

Topic: PGBP

Total Marks: 66 Marks
Time Allowed: 120 minute

Questions:

Part-A Multiple Choice Questions

[Total 26 Marks – 2 Marks for each MCQ]

1. Mr. X acquires an asset in the year 2016-17 for the use for scientific research for ₹ 2,75,000. He claimed deduction under section 35(1)(iv) in the previous year 2016-17. The asset was brought into use for the business of Mr. X in the P.Y.2025-26, after the research was completed. The actual cost of the asset to be included in the block of assets is -
 - (a) Nil
 - (b) Market value of the asset on the date of transfer to business
 - (c) ₹ 2,75,000 less notional depreciation under section 32 upto the date of transfer.
 - (d) Actual cost of the asset i.e., ₹ 2,75,000
2. The W.D.V. of a block (Plant and Machinery, rate of depreciation 15%) as on 1.4.2025 is ₹ 3,20,000. A second hand machinery costing ₹ 50,000 was acquired on 1.9.2025 through account payee cheque but put to use on 1.11.2025. During January 2025, part of this block was sold for ₹ 2,00,000. The depreciation for A.Y.2026-27 would be -
 - (a) ₹ 21,750
 - (b) ₹ 25,500
 - (c) ₹ 21,125
 - (d) ₹ 12,750
3. An electricity company charging depreciation on straight line method on each asset separately, sells one of its machinery in April, 2025 at ₹ 1,20,000. The WDV of the machinery at the beginning of the year i.e., on 1st April, 2025 is ₹ 1,35,000. No new machinery was purchased during the year. The short fall of ₹ 15,000 is treated as -
 - (a) Short-term capital loss
 - (b) Normal depreciation
 - (c) Terminal depreciation
 - (d) Any of the above, at the option of the assessee
4. Mr. Raja, a proprietor, commenced operation of the business of a new three star hotel in Mumbai on 1.7.2025. He had made a total investment of Rs. 7.58 crores till 30.6.2025. Out of total investment of Rs. 7.58 crores, Rs. 1.58 crores was used for purchase of land in P.Y.2024-25. Rs. 4.70 crores was used for constructing Hotel and balance of Rs. 1.30 used for purchasing the furniture in P.Y. 2025-26. He wants to avail the benefit of deduction u/s 35AD as he satisfied with all the conditions prescribed u/s 35AD and has exercised the option of shifting out of the default regime provided u/s 115BAC(1A). His profit

and gains from the business for P.Y. 2025-26 is Rs. 50 lakhs before claiming deduction u/s 35AD. He wants to file his income-tax return on 12.12.2026. How much deduction Mr. Raja can claim for A.Y. 2026-27 and the losses which he can carry forward to A.Y. 2027-28?

- He can claim the deduction of Rs. 7.58 crores from his business income but he would not be able to carry forward the business loss of Rs. 7.08 crores
- He can claim the deduction of Rs. 6.00 crores from his business income and can carry forward the business loss of Rs. 5.50
- He can claim the deduction of Rs. 6.00 crores from his business income but cannot carry forward the business loss of Rs. 5.50
- He can claim the deduction of Rs. 7.58 crores from his business income and can carry forward the business loss of Rs. 7.08 crores

5. Mr. Anil started business of manufacturing tables in February 2026. He follows mercantile system of accounting. He purchased wood from Mr. A, Mr. B and Mr. C. The details of purchases and payment made are as under:

Seller	Date of purchase	Purchase amount (₹)	Payment due as per written agreement, if any	Date of payment
Mr. A, a micro enterprise	15.02.2026	5 lakhs	Within 30 days from the date of purchase	29.03.2026
Mr. B, a small enterprise	17.03.2026	7 lakhs	No written agreement	15.04.2026
Mr. C, a medium enterprise	25.03.2026	8 lakhs	Within 40 days from the date of purchase	30.11.2026

How much deduction would be available to Mr. Anil in A.Y. 2026-27 in respect of purchases made during the P.Y. 2025-26 while computing business income?

- Nil
- ₹ 5 lakhs
- ₹ 13 lakhs
- ₹ 12 lakhs

Case scenario

ABC & Co is a partnership firm engaged in the business of sale of footwear. The partnership firm consist of three partners - A, B & C. A & B are working partners, and C is a sleeping partner. The firm is liable to tax audit u/s 44AB of the Act. It has a book profit of Rs. 11,50,000.

Following payments were made to partners as authorised by the partnership deed:

- Remuneration to A & B - Rs. 32,000 p.m. to each partner
- Remuneration to C - Rs. 10,000 p. m.
- Interest on capital @ 19.5% to A & B - Rs. 18,500 p.a. to each partner
- Interest on capital @ 17% to C- Rs. 10,540 p.a.

