

EKATVAM ACADEMY
SOLUTION FOR PAPER 6 : PROFIT AND GAINS OF BUSINESS
OR PROFESSION
CA/CMA INTER

SOLUTION 1

Computation of depreciation and additional depreciation for A.Y. 2024-25

Particulars	Plant & Machinery (15%)	Computer (40%)
Normal depreciation		
@15% on ₹ 50,00,000 [See Working Notes 1 & 2]	7,50,000	-
@7.5% (50% of 15%, since put to use for less than 180 days) on ₹ 8,00,000	60,000	-
@20% (50% of 40%, since put to use for less than 180 days) on ₹ 3,00,000	-	60,000
Additional Depreciation		
@20% on ₹ 20,00,000 (new plant and machinery put to use for more than 180 days)	4,00,000	-
@10% (50% of 20%, since put to use for less than 180 days) on ₹ 8,00,000	80,000	-
Total depreciation	12,90,000	60,000

Working Notes :

(1) Computation of written down value of Plant & Machinery

Particulars	Plant & Machinery (₹)	Computer (₹)
Opening balance as on 1.4.2023	30,00,000	-
Add: Plant & Machinery purchased on 08.6.2023	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2023	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2024	58,00,000	3,00,000

(2) Composition of plant and machinery included in the WDV

Particulars	Plant & Machinery (₹)	Computer (₹)
Plant and machinery put to use for 180 days or more [₹ 30,00,000 (WDV) + ₹ 20,00,000 (purchased on 8.6.2023)]	50,00,000	
Plant and machinery put to use for less than 180 days	8,00,000	-

Computers put to use for less than 180 days	-	3,00,000
	58,00,000	3,00,000

Notes :

- (1) Where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.
Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2023 and computer acquired and installed on 02.01.2024, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to ₹ 80,000, being 10% (i.e., 50% of 20%) of ₹ 8 lakh. Mr X is eligible for additional depreciation since he has exercised the option of Shifting out of the default tax regime provided u/s 115BAC(1A).
- (2) As per third proviso to section 32(1)(ii), the balance additional depreciation of ₹ 80,000 being 50% of ₹ 1,60,000 (20% of ₹ 8,00,000) would be allowed as deduction in the A.Y.2025-26.
- (3) As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, @20% of the actual cost of such machinery or plant.
However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant installed in office premises, residential accommodation or in any guest house.
Accordingly, additional depreciation is not allowable on computer installed in the office premises.

SOLUTION 2

Computation of profits and gains of business or profession for A.Y.2024-25

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32	
10% of ₹ 30 lakh, being (₹ 50 lakh – ₹ 30 lakh + ₹ 10 lakh)	3
Income chargeable under “Profits and gains from business or profession”	28

Computation of income/loss from specified business under section 35AD

Particulars	Food Grains	Sugar	Total
	₹ (in lakhs)		
(A) Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD)	16	14	30
Less: Deduction under section 35AD			

(B)	Capital expenditure incurred prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh – ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh – ₹ 40 lakh)	30	20	50
(C)	Capital expenditure incurred during the P.Y.2023-24	20	15	35
(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction under section 35AD			
	100% of capital expenditure (food grains/ sugar)	50	35	85
	Total deduction u/s 35AD for A.Y.2024-25	50	35	85
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction u/s 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

Notes:

- (i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.
- (ii) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- (iii) Mr. A can, however, claim depreciation @10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2023-24.
- (iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

SOLUTION 3

- (i) Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover $(14,00,000/2,98,50,000 \times 100)$ and his total turnover for the F.Y.2023-24 is below ₹ 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.
- (ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).
- (iii) Mr. Praveen had declared profit for the previous year 2022-23 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e.,

A.Y. 2024-25 to A.Y. 2028-29, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2023-24 relevant to A.Y.2024-25, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2025-26 to A.Y. 2029-30 .

Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

- (iv) In case he declares presumptive income under section 44AD, the due date would be 31st July, 2024. In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2024.

SOLUTION 4

Computation of business income of Mr. Sivam for the A.Y. 2024-25

Particulars		₹	₹
Net Profit as per profit and loss account			50,000
Add: Inadmissible expenses/ losses			
	Under valuation of closing stock	18,000	
	Salary paid to brother – unreasonable [Section 40A(2)]	2,000	
	Printing and stationery - whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds ₹ 10,000 [Section 40A(3)]	23,200	
	Depreciation (considered separately)	8,100	
	Short term capital loss on shares	2,000	1,58,300
	Donation to public charitable trust		
			2,08,300
Less:	Items to be deducted:	9,000	
	Under valuation of opening stock		
	Income from UTI [Chargeable under the head “Income from Other Sources”]	2,400	11,400
Less:	Business income before depreciation		1,96,900
	Depreciation (See Note 1)		66,000
			1,30,900

Computation of business income as per section 44AD :

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., ₹ 1,12,11,500 x 6 /100 = ₹ 6,72,690

Notes:**1. Calculation of depreciation**

Particulars	₹
Opening balance of plant & machinery as on 1.4.2023 (i.e. WDV as on 31.3.2023 (-) depreciation for P.Y. 2022-23)	4,20,000
Add : Cost of new plant & machinery	70,000
	4,90,000
Less : Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2024	4,40,000
Depreciation @ 15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

SOLUTION 5

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.

Particulars	₹	₹	₹
Sale value of cured coffee			22,00,000
Less: Expenses for growing coffee		3,10,000	
Car expenses (80% of ₹ 50,000)		40,000	
Depreciation on car (80% of 15% of ₹ 3,00,000)		36,000	
[See Computation below]			
Total cost of agricultural operations		3,86,000	
Expenditure for coffee curing operations	3,00,000		
Add: Depreciation on machinery (15% of ₹15,00,000)	2,25,000		
[See Computation below]			
Total cost of the curing operations		5,25,000	
Total cost of composite operations			9,11,000
Total profits from composite activities			12,89,000
Business income (25% of above)			3,22,250
Agricultural income (75% of above)			9,66,750

Computation of depreciation for P.Y. 2023-24

Particulars	₹	₹
Car		
Opening balance as on 1.4.2023 (i.e., WDV as on 31.3.2023(-) depreciation for P.Y.2022-23)		3,00,000
Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y.2022-23)		15,00,000
Depreciation @ 15% for P.Y. 2023-24		2,25,000

Explanation 7 to sec 43(6) provides 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.