



## Chapter 6

## Profits &amp; Gains of Business Or Professions

Q 1

ICMAI Study Material

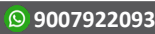
Mr. Sunil is a practicing Chartered Accountant. He also runs a private coaching institute. His bank accounts for the year ended 31/3/2024 is given below:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/f	20,000	By Office expenses	18,000
To Audit fees	2,00,000	By Municipal tax on property	800
To Income from other professional work	1,00,000	By Coaching expenses	800
To Coaching fees	1,200	By Personal expenses	5,000
To Interest on Investment	2,000	By Membership fees	500
To Examiner's fees	1,000	By Life insurance premium	13,000
To Rent from property	5,000	By Income tax	5,000
		By Motor Car purchased	1,80,000
		By Motor Car expenses	10,200
		By Insurance of property	1,600
		By Balance c/d	94,300
	<b>3,29,200</b>		<b>3,29,200</b>

**Additional Information**

- 20% of motor car expenses is in respect of profession.
- Depreciation allowance for motorcar is ₹ 27,000, if wholly used for profession.
- Outstanding fees on 31-3-2024 ₹ 2,000. Whereas ₹ 500 receivable from Mita is considered as bad.
- Outstanding fees of P.Y. 2020-21 ₹ 10,000 received during the year, which is included in the audit fees.
- Office expenses include payment of ₹ 2,000 incurred during the previous year 2022-23.

Compute his gross total income for the A.Y 2024-25 assuming he maintains accounts on cash basis.



**Answer**

Computation of total income of Mr. Sunil for the A.Y 2024-25

Particulars	Workings	Details	Details	Amount
Income from house property				
Gross Annual Value	Rent received		5,000	
Less: Municipal tax			800	
Net Annual Value			4,200	
Less: Deduction u/s				
24(a) Standard Deduction	30% of NAV	1,260		
24(b) Interest on loan		Nil	1,260	2,940
Profits & gains of business or profession				
Audit fees		2,00,000		
Income from other professional work		1,00,000	3,00,000	
Less: Expenses allowed				
Office expenses		18,000		
Membership fees		500		
Motor car expenses	20% of expenses <sup>2</sup>	2,040		
Depreciation on motor car	20% of depreciation <sup>2</sup>	5,400	25,940	2,74,060
Income from other sources				
Interest on investment			2,000	
Coaching fees		1,200		
Less: Coaching expenses		800	400	
Examiners' fees			1,000	3,400
<b>Gross Total Income</b>				<b>2,80,400</b>

Notes:

1. Insurance premium on property is not deductible from income from house property.
2. As 20% use of motor car is related to professional purpose, hence as per sec. 38 expenditure and depreciation is apportioned.
3. Payment of LIC premium is a personal expense. However, deduction u/s 80C is available.
4. Income tax is specifically disallowed u/s 40(a).
5. As per sec. 145, income chargeable under the head "Profits & gains of business or profession" shall be computed only in accordance with the method of accounting regularly followed by the assessee. In this case, assessee follows cash system of accounting.

## 6.2 | Practice Questions



Q 2

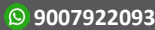
## ICMAI Study Material

From the following particulars of Shri Khote for the year ending 31st March, 2024, find out his taxable income from business for the assessment year 2024-25:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,20,000	By Sales	2,14,20,000
To Purchases	2,10,00,000	By Profit on sale of import licence	5,000
To Salaries	25,000	By Gift received	24,000
To Legal Expenses	10,000	By Closing Stock	2,00,000
To Bad Debts	5,000		
To Rent	50,000		
To Interest on loan	2,500		
To Depreciation	15,000		
To Income tax paid	2,000		
To Outstanding Customs Duty	25,000		
To Advertisement	2,000		
To Legal expenses	12,000		
To Contribution towards URPF	5,000		
To General expenses	17,500		
To Traveling expenses	1,00,000		
To Net Profit	2,58,000		
	<b>2,16,49,000</b>		<b>2,16,49,000</b>

In computing the income, the following facts are to be taken into consideration:

- Interest on loan is paid to brother of Shri Khote for loan taken for payment of advance income tax.
- During the previous year 2019-20, assessee had claimed ₹ 45,000 as bad debt out of which only ₹ 35,000 was allowed. During the previous year, he recovers ₹ 25,000.
- Contribution towards unrecognised provident fund was paid within time.
- Legal expenses include ₹ 2,000 paid for preparation of income tax return.
- Stock is undervalued by 10%.
- Gift received was given by a supplier for achieving target sale.
- Outstanding customs duty has been paid on 31-12-2024.
- During the previous year, he comes to know that his former employee had embezzled cash of ₹ 5,000 on 31-3-2023, which was not accounted for.
- Traveling expenses include ₹ 50,000 being cost of trip to Singapore by an employee for 10 days.



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However, only 8 days of trip is useful to business and 2 days has been allowed as holiday to employee.

10. Rent includes expenditure on extension of shed on rented building ₹ 26,000. However, such extension was completed on 1-5-2024 with total cost of ₹ 50,000.

11. General expenses include –

- » Salary of ₹ 1,200 paid to domestic servant.
- » Compensation of ₹ 2,000 paid for retrenchment of an employee.

Compute his business income for the A.Y 2024-25

## Answer

### Computation of Profits and gains of business or profession of Shri Khote for the A.Y 2024-25

Particulars	Note	Details	Amount
Net profit as per Profit and Loss A/c			2,58,000
Add: Expenditure disallowed but debited in P/L A/c			
Income tax paid	1	2,000	
Outstanding Customs Duty	2	25,000	
Contribution towards unrecognised provident fund	3	5,000	
Interest on loan	4	2,500	
Expenditure on extension of building shed	5	26,000	
Salary paid to domestic servant	6	1,200	
Add: Income taxable but not credited to P/L A/c			
Recovery of bad debts [₹ 25,000 – (₹ 45,000 – ₹ 35,000)]	7	15,000	76,700
			3,34,700
Less: Expenditure allowed but not debited to P/L A/c			
Embezzlement by employee	8		5,000
			3,29,700
Adjustment for valuation of stock			
Add: Under valuation of closing stock	12	22,222	
Less: Under valuation of opening stock	13	13,333	8,889
<b>Profits and gains of business or profession</b>			<b>3,38,589</b>

### Notes

- Income tax is specifically disallowed u/s 40(a).
- Customs Duty paid after due date of filing of return shall not be allowed as deduction [Sec. 43B]
- Contribution to unrecognised provident fund is disallowed.
- Interest on loan taken for payment of advance tax is disallowed.

