

Chapter 5 PROFITS & GAINS FROM BUSINESS OR PROFESSION



Question 1

From the following data, calculate the depreciation admissible to an individual carrying on trading business:

	Amount in ₹
Plant and Machinery (Block Rate 15%) (WDV of Plant A and Plant B on 01-04-2020)	25,00,000
Additions - Plant C on 30-06-2020 (₹ 5,00,000 is paid in cash and balance ₹ 10,00,000 is paid through account payee cheque)	15,00,000
Plant D on 31-12-2020 (₹ 4,80,000 is paid in cash and balance ₹ 7,20,000 through RTGS transfer)	12,00,000
Sales - Plant A on 01-12-2020	6,00,000

Solution

Where the assessee incurs any expenditure for acquisition of any asset or part thereof in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account, exceeds ₹ 10,000, such expenditure shall be ignored for the purposes of determination of actual cost

Thus, Actual cost of Plant C will be ₹ 10,00,000 i.e. [₹ 15,00,000 - ₹ 5,00,000] and Plant D will be ₹ [12,00,000 - 4,80,000] = ₹ 7,20,000

Computation of the amount of depreciation allowable (amounts in ₹) -

WDV as on 01-04-2020	25,00,000
Add: Actual cost of asset acquired during the year -	
30-06-2020	10,00,000
31-12-2020	7,20,000
	42,20,000
Less: Sale proceeds of Plant A on 1-12-2020	6,00,000
WDV	36,20,000
Less: Depreciation (7.5% of ₹ 7,20,000 and 15% of ₹ 29,00,000)	4,89,000
Depreciated value as on 31-03-2021	31,31,000

Working Note: Depreciation is allowed to the extent of 50% as the asset is used for less than 180 days during the previous year. Thus, depreciation on Plant D acquired on 31-12-2020 shall be allowed @ 7.5% of ₹ 7,20,000.

Question 2

WDV of the block as on April 1, 2020 is ₹ 15,00,000; rate of depreciation = 15%.

- Assets, falling within the block, are purchased during the year for ₹ 5,00,000.
- Sale of entire block = ₹ 8,80,000. Determine the tax consequences.

Solution WDV of the block as on 31st March 2021 (amounts in ₹) -

Opening WDV	15,00,000
Add: Actual cost of the asset acquired during the year	5,00,000
	20,00,000
Less: Moneys payable in respect of entire block sold during the year	8,80,000
WDV as on 31-3-2021 (as block ceases to exist)	-
Depreciation admissible	-
Short term capital Loss (₹ 20,00,000 - ₹ 8,80,000)	11,20,000

Question 3

Block exists but there is no WDV: Mr. Prakash has the following assets which are eligible for depreciation at 15% on Written Down Value (WDV) basis:

01-04-2017	WDV of plant 'X' and Plant 'Y'	₹ 2,00,000
10-12-2020	Acquired a new plant 'Z' for	₹ 2,00,000
22-01-2021	Sold Plant 'Y' for	₹ 4,00,000
	Expenditure incurred in connection with transfer	₹ 10,000

Compute eligible depreciation claim/chargeable capital gain if any.

Solution

Computation of capital gain/depreciation claim of Mr. Prakash (amount in ₹) -

WDV as on 1-4-2020 of Block comprising of Plants 'X' and 'Y'	[WN-1]	1,22,825
Add: Purchase of new Plant 'Z'		2,00,000
		3,32,825
Less: Sale proceeds of Plant Y (400,000- 10,000)		(390,000)
WDV of the block at the end of the year		Nil
Short-term capital gains for 2019-20 (Assessment Year 2021-22)		67,175

Working Notes:

(1)	Computation of WDV:	(amount in ₹)
	WDV as on 1-4-2017 of Block comprising of Plants 'X' and 'Y'	2,00,000
	Less: Depreciation for previous year 2017-18 @15%	30,000
	WDV as on 1-4-2018	1,70,000
	Less: Depreciation for previous year 2018-19 @15%	25,500
	WDV as on 1-4-2019	1,44,500
	Less: Depreciation for previous year 2019-20 @ 15%	21,675
	WDV as on 1-4-2020	1,22,825

(2) Since the block is reduced to Nil, hence, no depreciation shall be admissible for assessment year 2021-22.

Question 4

From the following data, calculate the depreciation admissible to an individual carrying on trading business:

(amounts in ₹)

Factory Building (WDV)	5,00,000
Plant and Machinery (WDV):	8,00,000
Additions - 30-06-2020	1,00,000
31-12-2020	1,00,000
Sales - 01-12-2020	6,00,000

Computer Addition 1-1-2021 (₹ 60,000 is paid through A/c payee cheque and balance in cash)	80,000
Furniture and Fixtures (WDV)	1,00,000

Solution The admissibility of depreciation shall be computed as follows (amount in ₹)

Particulars	Block 1 - Plant & Machinery (15%)	Block 2 - Furniture & Fittings (10%)	Block 3 - Factory Building (10%)	Block 4 - Computer (40%)
WDV as on 1-4-2020	8,00,000	1,00,000	5,00,000	Nil
Add: Actual cost of asset acquired during the year -				
30-06-2020	1,00,000	Nil	Nil	Nil
31-12-2020 & 1-1-2021	1,00,000	Nil	Nil	60,000
	10,00,000	1,00,000	5,00,000	60,000
Less: Sales (1-12-2020)	6,00,000	Nil	Nil	Nil
WDV as on 31-3-2021	4,00,000	1,00,000	5,00,000	60,000
Less: Depreciation at block rate	52,500	10,000	50,000	12,000 (half)
WDV as on 1-4-2021	3,47,500	90,000	4,50,000	48,000

Working Notes:

- (1) Since assessee is carrying on trading business, no additional depreciation is admissible.
- (2) Since the new plant acquired during the previous year is put to use for less than 180 days depreciation on such plant is calculated at half of the block rate. Hence, depreciation on Plant & Machinery = 15% of ₹ 3 lakh + 50% of 15% of ₹ 1 lakh (since used for less than 180 days) = ₹ 52,500.
- (3) Though purchase price of computer is ₹ 80,000 but ₹ 20,000 is paid in cash, hence its actual cost will be ₹ 80,000 - ₹ 20,000 = ₹ 60,000. Since the new computer acquired during the previous year is put to use for less than 180 days, hence depreciation on such computer is calculated at half of the block rate. Depreciation on computer = 50% of 40% of ₹ 60,000 = ₹ 12,000.



Question 5

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income:

No.	Description	Date of Acquisition	Date when put to use	Amount (₹)
(a)	Computer	27 Sept., 2020	2 Oct., 2020	35,000
(b)	Computer software	2 Oct., 2020	4 Oct., 2020	8,500
(c)	Computer printer	2 Oct., 2020	3 Oct., 2020	12,500
(d)	Books (of which books being annual Publications are of ₹ 12,000)	1 Apr., 2020	1 Apr., 2020	13,000
(e)	Office furniture (Acquired from practicing C.A.)	1 Apr., 2020	1 Apr., 2020	3,00,000
(f)	Laptop	26 Sept., 2020	4 Oct., 2020	: 43,000
(g)	Fire extinguisher	1 Apr., 2020	No instance arose to use during F.Y. 2020-21	2,500

(h) Purchased practicing CA's office in April 2020 who had run it for 4 years, for ₹ 5 lakhs which includes ₹ 2 lakhs for goodwill and ₹ 3 lakhs for cost of furniture (included in (e) above) .

Note: Depreciation is to be provided at the applicable rates. (Take 365 days in a year)

Solution

Computation of depreciation allowable (amounts in ₹) -

	Block 1	Block 2	Block 3	Block 4
Particulars	(Computer, Computer software, Laptop & Books being non-annual publications, Books being Annual publications) - 40%	(Furniture) - 10%	(Intangible Assets - Goodwill) - 25%	(Fire Extinguisher & Printer) -15%
Assets put to use for 180 days or more	48,000	3,00,000	2,00,000	15,000
Assets put to use for less than 180 days	51,500	Nil	Nil	Nil
Allowable Depreciation	29,500	30,000	50,000	2,250

Working Notes:

- (1) Goodwill is an intangible asset and falls within the scope of "any other business or commercial rights of similar nature" and the same is eligible for depreciation.
- (2) Depreciation on fire extinguisher will be available even if it is not actually put to use because of its nature. (Passive use)

Question 6

Apportionment of Depreciation: Mr. Gopi carrying on business as proprietor converted the same into a limited company by name Gopi Pipes (P) Ltd. from 01-07-2020. The details of the assets are given below:

	₹
Block –I WDV of plant & machinery (rate of depreciation @ 15%)	12,00,000
Block - II WDV of building (rate of depreciation @ 10%)	25,00,000

The Company Gopi Pipes (P) Ltd. acquired plant and machinery in December 2020 for ₹ 10,00,000. It has been doing the business from 01-07-2020.

Compute the quantum of depreciation to be claimed by Mr. Gopi and successor Gopi Pipes (P) Ltd. for the assessment year 2021-22.

Note: Ignore additional depreciation.

Solution

The amount of depreciation in any previous year, on tangible and intangible assets, allowable to Sole Proprietor and Private limited company shall be maximum upto the depreciation calculated at prescribed rates, had such conversion not taken place. Such depreciation shall be apportioned between predecessor and successor, in the ratio of the number of days of use of assets by them during that previous year.

Apportionment of Depreciation: No. of days in the year = 365; Date of conversion = 01-07-2020

Asset	Total Depreciation (WDV on 1-4-2020 x Dep. Rate)	Total Days used	Days used by Gopi Proprietor	Days used by Gopi Pipes (P) Ltd.	Allowable Depreciation to Gopi Proprietor	Allowable depreciation Gopi Pipes (P) Ltd.
Buildings	2,50,000	365	91	274	62,329	1,87,671
Plant & Machinery	1,80,000	365	91	274	44,877	1,35,123
New Plant and machinery	75,000	-	-	Less than 180 days	-	75,000
Total	5,05,000				1,07,206	3,97,794

Question 7

Apportionment of Depreciation: Sai Ltd. has a block of assets carrying 15% rate of depreciation, whose written down value on 01-04-2020 was ₹ 40 lacs. It purchased another asset of the same block on 01-11-2020 for ₹ 14.40 lacs and put to use on the same day. Sai Ltd. was amalgamated with Shirdi Ltd. with effect from 01-01-2021.

Compute the depreciation allowable to Sai Ltd. & Shirdi Ltd. for the previous year ended on 31-03-2021 assuming the assets transferred of Shirdi Ltd. at ₹ 60 lacs.



Solution

The amount of depreciation in any previous year, on tangible and intangible assets, allowable to amalgamating company and amalgamated company shall not exceed the depreciation calculated at prescribed rates, had such amalgamation not taken place. Such depreciation determined shall be apportioned between amalgamating company and amalgamated company, in the ratio of the number of days of use of assets by them during that previous year.

Apportionment of Depreciation: Number of days in the year = 365 Date of amalgamation = 01-01-2021.

Asset	Total Depreciation	Total Days used	Days used by Sai	Days used by Shirdi	Sai Ltd.	Shirdi Ltd.
(a) On opening balance [WN-1]	6,00,000	365	275	90	4,52,055	1,47,945
(b) Additions made by Sai Ltd. [WN-2]	1,08,000	151	61	90	43,629	64,371
Total	7,08,000				4,95,684	2,12,316

Working Notes:

(1) Statement showing computation of depreciation:

	WDV as on 1-04-2020	40,00,000
	Add: Actual cost of asset acquired during the year (used for less than 180 Days)	14,40,000
	Depreciation on ₹ 40,00,000 @15%	6,00,000
	Depreciation on ₹ 14,40,000 @ 7.5%	1,08,000
(2)	The price at which the assets were transferred, i.e., ₹ 60 lacs, has no effect on depreciation.	

