

Corporate Level
Corporate Taxation

Model Question

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3

Model Question on Tax Computation

You are provided with the following information for the financial year ending 31 March 2019 of Electro Techno Distributors PLC (ETD PLC), a company engaged in importing and marketing of electrical and electronic house appliances. ET Electricals (Pvt) Ltd, a fully-owned subsidiary of ETD PLC, is engaged in manufacturing and assembling innovative, eco-friendly and energy saving products and providing after sales services for all electrical and household appliances sold by ETD PLC.

- (i) The detailed budgeted accounts of ETD PLC for the year ending 31 March 2019 are given below. (Please refer Annexures 1, 2 and 3 for the statement of profit and loss, statement of comprehensive income and statement of financial position as at 31 March 2019)

	Note	2019 (Budgeted) Rs. '000
Revenue	Note 1	3,217,152
Cost of sales		<u>(2,422,727)</u>
Gross profit		794,425
Other operating income	Note 2	35,245
Administrative expenses	Note 3	(355,258)
Selling and distribution expenses	Note 4	<u>(161,452)</u>
Operating profit		312,960
Impairment of related party receivables		(24,068)
Finance cost	Note 5	(158,460)
Finance income	Note 6	<u>7,210</u>
Profit before income tax		137,642
Income tax expenses		<u>(20,211)</u>
Profit/(loss) for the year		117,431

Notes

Note 1 – Revenue

	Rs. '000
Gross revenue	3,249,648
Less: Nation building tax	<u>(32,496)</u>
	3,217,152

Note 2 – Other operating income

	Rs. '000
Rent income (gross)	7,500
Dividend income received from ET Electricals (Pvt) Ltd	3,200
Writing back of payables	8,783
Royalty income (net of WHT)	4,300
Profit from disposal of motor cars	8,992
Reversal of provision for slow-moving stock	<u>2,470</u>
	35,245

Note 3 – Administrative expenses

	Rs. '000
Salaries and wages	159,000
Director fees (not considered for PAYE tax purposes)	18,500
Travelling	6,503
EPF and ETF	23,850
Provision for gratuity	12,990
Audit and accounting fees	2,000
Donations	1,750
Staff welfare	9,050
Entertainment expenses	670
Depreciation	95,775
Repairs & maintenance	5,215
Other	<u>19,955</u>
	355,258

Note 4 – Selling and distribution expenses

	Rs. '000
Advertising/business promotion	40,000
Royalty including WHT	11,627
Fall in value of investment properties	1,399
Amortisation	9,960
Collective impairment of debtors (general provision)	25,000
Foreign travelling	2,000
Research expenses	1,900
Vehicle maintenance	15,313
Warranty provision	3,200
Other expenses	<u>51,053</u>
	161,452

Note 5 – Finance cost

	Rs. '000
Interest paid on loan obtained in 2012 to invest in ET Electricals (Pvt) Ltd	144,000
Bank loan interest	14,000
Lease interest	<u>460</u>
	158,460

Note 6 – Finance income

	Rs. '000
Interest from fixed deposits (gross)	3,210
Interest from listed debt securities issued after 1 January 2013 (gross)	<u>4,000</u>
	7,210

Other information

- (ii) Investment property represents a land in Kollupitiya purchased with an old building at no cost in 2016. The management intends to retain the land as an investment asset in order to gain from capital appreciation in the long run. ETD PLC has rented the first floor of the building until such time the land is sold. The rent received during the year has been recorded under other income.
- (iii) Writing back of payables includes the following:
- Service fees payable of Rs. 6,200,000 to ET Electricals (Pvt) Ltd (fully-owned subsidiary of ETD PLC).
 - The balance represents the writing back of the temporary loan payable to ET Electricals (Pvt) Ltd. The management of ET Electricals (Pvt) Ltd has decided to write it off from its books and treat it as a corporate gift granted to ETD PLC.
- (iv) The royalty expense represents the trademark fees paid to foreign suppliers for Y/A 2018/19. The company had to bear the WHT on such royalty, as the foreign supplier did not agree to bear such tax.
- (v) Industrial research was carried out in the company's own laboratory to improve the business process by incurring a cost of Rs. 1,900,000. This cost included laboratory equipment worth Rs. 1,100,000, which was purchased for the purpose of carrying out the industrial research.
- (vi) Foreign travelling includes:
- Rs. 800,000 incurred on a foreign tour organised to entertain the managing director and his family.
 - Rs. 1,200,000 incurred on visits to foreign manufacturers to inspect the quality of imported goods by the marketing team.
- (vii) Profits and income of ETD PLC from trade or business for Y/A 2017/18 were Rs. 16,000,000.