## 6.4 | Practice Questions



5. Extension of building shed is an expenditure of capital nature, hence disallowed u/s 30.
6. Any expenditure of personal nature is disallowed.
7. As per sec. 41(4), where a deduction has been allowed in respect of bad debt or part of debt u/s 36(1)(vii), then if the amount subsequently recovered on any such debt or part is greater than the difference between the debt or part of debt and the amount so allowed, the excess shall be deemed to be profits and gains of business or profession.
8. Loss by embezzlement of cash by employee is allowed as deduction in the year in which such fact was known to the assessee.
9. Legal expenditure for preparation of income tax return is allowed expenditure u/s 37(1).
10. Gift received for achieving target-sale is perquisite related to business and shall be taxable u/s 28.
11. Traveling expenditure shall be fully allowed as deduction, as trip was for 10 days out of which 8 days spent for business purpose and remaining 2 days trip shall be treated as staff welfare expenditure being allowed u/s 37(1).

### 12. Under valuation of closing stock

Actual value of closing stock (₹ 2,00,000/90%) = ₹ 2,22,222

Under valuation of closing stock is 10% of ₹ 2,22,222 = ₹ 22,222

### 13. Under valuation of opening stock

Actual value of opening stock (₹ 1,20,000/90%) = ₹ 1,33,333

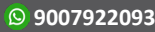
Under valuation of opening stock is 10% of ₹ 1,33,333 = ₹ 13,333

**Q 3**

ICMAI Study Material

During the previous year 2023-24, profit and loss account of Shri Raj, proprietor of Raj Enterprises engaged in the business of readymade garments, shows profits of ₹ 1,50,000. With the following information, compute his taxable income from business –

- a. Interest on capital ₹ 5,000
- b. Purchases include goods of ₹ 12,000 from his younger brother in cash. However, market value of such goods is ₹ 9,000.
- c. Interest paid outside India ₹ 1,00,000 without deducting tax at source.
- d. Penalty paid to Government for non-filing of GST return ₹ 5,000
- e. Penalty paid to customer for non-fulfilling of order within time ₹ 10,000
- f. Bad debts ₹ 1,00,000. Money has been advanced for purchase of Building.
- g. Revenue expenditure on promoting family planning among employees ₹ 10,000.
- h. Premium paid on health of employees ₹ 6,000 in cash



- i. Premium paid on health of his relatives ₹ 6,000 in cheque
- j. Employer's contribution to RPF ₹ 12,000. One-half of the amount is paid after due date as per relevant Act but before 31-3-2024.
- k. Employees contribution to RPF ₹ 10,000. ½ of the amount is paid after due date as per relevant Act.
- l. Interest on late payment of professional tax ₹ 1,000 (yet to be paid)
- m. Interest on loan from State Bank of India ₹ 10,000 (₹ 5,000 is not paid till due date of filing of return)
- n. Interest on late refund from income tax department ₹ 500
- o. Sale includes sale to Raj ₹ 10,000. (Cost of such goods ₹ 8,000; Market value of such goods ₹ 12,000)
- p. He received ₹ 80,000 from a debtor at a time in cash.
- q. Recovery of bad debt ₹ 10,000 (out of which ₹ 8,000 was allowed as deduction during A.Y 2019-20)
- r. Depreciation (being not debited in accounts) ₹ 20,000 allowed as deduction u/s 32

**Answer**

**Computation of Profits and gains of business or profession of Shri Raj for the A.Y 2024-25**

Particulars	Note	Details	Amount
Net profit as per Profit and Loss account			1,50,000
Add: Expenditure disallowed but debited in P/L A/c			
Interest on capital	1	5,000	
Payment to relative in excess of market value of goods	2	3,000	
Interest paid outside India without deducting tax at source	3	1,00,000	
Penalty paid to government for non-filing of GST return	4	5,000	
Bad debt	6	1,00,000	
Premium paid on health of employees in cash	8	6,000	
Premium paid on health of his relatives in cheque	9	6,000	
Employees contribution to RPF	11	5,000	
Interest on loan from State Bank of India	13	5,000	
Cost of goods sold to himself	14	8,000	2,43,000
			3,93,000
Less: Expenditure allowed but not debited in P/L A/c			
Depreciation u/s 32		20,000	
Less: Income not taxable but credited to P/L A/c			
Sales to himself (goods withdrawn for personal purpose)	14	10,000	

**6.6 | Practice Questions**



Recovery of bad debts	15	2,000	
Less: Income taxable under other head but credited to P/L A/c			
Interest on late refund from income tax department	16	500	32,500
<b>Profits and gains of business or profession</b>			<b>3,60,500</b>

### Notes

- Interest on capital to proprietor is not allowed as no one can earn from a transaction with himself.
- Any unreasonable payment to relative is disallowed u/s 40A(2). Hence, ₹ 3,000 is disallowed. Since cash payment towards allowed expenditure (i.e. ₹ 9,000) does not exceed ₹ 10,000, hence provision of sec. 40A(3) is not applicable.
- Interest paid outside India without deducting tax at source is disallowed u/s 40(a).
- Any payment made for infringement of law is disallowed.
- Payment made for non-fulfilling of contract is not a payment for infringement of law. Hence, allowed u/s 37(1).
- Bad debt is allowed only when such debt has been taken into account as income of previous year or any earlier previous year(s) [Sec. 36(1)(vii)]. Since, the debt is in respect of purchase of a building, which was not considered as income of any previous year, hence it is disallowed.
- Any expenditure for promoting family planning is allowed to company assessee [Sec. 36(1)(ix)]. However, such expenditure (revenue in nature) incurred by assessee other than company shall be allowed u/s 37(1).
- Payment of insurance premium on health of employees in cheque is allowed u/s 36(1)(ib).
- Payment of insurance premium on health of relative is not related to business, hence disallowed.
- Employer's contribution towards RPF is allowed if payment is made before due date of filing of return irrespective of fact that such payment was made after due date prescribed in the relevant Act.
- Any sum received from employees as their contribution towards RPF is allowed only when such sum has been credited to such fund within the due date prescribed in the relevant Act [Sec. 36(1)(va)].
- Interest on late payment of professional tax is not a penalty but compensatory in nature. Hence, it is allowed u/s 37(1). Further such interest is not governed by the provisions of sec. 43B.
- Any interest payable to any scheduled bank is allowed on cash basis [Sec. 43B]. Hence, unpaid amount is disallowed.
- Any expenditure of personal nature is not allowed. Further, no one can earn from a transaction with himself. Hence, sale made to himself is not treated as income.
- Bad debt recovery is treated as income in the year of recovery to the extent of bad debt allowed in the earlier year [Sec. 41(4)]



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16. Interest on late refund of income tax is taxable under the head 'Income from other sources'.

17. Receipt from debtor ₹ 80,000 in cash is not attracted by provision of sec. 40A(3).

**Q 4**

ICMAI Study Material

Taj Electric Supply Company Ltd. which was charging depreciation on straight line method and whose actual cost of the asset was ₹ 20,00,000 and written down value ₹ 18,72,300 sold the said asset during 2022-23 after 2 years. What will be the tax treatment for assessment year 2023-24 if the asset is sold for:

1. ₹ 30,000;
2. ₹ 18,72,300;
3. ₹ 19,80,000;
4. ₹ 21,00,000

**Answer**

1. ₹ 18,42,300 Terminal Depreciation
2. Nil
3. ₹ 1,07,700 Balancing Charge
4. ₹ 1,27,700 Balancing charge and ₹ 1,00,000 Short Term Capital Gain

In all the cases, no further depreciation is allowable to the assessee in respect of such asset.