Question 8

Computation of depreciation and additional depreciation: CP Ltd. was incorporated on 31-12-2019 for manufacture of tyres and tubes for motor vehicles in Rajasthan. The manufacturing unit was set up on 30-4-2020. The company commenced its operations on 01-05-2020. The total cost of the plant and machinery installed in the unit is ₹ 10 crores. The said plant and machinery included second-hand plant and machinery bought for ₹ 1 crores and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 1 crores. Out of the said plant and machinery, new plant and machinery acquired at cost of ₹ 2 crores was put to use on 14-12-2020.

Compute the amount of depreciation allowable u/s 32 of the Income-tax Act, 1961 in respect of the assessment year 2021-22 and assessment year 2022-23. Furnish explanations in support of your computation.

Solution

Computation of depreciation allowable for the assessment year 2021-22 to CP Ltd. (₹ crores):

Total cost of plant and machinery		10	
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Less: Used for Scientific Research	[WN-1]	1	
Cost eligible for normal depreciation		9	
Normal depreciation at 15% of ₹ 7 crores (since put to use for not less than 180 days)		1.05	
Normal depreciation at 7.5% of ₹ 2 crores (since put to use for less than 180 days)		0.15	1.20
Additional Depreciation:			
Cost of plant and machinery		10	
Less: Second hand plant and machinery	[WN-2]	1	
Plant and machinery used for scientific research	[WN-2]	1	
Cost eligible for additional depreciation		8	
Additional Depreciation at 20% of actual cost of ₹ 6 crores (put to use not less than 180 days)		1.2	
Additional Depreciation at 10% of actual cost of ₹ 2 crores (put to use for less than than 180 days)		0.2	1.40
Depreciation allowable for AY 2021-22 under section 32			2.60
Depreciated value of plant and machinery [₹ 9 crores - ₹ 2.6 crores]			6.40
Computation of depreciation allowable for the assessment year 2022-23 to GP Ltd. (₹ crores):			
Depreciated value of Plant and machinery as on 01-04-2022			6.40
Normal depreciation at 15% of ₹ 6.4 crores		0.96	
Additional Depreciation: Cost of plant and machinery [₹ 2 crores x 10%] [WN-3]		0.20	1.16
Depreciated value of plant and machinery [₹ 6.4 crores - ₹ 1.16 crores]			5.24

Working Notes:

- (1) As per section 35(2) (iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since the entire expenditure is deductible under section 35.
- (2) No additional depreciation will be allowed on second hand plant and machinery as well as plant and machinery used for scientific research.
- (3) Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business for a period of less than 180 days in that previous year, and the additional depreciation in respect of such asset is restricted to 10% of the actual cost for that previous year, then, the deduction for the balance additional depreciation i.e. 10% of the actual cost of such asset shall be allowed in the immediately succeeding previous year in respect of such asset.

Question 9

Venus Ltd., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai for the year ending 31-03-2021

	(₹ in lacs)
Opening WDV of Plant and Machinery	20
New machinery purchased on 1-9-2020	10
New car purchased on 1-12-2020	8
Computer purchased on 3-1-2021	4

Additional information:

- All assets were put to use immediately.
- Computer has been installed in the office.
- During the year ended 31-3-2020, a new machinery had been purchased on 31-10-2019, for ₹ 10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate of machinery may be taken as 15%.

Compute the depreddation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2021.

Solution

Computation of depreciation and the WDV of different blocks of asset as on 31-03-2021 (amount in ₹):

Particulars	Block I (P&M) 15%	Block II (Computer) 40%
Opening WDV	20,00,000	Nil
Add: Assets acquired during the previous year (₹ 10,00,000 + car 8 lacs)	18,00,000	4,00,000
Less: Moneys payable in respect of assets sold during the year	Nil	Nil
WDV as on 31-3-2021 eligible for depreciation	38,00,000	4,00,000
Less: (a) Normal Depreciation - On car (₹ 8,00,000 x 7.5%, since used for less than 180 days and on WDV of P&M i.e. ₹ 30,00,000 x 15%) – On Computer (₹ 4,00,000 x 40% x 50%, since used for less than 180 days)	5,10,000	80,000
(b) Additional Depreciation - On plant (₹ 10,00,000 x 20%, since used for more than 180 days) [WN]	2,00,000	-
(c) Additional Depreciation - On plant (₹ 10,00,000 x 10%, since purchased in FY 2019-20 and put to use for less than 180 days) [WN]	1,00,000	-
WDV as on 1-4-2021	29,90,000	3,20,000

Working Notes:

- (1) In case of new machinery of ₹ 20,00,000, additional depreciation is calculated @ 20% of actual cost since the asset is acquired during the previous year and put to use for a period of not less than 180 days.
- (2) Since the computer is installed in office building, the same shall not be eligible for additional depreciation.
- (3) Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business for a period of less than 180 days in that previous year, and the additional depreciation in respect of such asset is restricted to 10% of the actual cost for that previous year, then, the deduction for the balance additional depreciation i.e. 10% of the actual cost of such asset shall be allowed in the immediately succeeding previous year in respect of such asset. Hence, on plant of ₹ 10,00,000 which was purchased in FY 2019-20 and put to use for less than 180 days in that year, the remaining additional depreciation @ 10% is allowed in FY 2020-21.

Question 10

Computation of depreciation and additional depreciation: Gopichand Industries furnishes you the following information:

	(amount in ₹)	
On 1-4-2020		
Block I: Plant and machinery (consisting of 10 looms) Rate of depreciation 15%	WDV	5,00,000
Block II; Buildings (consisting of 3 buildings) Rate of depreciation 10%	WDV	12,50,000
Acquired on 5-7-2020 - 5 looms for		4,00,000
Sold on 7-12-2020 -15 looms for		10,00,000
Acquired on 10-1-2021 - 2 looms for		3,00,000

Compute depreciation claim.

Solution Computation of depreciation claim (amount in ₹) -

Particulars	Block I (Plant)	Block II (Buildings)
Opening WDV	5,00,000	12,50,000
Add: Assets acquired during the previous year (₹ 4,00,000 + ₹ 3,00,000)	7,00,000	-
	12,00,000	12,50,000
Less: Moneys payable in respect of assets sold during the year	10,00,000	-
WDV as on 31-3-2021 eligible for depreciation	2,00,000	12,50,000
Less: (a) Normal Depreciation (₹ 2,00,000 x 7.5%, since used for less than 180 days)	15,000	1,25,000
(b) Additional Depreciation (₹ 3,00,000 x 10%, since used for less than 180 days)	30,000	-
[WN]		
WDV as on 1-4-2021	1,55,000	11,25,000

Working Note: In case if plant is acquired during the year and is sold in the same year then no additional depreciation on the same shall be admissible. Hence, no additional depreciation can be claimed on 5 looms which were sold in the year of acquisition. The balance additional depreciation amounting ₹ 30,000 will be allowed in the immediately succeeding previous year.

No additional depreciation is admissible on building.

Question 11

Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He always opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the assessment year 2021-22:

	(₹ in lacs)
(i) Opening WDV of block (15% rate)	42
(ii) New machinery purchased on 12-10-2020	10
(iii) Machinery imported from Colombo on 12-04-2020. This machine had been used only Colombo earlier and the assessee is the first user in India.	in 9
(iv) New computer installed in generation wing of the unit on 15-07-2020.	2

Solution Computation of depreciation

(amount in ₹)

Particulars	Block I (Plant) 15%	Block II (Computer)40%
Opening WDV	42,00,000	Nil
Add: Assets acquired during the previous year (₹ 10,00,000 + ₹ 9,00,000)	19,00,000	2,00,000
Less: Moneys payable in respect of assets sold during the year	Nil	Nil
WDV as on 31-3-2021 eligible for depreciation	61,00,000	2,00,000
Less: (a) Normal Depreciation - On plant (₹ 10,00,000 x 7.5%, since used for less than 180 days and balance WDV i.e. ₹ 51,00,000 x 15%)	8,40,000	
On Computer (₹ 2,00,000 x 40%)		80,000
(b) Additional Depreciation - On plant (₹ 10,00,000 x 10%, since used for less than 180 days) - On computers (₹ 2,00,000 x 20%) [WN]	1,00,000	40,000
WDV as on 1-4-2021	51,60,000	80,000

Working Notes:

- (1) No Additional depreciation shall be allowed in respect of Machinery imported from Colombo which before its installation by the assessee, was used by any other person.
- (2) In case of new machinery of ₹ 10,00,000, additional depreciation is calculated @ 10% of actual cost since the asset is acquired during the previous year and put to use for a period of less than 180 days. The

balance additional depreciation amounting ₹ 1,00,000 will be allowed in the immediately succeeding previous year.

- (3) Since the computer is installed in generation wing of the unit, the same shall be eligible for additional depreciation @ 20% i.e. ₹ 2,00,000 x 20% = ₹ 40,000.

Question 12

Determine the tax consequences in following cases for assessment year 2021-22

- (a) XYZ Co., an undertaking established in 2011 for generation and distribution of power, has opted for SLM method of depreciation. The written down value of its machinery as on 1-4-2020 was ₹ 6,60,000. The machinery is sold for ₹ 4,60,000 on 1-5-2020.
- (b) ABC Co., a power-generating unit (opted for SLM), has purchased machinery on 1-5-2020 for ₹ 10,00,000 which is destroyed by fire on 15-10-2020 and an insurance claim of ₹ 8,80,000 is received on 31-1-2021.
- (c) X A Co., an undertaking established in 2017 for generation of power, has opted for SLM method of depreciation. The company purchased a machinery for ₹ 5,00,000. The written down value of its machinery as on 1-4-2020 is ₹ 3,50,000. The machinery is sold for ₹ 7,65,000 on 1-12-2020.

Solution The tax consequences in aforesaid cases shall be as follows -

- (a) Here, monies payable is less than WDV, hence there shall be allowed deduction for terminal depreciation. Therefore, terminal Depreciation u/s 32(1) (iii) = ₹ 6,60,000 - ₹ 4,60,000 = ₹ 2,00,000.
- (b) Here, since machine is destroyed in the same previous year in which it is first put to use, hence there is no terminal depreciation. The amount of loss, to the extent not reimbursed by insurance company, shall be treated as Short- Term Capital Loss. Therefore, STCL = ₹ 10,00,000 - ₹ 8,80,000 = ₹ 1,20,000.
- (c) Here, monies payable is greater than WDV.

Therefore, Balancing Charge u/s 41(2) = [(Lower of ₹ 5,00,000 or ₹ 7,65,000) - ₹ 3,50,000] = ₹ 1,50,000; and Short-Term Capital Gains = ₹ 7,65,000 - ₹ 5,00,000 = ₹ 2,65,000.

Question 13

Expenditure on Scientific research: Mr. Praveen Kumar has furnished the following particulars relating to payments made towards scientific research for the year ended 31-3-2021:

		(₹ in lacs)
(i)	Payments made to K Research Ltd.	20
(ii)	Payment made to LMN College	15
(iii)	Payment made to OPQ College	10
	Note: K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.	
(iv)	Payment made to National Laboratory	8



(v)	Machinery purchased for in-house scientific research	25
(vi)	Salaries to research staff engaged in in-house scientific research	12

Compute the amount of deduction available under section 35.