- (viii) Staff welfare includes Rs. 4,100,000 incurred in supplying free meals to all the employees in the company.
- (ix) Repairs & maintenance include:
- Rs. 1,400,000 incurred on renovation and structural modification of the Kollupitiya building given on rent to bring it to a condition suitable for renting.
 - Rs. 500,000 incurred on repairs made on office furniture acquired during Y/A 2018/19.
 - Rs. 900,000 incurred to repair the generators acquired in Y/A 2017/18. The tax written down value of such assets as at 31 March 2018 was Rs. 20 million.
 - Rest of the repairs & maintenance cost represents office maintenance.
- (x) Bank loan interest recorded under finance cost represents the interest paid on the Rs. 100 million loan obtained during the year. Rs. 50 million of this loan has been utilised for working capital requirements and the balance Rs. 50 million was given to the managing director as a loan to acquire an apartment.
- (xi) Donations represent the following.
- Death gratuity made to the immediate family member of a deceased employee: Rs. 150,000.
 - Donation made to an approved charity: Rs. 1,600,000.
- (xii) Movement of the warranty provision account is as follows.

	Rs. '000
Opening balance as at 1 April 2018	26,565
Add: Provision for the year	3,200
Less: Warranty claim during the year	(14,539)
Closing balance as at 31 March 2019	15,226

- (xiii) Details of the assets acquired are as follows.

Description	Acquired in Y/A 2018/19 Cost Rs. '000	Acquired in Y/A 2017/18 Cost Rs. '000
Buildings	122,000	Nil
Generators	40,000 (obtained under finance lease term)	30,000
Motorcycles	50,000	10,000
Office furniture	8,000	Nil
Locally developed software (estimated useful life time of 12 years)	12,000	Nil
Imported software	Nil	8,000
	232,000	48,000

- (xiv) All assets have been fully depreciated for tax purposes, other than those specifically mentioned above.
- (xv) Income tax receivable as at 31 March 2019 of Rs. 14,285,000 represents the quarterly self-assessment payments made for Y/A 2018/19 and WHT paid at source.

Required:

Assess the balance income tax payable by ETD PLC on 30 September 2019, if any, in respect of Y/A 2018/19.

Annexure 1

Electro Techno Distributors PLC Statement of profit or loss

Year ended 31 March	Group		Company	
	2019 (Unaudited)	2018	2019 (Unaudited)	2018
	Rs. '000			
Revenue	7,292,645	7,200,202	3,217,152	3,210,149
Cost of sales	(5,511,457)	(5,272,146)	(2,422,727)	(2,279,626)
Gross profit	1,781,188	1,928,056	794,425	930,523
Other operating income	54,329	24,761	35,245	20,142
Administrative expenses	(630,551)	(614,279)	(355,258)	(345,524)
Selling and distribution expenses	(671,255)	(645,242)	(161,452)	(145,150)
Operating profit	533,711	693,296	312,960	459,991
Impairment of related party receivables	(24,068)	-	(24,068)	-
Finance cost	(199,970)	(190,556)	(158,460)	(170,070)
Finance income	7,210	6,576	7,210	6,576
Share of joint venture's loss	(58,994)	(55,456)	-	-
Profit before income tax and value added tax (VAT) on financial services from continuing operations	257,889	453,860	137,642	296,497
Value added tax (VAT) on financial services	(89,625)	(86,343)	-	-
Income tax expense	(63,830)	(118,016)	(20,211)	(65,208)
Profit /(loss) for the year	104,434	249,501	117,431	231,289
Attributed to:				
Equity holders of parent	97,009	236,803	117,431	231,289
Non-controlling interest	7,425	12,698	-	-
	104,434	249,501	117,431	231,289