**Q 5**

ICMAI Study Material

Twinkle Enterprises has acquired a telecom license. Details in respect of such license are as under:

Particulars		Particulars	
Acquisition cost	₹ 1,00,000	Life of license	10 years
Date of purchase	16/8/2022	License sold	100%
Payment terms	Lump sum	Date of sale of license	15/3/2025
Date of first payment	16/8/2022	Sale value	₹ 1,20,000

State the tax consequence in the several previous years up to 2024-25 related to such transactions.



## Answer

Tax consequence u/s 35ABB in several previous years up to 2024-25

Particulars	Licence A
Deduction u/s 35ABB(1) in previous year:	
2022-23	10,000
2023-24	10,000
2024-25	Nil1
Business income on sale of license u/s 35ABB(3) in the P.Y.2024-25	20,0002
Capital gain on sale of license in the P.Y.2024-25	20,0002

<sup>1</sup> No deduction is available in the previous year in which licence is 100% sold or otherwise transferred.

<sup>2</sup> Sale of license

Particulars	Details	Amount
Profits & Gains of Business or Profession		
Being minimum of the following		
• Earlier deduction claimed for the P.Y. 2022-23 and 2023-24	20,000	
• Surplus i.e. {Sale proceeds - (Cost of assets - Earlier deduction allowed in respect of such asset)} [1,20,000 - (1,00,000 - 20,000) = 40,000]	40,000	20,000
Capital gains		
Sale consideration		1,20,000
Less: Cost of acquisition		1,00,000
Short-term capital gain (as asset is not held for more than 3 years)		20,000

Q 6

ICMAI Study Material

Tweety Enterprises has acquired telecom license. Details in respect of this license are as under:

Particulars		Particulars	
Acquisition cost	₹ 3,00,000	Life of license	7 years
Date of purchase	14/7/2020	License sold	40%
Payment terms	Lump sum	Date of sale of license	12/12/2023
Date of first payment	14/7/2021	Sale value	₹ 1,20,000

State the tax consequence in the several previous years up to 2023-24 related to such transactions.



**Answer**

Tax consequence u/s 35ABB in several previous years up to 2023-24

Particulars	Amount
Deduction u/s 35ABB(1) in previous year:	
2020-21	Nil <sup>1</sup>
2021-22	50,000 <sup>1</sup>
2022-23	50,000 <sup>1</sup>
2023-24	20,000 <sup>2</sup>
Business income on sale of license u/s 35ABB(3) in the P.Y.2023-24	Nil
Capital gain on sale of license in the P.Y.2023-24	Nil

1. Though license was acquired in the previous year 2020-21 but payment was made in the previous year 2021-22, hence deduction shall be available u/s 35AAB(1) in 6 years (7 year – 1 year) starting from the year 2021-22. Amount of deduction will be ₹ 3,00,000/6 = ₹ 50,000.
2. Sale of part of license B

Particulars	Details	Amount
Balance of license as on 1/4/2023	₹ 3,00,000 – ₹ 1,00,000	2,00,000
Less: Sale of license	1,20,000	
• Balance value	80,000	
• Balance life	4 years	
Deduction in the previous year 2023-24	₹ 80,000 / 4	20,000

**Q7**

ICMAI Study Material

M/s Sidhant & Co., a sole proprietary concern is converted into a company, Sidhant Co. Ltd. with effect from November 29, 20XX. The written down value of assets as on April 1, 20XX is as follows:

Items	Rate of Depreciation	WDV as on 1 April, 20XX
Building	10%	₹ 3,50,000
Furniture	10%	₹ 50,000
Plant & Machinery	15%	₹ 2,00,000

Further, on 15-10-20XX, M/s Sidhant & Co. purchased a plant for ₹ 1,00,000 (rate of depreciation 15%). After conversion, the company added another plant worth ₹ 50,000 (rate of depreciation 15%). Compute the depreciation available to (i) M/s Sidhant & Co. and (ii) Sidhant Co. Ltd. for the A.Y 20XY-XZ

**6.10 |Practice Questions**



## Answer

## Computation of depreciation on assets if there were no succession

Particulars	Building	Furniture	Plant & Machinery
Rate of depreciation	10%	10%	15%
W.D.V. as on 1/4/20XX	3,50,000	50,000	2,00,000
Add: Purchase during the year	Nil	Nil	1,00,000*
	3,50,000	50,000	3,00,000
Less: Sale during the year	Nil	Nil	Nil
	3,50,000	50,000	3,00,000
Depreciation	35,000	5,000	37,500

It is assumed that the assessee is not entitled for additional depreciation.

\* Without considering assets acquired after succession. \*\*  $[(\text{₹}2,00,000 * 15\%) + (\text{₹}1,00,000 * 15\% * \frac{1}{2})]$

## Allocation of depreciation between sole proprietary concern and the successor company

The depreciation is to be allocated in the ratio of number of days the assets were used by the sole proprietary concern and the successor company.

Calculation of allowable depreciation to sole proprietary concern

Particulars	Amount
Depreciation on assets held as on 01/04/20XX	
Assets are used by sole proprietary concern from 1/4/20XX to 28/11/20XX i.e. 242 days, hence depreciation shall be allowed for 242 days	
Building (₹ 35,000 * 242/365)	23,205
Furniture (₹ 5,000 * 242/365)	3,315
Plant and Machinery (₹ 30,000 * 242/365)	19,890
Depreciation on newly acquired assets	
New asset has been used by it from 15/10/20XX to 28/11/20XX i.e. 45 days, hence depreciation shall be allowed for 45 days	
Plant and Machinery (₹ 7,500 * 45/168)	2,009
Depreciation allowable u/s 32	48,419

## Calculation of allowable depreciation to successor company

Particulars	Amount
Particulars	
Depreciation on assets held by sole-proprietary concern as on 01/04/20XX	



Asset of sole proprietary concern used by the successor company from 29/11/20XX to 31/3/20XY i.e. 123 days, hence depreciation shall be allowed for 123 days	23,205
Building (₹ 35,000 * 123/365)	11,795
Furniture (₹ 5,000 * 123/365)	1,685
Plant and Machinery (₹ 30,000 * 123/365)	10,110
Depreciation on assets acquired by sole-proprietary concern during the year	
New asset has been used by it from 29/11/20XX to 31/03/20XY i.e. 123 days, hence depreciation shall be allowed for 123 days	
- Plant and Machinery (₹ 7,500 * 123/168)	5,491
After conversion	
Depreciation in respect of plant purchased by the successor company is fully allowable in the hands of successor company [50% of 15% on ₹ 50,000].	3,750
<b>Total depreciation</b>	<b>32,831</b>

**Q 8**

PTP Dec 22

Abhijit & Co. is a partnership firm engaged in manufacturing activity. The firm furnishes you the following details:

Particulars	Plant & Machinery (₹)	Furniture & Fittings (₹)	Building (₹)
WDV as on 01.04.20XX	20,00,000	1,40,000	9,90,000
Acquired (new)	10,00,000 (10.01.20XY)	60,000 (30.09.20XX)	20,00,000 (includes land ₹5,00,000 acquired on 20.07.20XX)
Acquired (old)	5,00,000 (25.08.20XX)		

**Note :** Plant & Machinery as on 01.04.20XX include a new machine whose cost was ₹8, 00,000 and which was acquired on 22.01.20XX but put to use from 01.02.20XX.