Solution

Computation of deduction under section 35 of the Act (amount in ₹)

Particulars		Section	Qualifying Sum	% of Weight	Deduction
(i) Payments made to K Research Ltd .(approved company)	[WN-1]	35(l)(ia)	20,00,000	100%	20,00,000
(ii) Payment made to LMN College - approved institution		35(1) (ii)	15,00,000	100%	15,00,000
(iii) Payment made to OPQ College	[WN-2]	-	-	-	-
(iv) Payment to National Laboratory	[WN-3]	35(2AA)	8,00,000	100%	8,00,000
(v) Machinery purchased for in-house scientific research		35(1) (iv)	25,00,000	100%	25,00,000
(vi) Salaries to research staff engaged in in-house scientific research		35(l)(i)	12,00,000	100%	12,00,000
Total Deduction					80,00,000

Working Notes:

- Payments made to K research Ltd. an Indian company shall be eligible for deduction of 100% u/s 35(l)(ia).
- Since in the question it has been specifically provided that K Research Ltd. and LMN College are approved, hence it can be concluded that OPQ college is not an approved research institution. Therefore payment made to OPQ college shall not be eligible for deduction.
- Payment to National Laboratory is eligible for deduction under section 35(2AA) @ 100% of the sum so paid.

Question 14

Win Limited commenced the business of operating a three star hotel in Tirupati on 1-4-2020.

(i) Cost of land (acquired in June 2018)	₹ 60 lakhs
(ii) Cost of construction of hotel building:	
Financial year 2019-20	₹ 30 lakhs
Financial year 2020-21	₹ 150 lakhs
[Out of expenditure of ₹ 150 lakhs, ₹ 1,50,000 is paid in cash to contractor on 10-09-2020 and ₹ 50,000 is paid in cash of 15-01-2021 and balance through account payee cheque.]	
(iii) Plant and Machinery' (all new) acquired during financial year 2020-21	₹ 30 lakhs
[All the above expenditures were capitalized in the books of the company]	

Net profit before deduction of sec 35AD for the financial year 2020-21	₹ 80 lakhs
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Determine the amount eligible for deduction under section 35AD of the Income tax Act for assessment year 2021-22.

Solution

Computation of amount eligible for deduction u/s 35AD:

As per Section 35 AD in case an assessee is engaged in the business of operating a hotel of 2-star or above category (i.e., 3-star category) on or after 1-4-2010, it is eligible for deduction under section 35AD. Since Win Ltd. is engaged in the business of operating a hotel of 3-star category, hence, it is eligible for deduction under section 35AD. Deduction shall be allowed in respect of the capital expenditure incurred in the earlier years (i.e. years earlier than the previous year 2020-21, as the expenditure has been capitalized in the books of accounts in the current financial year; and the expenditure incurred in the previous year.

Any expenditure of capital nature shall not include any expenditure in respect of which the payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed, exceeds ₹ 10,000 or any expenditure incurred on the acquisition of any land or goodwill or financial instrument.

The relevant computations are (₹ in lakhs) -

Net profit before for the financial year 2020-21		80
Less: Deduction u/s 35AD		
Cost of construction of hotel building (₹ 148 + ₹ 30) (₹ 1.5 and ₹ 0.5 lakhs shall not be eligible for deduction since the same is paid in cash)	-178	
Plant and Machinery (all new) acquired during financial year 2020-21	-30	-208
Loss to be carried forward under section 73A for indefinite period (to be set-off only against business specified in section 35AD)		-128

Question 15

XYZ Ltd. commenced business of production of fertilizer on 1-4-2018. The company purchased plant and machinery for manufacture of the fertilizer amounting ₹ 100 lakhs for which deduction was claimed under Section 35AD. In financial year 2020-21 the said asset was used for non specified business; You are required to determine; the tax implications of the said transaction in hands of XYZ Ltd.

Solution

According to Section 35AD(7B), if any asset is used for any purpose other than the specified business, the total amount of deduction so claimed and allowed in any previous year in respect of such asset, as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction had been allowed under section 35AD, shall be deemed to be income of the assessee chargeable under

the head "Profits and gains of business or profession" of the previous year in which the asset is so used.

Hence, the relevant computation will be as under: (₹ in lakhs)

Total amount of deduction claimed and allowed in respect of such asset under Section 35AD		150
Less: Depreciation eligible under Section 32 in respect of such asset	[WN]	44.75
Deemed profits under Section 35AD		105.25

Working note

Actual Cost of asset		100
Less: Depreciation eligible under Section 32 (including additional depreciation) for FY 2018-19 (A)		35
WDV		65
Less: Depreciation eligible under Section 32 for FY 2019-20 (B)		9.75
WDV as on 01-04-2020		55.25
Deduction admissible on account of depreciation for FY 2018-19 and 2019-20 (A) +(B)		44.75

Question 16

Jardine Ltd. is an existing Indian Company, which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit (amounts in ₹)

Preparation of project report	4,00,000
Market Survey	5,00,000.
Legal and other charges for issue of additional capital required for the new unit	2,00,000
Total	11,00,000
The following further data is given:	
Cost of project	30,00,000
Capital employed in the new unit	40,00,000

What is the deduction admissible to the company under section 35D ?

What will be your answer if the above facts relate to Mr. Jardine, a resident in India ?

Solution

In case of Jardine Ltd.: In case of an Indian company, the preliminary expenditure qualifying for deduction cannot exceed higher of the following two limits, -

- (i) 5% of cost of project i.e. 5% of 30,00,000 i.e. ₹ 1,50,000, or
- (ii) 5% of capital employed i.e. 5% of 40,00,000 i.e. ₹ 2,00,000.

Therefore, the qualifying amount for deduction = ₹ 2,00,000, which shall be allowed in five equal annual instalments of ₹ 40,000 each beginning with previous year in which new industrial unit is set up.

In case of Mr. Jardine: It must be noted that the option of 5% of capital employed is available only in case of Indian company. Therefore, in case of Mr. Jardine, the qualifying amount of deduction = 5% of 30,00,000 i.e. ₹ 1,50,000, which shall be allowed in five equal annual installments of ₹ 30,000 each.

Question 17

X Co. Ltd. paid ₹ 120 lakhs as compensation as per approved Voluntary Retirement Scheme (vRS) during the financial year 2020-21. How much is deductible under section 35DDA for the assessment year 2021-22?

Solution

Deduction admissible under section 35DDA = 1/5 of ₹ 120 lakhs = ₹ 24 lakhs, deductible for the current year as well as four subsequent assessment years.

Question 18

Bad debt written off and allowed in the financial year 2017-18 of ₹ 50,000 recovered in the financial year 2020-21. Discuss its taxability.

Solution

The bad-debts recovered in the financial year 2020-21 shall be taxable since as per section 41(4), any amount recovered by the assessee against bad debt earlier allowed as deduction shall be taxed as income in the year in which it is received. Therefore, in this case, ₹ 50,000 would be taxable in the financial year 2020-21 (A.Y. 2021-22).

Question 19

X Ltd. pays a sum of ₹ 10,00,000 as commission to Y Inc. (a US company) on October 15, 2020. Tax is deductible under section 195 (read with Indo-US tax treaty) but it is not deducted by X Ltd. Y Inc. pays advance tax on the due dates on its income (including ₹ 10,00,000). Entire tax liability is paid by Y Inc. during the financial year 2020-21 by way of advance tax. Return of income of Y Inc. for the assessment year 2021-22 is submitted on September 20, 2021. X Ltd. has a certificate of this effect from a chartered accountant in the prescribed form. Discuss tax consequences in respect of the said transaction in hands of X Ltd.

Solution

In this case, X Ltd. has not deducted tax at source in the financial year 2020-21. By virtue of section 40(a)(i), the payment of ₹ 10,00,000 will be disallowed in computing the income for the assessment year 2021-22.

However, X Ltd. cannot be treated as an assessee-in-default under the amended provisions of first proviso to section 201(1), as the following conditions are satisfied —

- (a) Y Inc. has furnished its return of income under section 139
- (b) Y Inc. has taken into account the above income in such return of income
- (c) Y Inc. has paid the tax due on the income declared in such return of income, and
- (d) X Ltd. has a certificate to this effect from a chartered accountant in a prescribed form.

Under the amended provisions, it will be assumed that X Ltd. has deducted and paid tax on September 20, 2021. As a consequence, ₹ 10,00,000 will be allowed as deduction in the hands of X Ltd. for the financial year 2020-21 (i.e. assessment year 2021-22).

Question 20

Tax deducted at source on salary paid to employees not remitted till 'due date' of filing the return prescribed u/s 139. Is the expenditure to be disallowed u/s 40(a)(ia)?

Solution

Yes, 30% of the said expenditure shall not be allowed since Section 40(a)(ia) cover all the payments to residents including salary payments on which tax is liable to be deducted at source. Hence, non-payment of the TDS on salaries within the due date attracts disallowance u/s 40(a)(ia) and 30% of such salary shall be disallowed.

Question 21

State with reasons, the allowability of the following expenses incurred by: MN Limited, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing Profit & Gains from business or profession for the Assessment Year 2021-22.

- (a) Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.
- (b) Purchase of building for setting up a warehousing facility for storage of food grains amounting to ₹ 4,50,000.
- (c) Interest on loan paid to Mr. x (a resident) ₹ 50,000 on which tax has not been deducted.:
- (d) Commodity transaction tax paid ₹ 20,000 on sale of bullion.

Solution

- (a) According to Explanation 2 to Section 37(1), Any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to be an expenditure incurred by the assessee for the purposes of the business or profession. Hence, expenditure incurred on construction of school building in compliance with CSR activities amounting to ₹ 5,60,000 will not be allowed as deduction.
- (b) 100% of the expenditure incurred on purchase of building for setting up a warehousing facility for storage of food grains is eligible for deduction under Section 35AD. Hence, the company will be eligible for deduction of 100% of ₹ 4,50,000 in accordance with the provisions of Section 35AD.
- (c) According to Section 40(a)(ia) - 30% of any sum payable to a resident on which tax is deductible at source and such tax has not been deducted; or after such deduction, has not been paid on or before the due date of furnishing return of income specified under section 139(1) shall not be allowed as deduction. Hence, 30% of ₹ 50,000 = ₹ 15,000 shall not be allowed as deduction while computing Profits and Gains of Business or Profession.
- (d) According to Section 36(1)(xvi), Commodities transaction tax paid by the assessee in respect of the taxable commodities transactions entered into in the course of his business during the previous year, if the income

arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession" shall be allowed as deduction. Hence, commodity transaction tax paid ₹ 20,000 on sale of bullion shall be admissible as deduction.

Question 22

Following is the Profit and Loss account of Mr. A (amounts in ₹) -

To Repairs on building	1,30,000	By Gross profit	6,01,000
To Advertisement	51,000	By IT Refund	4,500
To Amount paid to Scientific Research Association approved u/s 35	1,00,000	By Interest from company deposits	6,400
To interest	1,10,000	By Dividends	3,600
To Traveling	1,30,000		
To Miscellaneous Expenditure	550		
To Net Profit	93,950		.
	6,15,500		6,15,500

Following additional information is furnished:

- Repairs on building includes ₹ 95,000 being cost of raising a compound wall for the own business premises.
- Interest payments include interest of ₹ 12,000 payable to a resident Indian on which tax has not been deducted and penalty of ₹ 24,000 for contravention of Goods and Services Tax Act.

Compute the income chargeable under the head 'Profits and gains of business or profession' of Mr. A ignoring depreciation.

