2022.04.01 - 2022.09.30	2022.10.01 - 2023.03.31	2022.04.01 - 2023.03.31
Fixed Deposit	260,000	-	200,000	60,000	-
Treasury Bills Invested Through Banks	100,000	-	60,000	40,000	-
Total	360,000	-	260,000	100,000	-

SCHEDULE 02 - ESC CLAIMED DURING THE YEAR

02.01 - ESC Claimed

Description	Amount
ESC Brought Forward From Y/A	
2016/2017 <i>Amount couldn't claim</i>	20,000
2017/2018 <i>Amount couldn't claim</i>	145,000
2018/2019 <i>Amount couldn't claim</i>	150,000
2019/2020	200,000
Total	515,000
ECS Writtenoff during the Year	(315,000)
ESC Paid For The Year	0
ESC Claimed During The Year	(200,000)
ESC Carried Forward To Y/A 2023/2024	-

SCHEDULE 03 - SELF ASSESSMENT PAYMENTS

Quarter	Date Of Payment	Amount
1st Quarter	14.08.2022	2,500,000
2nd Quarter	15.11.2022	2,500,000
3rd Quarter	13.02.2023	2,500,000
4th Quarter	15.05.2023	3,800,000
Final	30.09.2023	54,500,570
Total		65,800,570

SCHEDULE 04 - TAXABLE LOSSES

Balance B/F 2021/2022	1,476,300
Loss for the Year	-
Loss Claimed During the Year	(1,476,300)
Balance C/F	-

SCHEDULE 07- CALCULATION OF INCOME TAX LIABILITY

Description	Turnover/ Assessable Income (AI)	Qualifying Payments	Taxable Income	Rate	Tax Liability
Turnover 01.04.2022 - 30.09.2022	360,000,000				
Turnover 01.10.2022 - 31.03.2023	200,000,000				
AI from Business 01.04.2022 - 30.09.2022	318,204,279	-	318,204,279	14%	44,548,599
AI from Business 01.10.2022 - 31.03.2023	71,428,571	(230,000)	71,198,571	30%	21,359,571
AI from Investments 01.04.2022 - 30.09.2022	260,000	-	260,000	24%	62,400
AI from Investments 01.10.2022 - 31.03.2023	100,000	-	100,000	30%	30,000
Total	389,992,850	(230,000)	389,762,850		66,000,570