Compute the eligible amount of depreciation under Section 32 of the Act.

**Answer**

Computation of depreciation and additional depreciation for the A.Y.20XY-XZ

Particulars	Depreciation	Addl. Depreciation
Plant & Machinery	3,75,000	80,000 On Rs.8 lakhs @ 10%

**6.12 | Practice Questions**



Plant & Machinery	75,000	1,00,000 On Rs.10 lakhs @ 10%
Furniture & Fittings	20,000	Nil
Building	2,49,000	Nil

Q 9

PTP Dec 22

Laxman engaged in textile trade reports a turnover of ₹170 lakhs for the year ended 31.03.20XY. It includes ₹60 lakhs received by way of cash and ₹40 lakhs received through banking channel up to 31st March, 20XY. Of the balance of turnover, ₹30 lakhs was realized by cheque up to the due date for filing the return specified in section 139(1). On 25.05.20XX, he acquired two heavy goods vehicles with each vehicle having capacity to carry goods up to 12000 kilos. Vehicles were operated for carrying goods of customers on hire. Vehicles were acquired through bank loan for which interest due for the year amounts to ₹3,70,000. He wants to admit both the business incomes as referred above as per applicable presumptive provisions.

Compute total income of Laxman for the assessment year 20XY-XZ.

Answer

Total Income	₹14,84,000 (or) ₹13,85,000
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Q 10

PTP June 23

Mr. Suraj is engaged in the business of producing and selling of toys. The Profit & Loss account for the year ended 31st March, 20XY shows a net profit of ₹2,58,000 after debiting or crediting the following items:

- Interest on loan ₹2,500 was paid to brother of Suraj for loan taken for payment of advance Income Tax.
- During the previous year 20XW-XX assessee had claimed ₹45,000 as bad debt out of which only ₹35,000 was allowed. During the previous year, he recovered ₹25,000.
- Contribution of ₹5,000 towards unrecognized provident fund was paid within time.
- Legal expenses include ₹2,000 paid for preparation of income tax return.
- Opening Stock of ₹1,20,000 and Closing Stock of ₹2,00,000. are undervalued by 10%.
- Gift of ₹24,000 was received from a supplier for achieving target sale.
- Outstanding customs duty ₹25,000 has been paid on 31-12-20XX.
- Travelling expenses include ₹50,000 being cost of trip to Singapore by an employee for 10 days. However, only 8 days of trip is useful to business and 2 days has been allowed as holiday to the employee.

A part from above, during the previous year, he came to know that his former employee had embezzled cash of ₹5,000 on 31-03.20XX, which was not accounted for.



Compute income under the head “profits and gains from business and profession” of Mr. Suraj for Assessment Year 20XY-XZ. Indicate reasons in brief for treatment of each item.

### Answer

Income under the head “profits and gains from business” ₹ 2,84,389

Q 11

MTP June 23

During the previous year 20XX-XY, Profit and Loss Account of Shri Raj, proprietor of Raj Enterprises engaged in the business of readymade garments, shows profits of ₹1,50,000. With the following information, compute his taxable income from business -

- 1) Interest on capital ₹ 5,000
- 2) Purchases include goods of ₹12,000 from his younger brother in cash. However, market value of such goods is ₹ 9,000.
- 3) Interest paid outside India ₹ 1,00,000 without deducting tax at source.
- 4) Penalty paid to Government for non-filing of GST return ₹ 5,000
- 5) Penalty paid to customer for non-fulfilling of order within time ₹ 10,000
- 6) Bad debts ₹ 1,00,000. Money has been advanced for purchase of Building.
- 7) Revenue expenditure on promoting family planning among employees ₹10,000
- 8) Premium paid on health of employees ₹ 6,000 in cash
- 9) Premium paid on health of his relatives ₹ 6,000 in cheque
- 10) Employer’s contribution to RPF ₹12,000. One-half of the amount is paid after due date as per relevant Act but before 31-3-20XY.
- 11) Employees contribution to RPF ₹ 10,000. ½ of the amount is paid after due date as per relevant Act.
- 12) Interest on late payment of professional tax ₹ 1,000 (yet to be paid)
- 13) Interest on loan from State Bank of India ₹ 10,000 (₹ 5,000 is not paid till due date of filing of return)
- 14) Interest on late refund from income tax department ₹ 500
- 15) Sale includes sale to Raj ₹10,000. (Cost of such goods ₹ 8,000; Market value of such goods ₹ 12,000)
- 16) He received ₹ 80,000 from a debtor at a time in cash.
- 17) Recovery of bad debt ₹ 10,000 (out of which ₹ 8,000 was allowed as deduction during A.Y.20XW-XX)
- 18) Depreciation (being not debited in accounts) ₹ 20,000 allowed as deduction u/s 32

## 6.14 | Practice Questions



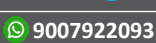
## Answer

## Computation of Profits and gains of business or profession of Shri Raj for the A.Y. 20XY-XZ

Particulars	Note	₹	₹
<b>Net profit as per Profit and Loss Account</b>			1,50,000
<b>Add: Expenditure disallowed but debited in P/L A/c</b>			
Interest on capital	1	5,000	
Payment to relative in excess of market value of goods	2	3,000	
Interest paid outside India without deducting tax at source	3	1,00,000	
Penalty paid to government for non-filing of GST return	4	5,000	
Bad debt	6	1,00,000	
Premium paid on health of employees in cash	8	6,000	
Premium paid on health of his relatives in cheque	9	6,000	
Employees contribution to RPF	11	5,000	
Interest on loan from State Bank of India	13	5,000	
Cost of goods sold to himself	14	8,000	2,43,000
			3,93,000
<b>Less: Expenditure allowed but not debited in P/L A/c</b>			
Depreciation u/s 32		20,000	
<b>Less: Income not taxable but credited to P/L A/c</b>			
Sales to himself (goods withdrawn for personal purpose)	14	10,000	
Recovery of bad debts	15	2,000	
<b>Less: Income taxable under other head but credited to P/L A/c</b>			
Interest on late refund from Income tax department	16	500	32,500
<b>Profits and gains of business or profession</b>			3,60,500

## Note -

- Interest on capital to proprietor is not allowed as no one can earn from a transaction with himself.
- Any unreasonable payment to relative is disallowed u/s 40A(2). Hence, ₹ 3,000 is disallowed. Since cash payment towards allowed expenditure (i.e. ₹ 9,000) does not exceed ₹10,000, hence provision of sec. 40A(3) is not applicable.
- Interest paid outside India without deducting tax at source is disallowed u/s 40(a).
- Any payment made for infringement of law is disallowed.
- Payment made for non-fulfilling of contract is not a payment for infringement of law. Hence, allowed u/s 37(1).
- Bad debt is allowed only when such debt has been taken into account as income of previous year or any earlier previous year(s) [Sec. 36(1)(vii)]. Since, the debt is in respect of purchase of a building, which was not considered as income of any previous year, hence it is disallowed.
- Any expenditure for promoting family planning is allowed to company assessee [Sec. 36(1)(ix)]. However, such expenditure (revenue in nature) incurred by assessee other than company



shall be allowed u/s 37(1).

