

Business Level
Business Taxation

Model Question

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Model Question on Tax Computation

MDH (Pvt) Ltd (MDH) was incorporated in 2010 as a private limited company under the Companies Act No. 07 of 2007 with the objective of manufacturing electrical appliances for both the local and international markets.

Extract of the forecasted income statement for the year ending 31 March 2019

	Rs. '000
Sales to local customers	138,150
Export sales	<u>646,450</u>
	784,600
Cost of sales	<u>(630,122)</u>
Gross profit	154,478
Other income	5,920
Administrative expenses	(34,650)
Selling and distribution expenses	(13,423)
Finance costs	<u>(9,865)</u>
Profit before tax	<u>102,460</u>

Additional information

(i) Break-up of other income

	Rs. '000
Dividend received from companies (net)	1,300
Interest income on fixed deposits (net)	570
Profit from sale of generator	220
Profit from sale of land	3,830
Total	5,920

(ii) Administrative expenses include the following.

- In April 2018 a market survey was conducted by incurring a cost of Rs. 2,231,000.

Based on the outcome of the market survey, an industrial research was carried out by a research institution in Sri Lanka by incurring a cost of Rs. 6,652,000. As a result of this, it was possible to improve the quality and character of the MDH's products. This cost included laboratory equipment worth Rs. 1,400,000, which was purchased for the purpose of carrying out the industrial research.

Except the asset acquired (laboratory equipment), all other expenses were duly charged to administrative expenses.

- Rs. 236,000 paid as a penalty for late payments to the employees' provident fund.
- Book depreciation of Rs. 14,435,000.

(iii) Selling and distribution expenses include the following.

- Reimbursement of entertainment expenses of Rs. 632,000.
- 200 garbage bins worth Rs. 850,000 donated by the company to the Municipal Council of the area.
- Donation to an approved charity that maintains the sick and needy of Rs. 100,000.
- Advertising cost of Rs. 63,000 incurred on a paper notice published for finding a buyer for the land.
- Rs. 1,000,000 paid as subscription for the professional body of engineers and Rs. 500,000 paid as subscription for the sports club of its employees.

(iv) Property, plant and equipment

- Costs of additions during Y/A 2018/19.

	Rs.
Laboratory equipment	1,400,000
New generator	5,400,000
Minibus to transport employees	6,340,000
Car for the use of the managing director	4,200,000

- In May 2018, a generator was sold for Rs. 1,500,000. It was purchased in Y/A 2016/17 for Rs. 4,800,000. In July 2018, a new generator was purchased at a cost of Rs. 5,400,000 to replace the old one.

(v) Investment property

- On 15 August 2018 the company sold a bare plot of land for a consideration of Rs. 13,500,000. This land was purchased at a cost of Rs. 9,670,000 in 2000 and the market value of this land as at 30 September 2017 was Rs. 12,750,000. The company has paid relevant taxes on this transaction.

(vi) Allowance for depreciation has been granted in full for all the assets held as at 1 April 2018, except the assets disposed of during the year.

(vii) All other expenses of the business are allowed for income tax purposes.

(viii) The company has paid a total of Rs. 5,000,000 as self-assessment income tax payments for Y/A 2018/19.

Required:

- (a) **Assess** the total tax liability and the balance tax payable by MDH for Y/A 2018/19.
- (b) **State** the due date for the payment of capital gain tax on the disposal of the land.