The firm has following brought forward losses of past years:

A.Y.	Business loss	Unabsorbed depreciation	Long-term capital loss
2023-24	26,000	17,600	5,300
2024-25	78,000	29,860	-
2025-26	1,05,670	54,180	13,470

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

Question: 6

What amount of interest is allowable as deduction in the hands of firm while computing profits and gains from business or profession?

- (i) Rs. 29,040
- (ii) Rs. 22,770
- (iii) Rs. 47,540
- (iv) Rs. 30,210

Question: 7

What amount of remuneration not allowable as deduction in the hands of firm while computing profits and gains from business or profession?

- (i) Rs. 1,20,000
- (ii) Nil
- (iii) Rs. 1,08,000
- (iv) Rs. 78,000

Question: 8

What would be the income under the head "Profits and gains from business or profession" in the hands of ABC & Co. for the A.Y. 2026-27?

- (i) Rs. 70,690
- (ii) Rs. 1,72,330
- (iii) Rs. 51,920
- (iv) Rs. 1,53,560

Case Scenario

Mr. Naveen, aged 40 years, is engaged in the manufacturing business. He follows mercantile system of accounting. The details pertaining to his business for the year ending on 31.3.2026 is as under -

Particulars	Amount (₹)
Capital receipts	1.20 crores
Turnover	2.80 crores
Amount received in cash [out of turnover]	8 lakhs
Amount received in cash [out of capital receipts]	2 lakhs
Amount received through account payee cheque/ NEFT and other prescribed mode on or before the specified date under section 139(1) [out of turnover]	2.50 crores
Total payment	1.60 crores
Cash payment [out of total payments]	9 lakhs
Net profit as per books of account	10.50 lakhs

An analysis of profit and loss for the year ended on 31.3.2026 revealed the following information

1. Salary includes wages of ₹ 15,000 p.m. each paid to 1 security guard, 2 housekeeping staff in cash.
2. Other administration expenses include ₹ 70,000 paid in cash (Payment in a day is less than ₹ 8,000).
3. Interest charges includes interest payable on loan to Kamal of ₹ 70,000 on which TDS has not been deducted. Loan was taken for the business purpose.

On the basis of the facts given above, choose the most appropriate answer to Q.1 to Q.5 below -

Question: 9

Is Mr. Naveen eligible to declare income on presumptive basis under the provisions of the Income-tax Act, 1961 for A.Y. 2026-27?

- (a) No, since turnover of Mr. Naveen exceeds the threshold limit of ₹ 2 crores.
- (b) Yes, since aggregate cash receipts during the year do not exceed 5% of total amount received.
- (c) Yes, since amount received in cash during the year do not exceed 5% of turnover.
- (d) No, as cash payments during the year exceed 5% of aggregate payments.

Question: 10

What would be your answer to MCQ 1, assuming for the purpose of answering this MCQ and MCQ 3 that Mr. Naveen has additionally received ₹ 10 lakhs by way of crossed cheque [out of turnover] during the P.Y. 2025-26?

- (a) No, since turnover of Mr. Naveen exceeds the threshold limit of ₹ 2 crore.
- (b) No, since the aggregate cash receipts during the year exceed 5% of turnover.
- (c) No, as cash payments during the year exceed 5% of aggregate payments.
- (d) No, due to both (a) and (b)

Question: 11

Is Mr. Naveen required to get his books of account audited during the P.Y. 2025-26?

- (a) No, since turnover of Mr. Naveen does not exceed the threshold limit of ₹ 10 crores.
- (b) Yes, since amount received in cash during the year exceeds 5% of turnover.
- (c) Yes, since cash payments during the year exceed 5% of aggregate payments.
- (d) No, since the amount received in cash during the year does not exceed 5% of total amount received.

Question: 12

What is the amount of profits and gains of business chargeable to tax in the hands of Mr. Naveen as per books of account?

- (a) ₹ 10,50,000
- (b) ₹ 16,11,000
- (c) ₹ 16,81,000
- (d) ₹ 16,60,000

Question: 13

What is the amount of profits and gains of business chargeable to tax in the hands of Mr. Naveen if he does not want to get his books of account audited?