- 8) Payment of insurance premium on health of employees in cheque is allowed u/s 36(1)(ib).
- 9) Payment of insurance premium on health of relative is not related to business, hence disallowed.
- 10) Employer's contribution towards RPF is allowed if payment is made before due date of filing of return irrespective of fact that such payment was made after due date prescribed in the relevant Act.
- 11) Any sum received from employees as their contribution towards RPF is allowed only when such sum has been credited to such fund within the due date prescribed in the relevant Act [Sec. 36(1)(va)].
- 12) Interest on late payment of professional tax is not a penalty but compensatory in nature. Hence, it is allowed u/s 37(1). Further such interest is not governed by the provisions of sec. 43B.
- 13) Any interest payable to any scheduled bank is allowed on cash basis [Sec. 43B]. Hence, unpaid amount is disallowed.
- 14) Any expenditure of personal nature is not allowed. Further, no one can earn from a transaction with himself. Hence, sale made to himself is not treated as income.
- 15) Bad debt recovery is treated as income in the year of recovery to the extent of bad debt allowed in the earlier year [Sec. 41(4)]
- 16) Interest on late refund of income tax is taxable under the head 'Income from other sources'.
- 17) Receipt from debtor ₹ 80,000 in cash is not attracted by provision of sec. 40A(3).

**Q 12**

MTP June 23

Mr. X, a grower and manufacturer of tea, purchased machinery (15%) on 10-04-20XW for ₹ 10 lakh. He computed depreciation for A.Y. 20XY-XZ as given below; needs your comment on his working:

Particulars	₹
Opening W.D.V. as on 1/4/20XW	Nil
<b>Add:</b> Assets purchased during the year	10,00,000
	10,00,000
<b>Less:</b> Depreciation for the P.Y. 20XW-XX [₹ 10,00,000 * 15% * 40%] (As he is engaged in the business of growing and manufacturing tea; hence 60% is considered as part of agricultural income)	
Opening W.D.V. as on 1/4/20XX	9,40,000
<b>Less:</b> Depreciation for the P.Y. 20XX-XY [₹ 9,40,000 * 15% * 40%]	56,400
Opening W.D.V. as on 1/4/20XY	8,83,600

Further, compute his business income for A.Y. 20XY-XZ assuming that his income before depreciation and without reducing element of agricultural income is ₹8,00,000/-

**6.16 |Practice Questions**



## Answer

The method of computation of depreciation followed by Mr. X is not correct as Expl. 7 to sec.43(6) provides that:

“Where the income of an assessee is derived, in part from agriculture and in part from business chargeable to income-tax under the head “Profits and gains of business or profession”, for computing the written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire income is derived from the business of the assessee under the head “Profits and gains of business or profession” and the depreciation so computed shall be deemed to be the depreciation actually allowed under this Act.”

**The correct computation of depreciation is as follow:**

Particulars	₹
Opening W.D.V. as on 1/4/20XW	Nil
<b>Add:</b> Assets purchased during the year	10,00,000
	10,00,000
<b>Less:</b> Depreciation for the P.Y. 20XW-XX [₹ 10,00,000 * 15%] (Considering the entire income as taxable income)	1,50,000
Opening W.D.V. as on 1/4/20XX	8,50,000
<b>Less:</b> Depreciation for the P.Y. 20XX-XY [₹ 8,50,000 * 15%]	1,27,500
Opening W.D.V. as on 1/4/20XY	7,22,500

**Computation of business income of Mr. X for A.Y. 20XY-XZ**

Particulars	₹
Income before depreciation and without reducing element of agricultural income	8,00,000
<b>Less:</b> Depreciation	1,27,500
	6,72,500
<b>Less:</b> Agricultural Income being 60% of above	4,03,500
<b>Profits and Gains of Business or Profession</b>	2,69,000



**Q13**

MTP June 23

From the following details for the previous year 20XX-XY, compute depreciation and/or capital gain (or loss) for the relevant assessment year:

Particulars	₹
W.D.V. of the block of plant and machinery on 01.04.20XX (consisting of plants X and Y-depreciation rate 15%)	2,00,000
Cost of plant Z acquired on 19.11.XX (depreciation 15%)	1,00,000
<b>Case (i) :</b> All plants are sold for ₹ 2,80,000	
<b>Case (ii) :</b> Plant X and Y are sold for ₹ 2,80,000	

**Answer**

**Computation of Depreciation / STCG as per I.T. Act for the A.Y.20XY-XZ**

Particulars	Case (i)	Case (ii)
Block 1: <b>Plant &amp; Machinery</b> (Rate of depreciation: 15%)		
W.D.V. as on 1/4/20XX	2,00,000	2,00,000
<b>Add:</b> Purchase during the year	1,00,000	1,00,000
	3,00,000	3,00,000
<b>Less:</b> Asset sold during the year	2,80,000	2,80,000
<b>W.D.V. as on 31/03/20XX</b>	-	20,000
<b>Short Term Capital Gain / (Loss)</b>	(20,000)	
<b>Depreciation (15% of ₹ 20,000 for half year)</b>		1,500

Asset which is put to use for less than 180 days is eligible for ½ year depreciation

**Q14**

MTP June 23

X & Co. is a partnership firm, which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit:

Particulars	₹
Preparation of project report	4,00,000
Market survey	5,00,000
<b>Total</b>	<b>9,00,000</b>

The following further data is available:

Cost of project	30,00,000
Capital employed in the new unit	40,00,000

**6.18 | Practice Questions**



What is the deduction admissible to the firm u/s 35D for A.Y. 20XY-XZ?

### Answer

In case of firm, preliminary expenditure is restricted to 5% of cost of project. Hence, eligible preliminary expenditure is ₹1,50,000 (being 5% of ₹30,00,000). Further, eligible preliminary expenditure is deducted in five equal instalments. Therefore, deduction u/s 35D in respect of preliminary expenditure for the A.Y.20XY-XZ is ₹30,000 (being 1/5th of ₹1,50,000).

15

MTP Oct 23

M/s. Kumar Enterprises, a sole proprietorship own four machines, put in use for business in March, 20XW. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 20XX was ₹ 7,70,000. Two of the old machines were sold on 15th July, 20XX for ₹ 10,00,000. A second hand plant was bought for ₹ 6,10,000 on 30th December, 20XX. You are required to:

- Determine the claim of depreciation for Assessment Year 20XY-XZ.
- Compute the capital gains liable to tax for Assessment Year 20XY-XZ.
- If Kumar Enterprises had sold the two machines in July, 2022 for ₹ 15,00,000, explain, will there be any difference in your above workings?