Solution

Profits and gains of business or profession of Mr. A (amounts in ₹) -

Net profit as per Profit and Loss Account			93,950
Add: Expenses not allowable -			
Expenses on raising a compound wall	[WN-1]	95,000	
Penalty for contravention of CGST Act	[WN-2]	24,000	
Interest payable to a resident, as tax has not been deducted on the same ₹ 12,000 x 30%	[WN-5]	3,600	1,22,600
			2,16,550
Less: Income not forming part of business income -			
Interest from company deposits	[WN-3]	6,400	
I.T. Refund	[WN4]	4,500	
Dividend	[WN-6]	3,600	14,500
Profit and Gains of Business or Profession			2,02,050

Working Notes:

- (1) Expenses on raising a compound wall shall not be deductible as it is a capital expenditure.
- (2) Penalty paid for violation or infringement of any law is not allowable as deduction under section 37(1).
- (3) Interest from company deposits shall not form part of business income as it is taxable as Income from other sources.
- (4) I.T. Refund is not taxable, as it is not 'income'.
- (5) 30% of interest payable to a resident, as tax has not been deducted on the same shall not be allowed as deduction under section 40(a).
- (6) Dividend from shares of Indian Company is covered under IFOS

Question 23

Ram, who is 28 years of age, is a businessman in Delhi. On the basis of the following profit and loss account for the financial year 2020-21, compute his taxable income:

Particulars	₹	Particulars	₹
Opening stock	20,700	Sales	15,00,000
Purchases	10,00,000	Closing stock	25,200
Household expenses	10,000		
Income-tax for the financial year 2019-20	30,000		
Interest on capital	8,400		
Depreciation on furniture	12,000		
Reserve for bad debts	1,200		
Salaries and wages	60,000		
Rent and rates	25,000		
Net profit	3,57,900		
	15,25,200		15,25,200

Other relevant particulars are as follows:

- (i) Opening stock and closing stock have consistently been valued at 10% below cost price.
- (ii) Household expenses include a contribution of ₹ 1,500 towards public provident fund.
- (iii) Amount of depreciation on furniture as per income-tax provisions is ₹ 10,000

Solution

Computation of taxable income of Mr. Ram (amounts in ₹) -

Net profit as per Profit and Loss A/c		3,57,900
<i>Add: Expenses not allowable</i>		
Household expenses	10,000	
Income-tax for the financial year 2018-19	30,000	

Interest on capital	8,400	
Depreciation on furniture	12,000	
Reserve for bad debts	1,200	61,600
Add: Undervaluation of closing stock (₹ 25,200 x 1/9)		2,800
Less: Undervaluation of opening stock (₹ 20,700 x 1/9)		-2,300
Less: Allowable depreciation		-10,000
PGBP		4,10,000
Less: Deduction u/s 80C for contribution to PPF		1,500
Total income		408,500

Question 24

M/s. XYZ, a firm constituting partners X, Y and Z, is engaged in wholesale business of electronics and made following payments towards some purchases on 01-12-2020:

Party	Mode of payment	Amount (₹)	Fair Value (₹)
Raj Ltd.	Cash	80,000	10,000
PQR and Co.	Account payee cheque	65,000	65,000
Mr. Bansal (Bill No. 100)	Crossed cheque	15,000	8,000
Mr. Bansal (Bill No. 101)	Cash	5,000	8,000
Freight paid to Shiv Transporters	Cash	30,000	30,000

X holds 25% equity shares of Raj Ltd. Y's son Ram is 60% partner in PQR and Co. Mr. Bansal is father of Z. What amount will be disallowed as per Income-tax Act, 1961?

Solution Here, X and Y have substantial interest in Raj Ltd. and PQR and Co. respectively; and Mr. Bansal is a relative of Z. Thus, all the three parties are specified persons as per Section 40A(2). So, firstly, disallowance will be made as per Section 40A(2); and Section 40A(3) will apply to amount available after disallowance under section 40A(2).

The amount of disallowance will be computed as follows (amounts in ₹) -

Purchases from -	Disallowance u/s 40A(2) [Expenditure - Fair Value]	Disallowance u/s 40A(3) for cash payment exceeding ₹ 10,000	
Raj Ltd.	₹ 70,000 [₹ 80,000-₹ 10,000]	NIL	[WN-1]
PQR and Co.	Nil	NIL [Since payment is made through account payee cheque]	
Mr. Bansal	₹ 7,000 [₹ 15,000 - ₹ 8,000, for 1 st purchase]	₹ 13,000	[WN-2]
	Nil [for 2 nd purchase, as FMV is higher]		
Shiv Transporters	Nil	Nil	[WN-3]
Total	₹ 77,000	₹ 13,000	



Working Notes:

- (1) Since after disallowance under section 40A(2) of ₹ 70,000, remaining allowable expenditure is ₹ 10,000 since, the amount does not exceed ₹ 10,000 i.e. within the prescribed limit of Section 40A(3), disallowance under section 40A (3) is not attracted.
- (2) While individual bills do not exceed ₹ 10,000, but since cash payment made to Mr. Bansal on the day exceeds ₹ 10,000, hence, it will be disallowed.
- (3) Payment to goods transport agency in cash shall be allowed as deduction since maximum limit for cash payment in such case is ₹ 35,000.

Question 25

Discuss the tax implications of the following in the case of a doctor running a nursing home (amount in ₹):

(1) Amount paid to a scientific research association approved by the Central Government and run by a drug manufacturing company	20,000
(2) Payments made in cash towards purchases of medicines	50,000
(3) Amounts received from the employees of the nursing home as contributions towards Provident Fund for the month of March 2021, paid to the P.F. Commissioner on 25-4-2021.	25,000

Solution

Tax implications of the following in the case of a doctor running a nursing home (amounts in ₹) -

Cases		Deduction
(1) Amount paid to a scientific research association approved by the Central Government and run by a drug manufacturing company		20,000
(2) Payments made in cash towards purchases of medicines	[WN-1]	Nil
(3) Amounts received from the employees of the nursing home as contributions towards Provident Fund		Nil
	[WN-3]	

Working Notes:

- (1) Such cash payments are not allowable under section 40A(3) since the same exceeds ₹ 10,000.
- (2) The amount received will be first included in income of the assessee and then deduction shall be allowed under section 36(1) (va) if payment is made on or before due date of relevant fund i.e. 15-04-2021 + 5 days. In this case since payment was made on 25-04-2021 therefore no deduction shall be allowed under section 36(1)(va).

Question 26

X Ltd. follows mercantile system of accounting. After negotiations with the bank, interest of ₹ 4 lakhs (including interest of ₹ 1.2 lakhs) pertaining to year ended 31-03-2021 has been converted into loan. Can the interest of ₹ 1.2 lakhs so capitalized be claimed as business expenditure?

Solution

No, the said interest of 1.2 lakhs cannot be claimed as expenditure, since Section 43B specifically disallows the interest converted into loan, as it is not actually paid.

Question 27

An analysis of the profit and loss account and the balance sheet of Kapil as at 31st March, 2021 reveals that the following expenses which were due, were though debited to the profit and loss account, but have been paid after 31st March, 2021:

- (i) Goods and Services Tax: ₹ 50,000 (₹ 20,000 paid on 14th September, 2021; and ₹ 30,000 paid on 15th December, 2021).
- (ii) Customs duty: ₹ 1,20,000 (₹ 40,000 paid on 14th September, 2021; ₹ 40,000 paid on 15th December, 2021; and ₹ 40,000 paid on 24th December, 2021).
- (iii) Bonus to staff: ₹ 60,000 (₹ 58,000 paid on 10th September, 2021; & ₹ 2,000 paid on 15th December, 2021).
- (iv) Employer's contribution to provident fund: ₹ 55,000 (₹ 25,000 paid on 15th July, 2021; ₹ 10,000 paid on 30th September, 2021; and ₹ 20,000 paid on 15th December, 2021).
- (v) Interest on term loan from cooperative bank: ₹ 1,50,000 (₹ 1,20,000 paid on 14th July, 2021; and ₹ 30,000 paid on 15th December, 2021).

The due date for filing of return is 31st October 2021. In which previous years can the above payments be claimed as a deduction?

Solution The aforesaid amounts shall be deductible as follows -

Expenses	Amount of Expenditure	Date of payment	Amount of payment	Previous year in which deductible
Goods and Services Tax	50,000	14-09-2021	20,000	2020-21
		15-12-2021	30,000	2021-22
Customs duty	1,20,000	14-09-2021	40,000	2020-21
		15-12-2021	40,000	2021-22
		24-12-2021	40,000	2021-22
Bonus to staff	60,000	10-09-2021	58,000	2020-21
		15-12-2021	2,000	2021-22
Employer's contribution to PF	55,000	15-07-2021	25,000	2020-21
		30-09-2021	10,000	2020-21
		15-12-2021	20,000	2021-22
Interest on term loan from cooperative bank	1,50,000	14-07-2021	1,20,000	2020-21
		15-12-2021	30,000	2021-22



Question 28

Find out "full value of consideration" for the purpose of section 43CA in the cases given below—

Different cases	Stamp duty value (date of agreement)		Stamp duty value (date of registration)		Amount of consideration as per agreement	Date when first payment is received by seller by account-payee cheque/draft, etc.
	(₹)	Date	(₹)	Date		
Case 1	25,00,000	15-04-2020	35,00,000	30-04-2020	24,00,000	10-04-2020
Case 2	27,30,000	10-04-2020	35,00,000	30-04-2020	24,00,000	10-04-2020
Case 3	25,00,000	15-04-2020	35,00,000	30-05-2020	24,00,000	10-05-2020
Case 4	30,00,000	10-05-2020	31,50,000	30-05-2020	30,00,000	14-05-2020
Case 5	10,00,000	11-04-2020	10,70,000	29-04-2020	10,20,000	14-04-2020

Solution

Different cases	Amount of consideration as per agreement	Stamp duty value relevant for Section 43CA		110% of amount of consideration as per agreement	Full value of consideration under section 43CA [if Column 3 is more than Column 4, Column 3 value will be taken, otherwise section 43CA is not applicable]
		Date of agreement registration	Stamp duty value		
(1)		(2)	(3)	(4)	(5)
Case 1	24,00,000	Date of agreement	25,00,000	26,40,000	24,00,000
Case 2	24,00,000	Date of agreement	27,30,000	26,40,000	27,30,000
Case 3	24,00,000	Date of registration	35,00,000	26,40,000	35,00,000
Case 4	30,00,000	Date of registration	31,50,000	33,00,000	30,00,000
Case 5	10,20,000	Date of registration	10,70,000	11,22,000	10,20,000

Question 29

Mr. Ramesh, a property dealer, purchased a building on 15 July 2020 for a sum of ₹ 65 lakh. The said building was sold by him during the course of his business to his friend Mahesh, who is a dealer in cosmetic goods, for ₹ 90 lakh on 1-1-2021, when the stamp duty value was ₹ 185 lakh. The agreement was entered on the same day and the property was registered on the same day. Discuss tax implications in hands of Ramesh.

What would be your answer if the agreement was entered into on 1-7-2020 when the stamp duty value was ₹ 120 lakh. Mr. Ramesh had received a down payment of ₹ 15 lakh by cheque from Mahesh on the date of agreement. Will your answer change if the said sum of ₹ 15 lakhs has been received by cash instead of cheque.

Solution The tax implications in hands of Ramesh shall be as under -

Case I: In case the agreement is entered on the date of sale and property has been registered on the same day. The provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value on the date of registration of property and the stamp duty value exceeds 110% of the consideration.

Therefore, ₹ 120 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹ 185 lakh) and the purchase price (i.e. ₹ 65 lakh), would be chargeable as business income in the hands of Mr. Ramesh.

Case II: In case the agreement has been entered on 1-7-2020. In this case the stamp duty value on the date of agreement will be considered to compute business profits since, Mr. Ramesh had received a down payment of ₹ 15 lakh by cheque from Mahesh on the date of agreement and stamp duty does exceeds 110% of the consideration received or accruing as a result of the transfer. Therefore, ₹ 55 lakh, being the difference between the stamp duty value on the date of agreement (i.e. ₹ 120 lakh) and the purchase price (i.e. ₹ 65 lakh), would be chargeable as business income in the hands of Mr. Ramesh.

Yes, the answer will change in case if on the date of agreement cash has been received instead of cheque. In such case stamp duty value on the date of agreement shall not be considered but the stamp duty value on the date of registration of property shall be considered and the business profits shall be ₹ 120 lakhs.

Question 30

Vinod is a person carrying on profession as film artist. His gross receipt from profession are as under:

Financial Year 2018-19	₹ 1,15,000
Financial Year 2019-20	₹ 1,80,000
Financial Year 2020-21	₹ 2,10,000

What is his obligation regarding maintenance of books of accounts for each assessment year under Section 44AA of Income-tax Act, 1961?

