

Question 03 [Model Question]

Modern Music (Pvt) Ltd (MMPL), a subsidiary of Music World PLC, manufactures and sells musical instruments and other related parts in the international markets. MMPL purchase 80% of the required materials from local suppliers and the rest of the 20% imports from India and Germany. The following information was extracted from the financial statements of MMPL for the year ended 31st March 2023.

Handwritten notes: 14% (circled), 15% - 114%, 20% - 30%, (circled) 80%.

Details extracted from the Income Statement for the year ended 31 March 2023:

	Note	Rs.'000
Revenue	1	550,000
Cost of Sales	2	-275,000
Gross Profit		275,000
Other Income & Gains	3	75,000
Administrative Expenses	4	-95,000
Selling & Distribution Expenses	5	-115,000
Finance Costs	6	-15,000
Profit Before Tax		125,000

Details extracted from the Statement of Financial Position as at 31 March 2023:

Handwritten note: 15% rep.

Description	Rs.
Issued Share Capital	8,000,000
General Reserves	20,000,000
Revaluation Reserve	2,000,000
Interest bearing loans and borrowings	150,000,000
Bank Overdraft	25,000,000

Note 1: Revenue

Handwritten note: 14% (circled)

Description	Rs.
Exports	550,000,000
Total	550,000,000

Note 2: Cost of Sales

- i. Cost of sales includes slow-moving inventory provision amounting to Rs. 20,500,000/-.

Note 3: Other Income and Gains

Handwritten notes: (b) (b)

	Apr – Sep	Oct – Mar	Total
	Rs.	Rs.	Rs.
Gross Interest Income (Refer ii)	2,000,000	5,800,000	7,800,000

Gross Dividend Income (Refer iii) ✓	12,000,000	35,000,000	47,000,000
Foreign Exchange Gain (Refer iv) ✓	8,000,000	12,000,000	20,000,000
Profit on Disposal of Computer (Refer v) ✓	-	200,000	200,000
Total	22,000,000	53,000,000	75,000,000

ii. The bank has deducted Advance Income Tax (AIT) only for the second period (Oct to Mar).

iii. A dividend has been received from an associate company which declared out of its profits.

iv. Total exchange gain relating to the business, which includes unrealized exchange gain amounting to Rs. 10,000,000/-.

v. Details of Property, Plant and Equipment are as follows:

Asset	Cost as @ 01 Apr 2022 Rs.	Additions / Acquisitions Rs.	Disposals Rs.	Cost as @ 31 Mar 2023 Rs.
Land	15,000,000	-	-	15,000,000
Office Building	100,000,000	-	-	100,000,000
Computers	20,000,000	-	(2,000,000)	18,000,000
Motor Lorry	10,000,000	5,000,000	-	15,000,000
Total	145,000,000	5,000,000	(2,000,000)	148,000,000

• Computer and accessories purchased in the year of assessment 2020/2021 were sold for Rs. 1,500,000 due to a technology upgrade.

• MMPL has acquired Rs. 5,000,000 worth of Motor Lorry during the year.

• Other than those mentioned specifically, all the other assets as at 01 April 2022 have been acquired in the year of assessment 2019/20 and claimed for capital allowance from the date of acquisition.

Note 4: Administrative Expenses include the following.

Description	Rs.
Depreciation	10,000,000
Gratuity provision (Refer vi)	5,000,000
Bad Debt provision (Refer vii)	7,000,000
Repair and maintenance (Refer viii)	1,000,000
Legal fees (Refer ix)	500,000

vi. Gratuity paid during the year Rs. 3,500,000/-

vii. Bad debt is written off amounting to Rs. 4,000,000/-. However, the company has not taken recovery actions for Rs. 3,000,000/- worth of bad debts.

viii. Rs. 1,000,000/- has been incurred during the year for repair and maintenance of the office building.

5/1.
20/1.
20/1.
19/20 -
20/21 -
21/22 ✓
22/23 ✓
4000
1000
RAT
3000
2 RAT

Capital Nature

ix. Legal fees of Rs. 500,000/- incurred for the transfer of deed of office land.

Note 5: Selling and Distribution Expenses include the following.

Description	Rs.
Marketing and communication expenses (Refer x)	25,000,000
Research expenses (Refer xi)	2,000,000
Entertainment Expenses (Refer xii)	750,000
Donation	1,000,000

x. Advertising on social media including television, radio, print as outdoor advertising made during the year:

- through a third party - Rs. 10,000,000/-
- through the parent company - Rs. 15,000,000/-

xi. The company has incurred Rs. 2,000,000/- for research on improving the efficiency of the production process.

xii. The company has incurred Rs. 750,000/- for the entertainment of customers.

xiii. The company has donated Rs. 1,000,000/- worth of educational equipment to the medical faculty of the University of Sri Jayewardenepura.

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QP → Govt Sp. Inv. Sec. 52

Note 6: Finance Costs include the following.

Description	Rs.
Interest Expense on Bank Loan	10,000,000
Interest Expense on Overdrafts	5,000,000

xiv. All other expenses of the business are allowed for income tax purposes.

xv. Income Tax paid Rs. 5,000,000/- for each quarter for the year of assessment 2022/23.

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$5000 \times 4 =$

Required:

i. Assess the balance income tax payable by MMPL or refund due to MMPL in respect of the Y/A 2022/23.