### Answer

(i) **Computation of depreciation for A.Y.20XY-XZ**

Particulars	₹
W.D.V. of the block as on 1.4.20XX	7,70,000
<b>Add:</b> Purchase of second hand plant during the year [in December, 20XX]	6,10,000
	13,80,000
<b>Less:</b> Sale consideration of old machinery during the year [in July, 20XX]	10,00,000
<b>W.D.V of the block as on 31.03.20XY</b>	3,80,000
<b>Depreciation @ 15% but restricted to 50% thereon. ₹ 3,80,000 X 7.5%</b>	28,500
[Since the value of the block as on 31.3.20XY represents part of actual cost of second hand plant purchased in December, 20XY, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 28,500 being 7½% of ₹ 3,80,000]	

- In the given case, no capital gains would arise, since the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block as increased by the actual cost of asset purchased during the year.
- If the two machines are sold in July, 20XX for ₹ 15,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the



block at the beginning of the year and the additions made during the year

Particulars	₹	₹
Sale consideration		15,00,000
<b>Less:</b> W.D.V. of the machines as on 1.4.20XX	7,70,000	
Purchase of second plant during the year	6,10,000	
		13,80,000
<b>Short term capital gains</b>		1,20,000

**Q 16**

MTP Dec 23

P, Q and R are partners in a firm sharing profits and losses in the ratio of 1:1:2, provide the following information. Find firm's net income assuming that salary and interest are not paid to partners:

- Net income of the firm in assessment year 20XX-XY is (-) ₹1,20,000, out of which unadjusted depreciation is ₹ 40,000.
- On 31.05.20XX, R retires from the firm and the other partners carry on the same business.
- The firm's income for the Assessment Year 20XY-XZ before adjusting the aforesaid loss and depreciation is ₹1,20,000

**Answer**

Where a change occurs in the constitution of firm, on account of retirement or death of a partner, the proportionate loss of the retired or deceased partner shall not be carried forward. However, this section shall not apply in case of unabsorbed depreciation. Accordingly,

**Computation of total income for A.Y. 20XY-XZ**

Particulars	Details	₹	₹
Income before adjusting brought forward loss and depreciation			1,20,000
<b>Less:</b> Brought forward loss (excluding unabsorbed depreciation)	80,000		
<b>Less:</b> Loss which cannot be set off (Working)	30,000	50,000	
<b>Less:</b> Unabsorbed depreciation		40,000	90,000
<b>Total Income</b>			30,000
Total unabsorbed brought forward loss			1,20,000
<b>Less:</b> Unabsorbed depreciation			40,000
Brought forward loss excluding depreciation			80,000
Share of R in aforesaid loss $[(₹ 80,000 / 4) * 2]$			40,000
<b>Less:</b> Share of R in current profit before adjusting brought forward loss & depreciation $[(₹ 1,20,000 / 12 * 2) * 2 / 4]$			10,000
<b>Loss which cannot be set-off</b>			30,000

**6.20 | Practice Questions**



Q 17

PTP Dec 23

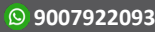
With Brief reasons state the eligibility of deduction in the following cases:

- (i) Amount due to a supplier of raw material ₹ 2,10,000 was waived by him
- (ii) Contract payment made by a firm to a company ₹ 22,000 without deduction of tax at source
- (iii) Amount due from a customer ₹ 45,000 written off as bad debt.
- (iv) Demerger expenses incurred during the year ₹12 lakhs.
- (v) Salary to wife of managing director ₹ 4,80,000 who has no qualification or experience.
- (vi) Provident Fund contribution of employees recovered out of their salaries during the previous year 2022 -23 ₹ 4,50,000 and was remitted in May, 2023.
- (vii) Donation to scientific research association ₹1,00,000 given by a company.

### Answer

#### Eligibility of deduction in certain cases:

- (i) When the amount of expenditure claimed as deduction is waived such amount is liable to tax under section 41(1).
- (ii) When a firm makes contract payment to a company it has to deduct tax at source @ 2%. However, if a single contract value (₹ 22,000) is less than ₹ 30,000 it would not attract provisions of section 194C. Therefore, the expenditure is eligible for deduction without any disallowance.
- (iii) When an amount due from a customer is written off it is eligible for deduction. The assessee need not have to prove that the debt has become bad.
- (iv) As per section 35DD one-fifth of demerger expenses is eligible for deduction in 5 successive previous years beginning with the previous year in which the demerger takes place.
- (v) Salary to wife of director to the extent it is excessive to her qualification and experience is liable for disallowance under section 40A(2)(a).
- (vi) As per section 36(1)(va) PF recovered from employees when not remitted before the 'due date' under the relevant statutory requirement, it is liable for disallowance. Therefore, ₹ 4,50,000 is liable for disallowance.
- (vii) Donation to scientific research association is eligible for deduction @100% as per further proviso to section 35(1)(ii).



Jaishankar is the sole proprietor of RGP & Co. Following is the Profit and Loss account for the year ended 31st March, 2023:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salary & Bonus	12,50,000	By Gross profit	35,78,000
To Rent to wife	1,40,000	By Agriculture income	1,80,000
To Interest on loan	60,000	By PPP interest	62,300
To Depreciation	41,200	By Bad debt recovery (written off in Assessment year 2017-18)	36,000
To Income tax	85,100		
To Travelling expenses	4,45,000		
To Medical expenses	3,45,000	By Discount	40,000
To Administrative expenses	4,50,000		
To Net Profit	10,80,000		
	38,96,300		38,96,300

**Following additional information is provided:**

- (i) Salary & Bonus includes payment of ₹ 95,000 to married daughter on the occasion of Diwali. It has no business connection.
- (ii) Discount credited to Profit and Loss account includes discount @ 2% being ₹ 20,000 allowed on supply of goods by brother and whereas other suppliers allowed discount for similar goods @ 5%.
- (iii) Rent paid to wife is excess by ₹50,000 considering the prevailing market conditions
- (iv) Interest on loan was paid to Rickson ₹ 60,000 for which no tax was deducted at source.
- (v) Travelling expenses include ₹ 2,15,000 for leisure trip of assessee and wife to Malaysia for 1 week.
- (vi) Medical expenses include hospital expenses of parents (senior citizens) ₹60,000 paid by cheque. Balance relates to staff medical expenditures incurred by employer.
- (vii) Depreciation debited includes one mobile phone bought for ₹12,000 by making payment in cash. The balance represents correct depreciation as per section 32 of the Act
- (viii) The total turnover of Jaishankar for previous year 2021-22 was ₹ 210 lakhs. The turnover in previous year 2022-23 was ₹ 95 lakhs.

Compute income under the head 'Profits & gains or business or profession' of Jaishankar for the assessment year 2023-24.