Solution



Every person carrying on the profession of film artist shall keep and maintain specified books of account and other documents, if his gross receipts exceeds ₹ 1,50,000 in all of the three immediately preceding previous years, since Mr. Vinod is a film artist he is required to maintain specified books of account only if his gross receipts exceeds ₹ 1,50,000 in all of the 3 immediately preceding previous years.

Accordingly -

Financial year 2018-19	He is not required to maintain specified books of accounts.
Financial year 2019-20	He is not required to maintain specified books of accounts.
Financial year 2020-21	He is not required to maintain specified books of accounts.

However, as Vinod is carrying a specified profession, he is required to maintain minimum books of accounts.

Question 31

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 1,58,50,000 (out of which ₹ 1,00,00,000 is received through account payee cheque) for the financial year 2020-21. His income from the said business as per books of account is computed at ₹ 6,90,000. Retail trade is the only source of income for Mr. Praveen.

- (i) Is Mr. Praveen eligible to opt for presumptive determination of his income chargeable to tax?
- (ii) If so, determine his income from retail trade as per the applicable presumptive provision.
- (iii) In case, Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?
- (iv) What is the 'due date' for filing his return of income, under both the options?

Solution

Thus, the relevant answers are as follows -

- (i) Yes. Mr. Praveen is an individual and the turnover of his business is not more than ₹ 200 lakhs. Hence, Section 44AD applies to him and his income shall be computed as per section 44AD.
- (ii) His Income from retail trade under section 44AD = 6% of turnover of ₹ 1,00,00,000 + 8% of turnover of ₹ 58,50,000 = ₹ 10,68,000.
- (iii) In case he opts out of section 44AD and claim that his profits are only ₹ 6,90,000 (which is lower than presumptive income of ₹ 10,68,000), then he has to maintain requisite books of account as required in section 44AA and gets them audited under section 44AB.
- (iv) If he accepts presumptive income under section 44AD, then, the due date of return of income is 31-7-2021, for the assessment year 2021-22. However, if he decides that provision of said section is not made applicable then he will have to gets his accounts audited, then, the due date shall be 31-10-2021.

Question 32

Mr. Querashi is a business man. During the year ended 31-03-2021 he was engaged in the business of Hypermarket and Super Market. He maintains proper books of accounts for both businesses in mercantile system. Sales from Hypermarket achieved a turnover of ₹ 75 lakhs and all receipts were in cash. However, Supermarket business is through online and entire receipts of ₹ 50 lakhs during the year were received though online in his bank account. Tire expenses were incurred in the ratio 65:35.

Following additional information is furnished:

	₹
To Salary	10,00,000
To Repairs on building	1,81,000
To Interest	1,10,000
To Travelling	1,30,550
To Depreciation	8,12,000
Net profit	3,93,950

- In addition to the above, repairs of ₹ 1,00,000 was incurred for building a new room which was debited to P&L a/c.
- Depreciation as per Income-tax Act is ₹ 7,17,000.
- ₹ 75,000 was paid in cash on 30-09-2020 to Mrs. Ann, accountant for preparation of the accounts for the year ended 31-03-2020 and adjusted under the head "expenses payable" account.
- He was forced to shutdown his furniture business in the year 2017 as his accountant absconded with cash of ₹ 5 lakhs and fully allowed in that year. Unabsorbed business loss of furniture business is ₹ 3 lakhs. ₹ 4 lakhs was received as insurance compensation on 31-03-2021 for the cash theft.
- Mr. Querashi wants to declare income under "Presumptive income" basis.

Compute the income chargeable under the head profits and gains of business or profession of Mr. Querashi under Presumptive Income scheme u/s 44AD and his Total Income for the year ended 31-03-2021.

Solution

- As per Section 44AD, in case of an eligible assessee engaged in an eligible business -
 - a sum equal to 8% of the total turnover or gross receipts of the assessee in the previous year on account of such business (6% of the amount of total turnover or gross receipts which is received by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account during the previous year or before the due date specified in Section 139(1) in respect of that previous year); or
 - a sum higher than the aforesaid sum claimed to have been earned by the eligible assessee, shall be deemed to be the profits and gains of such business chargeable to tax under the head "Profits and gains of Business or Profession".

- (2) Any deduction allowable under the provisions of Sections 30 to 38 (including unabsorbed depreciation, unabsorbed capital expenditure on scientific research/ family planning) shall be deemed to have been already deducted and no further deduction under those sections shall be allowed.

Thus, His Presumptive Income under section MAD is as under = 8% of turnover of ₹ 75,00,000 + 6% of turnover of ₹ 50,00,000 = ₹ 900,000.

Particulars		₹	₹
Presumptive Income under Section 44AD			9,00,000
Furniture business Recovery against deduction taxable as business profits	[WN-1]	4,00,000	
Less: Unabsorbed business loss as per Section 41(5)	[WN-2]	3,00,000	1,00,000
Profits and Gains of Business and Profession/Total Income			10,00,000

In the question it is stated that Mr. Querashi "maintains proper books of accounts for both businesses in mercantile system". The income as per regular books of account has to be computed and if such income is more than the presumptive income computed under section MAD, the higher income can be declared under section MAD. Hence, income of Mr. Querashi for the assessment year 2021-22 as per books of account is computed below: (amount in ₹)

Income under the head Profits & Gains of Business and Profession			
Net profit as per Profit and Loss Account		3,93,950	
Add: Expenses not allowable -			
Depreciation debited in Profit and loss Account		8,12,000	
Cash payment in excess of ₹ 10,000 made in a day in the current year in respect of expenditure allowed on mercantile basis in the previous year, would be deemed as income in the current year		75,000	
Building construction expenditure debited to P & L A/c		1,00,000	13,80,950
Less: Expenses allowable under this head -			
Depreciation as per Income-tax Act, 1961		7,17,000	
Depreciation on building extension of a room @ 10%		10,000	7,27,000
Profits and gains of business computed as per books of account			6,53,950

Note: The assessee's total income from hypermarket and supermarket business computed as per books of account is less than the income computed under section 44AD. The question states that the assessee wants to declare income under presumptive provision i.e. section 44AD. Hence, the total income computation would include only the presumptive income computed under section 44AD for both hypermarket and supermarket businesses.

Computation of Total Income (amount in ₹):

Presumptive Income under Section 44AD			9,00,000
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Furniture business Recovery against deduction taxable as business profits	[WN-1]	4,00,000	
Less: Unabsorbed business loss as per Section 41(5)	[WN-2]	3,00,000	1,00,000
Profits and Gains of Business and Profession/Total Income			10,00,000

Working Note:

- (1) As per provisions of Section 41(1), recovery of any amount in respect of any loss which was earlier claimed as deduction is chargeable to tax under the head Profits and gains of business whether the business is in existence or not. Hence, ₹ 4,00,000 shall be treated as taxable profits.
- (2) As per Section 41(5), where the business or profession is no longer in existence; and there is income Chargeable to tax under section 41(1) in respect of that business or profession any loss, not being a loss sustained in speculation business, which arose in that business or profession during the previous year in which it ceased to exist and which could not be set off against any other income of that previous year shall be set off against such deemed profits to the extent of such profits. Thus, loss of ₹ 3,00,000 shall be set-off from such recovery of ₹ 4,00,000 and balance amount will be taxable.

Question 33

A partnership firm consisting of three partners X, Y, and Z is engaged in the profession of accountancy. Gross Receipts of the profession for the year ended 31st March, 2021 amounts to ₹ 48 lakh. Bad debts written off in the books are ₹ 75,000. Interest at 12% p.a. is provided to partner, Z on his capital of ₹ 6 lakh as authorized by the partnership deed.

The firm had business loss of ₹ 50,000 and unabsorbed depreciation of ₹ 1,50,000 carried forward from assessment year 2020-21. The firm opts for presumptive taxation under section 44ADA for assessment year 2021-22. Compute the Total income of the firm for assessment year 2021-22.

Solution

Computation of income of the firm chargeable under the head "Profits and Gains of business or profession"

(amount in ₹)

Presumptive income under section 44ADA (50% of ₹ 48 lakh)	[WN-1]	24,00,000
Less: Interest @ 12% to Z (12% of ₹ 6 lakh)	[WN-2]	Nil
Less: Brought forward loss under section 72	[WN-3]	50,000
PGBP/Total Income		23,50,000

Working Notes:

- (1) A partnership firm falls within the definition of "eligible assessee" under section 44ADA. In this case, since the gross receipts of the profession of the firm does not exceed ₹ 50 lakhs, and therefore, the firm is eligible to opt for presumptive taxation under section 44 ADA. Hence, 50% of the gross receipts would be deemed to be the Profits and Gains of Business or Profession of the firm.



- (2) As per Section 44ADA(2), all deductions allowable under sections 30 to 38 shall be deemed to have been allowed. Accordingly, no deduction shall be allowed for bad debts since the same is deductible under section 36(1)(vii) and unabsorbed depreciation since the same is deductible under section 32(2). No deduction shall be allowed for interest on capital paid to partners.
- (3) Further, business loss of P.Y. 2019-20 can be set-off against current year professional income as per Section 72.

Question 34

Kriti is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended 31st March, 2021 reads as follows:

Expenditure	₹	Income	₹	₹
Salary to staff	5,50,000	Fees earned:		
Stipend to articled assistants	37,000	Audit	17,88,000	
Incentive to articled assistants	3,000	Taxation services	5,40,300	
Office rent	24,000	Consultancy	2,70,000	25,98,300
Printing and stationery	22,000	Dividend on shares of Indian companies (Gross)		10,524
Meeting, seminar and conference	31,600	Income from units of mutual fund		7,600
Purchase of car	80,000	Honorarium received from various institutions for valuation of answer papers		15,800
Repair, maintenance and petrol of car	4,000	Rent received from residential flat let Out		85,600
Travelling expenses	35,000			
Municipal tax paid in respect of house Property	3,000			
Net Profit	19,28,224			
	27,17,824			27,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Incentives to articled assistants represent amount paid to two articled assistants for passing Inter Examination at first attempt.
- (in) Salary- include ₹ 15,000 to a computer specialist in cash on 15-07-2019 for assisting Ms. Kriti in one professional assignment.

On the basis of above information, determine whether Ms. Kriti should opt for presumptive basis taxation for computation of her Gross Total Income for assessment year 2021-22.

Solution

Computation of the Gross Total Income for the assessment year 2021-22.

➤ CASE I: When Ms. Kriti opt for the provisions of Section 44ADA:

Computation of gross total income

(amounts in ₹):

<u>Income from house property:</u>		
Actual Rent Received [Being Gross Annual Value u/s 23(1)]	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Standard deduction u/s 24 @ 30% of NAV	24,780	57,820
<u>Income under the head Profits & Gains of Business and Profession</u>		
50% of the Gross receipts i.e. 50% of ₹ 25,98,300 is deemed profits from profession under Section 44ADA		12,99,150
<u>Income from other sources:</u>		
Dividends from Indian companies	10,524	
Income from Unit Trust of India. [The same is exempt u/s 10(35)] Assumed units issued before 1-4-2020	Exempt	
Honorarium for valuation of answer papers	15,800	26,324
Gross Total Income		13,83,294

➤ CASE II: When income is computed as per normal provisions of the Act.

