

THE HONG KONG POLYTECHNIC UNIVERSITY
HONG KONG COMMUNITY COLLEGE

Subject Title : Introduction to Auditing and
Taxation

Subject Code : CCN2123

Session : Semester One, 2018/19

Numerical Answers

Question B

Part I

JOY Limited
Profits tax computation
Year of assessment 2017/18

| | \$ | \$ |
|---|---------------|------------------|
| Net profit per account | | 2,080,000 |
| Less: | | |
| Commission received | 55,000 | |
| Dividend – shares in Hong Kong | 20,000 | |
| - Shares in New York | 40,000 | |
| Interest income- HKD saving deposit | 15,000 | |
| USD saving deposit | 30,000 | |
| | | <u>(160,000)</u> |
| | | 1,920,000 |
| Add: | | |
| Bad debt – general provision | 30,000 | |
| - Staff loans | 2,000 | |
| Depreciation | 225,000 | |
| Donation | 70,000 | |
| Travelling expense for offshore commission | 14,000 | |
| Legal fee for lease of new office | 35,000 | |
| Legal fee for recovery of loans from staff | 15,000 | |
| New decoration of new office | 100,000 | |
| Refurbishment of store room (80,000 x 4/5) | <u>64,000</u> | |
| | | <u>555,000</u> |
| | | 2,475,000 |
| Less: | | |
| Depreciation allowances | | <u>500,000</u> |
| Assessable profits | | 1,975,000 |
| Less: approved charitable donations (restricted to 35%) | | <u>15,000</u> |
| Net assessable profits | | <u>1,960,000</u> |
| Profits tax payable (\$1,960,000 x 16.5%) | | <u>323,400</u> |

Question C3

| Philip Liu Salaries tax computation Year of assessment 2016/17 | | |
|---|---------------|----------------|
| | \$ | \$ |
| Salary (50,000*12) | | 600,000 |
| Bonus | | 40,000 |
| Second-hand car | | <u>20,000</u> |
| | | 660,000 |
| Rental value (10%) | 66,000 | |
| Less rent suffered (10,000-8,000)*12 | <u>24,000</u> | |
| Net rental value | | <u>42,000</u> |
| NAI before concessionary deductions | | 702,000 |
| less Concessionary deductions | | |
| Approved charitable donations | 25,000 | |
| Contributions to retirement (max.) | <u>18,000</u> | <u>43,000</u> |
| | | 659,000 |
| less Personal allowances | | |
| Married allowance | 264,000 | |
| Child allowance | 100,000 | |
| DPA - basic | 46,000 | |
| DPA - additional | 46,000 | |
| DDA | <u>66,000</u> | <u>522,000</u> |
| NCI | | <u>137,000</u> |
| | | |
| Salaries tax liabilities: | | |
| Standard rate (659,000*15%) | | <u>98,850</u> |
| Progressive tax | | |
| \$40,000 x 2% | 800 | |
| \$40,000 x 7% | 2,800 | |
| \$40,000 x 12% | 4,800 | |
| (\$137,000 – \$120,000) x 17% | <u>2,890</u> | <u>11,290</u> |
| | | |
| i.e. lower of \$98,850 and \$11,290 | | <u>11,290</u> |
| | | |

Question C4

| Mr White Property Tax Computation Year of assessment 2016/17 (Basis period: 01/04/16-31/03/17) | |
|---|----------------|
| | \$ |
| Rental income (9/16 – 2/17) (\$30,000 x 6) | 180,000 |
| Second hand car (3/17) (\$60,000 x 1/2) | <u>30,000</u> |
| Assessable value | 210,000 |
| Less: Rates (\$3,000 x 3) | <u>9,000</u> |
| | 201,000 |
| Less: 20% statutory deduction | <u>40,200</u> |
| Net assessable value | <u>160,800</u> |
| | |
| Property tax at 15% thereon | <u>24,120</u> |
| | |

**Mr White
Property Tax Computation
Year of assessment 2017/18
(Basis period: 01/04/17-31/03/18)**

| | |
|--|-----------------------|
| | \$ |
| Second hand car (4/17) (\$60,000 x 1/2) | 30,000 |
| Rental income from Susan (5/17 – 3/18) (\$25,000 x 11) | <u>275,000</u> |
| Assessable value | 305,000 |
| Less: 20% statutory deduction | <u>61,000</u> |
| Net assessable value | <u><u>244,000</u></u> |
| Property tax at 15% thereon | <u><u>36,600</u></u> |