**6.22 | Practice Questions**



## Answer

Income from business or profession of RGP & Co Prop: Jaishankar, Assessment year 2023-24

= ₹ 13,72,800

Q 19

PTP Dec 23

Balaji Mills is a partnership firm consisting of four equal partners. Each partner contributed ₹ 5 lakhs towards capital. The deed of partnership authorised interest on capital @15% per annum and working partner's monthly salary of ₹ 20,000 to three partners.

The firm has net profit of ₹ 9 lakhs after debiting all expenses and interest on capital and working partner's salary. The opening stock (1.4.2022) was ₹ 9,90,000 and closing stock (31.3.2023) was ₹ 13,50,000 and both were undervalued by 10%.

Compute the total income of the firm for Assessment Year 2023-24.

## Answer

Total income of Balaji Mills for the Asst. Year 2023-24 = ₹ 10,00,000

Q 20

MTP Dec 23

Swetha is engaged in the business of selling house hold appliance. The Profit and Loss Account for the year ended 31st March 20XY shows a net profit of ₹ 3,64,000 after debiting or Crediting the following items:

- (i) Stationary bill was paid in cash ₹ 25,000
- (ii) Contribution to staff welfare schemes ₹ 40,000
- (iii) Outstanding GST ₹ 30,000
- (iv) Embezzlement of cash by cashier ₹ 10,000
- (v) Payment to contractor ₹ 1,50,000 without deducting tax at sources
- (vi) Depreciation on plant and machinery @20% ₹ 60,000 but depreciation permissible @15%
- (vii) Refund of customs duty which is claimed as deduction during 20XW-XY ₹ 15,000.

Compute income under the head "Profits and gains from business or Profession" for the assessment year 20XY-XZ.



**Answer**

**Computation of income from Profits and gains from business or Profession**

Particulars	₹
Net Profit as per P & L A/C	3,64,000
(+) Cash Payment	25,000
(+) Welfare Schemes	40,000
(+) GST	30,000
(+) Contractor (30%) (No TDS)	45,000
(+) Depreciation $[60,000 \times \frac{5\%}{20\%}]$	15,000
<b>Business income</b>	<b>5,19,000</b>

**Q 21**

PTP Dec 23

Mr. Gopal is the proprietor of a business. Following is his Profit and Loss Account for the year ended on 31.03.2023:

Particulars	Amount (₹)	Particulars	Amount (₹)
Establishment charges	5,110	Gross profit	5,00,000
Rent, rates and taxes	2,900	Interest on Govt. Securities (Gross)	5,350
Sundry expenses	7,050	Rent from property	5,400
Household expenses	1,880		
Provision for bad debts	1,200		
Loss on sale of motor car ( used for private purpose)	1,800		
Salaries	3,00,000		
Insurance premium (including life insurance of ₹ 1,790)	2,880		
Interest on bank loan	1,380		
Provision for Depreciation	6,400		
Net profit	1,80,150		
	5,10,750		5,10,750

**Additional information:**

- (i) Bad debts written off during the year: ₹ 650
- (ii) Admissible depreciation as per Income-tax rules: ₹ 1,600
- (iii) The assessee is running his business in a rented property, half of which is used by him for his own residence. Rent of ₹ 2,400 in respect of entire house is included in rent, rates and taxes. The balance of ₹ 500 is on account of municipal tax paid for property given on rent.

**6.24 |Practice Questions**



Compute the Income taxable under the head “Business and Profession” of Mr. Gopal for the assessment year 2023-24.

Mr. Gopal does not opt to be taxed under section 115 BAC of the Income Tax Act, 1961

### Answer

Income from Business and Profession ₹ 1,81,920

Q 22

MTP June 24

Rahul engaged in manufacture of chemicals and furnishes the following particulars relating to manufacturing unit at Morbi for the year ended on 31.03.2024:

	₹
WDV of machinery on 01.04.2023	10,00,000
New machinery purchased on 01.08.2023	10,00,000
New machinery purchased on 01.01.2024	4,00,000
Machinery sold on 15.01.2024	1,00,000

All assets were put to use immediately. Rate of depreciation on machinery is 15%.

Compute the depreciation allowable to him, if he has opted for option given u/s 115BAC(6).

### Answer

Computation of Depreciation

Particulars	Amount (₹)
Opening W.D.V.	10,00,000
Add: Purchase during the year	14,00,000
	24,00,000
Less: Sale proceeds during the year	1,00,000
Closing W.D.V. (before depreciation)	23,00,000
Depreciation [₹ 19,00,000 * 15% + 4,00,000 * 15% * ½]	3,15,000
Additional Depreciation [₹ 10,00,000 * 20% + 4,00,000 * 20% * ½]	2,40,000
Total Depreciation	5,55,000

**Q23**

PTP June 24

Mr Aman engaged in retail trade of stationary items, reports a turnover of ₹2,99,00,000 for the financial year 2023-2024. Amount received in cash during the previous year 2023-2024 is 13,50,000 and balance through prescribed electronic modes on or before the due date for filing the return specified in section 139(1) of the Income Tax Act, 1961 . His income from the said business as per books of account is ₹14,50,000 computed as per the provisions of Chapter IV-D, Profit and gains from business or profession of the Income Tax Act, 1961.

Retail trade is the only source of income for Mr Aman. Assessment year 2023-2024 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation under section 44AD.

Decide whether Mr Aman is eligible for presumptive determination of his income chargeable to tax for the assessment year 2024-2025.

If so, determine his income from retail trade as per the applicable presumptive provisions.

Indicate clearly the reasons for treatment of each item.

**Answer**

(i)	Under section 44AD, for eligible business, where the amount or aggregate turnover of the amounts received during the previous year, in cash, does not exceed 5% of the total turnover or gross receipts, a threshold limit of ₹ 3,00,00,000 will apply.	
	Since his cash receipts during the previous year does not exceed 5% of the total turnover i.e., 4.52% and his total turnover for the financial year 2023-2024 is below ₹ 3,00,00,000, i.e., ₹ 2,99,00,000, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.	
(ii)	Realized by cash ₹ 13,50,000 during the previous year @ 8%	₹1,08,000
	Realized balance ₹ 2,85,50,000 through prescribed electronic modes on or before the due date for filing the return specified in section 139(1) @ 6%	₹17,13,000
	Income from retail trade, applying the presumptive tax provisions under section 44AD	₹18,21,000



Q 24

MTP Dec 24

X Co., a firm, is engaged in the business of trading of cloth (turnover of 2023-24 being ₹ 1,57,80,000, out of which ₹ 25,00,000 has been received in account payee cheque). It wants to claim the following deductions:

Particulars	Amount (₹)
Salary and interest to partners [as permitted by sec. 40(b)]	60,000
Salary to employees	4,90,000
Depreciation	2,70,000
Cost of materials used	1,20,90,000
Other expenses	13,45,000
Total	1,42,55,000
Net profit (₹ 1,57,80,000 – ₹ 1,42,55,000)	15,25,000

Determine the net income of X & Co. for the assessment year 2024-25 assuming that (i) taxable interest income is ₹ 90,000; (ii) Long term capital gain is ₹ 1,40,000; and (iii) the firm is eligible for a deduction of ₹ 15,000 under sec. 80G.