Computation of gross total income

(amounts in ₹):

<u>Income from house property:</u>		
Actual Rent Received [Being Gross Annual Value u/s 23(1)]	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Standard deduction u/s 24 @ 30% of NAV	24,780	57,820
<u>Income under the head Profits & Gains of Business and Profession</u>		
Net profit as per Income and Expenditure Account	19,28,224	
Add: Expenses debited but not allowable -		
Municipal Taxes of house property in respect of residential flat let out	3,000	
Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment is in excess of ₹ 10,000	15,000	
Amount paid for purchase of car is not allowable u/s 37(1) since it is a capital Expenditure	80,000	
Less: Income credited but not taxable under this head -		
Dividend on shares of Indian Companies [The same is exempt u/s 10(34)]	10,524	



Income from Unit Trust of India [The same is exempt u/s 10(35)]		7,600	
Honorarium for valuation of answer papers [The same is taxable under the head 'Income from other sources']		15,800	
Rent received from residential flat let out [The same is taxable under the 'Income from house property']		85,600	
Depreciation on Motor Car @15%	[WN]	12,000	18,94,700
<u>Income from other sources:</u>			
Dividends from Indian companies		10524	
Income from Unit Trust of India. [The same is exempt u/s 10(35)]		Exempt	
Honorarium for valuation of answer papers		15,800	26,324
Gross Total Income			19,78,844

Working Note: It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(I)(ii).

Conclusion: The assessee should opt for the provisions of Section 44ADA since her income from profession as per the said section is ₹ 12,99,150 which is less than actual income of ₹ 18,94,700.

Question 35

Income from plying goods carriages: Mr. X commenced tire business of operating goods vehicles on 1-4-2020. He purchased the following vehicles during the previous year 2020-21. Compute Iris income under section 44AE for assessment year 2021-22.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10-04-2020
(2)	6,500	1	15-03-2021
(3)	10,000	3	16-07-2020
(4)	11,000	1	02-01-2021
(5)	15,000	2	29-08-2020
(6)	15,000	1	23-02-2021

Would your answer change if the goods vehicles purchased in April, 2020 were put to use only in July, 2020?

Solution Since Mr. X does not own more than 10 vehicles at any time during the previous year 2020-21, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

Type of Carriage	Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months x No. of vehicles	Deemed income per month	Amount (₹)
	2	29-08-2020	8	16	15,000	2,40,000
For Heavy goods vehicle	1	23-02-2021	2	2	15,000	30,000
	2	10-04-2020	12	24	7,500	1,80,000
For goods vehicle other than heavy goods vehicle	1	15-03-2021	1	1	7,500	7,500
	3	16-07-2020	9	27	7,500	2,02,500
	1	02-01-2021	3	3	7,500	22,500
Profits from the business referred to u/s 44AE						6,82,500

The answer would remain the same even if the two vehicles purchased in April, 2020 were put to use only in July, 2020, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Question 36

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April 2020, he owns 10 trucks (out of which 6 are medium goods vehicles and 4 are light goods vehicles). On 2nd May 2020, he sold one of the medium goods vehicles and purchased a light goods vehicle on 6th May 2020. This new vehicle could however be put to use only on 15th June 2020.

Compute the total income of Mr. Sukhvinder, taking note of the following data (amount in ₹)

Freight charges collected		12,70,000
Less: Operational expenses	6,25,000	
Depreciation as per section 32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000
Other business and non-business income		70,000

Solution

In this case provisions of Section 44AE applies since assessee does not own more than 10 goods carriages at any time during the previous year.



Computation of total income of Mr. Sukhvinder

(amounts in ₹)

Particulars	Presumptive income	Where books are maintained
Income from plying goods carriages [WN]	9,07,500	4,45,000
Other income	70,000	70,000
Total income	9,77,500	5,15,000

Since income as per books of accounts is lower than presumptive income computed under section 44AE, hence, Mr. Sukhvinder should keep and maintain books and get his accounts audited and his total income shall be ₹ 5,15,000.

Working Note: Calculation of presumptive income as per section 44AE

(amounts in ₹)

Type of Carriage	No. of goods carriages	Period during which trucks owned	Months	Deemed income per month	Amount (₹)
Light Goods Vehicles	4	01-04-2020 to 31-03-2021	12	7,500	3,60,000
	1	06-05-2020 to 31-03-2021	11	7,500	82,500
Medium Goods Vehicle	5	01-04-2020 to 31-03-2021	12	7,500	4,50,000
	1	01-04-2020 to 02-05-2021	2	7,500	15,000
Total					9,07,500

Question 37

Ramamurthy had 4 light goods vehicles as on 1-4-2020. He acquired 7 light goods vehicles on 27-6-2020. He sold 2 light goods vehicles on 31-5-2020. He has brought forward business loss of ₹ 50,000 relating to A.Y. 2017-18 of a discontinued business. Assuming that he opts for presumptive taxation of income as per section 44AE, compute his total income chargeable to tax.

Solution

In this case, section 44AE shall apply because Ramamurthy didn't have more than 10 vehicles at any time during the previous year.

The relevant computations are -

No. of light Goods Vehicle	Period during which owned	No. of months	Rate p.m.	(₹)
2	01-04-2020 to 31-03-2021	12	7,500	1,80,000
2	01-04-2020 to 31-05-2020	2	7,500	30,000

7	27-06-2020 to 31-03-2021	10	7,500	5,25,000
Profits from the business referred to u/s 44AE				7,35,000
Less: Set-off of the brought forward business loss				50,000
Total Income				6,85,000

As per provision of Section 44AE, the computed income is profits and gains of business or profession. Hence, the assessee will be entitled to set off other business loss from such presumptive income.

Question 38

Mr. R furnishes you the following information for the year-ended 31-3-2021 (amounts in ₹):

(i) Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)	5,10,000
(ii) Income from retail trade of garments (computed as per books) (Sales turnover ₹ 41,70,000)	2,00,000
(iii) Brought forward depreciation relating to assessment year 2020-21	1,20,000
(iv) Amount deposited into PPF Account on 06-04-2021	1,00,000

Compute taxable income of Mr. R and his tax liability if sale proceeds of garments is received through account payee cheque.

Solution If Mr. R opts for presumptive taxation under section 44AD and 44AE, then, any deduction allowable under the provisions of Sections 30 to 38 (including unabsorbed depreciation, unabsorbed capital expenditure on scientific research/ family planning) shall be deemed to have been already deducted and no further deduction under those sections shall be allowed. The relevant computation is as under:

Computation of taxable income of R and his tax liability (amounts in ₹) -

Particulars	Presumptive taxation	Income as per books
Income from plying of vehicles (₹ 7,500 x 12 x 5)	4,50,000	5,10,000
Income from retail trade business (6% of ₹ 41,70,000) (Since sale proceeds are received through account payee cheque)	2,50,200	2,00,000
	7,00,200	7,10,000
Less: Unabsorbed depreciation	-	1,20,000
Gross total income	7,00,200	5,90,000
Gross total income	[WN-1]	5,90,000
Less: Deduction u/s 80C in respect of PPF	[WN-2]	Nil
Taxable income		5,90,000
Income tax on total income		30,500
Add: HEC @ 4%		1,220
Tax liability (rounded off)		31,720



Working Notes:

- (1) Since total income as per books of accounts is lower than presumptive income under section 44AD and Section 44AE, therefore, Mr. R should claim his income as per books and get his such books of accounts audited.
- (2) Deduction in respect of PPF is not allowable as it is not paid upto 31-3-2021.

Question 39

Mr. Rameshwar is registered Medical practitioner. He keeps his book on cash basis and his summarised cash account for year ended 31st March 2021 is as under (amounts in ₹):

To Balance b/ d	2,700	By Costs of medicines	20,000
To Loan from Bank	6,000	By Surgical equipment	6,000
To Sale of medicines	30,500	By Motor car purchased	12,000
To Consultation fees	50,10,000	By Car expenses	1,800
To Visiting fees	8,000	By Salaries	48,01,200
To Interest on investments	9,000	By Rent on dispensary	1,200
To Dividend on shares	7,200	By General expenses	600
To Sale of building	15,000	By Personal expenses	3,600
To Sale of furniture	5,000	By Life insurance premium	2,000
		By interest on bank loan for investment	360
		By Insurance of personal property	400
		By Fixed Deposit in Bank	30,000
		By Balance c/d	. 2,14,240
	50,93,400		50,93,400

Compute his Income from profession taking into account the following further information:

- (1) 1/3rd of the motorcar expenses is in respect of his personal use.
- (2) The original cost of the building was ₹ 20,000 and written down value of furniture as on 1st April 2020 was ₹ 4,000. There was no other asset in this block.
- (3) The rate of depreciation on motorcar and on surgical equipments is 15%. An old car was purchased in May 2020 while the surgical equipments were purchased in December 2020.
- (4) Outstanding consultancy fees and outstanding salaries are ₹ 20,000 and ₹ 1,000 respectively. Further, medicines valuing ₹ 5,000 were sold to Mr. Babu on credit.

Solution

Computation of taxable income from profession (amounts in ₹) -

Gross Receipts: Sale of medicines	30,500	
Consultation fees	50,10,000	

Visiting fees	8,000	50,48,500
Less: Allowable expenses viz. cost of medicines	20,000	
Car expenses (₹ 1,800 x 2/3)	1,200	
Salaries	48,01,200	
Rent of dispensary	1,200	
General Expenses	600	
Allowable Depreciation Motor car (₹ 12,000 x 15%) x 2/3	1,200	
Surgical equipment (7.5% x ₹ 6,000)	450	48,25,850
Income from profession		2,22,650

Note: Since the assessee maintains accounts as per cash basis, therefore, outstanding consultancy fees, outstanding salaries and sale of medicines on credit will not be considered.

Question 40

Mr. X, a retail trader of Cochin gives the following Trading & Profit and Loss A/c for the year ended 31-3-2021

(amounts in ₹):

To Opening Stock	90,000	By Sales	12,11,500
To Purchases	10,04,000	By Income from UTI	2,400
To Gross Profits	3,06,000	By Other Business receipts	6,100
		By Closing Stock	1,80,000
	14,00,000		14,00,000
To Salary	60,000	Gross Profit B/ d	3,06,000
To Rent and Rates	36,000		
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing and Stationery	13,200		
To Postage and Telegram	1,640		
To Loss on Sale of Shares (short-term)	8,100		
To Other General Expenses	7,060		
To Net Profit	60,000		
	3,06,000		3,06,000

Additional Information:

- It was found, some stocks were omitted to be included in both the Opening and Closing stock, the values of which were: Opening stock - ₹ 9,000, and Closing stock - ₹ 18,000.
- Salary includes ₹ 10,000 paid to Iris brother, which is unreasonable to the extent of ₹ 2,000.
- The whole amount of Printing and Stationery was paid in cash.
- The Depreciation provided in Profit & Loss A/c ₹ 1,05,000 was based on following information:



The WDV of Plant & Machinery is ₹ 4,20,000. A new Plant falling under same Block of depreciation of 15% was bought on 1-7-2020 for ₹ 70,000. Two old plants were sold on 1-10-2020 for ₹ 50,000.

- (e) Rent and Rates includes Goods and Services Tax liability of ₹ 3,400 paid on 7-4-2021.
 (f) Other Business receipts include ₹ 2,200 received as refund of Goods and Services Tax relating to 2019-20.
 (g) Other General Expenses include ₹ 2,000 paid as Donation to a Public Charitable Trust.
 (h) Sale proceeds are received through account payee cheque.
 Advise Mr. x whether he can offer his business income under section 44AD i.e. presumptive taxation

Solution

(A) Business income if Mr. x does not opt for presumptive income scheme (amounts in ₹) -

Net profit as per Profit and Loss account				60,000
Add:	Closing stock not included		18,000	
(a)				
(b)	Excess salary paid to brother	[WN1]	2,000	
(c)	Whole of printing and stationery expenses paid in cash	[WN2]	13,200	
(d)	Depreciation		1,05,000	
(e)	Donations		2,000	
(f)	Loss on shares		8,100	1,48,300
				2,08,300
Less:	Opening stock not included		9,000	
(a)				
(b)	Allowable depreciation	[WN-3]	66,000	
(c)	Income from UTI	[WN 4]	2,400	77,400
Income from business				1,30,900

Working Note:

- (1) Salary paid to his brother, which is unreasonable to the extent of ₹ 2,000 shall not be allowed as deduction in accordance with Section 40A(2).
 (2) Since the whole amount of Printing and Stationery was paid in cash which exceeds ₹ 10,000 whole of such expenditure shall be disallowed in accordance with Section 40A(3).
 (3) Computation of allowable depreciation (amount in ₹):

Opening WDV of plant and machinery	4,20,000
Add: Actual cost of plant acquired on 01-07-2020	70,000
Less: Sale proceeds of plant	-50,000
WDV as on 31-03-2021	4,40,000

Depreciation @15%	66,000
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(4) Income from units of UTI is exempt from tax under section 10(35).