Annexure 2

Electro Techno Distributors PLC Statement of comprehensive income

Year ended 31 March	Group		Company	
	2019 (Unaudited)	2018	2019 (Unaudited)	2018
	Rs. '000			
Profit for the year	104,434	249,501	117,431	231,289
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Gain/(loss) on available-for-sale financial assets	-	(13)	-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	-	(13)	-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Revaluation gain	-	9,676	-	8,987
Actuarial gain on defined benefit plans	901	1,179	707	877
Tax effect	(283)	(1,067)	(190)	(806)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	618	9,788	517	9,058
Total other comprehensive income for the year, net of tax	618	9,775	517	9,058
Total comprehensive income for the year, net of tax	105,052	259,276	117,948	240,347
Attributed to:				
Equity holders of parent	97,627	246,578	117,948	240,347
Non-controlling interest	7,425	12,698	-	-
	105,052	259,276	117,948	240,347

Annexure 3

Electro Techno Distributors PLC Statement of financial position

As at 31 March	Group		Company	
	2019 (Unaudited)	2018	2019 (Unaudited)	2018
	Rs. '000			
ASSETS				
Non-current assets				
Property, plant and equipment	1,274,810	1,016,732	950,460	814,235
Leasehold land payments	254,250	257,350	254,250	257,350
Investment properties	22,461	23,851	22,452	23,851
Lease rentals receivable and stock out on hire	915,711	872,280	-	-
Intangible assets	64,140	56,670	38,630	37,490
Investments in subsidiaries	-	-	1,238,518	1,238,518
Investment in joint venture	2,241,551	2,075,169	2,423,593	2,198,216
Other financial assets	452,390	367,870	46,350	46,350
Deferred tax assets	393,700	374,250	-	-
Trade and other receivables	1,702,850	1,872,460	-	-
	7,321,863	6,916,632	4,974,253	4,616,010
Current assets				
Inventories	2,130,841	2,258,329	1,572,200	1,510,965
Trade and other receivables	1,869,335	2,232,601	1,220,635	1,772,192
Lease rentals receivable and stock out on hire	833,800	823,720	-	-
Income tax receivable	20,591	458	14,285	-
Other financial assets	644,900	398,816	1,465	1,222
Securities purchased under repurchase agreement	25,081	63,015	-	-
Cash and short-term deposits	108,687	178,437	98,513	66,370
	5,633,235	5,955,376	2,907,098	3,350,749
Total assets	12,955,098	12,872,008	7,881,351	7,966,759
EQUITY AND LIABILITIES				
Equity				
Stated capital	218,500	218,500	218,500	218,500
Other components of equity	457,150	457,150	399,040	399,040
Retained earnings	6,461,127	6,363,500	4,689,708	4,571,760

Equity attributable to equity holders of the parent	7,136,777	7,039,150	5,307,248	5,189,300
Non-controlling interest	141,341	133,916	-	-
Total equity	7,278,118	7,173,066	5,307,248	5,189,300
Non-current liabilities				
Interest bearing borrowings	950,000	720,250	750,250	650,250
Employee benefits liabilities	258,670	236,790	159,340	149,770
Trade and other payables	1,220,360	1,697,850	-	-
	2,429,030	2,654,890	909,590	800,020
	9,707,148	9,827,956	6,216,838	5,989,320
Current liabilities				
Trade and other payables	1,847,020	1,582,046	828,954	941,474
Warranty provision	355,327	313,860	15,226	26,565
Income tax liabilities	12,520	40,342	-	25,650
Interest bearing borrowings	1,033,083	1,107,804	820,333	983,750
	3,247,950	3,044,052	1,664,513	1,977,439
Total equity and liabilities	12,955,098	12,872,008	7,881,351	7,966,759