### Answer

Since turnover from business does not exceed ₹ 2 crore, hence sec. 44AD is applicable. However, income computed as per provision other than provision of sec. 44AD is less than estimated income, hence, the firm may be assessed for such lesser income provided following conditions are satisfied-

1. Maintain books of account as prescribed u/s 44AA; and
2. Get accounts audited u/s 44AB.

Where it maintains accounts and gets it audited -

Computation of total income of X & Co. for the A.Y. 2024-25:

Particulars	Amount (₹)
Profits and gains of business or profession: Income from cloth business	15,25,000
Capital gains: Long term capital gain	1,40,000
Income from Other Sources: Interest Income	90,000
Gross Total Income	17,55,000
Less: Deduction u/s 80G	15,000
Total Income	17,40,000

It is assumed that all the expenditures are allowed.

Where it does not maintain account or fails to get accounts audited -



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Computation of total income of X & Co. for the A.Y.2024-25:

Particulars	Details (₹)	Amount (₹)
Profits and gains of business or profession		
Income from cloth business (being 6% of ₹ 25,00,000)	1,50,000	
Income from cloth business (being 8% of ₹ 1,32,80,000)	10,62,400	12,12,400
Capital gains: Long term capital gain		1,40,000
Income from Other Sources: Interest Income		90,000

Gross Total Income		14,42,400
Less: Deduction u/s 80G		15,000
Total Income		14,27,400

**Q 25**

MTP Dec 24

Calculate the gross total income of Mr. Inder Kumar Basu on the basis of the following particulars:

Dr. Extract of Profit and Loss Account for the year ended 31.03.2024 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
Interest	1,800	Gross profit b/d	1,22,700
Repairs and Renewals	2,200	Interest on debenture of an Institution (Gross)	10,000
Insurance	4,200	Rent from House Property	36,000
Depreciation	5,600		
Compensation	10,200		
Law charges	5,100		
Labour welfare charges	3,800		
Subscriptions	5,800		
Net Profit	1,30,000		
	1,68,700		1,68,700

(1) i. Interest includes ₹200 on loan taken for purchasing debentures of a company and ₹300 on loan taken for reconstruction of house property let out.

ii. The expenses relating to house property let out are 40% of the repairs and renewal expenses.

iii. Depreciation includes ₹1,200 on house property let out.

iv. Compensation was paid to an employee whose dismissal was in business interest.

v. Insurance includes 30% for fire insurance of the house property let out, 30% for workers accident insurance and the balance for life insurance.

## 6.28 | Practice Questions



vi. Law charges include ₹ 2,000 relating to a petition filed against breach of contract and the balance regarding sales tax appeal.

vii. Subscriptions include ₹2,000 given for election purpose to political parties.

(2) The amount not debited to profit and loss account are as follows

i. Expenses incurred on the occasion of Festival ₹800

ii. Theft of cash from locker ₹1,200.

iii. Expenses for new telephone connection in the business ₹2,000.

### Answer

Particulars	₹	₹
Income from House Property		
Rent from house property		36,000
Less: Municipal taxes		Nil
		36,000
Less: (i) Standard deduction @30%	10,800	
(ii) Interest	300	11,100
		24,900
Profit and Gains of Business Profession:		
Net Profit as per P&L A/c		1,30,000
Add: Inadmissible expenses		
(i) Interest on loan for securities and house property (200+300)	500	
(ii) Repairs and renewals of property (40%)	880	
(iii) Depreciation on House Property	1,200	
(iv) Fire insurance premium on House Property	1,260	
(v) Life insurance premium	1,680	
(vi) Subscription to political parties	2,000	7,520
		1,37,520
Less: Income not taxable under this head		
(i) Interest on Debentures	10,000	
(ii) Rent from House Property	36,000	46,000
		91,520
Less: Expenses allowable but not debited to P&L a/c		
(i) Festival Expenses	800	
(ii) New telephone expenses	2,000	
(iii) Loss of cash due to theft	1,200	4,000
Business Income		87,520



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Income from other sources		
Interest on debentures (10,000 – 200)		9,800
Computation of Gross Total Income		
(i) Income from House Property	24,900	
(ii) Profit and Gains of Business Profession	87,520	
(iii) Income from other sources	9,800	
	1,22,220	

Note –

- Subscription ₹ 2,000 paid to political party shall be allowed as deduction u/s 80GGC.
- LIP of ₹ 1,680 (40% of ₹ 4,200) shall be allowed as deduction u/s 80C.

**Q 26**

PTP Dec 24

M/s T and U & Co. is a partnership firm having 2 equal partners, Taresh and Umesh. The firm furnishes the following Profit and Loss Account to you relating the Financial Year 2023-24:

Particulars	Amount (₹)	Particulars	Amount (₹)
Rent paid	45,000	Gross Profit	10,50,000
Salary paid to employees	36,000	Rent received from let out property	3,60,000
General expenses	60,000		
Depreciation	42,000		
Payment to partners:			
(a) Interest to Taresh	3,00,000		
(b) Salary to Umesh	6,40,000		
Net profit	2,87,000		
	14,10,000		14,10,000

Additional Information:

- The firm has a brought forward business loss amounting to ₹ 20,000 and unabsorbed depreciation of ₹ 40,000, both relating to Assessment Year 2023-24.
- Interest is paid to Taresh at the rate of 16% p.a. The firm took a loan from Taresh. The Schedules banks in India charge interest at the rate of 20% for the similar loan. The partnership deed does not contain any clause relating to payment of interest to any partner.
- The partnership deed authorises Umesh to receive salary as a working partner.
- General expenses include ₹ 74,000 paid to Mr. Som on which TDS needed to be deducted but not deducted.
- Depreciation as per the Income Tax Rules is ₹ 54,000.

## 6.30 | Practice Questions



You are required to compute the income under the head 'Profits and gains from business or profession' in the hands of Mis T and U & Co. for the Assessment Year 2024-25.

### Answer

Particulars	₹	₹
Net profit as per Profit and Loss account		2,87,000
Add: Expenses not allowed		
General expenses of Rs. 40,000 without deduction of TDS (30% disallowed)	12,000	
Interest to partners (Disallowed as it is not authorised by partnership deed)	3,00,000	
Depreciation debited to Profit and Loss account	42,000	
Salary paid to partner debited to Profit and Loss account	6,40,000	9,94,000
Less:		
Depreciation as per Income-tax Rules	54,000	
Unabsorbed Depreciation	40,000	
Income taxable under the head "House property"	3,60,000	4,54,000
Book-profit for the calculation of salary to partner		8,27,000
Salary allowable (minimum of the following):		
Actual salary	6,40,000	
Maximum allowed: (₹6,00,000 @90%) + (₹5,27,000 @60%)	6,76,200	
Allowed amount of salary to partners		6,40,000
Business income		1,87,000
Less: Brought forward business loss		20,000
Income under the head "Profits and gains of Business or profession"		1,67,000