(5) Goods and Services Tax refund is taxable, as it would have been allowed as deduction earlier.

(B) Business income if he opts for presumptive income scheme u/s 44AD: Deemed income as per Section 44AD = 6% of Turnover (since sale proceeds are received through account payee cheque) i.e. 6% of ₹ 12,11,500 = ₹ 72,690.

Conclusion: Since income as per Section 44AD works out to be lower than income as per normal provisions, the assessee should opt for presumptive taxation under Section 44AD.

Question 41

Alpha Ltd. a manufacturing company, which maintains accounts under mercantile system, has disclosed a net profit of ₹ 12.50 lakhs. You are required to compute the taxable income of the company after considering the following information, duly explaining the reasons for each item of adjustment -

- Advertisement expenditure includes the sum of ₹ 60,000 paid in cash to the sister concern of a director, the market value of which is ₹ 52,000.
- Corporate social responsibility expenditure in accordance with Section 135 of Companies Act, 2013: ₹ 1,00,000.
- Legal charges include a sum of ₹ 45,000 paid to a consultant for framing a scheme of amalgamation duly approved by the Central Government.
- Repairs of plant and machinery include ₹ 1.80 lakhs towards replacement of worn out parts.
- A sum of ₹ 6,000 on account of liability foregone by a creditor has been taken to general reserve. The same was charged to the Revenue Account in the assessment year 2010-11.
- ₹ 1,00,000 is paid on account of directors fees to a resident director on which tax has not been deducted at source under Section 194J.
- Sale proceeds of import entitlements amounting to ₹ 1 lakh has been credited to Profit and Loss A/c, which company claims as capital receipt not chargeable to Income tax.
- Being also engaged in the biotechnology business, the company incurred the following expenditure on in- house research and development as approved by prescribed authority, -
 - Research equipments purchased ₹ 1,50,000
 - Remuneration paid to scientists ₹ 50,000

The Total amount of ₹ 2,00,000 is debited to Profit and Loss A/c.

Solution Computation of Taxable Income of Alpha Ltd.

(amounts in ₹)

Net Profit as per Profit and Loss Account			12,50,000
Add: Expenses disallowed or considered separately —			
Excessive payment to relatives [₹ 60,000 - ₹ 52,000]	[WN-1]	8,000	



Cash payment of advertisement expenditure	[WN-2]	52,000	
Legal expenses		45,000	
Corporate Social Responsibility Expenditure	[WN-5]	1,00,000	
Director fees	[WN-6]	30,000	2,35,000
			14,85,000
Add: Amount foregone by the creditor - Taxable u/s 41(1)			6,000
			14,91,000
Less: Admissible expenditure -			
1/5 th of amalgamation expenditure of ₹ 45,000 u/s 35DD		9,000	9,000
Taxable Income			14,82,000

Working Notes:

- (1) Excessive Advertisement expenditure of ₹ 8,000 paid to the sister concern of a director shall be disallowed under section 40A(2).
- (2) Remaining advertisement expenses paid in cash exceeds ₹ 10,000 whole of such expenditure shall be disallowed.
- (3) Expenditure on replacement of worn out part of machinery is revenue expenses. Since the same is included in Repairs, no adjustment is required.
- (4) Sale of import entitlements being export incentives is chargeable as business income under section 28(iiiia). Since the same is already credited to profit and loss account, no adjustment is required.
- (5) According to Explanation 2 to Section 37(1), any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to be an expenditure incurred by the assessee for the purposes of the business or profession.
- (6) According to Section 40(a) (ia), in case tax has not been deducted at source in respect of any expenditure for which payment is made to resident, 30% of such expenditure shall be disallowed.

Question 42

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31-03-2021

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	32,00,000
To Purchases of Raw materials	16,99,000		
To Manufacturing Wages .& Expenses	5,70,000	By Closing stock	2,00,000
To Gross Profit	10,60,000		
	34,00,000		34,00,000
To Administrative Charges	3,26,000	By Gross Profit	10,60,000

To GST penalty paid	5,000	By Dividend from domestic companies	15,000
To GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the financial year 2020-21:

- Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.
- Tire assessee paid ₹ 33,000 in cash to a transport carrier on 29-12-2020. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment.)
- Amount of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- Bank term loan interest actually paid upto 31-03-2021 was ₹ 20,000 and the balance was paid in October 2021.
- Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property occupied by him. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the Profit and Loss Account given above.
- Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate @ 15%)	₹
Opening WDV (as on 01-04-2020)	12,00,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000
Note: Ignore additional depreciation u/s 32(1)(iia)	

Compute the total income of Mr. Raju for the assessment year 2021-22.

Note: Ignore application of Section 14A for disallowance of expenditures in respect of any exempt income.

Solution

Computation of Total Income of Mr. Raju

(amount in ₹)

<u>Income from house property:</u>		
Annual value of self-occupied property	Nil	
Less: Deduction under section 24(b) - Interest on housing loan	23,000	(23,000)
<u>Profits and gains of business or profession:</u>		
Net profits as per P & L A/c	5,00,000	



Add: Excess commission paid to brother disallowed under section 40A(2)		10,000	
Salary paid to staff not recorded in the books	[WN-1]	48,000	
Bank term loan interest paid in October 2020	[WN-2]	40,000	
GST penalty paid disallowed	[WN-3]	5,000	
Depreciation debited to profit and loss account		2,00,000	
		8,03,000	
Less: Dividend from domestic companies		(15,000)	
Income from agriculture [Exempt u/s 10(1)]		(1,80,000)	
Depreciation under the Income-tax Act, 1961	[WN-4]	(2,25,000)	3,83,000
<u>Income from house property:</u>			
Dividend from domestic companies			15,000
Gross Total Income			3,75,000
Less: Deduction u/s 80C in respect of Principal repayment of housing loan			50,000
Total Income			3,25,000

Working Notes:

- (1) Assuming that the salary paid to staff is in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C. Further, no deduction shall be allowable in respect of such expenditure.
Alternate view: It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same should not be added back as unexplained expenditure under section 69C of the Act, but would be allowable as deduction while computing profits and gains of business and profession.
 - (2) Bank term loan interest paid after the due date of filing of return under section 139(1) shall be disallowed as per Section 43B. It is assumed that the interest doesn't relate to the period before the machinery is first put to use, hence, the same is a revenue expenditure. Thus, amount to be disallowed = ₹ 60,000 - ₹ 20,000 = ₹ 40,000.
 - (3) Where the imposition of penalty is not for delay in payment of Goods and Services Tax but for contravention of provisions of the Goods and Services Tax Act, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.
- Since the question only mentions "GST penalty paid" and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. However, it may also be assumed that such levy is compensatory in nature and hence, allowable as deduction, in which case the answer would change.
- (4) Depreciation as per Income-tax Act, 1961 -

Plant & Machinery (Depreciation rate @ 15%)	₹
Opening WDV (as on 01-04-2020)	12,00,000
Add: Additions during the year (used for more than 180 days)	2,00,000
Add: Additions during the year (used for less than 180 days)	2,00,000
WDV (as on 31-03-2021)	16,00,000
Deprecation @ 15% (₹ 12,00,000 + ₹ 2,00,000)	2,10,000
Deprecation @ 7.5% (₹ 2,00,000)	15,000
Total allowable depreciation	2,25,000

(5) Payment made to transporter is not disallowed under section 40A(3) since the limit for cash payment in case of transporters is ₹ 35,000. Hence, it is fully allowable as deduction.

Question 43

Ramji Ltd., engaged in manufacture of medicines (pharmaceuticals) furnishes the following information for the year ended 31-03-2021:

- (i) Municipal tax relating to office building ₹ 51,000 not paid till 31-10-2021.
- (ii) Patent acquired for ₹ 20,00,000 on 01-09-2020 and used from the same month.
- (iii) Capital expenditure on scientific research ₹ 10,00,000 which includes cost of land ₹ 2,00,000.
- (iv) Amount due from customer x outstanding for more than 3 years written off as bad debt in the books ₹ 5,00,000.
- (v) Income tax paid ₹ 90,000 by the company in respect of non-monetary perquisites provided to its employees.
- (vi) Provident fund contribution of employees ₹ 5,50,000 remitted in July 2021.
- (vii) Expenditure towards advertisement in souvenir of a political party ₹ 1,50,000.
- (viii) Refund of Goods and Services Tax ₹ 75,000 received during the year, which was claimed as expenditure in an earlier year.

State with reasons the taxability or deductibility of the items given above under Income-tax Act, 1961.

Note: Computation of total income is not required.

Solution The treatment is as under -

- (i) As per Section 43B, municipal tax is not deductible for assessment year 2021-22 since it is not paid on or before 31-10-2021, being the due date of filing the return for assessment year 2021-22.
- (ii) Patent is an intangible asset eligible for depreciation @25%. Since, it has been acquired and put to use for more than 180 days during the previous year 2020-21, full depreciation of ₹ 5,00,000 (i.e. 25% of ₹ 20,00,000) is allowable as deduction under section 32.
- (iii) Deduction of @ 100% is available under section 35(2AB) in respect of expenditure incurred by a company on scientific research on in-house research and development facility as approved by the prescribed authority. However, cost of land is not eligible for deduction.

Deduction under section 35(2AB) = 100% of ₹ 8 lakhs = ₹ 8,00,000.

- (iv) Bad debts i.e. ₹ 5,00,000 written off in the books of account as irrecoverable is deductible under section 36(1)(vii), provided the debt has been taken into account in computing the income of the company in the current previous year or any of the earlier previous years.
- (v) As per Section 40 (a) (v), income-tax of ₹ 90,000 paid by the company in respect of non-monetary perquisites provided to its employees, exempt in the employee's hands under section 10(10CC), is not deductible while computing business income of the employer-company.
- (vi) The employees' contribution to provident fund is taxable in the hands of the company since it is included in the definition of income under section 2(24) (x). As per section 36(1)(va), provident fund contribution of employees is deductible only if such sum is credited to the employee's provident fund account on or before the due date under the Employees' Provident Fund and Miscellaneous Provisions Act, 1952. In this case, since it is remitted after the due date under the said Act, it is not deductible.
- (vii) Expenditure towards advertisement in souvenir of a political party is disallowed under section 37(2B) while computing business income. However, the same is deductible under section 80GGB from gross total income.
- (viii) Refund of a trading liability is taxable under section 41(1), if a deduction was allowed in respect of the same to the taxpayer in an earlier year. Since Goods and Services Tax was claimed as expenditure in an earlier year, refund of the same during the year would attract the provisions of Section 41(1).

Question 44

Mr. Tony had estates in Rubber, Tea and Coffee. He derives income from them. He has also a nursery wherein he grows plants and sells. For the previous year ending 31-3-2021, he furnishes the following particulars of his sources of income from estates and sale of plants (amounts in ₹)-

(a)	Manufacture of Rubber	5,00,000
(b)	Manufacture of Coffee grown and cured	3,50,000
(c)	Manufacture of Tea	7,00,000
(d)	Sale of plants from nursery	1,00,000

You are requested to compute the taxable income.