- (a) ₹ 17,40,000
- (b) ₹ 16,96,000
- (c) ₹ 22,40,000
- (d) ₹ 16,80,000

Part-B Descriptive Questions

[Total 40 Marks]

1. Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2026:

	(₹ in lacs)
WDV of Plant and Machinery on 31.3.2025	30
Depreciation including additional depreciation for P.Y. 2024-25	4.75
New machinery purchased on 1-9-2025	10
New machinery purchased on 1-12-2025	8
Computer purchased on 3-1-2026	4

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2025 and computer have been installed in the office.
- During the year ended 31-3-2025, a new machinery had been purchased on 31-10-2023, for ₹ 10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2026. Assume that he does not opt for section 115BAC. **[7 Marks]**

2. Mr. Yogesh is in the business of operating goods vehicles. As on 1st April, 2025, he had the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Put to use during F.Y. 2023-24?
A	9000	2-6-2024	Yes
B	15000	15-5-2024	Yes
C	12000	4-8-2024	No (as under repairs)

During P.Y. 2024-25, he purchased the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Date on which put to use
D	11500	20-4-2025	10-5-2025
E	14000	15-5-2025	18-5-2025

Compute his income under section 44AE of the Income-tax Act, 1961 for A.Y. 2026-27. **[7 Marks]**

3. Dr. Arjun runs a clinic in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 25-09-2025, for the purpose of his medical profession, as per following details:

Cost of car (excluding GST)	15,00,000
Add: Delhi GST at 14%	2,10,000
Add: Central GST at 14%	2,10,000
Total price of car	19,20,000

He put his car to use from 25.9.2025 itself. He estimates the usage of the car for personal purposes will be 25%. He is advised by his friends 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 A.Y. 2026-27, if this is the only asset in the block. If this car would also be used in the subsequent Assessment Year 2027-28 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. **[6 Marks]**

4. Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2026 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled Assistants	1,37,000	Audit	27,88,000	
		Taxation services	15,40,300	
Incentive to articled Assistants	13,000	Consultancy	12,70,000	55,98,300
		Dividend on shares of X Ltd., an Indian company (Gross)		10,524
Office rent	12,24,000	Income from UTI (Gross)		7,600
Printing and Stationery	12,22,000	Honorarium received from various institutions for valuation of answer papers		15,800
Meeting, seminar and conference	31,600	Rent received from residential flat let out		85,600
Purchase of car (for official use)	80,000			
Repair, maintenance and petrol of car	4,000			
Travelling expenses	5,25,000			
Municipal tax paid in	3,000			

Expenditure	(₹)	Income	(₹)	(₹)
respect of house property				
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹ 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing CA Inter Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2025 to 30-09-2026.
- (v) Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.

Compute the gross total income of Ms. Purvi for the assessment year 2026-27. **[Ignore 115BAC]**
[10 Marks]

5. From the following information provided by Mr. Suresh, aged 43 years and a wholesale dealer, for the A.Y. 2026-27, you are required to compute gross total income.

Trading and Profit and Loss Account of Mr. Suresh

Particulars	Amount in ₹	Particulars	Amount in ₹
To Opening Stock	24,21,000	By Sales	2,62,50,100
To Purchases	2,06,00,500	By Closing stock	52,00,100
To Direct expenses	4,12,040		
To Freight inward	2,65,000		
To Gross Profit c/d	77,51,660		
	3,14,50,200		3,14,50,200
To Salaries and wages	17,15,000	By Gross Profit b/d	77,51,660
To General expenses	3,65,000	By dividend from Indian companies (gross)	17,20,000
To Rates and taxes	2,40,000	By Interest received on FDs (Net of tax) [FD made on 1.8.2025]	1,08,000
To Interest paid on late filing of GST	3,845	By Rent received from House Property	7,20,000

Particulars	Amount in ₹	Particulars	Amount in ₹
To Income-tax paid for FY 2021-22	3,45,000	By Income-tax Refund	19,000
To Interest paid to NBFC	1,15,000		
To Depreciation	1,82,000		
To Net Profit	73,52,815		
	1,03,18,660		1,03,18,660

The following additional information is provided by him:

- Closing stock of previous year 2025-26 was undervalued by ₹ 55,000.
- Rates and taxes include ₹ 1,000 paid towards late filing of his Income-tax return for Assessment Year 2025-26 under section 234F of income - tax Act.
- Salaries include ₹ 30,000 paid on single day by way of cash to his accountant.
- Interest paid on loan of ₹ 10,00,000 taken from a Non-Banking Finance company. Out of the loan, amount of ₹ 2 lakhs were used for personal purpose and the balance was used for business purpose. No TDS was deducted while paying the interest on loan.
- General expenses include Advertisement expense of ₹ 25,000 paid by cheque towards an advertisement in a souvenir published by local political party.
- Income-tax refund includes ₹ 2,500 towards interest.
- Depreciation charged is as per Income-tax Rules is ₹ 2,20,000
- TDS has been deducted on interest received on FD.
- Turnover for the year ending 31.03.2025 was ₹ 2.58 crores.

[10 Marks]