

THE HONG KONG POLYTECHNIC UNIVERSITY  
HONG KONG COMMUNITY COLLEGE

**Subject Title** : Introduction to Auditing and  
Taxation

**Subject Code** : CCN2123

**Session** : Semester One, 2016/17

**Numerical Answers**

**Question B1**

Part I

**HKCC Limited  
Profits tax computation  
Year of assessment 2015/16**

	\$	\$
Net profit per account		397,000
Less:		
Dividends	200,000	
Bank interest income	<u>40,000</u>	
		240,000
Add:		
Legal fee – lease of new branch office	20,000	
Legal fee – IRD investigation	17,500	
Bad and provision of doubtful debts – loans to staff	1,000	
Bad and provision of doubtful debts – general provision	15,000	
Compensation – early termination of tenancy agreement	35,000	
Compensation – resigned executive not compete with co.	100,000	
Depreciation expenses	155,000	
Donation	<u>250,000</u>	
		<u>593,500</u>
		750,500
Less:		
Depreciation allowances		<u>195,000</u>
Assessable profits		555,500
Less: approved charitable donations (restricted to 35%)		<u>175,000</u>
Net assessable profits		<u>380,500</u>
Profits tax payable (380,500 x 16.5%)		<u>62,782</u>

**Question C2****Part II**

Mr Lee  
Property tax computation  
Year of assessment 2015/16

	\$
Rental income (\$12,000 x 12)	<u>144,000</u>
Assessable value	144,000
Less: rates paid by owner (\$1,800 x 4)	<u>7,200</u>
	136,800
Less: statutory deduction 20%	<u>27,360</u>
NAV	<u>109,440</u>
Property tax payable (\$109,440 x 15%)	<u>16,416</u>

**Question C3**

Mr Chan  
Salaries tax computation  
Year of assessment 2015/16

	\$	\$
Salary		580,000
Bonus		200,000
Education incentive		<u>20,000</u>
		800,000
Less: allowable deductions		
HKICPA full membership fee		5,000
		795,000
Rental value		
(800,000 – 5,000) x 10%	79,500	
Less: rent suffered ((12,000 – 10,000) x 12)	<u>24,000</u>	<u>55,500</u>
		850,500
Self-education expenses		<u>60,000</u>
NAI before concessionary deduction		790,500
Less: concessionary deduction		
MPF contribution		12,000
NAI before personal allowances		778,500
Less: Personal allowances		
MPA	240,000	
Child allowance (70,000 x 3)	210,000	450,000
NCI		<u>328,500</u>
Progressive tax rate (A)		
40,000 x 2%		800
40,000 x 7%		2,800
40,000 x 12%		4,800
(328,500 – 120,000) x 17%		<u>35,445</u>
		<u>43,845</u>
Standard tax rate (B)		
778,500 x 15%		<u>116,775</u>
Salaries tax liabilities = the lower of (A) or (B)		<u>43,845</u>