Solution Computation of taxable income of Tony

(amount in ₹)

Particulars	Business income	Agricultural income
Income from growing and manufacturing rubber (Rule 7A) - 35% : 65%	1,75,000	3,25,000
Income from growing and curing coffee (Rule 7B) -25%: 75%	87,500	2,62,500
Income from growing and manufacturing tea (Rule 8) - 40%: 60%	2,80,000	4,20,000
Sale of plants from nursery (It is an agricultural income)	Nil	1,00,000
Total	5,42,500	11,07,500

Hence, total income of Mr. Tony = ₹ 5,42,500.

Question 45

Miss. Kavita, a resident and ordinarily resident in India, has derived the following income for the year ended 31-3-2021:

		₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling	1,00,000
(ii)	Income from sale of coffee grown and cured in Yereaud, Tamil Nadu	2,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo. Sale consideration was received in Chennai.	5,00,000
(iv)	Income from sale of tea grown and manufactured in Shimla	10,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land	2,00,000

You are required to compute the business income and agricultural income of Miss. Kavita for the Assessment Year 2021-22.

Solution Computation of taxable income of Miss Kavita (amounts in ₹) -

Particulars		Business Income	Agricultural Income
Income from growing & manufacturing rubber in India (Rule 7A) - 35%: 65%		35,000	65,000
Income from growing and curing coffee in India (Rule 7B) -25%: 75%		50,000	1,50,000
Income from growing/curing/roasting etc. coffee out of India in Colombo (Sri Lanka)	[WN-1]	5,00,000	-
Income from growing and manufacturing tea in India (Rule 8) - 40%: 60%		4,00,000	6,00,000
Income from sapling and seedling grown in a nursery	[WN-2]	-	2,00,000
Total		9,85,000	10,15,000

Working Note:

- (1) Income from a land situated outside India is Non-Agricultural Income. Since the operations have taken place outside India, hence, no part of such income can be regarded as agricultural income (Rule 7B will not apply). Since Miss Kavita is resident in India, hence, this income will be taxed in India.
- (2) Income from sapling and seedling grown in a nursery is deemed agricultural income even if no basic operations have been carried out.

Question 46

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) Coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31-3-2021 are given below:

	₹
WDV of Car as on 01-04-2020	3,00,000
WDV of machinery as on 31-03-2020 (15% rate)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing Coffee	3,00,000
Sale value of cured Coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are ₹ 50,000. The machines were used in coffee curing business operations. Compute the income arising from the above activities for the assessment year 2021-22. Show the WDV of the assets as on 31-03-2021.

Solution Computation of income from partly agricultural and partly business activities: Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962.

As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income (amount in ₹) -

Sale value of cured coffee		22,00,000
Less: Expenditure incurred for growing coffee	3,10,000	
Expenditure incurred for curing coffee	3,00,000	
Expenditure on running and maintenance of car [₹ 50,000 x 80%] - Balance 20% pertaining to personal use, not allowed as deduction	40,000	
Depreciation on machinery	2,25,000	
Depreciation on car	36,000	9,11,000
Income from coffee business (before disintegration)		12,89,000
Agricultural Income @75%		9,66,750
Business Income @25%		3,22,250
Computation of WDV of assets as on 31-3-2021:	Car	Machine
WDV as on 01-04-2020	3,00,000	15,00,000
Less: Depreciation @ 15% (In case of car, only 80% will be deducted) (See Note)	-36,000	-2,25,000
Depreciated WDV as on 31-3-2021	2,64,000	12,75,000

Note:

- (1) Explanation 7 has been inserted in section 43(6) to provide that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.
- (2) It has been assumed that the written down value of machinery as on 31-3-2020 i.e., ₹ 15 lakhs given in the question represents the closing balance after providing depreciation for the previous year 2019-20. It is also possible to assume that the written down value of ₹ 15 lakhs as on 31-3-2020 represents the written down value on which depreciation has to be charged for the previous year 2019-20 and answer will be modified accordingly.

Question 47

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2020-21. Compute his tax liability.

(1) Income from salary (Computed)	-	₹ 3,80,000
(2) Income from house property (computed)	-	₹ 2,00,000
(3) Agricultural income from a land in Jaipur	-	₹ 2,80,000
(4) Expenses incurred for earning agricultural income	-	₹ 1,70,000

Solution Computation of total income of Mr. x for the A.Y. 2021-22 (amount in ₹)

Income from salary (Computed)			3,80,000
Income from house property			2,00,000
Net agricultural income [₹ 2,80,000 - ₹ 1,70,000]		1,10,000	
Less: Exempt under section 10(1)		-1,10,000	-
Gross Total Income			5,80,000
Less: Deductions under Chapter VI-A			-
Total Income			5,80,000

Computation of tax payable by Mr. x (amounts in ₹):

Tax on business income including agricultural income (₹ 5,80,000 + ₹ 1,10,000)	50,500
Less: Tax on agricultural income + basic exemption (₹ 1,10,000 + ₹ 2,50,000)	5,500
Tax payable	45,000
Add: HEC @ 4%	1,800
Tax liability (rounded off)	46,800

Question 48

Mr. Kamal grows paddy and uses the same for the purpose of manufacturing of rice in his own Rice Mill. The cost of cultivation of 40% of paddy-produce is ₹ 7,00,000 which is sold for ₹ 15,00,000; and the cost of cultivation of balance 60% of paddy is ₹ 12,00,000 and the market value of such paddy is ₹ 24,00,000. To manufacture the rice, he incurred ₹ 2,00,000 in the manufacturing process on the balance (60%) paddy. The rice was sold for ₹ 30,00,000. Compute the Business income and Agriculture Income of Mr. Kamal.

Solution

Computation of Business income and Agriculture Income of Mr. Kamal (amount in ₹)

Agricultural Income:		
Sale value of paddy	15,00,000	
Less: Cost of Cultivation	7,00,000	8,00,000
Market value of paddy used for production of rice	24,00,000	
Less: Cost of Cultivation	12,00,000	12,00,000
Business Income:		
Sale Value of Rice	30,00,000	
Less: Cost of Paddy [Market Valued Paddy is taken for computing Business Income as u/r 7]	24,00,000	
Less: Further Processing Cost [Note: These are processing Costs, not Agri. Operations]	2,00,000	4,00,000

Question 49

Mr. Avani, a resident aged 25 years, manufactures tea leaves from the tea plants grown by him in India. These are then sold in the Indian market for ₹ 40 lakhs. The cost of growing tea plants was ₹ 15 lakhs and the cost of manufacturing tea leaves was ₹ 10 lakhs. Compute her tax liability for the Assessment Year 2021-22.

Solution Computation of tax liability of Mr. Avani (amount in ₹)

Sale value of manufactured Tea		40,00,000
Less: Expenditure incurred for growing tea plants	15,00,000	
Expenditure incurred for manufacturing tea leaves	10,00,000	25,00,000
Composite income from growing and manufacturing tea		15,00,000
Agricultural Income @ 60%		9,00,000
Business Income @ 40%		6,00,000

Computation of tax payable by Mr. Avani (amounts in ₹):

Tax on business income including agricultural income (₹ 6,00,000 + ₹ 9,00,000)	2,62,500
Less: Tax on agricultural income + basic exemption (₹ 9,00,000 + ₹ 2,50,000)	1,57,500
Tax payable	1,05,000

Add: HEC @ 4%	4,200
Tax liability (rounded off)	1,09,200

Question 50

Computation of depreciation: A car purchased by S on 10-08-2016 for ₹ 3,25,000 for personal use is brought into the business of the assessee on 01-12-2020, when its market value is ₹ 1,50,000. Compute the actual cost of the car and the amount of depreciation for the assessment year 2021-22 assuming the rate of depreciation to be 15%.

Solution

As per Explanation 5 to section 43(1), building previously the property of the assessee, is now brought into use for the purpose of business of the assessee, the actual cost shall be the actual cost of the building as reduced by the depreciation that would have been allowed, had the asset been used for business purpose since the date of its acquisition. However, it does not provide any mode for a motorcar which is brought into business use after being initially used for personal purposes.

Therefore, Actual cost of motorcar brought into business use = actual cost to assessee = ₹ 3,25,000. (The market value of motorcar as on date of bringing it into business use is irrelevant)

Thus, actual cost of car = ₹ 3,25,000 & depreciation = 7.5% of 3,25,000 = ₹ 24,375 (since the car was used for less than 180 days in the previous year).

Question 51

Compute the amount of depreciation allowable in the following cases - Dr. Jolly purchased a house property on 1-12-2018 for ₹ 10,00,000. Till 1-12-2020, the same was self-occupied as a residence. On this date, the building was brought into use for his medical profession. Rate of depreciation on buildings at the time of purchase of house property was 15%.

Solution As per Explanation 5 to section 43(1), building previously the property of the assessee, is now brought into use for the purpose of business of the assessee, the actual cost shall be the actual cost of the building as reduced by the depreciation that would have been allowed, had the asset been used for business purpose since the date of its acquisition. The rate of depreciation to be applied is the rate in force in the year in which building is brought into business use i.e. 10%.

Computation of the amount of depreciation allowable (amounts in ₹) -

Actual cost	10,00,000
Less: Depreciation @ 5% of ₹ 10,00,000 [WN] PY 2018-19	50,000
WDV as on 01-04-2019	9,50,000



Less: Depreciation (10% of ₹ 9,50,000)	95,000
WDV as on 1-4-2020 (Actual cost of building)	8,55,000
Depreciation for the current year (10% of ₹ 8,55,000)	85,500

Working Note: Depreciation is allowed to the extent of 50% as the asset is used for less than 180 days during the previous year.

Question 52

Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be taken in the city only on alternate days.

He has purchased a car on 21-09-2020, for the purpose of his business as per following details:

	₹
Cost of car (excluding GST)	12,00,000
Add: Delhi GST at 14%	1,68,000
Add: Central GST at 14%	1,68,000
Total price of car	15,36,000

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed.

He has started using the car immediately after purchase.

Determine the depreciation allowable on car for the assessment year 2021-2022, if this is the only asset in the block.

Rate of depreciation may be taken at 15%

If this car were to be use in the subsequent assessment year 2022-23 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act 1961.

Solution

According to Section 32, if an asset is acquired by the assessee during the previous year and the same is put to use for less than 180 days during that previous year, then the depreciation will be limited to 50% of the depreciation allowable on such asset as per the rate prescribed in Rule 5(1). Since the car was ready for use for more than 180 days, the date of purchase being 21-09-2020 (the date when car was put to use), hence depreciation will be allowed on such car at full rate.

Since, no input tax credit is admissible of CGST and SGST paid in respect of motor vehicles (subject to certain exceptions), the actual cost of car shall be ₹ 15,36,000.

Where any motor car is not exclusively used for the purposes of business or profession, then the deduction u/s 32 shall be restricted to a fair proportionate part thereof which is used for the purpose of business. The

amount of depreciation actually allowed shall be reduced from the written down value to find out depreciated value of the block of asset.

Thus, taking into account the above observations depreciation shall be computed as under (amount in ₹):

<u>Assessment Year 2021-22:</u>		
Actual cost of car		15,36,000
Less: Depreciation @ 15% of ₹ 15,36,000	2,30,400	
Less: Disallowed as per Section 38(2) for personal use [25%]	(57,600)	1,72,800
Depreciated value of the block at the end of year		13,63,200
<u>Assessment Year 2021-22</u>		
Depreciated value of the block at the beginning of year		13,63,200
Less: Depreciation @ 15% of ₹ 13,63,200	2,04,480	
Less: Disallowed as per Section 38(2) for personal use [25%]	(51,120)	1,53,360
Depreciated value of the block at the end of year		12,09,840

Thus, depreciation allowable for A.Y. 2021-22 is ₹ 1,72,800 and for A.Y. 2022-23 is ₹ 1,53,360.