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CA FINAL DT **MAY 26** PGBP ADJUSTMENT SHEET

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PGBP Adjustment Sheet (By CA Rohan Garg AIR5)

Profit and Loss as per P&L A/c	xx
<p>Add: Items to be added to profit and loss account, if not already added</p> <ol style="list-style-type: none"> 1. Incentives of export business: Profit on sale of import entitlements, customs /excise duty etc. 2. Compensation rec with respect to termination or modification of contract relating to business 3. Value of any benefit or perquisite with respect to business or profession 4. Sum received for not carrying out any Business or Profession 5. Sum received under key man insurance policy 6. FMV of inventory on its conversion as capital asset 7. Balancing Charge: In case Sale value > WDV [In case of Undertaking engaged in generation or generation and distribution of power] 8. If scientific research asset is sold then sale amount or deduction allowed, whichever is lower 9. If specified business (35AD) asset is sold, then sum received shall be chargeable to tax 10. Amount received on Remission or cessation of trading liability Section 41(1) Waiver of Working capital loan will also be added here 11. In case of asset purchased from outside India, Profit on cancellation of forward contract is added, while loss is to be deducted from P/L A/c (Section 43A) Note: Gain or Loss from forward contract is to be adjusted from WDV of asset 12. Gains from foreign exchange change is added, while loss is to be deducted from P/L A/c 13. Recovery of Bad debts in excess of outstanding amount of debtor Example: Debtor is of 100,000. Bad debt claimed 40,000. Then we recovers from debtors 70000, in this case (70,000 - 40,000) = 30,000 will be added to profits 14. Overvaluation of opening stock/ Undervaluation of closing stock 15. Interest on, FD made with a bank, as margin money for obtaining bank guarantee 16. Escalation claim if court has given order in favor of company in current financial year 17. Industrial Power tariff concession received from government 	xx
<p>Add: Items debited to profit and loss account which are disallowed</p> <ol style="list-style-type: none"> 1. Depreciation as per Companies Act 2. If TDS not deducted or not paid upto due date of ROI then 100% expenditure is disallowed in case of payment to NR and 30% expenditure is disallowed in case of payment to Resident 3. Section 40(a)(iii): Salary paid to NR and if tax has not been paid or deducted 4. Section 40(a)(v): Payment of tax on perquisites by an employer on behalf of employee 5. Section 40(a)(ib): Non deduction or Non deposition of Equalization levy: 100% Disallowed 6. Section 40(a)(ii): Tax including surcharge & cess 7. Expenditure on transfer of carbon credits 8. Interest paid to partners in excess of 12% rate of interest 9. Interest paid on loan taken for purchasing shares. Note this interest will be deducted from dividend income under IFOS upto 20% of dividend income 10. Excess payment u/s 40A(2) is disallowed and hence added back 11. Cash Payments Section 40A(3) [Exception of 40A(3): Refer Annexure 3] <ul style="list-style-type: none"> • Aggregate Payments for expense to single person in day > Rs. 10,000 by cash/ bearer cheque/ cross cheque, then such payment= 100% Disallowed • In case of transporter, then limit will be Rs 35,000 instead of Rs 10,000 • If Exp. claimed as deduction in earlier years on due basis and if such Exp. is subsequently paid in cash, cross cheque in excess of 10000 in day then deduction allowed earlier is taxable under PGBP 	xx

12. **Section 40A(7)** Provision for gratuity is disallowed and hence added back
 Exceptions: Provision made for the following allowed as deduction:
 - Payment to an approved gratuity fund
 - Payment of gratuity payable during the year
13. **Sections 40A(9)** No deduction will be allowed where assessee pays in his capacity as employer, any sum towards setting up or formation of or as contribution to any fund, trust, company, AOP, BOI, society or other institution for any purpose
14. Retrenchment compensation paid on closure of WHOLE business is disallowed
 While retrenchment compensation paid for closure of some of business units will be allowed
15. **Certain Deductions To Be allowed Only On Actual Payment [Section 43B] Refer Annexure 4**
 If bonus is paid to trust and not employees, then expenditure not allowed. However if trust remits the bonus to employees before ROI due date, then expenditure allowed
16. Non compete Fees or Franchisee Fees paid will be added back since it is an intangible assets and depreciation should be allowed on it
17. Amount of loss when machine is destroyed in fire (Its scrap value if credited to P/L will also be deducted from P/L)
18. Opinion charges paid to experts and development charges related to capital assets
19. Foreign travel expenditure of director for collaboration agreement related to new business
20. Expansion expenses of new business or new project
21. Interest on loan taken for payment of income tax
22. Payment made to commodity brokers without deducting TDS
 If assessee is engaged in commodity business: 30% of expense to be added back only
 If assessee is not engaged in commodity business: 100% of expense to be added back
23. Payment made to security brokers without deducting TDS
 If assessee is engaged in security trading business: Nothing to be added back (since 194H NA)
 If assessee is not engaged in security business: 100% of expense to be added back
24. **Expenses belonging to other heads will be added to PL A/c and taxable under such other heads**

Less: Items to be deducted from profit and loss account, if not already deducted

1. Depreciation as per Income Tax Act (Depreciation on land not allowed)
2. Expenditure for which invoice is not available but online payment proof and goods inward report is available will be allowed as deduction
3. Rent, rates, taxes, repairs and insurance for buildings
4. Repairs (other than capital) and insurance of P&M and furniture
5. Interest on share application money deposited in bank since it is not taxable and should be adjusted with share issue expenses
6. Additional Depreciation (if applicable) @ 20% on Actual cost (Not allowed u/s 115BAC, 115BAA, 115BAB)
7. **Terminal Depreciation:** In case WDV > Sale value, differential amount will be allowed as expense [In case of Undertaking engaged in generation or generation & distribution of power]
8. Deduction for Scientific Research is allowed (**Refer Annexure 6**)
9. Deduction for telecom spectrum/ telecom license [Section 35ABA] (**Refer Annexure 7**)
10. Government grant received for acquisition of asset is deducted from PL A/c since it is to be reduced from actual cost of asset as per ICDS
11. Deduction for 100% of Capital Expenditure allowed except land, goodwill or financial instrument in case of 35AD Business
12. Contributions for Rural Development Fund/National Urban Poverty Eradication Fund [35CCA]
13. Deduction in respect of exp incurred on notified agricultural extension project [35CCC]
 Exp (not being on any L&B) > 25 lakhs is expected to be incurred for the project
14. Deduction of exp incurred by companies in manufacturing sector on notified skill development project [Section 35CCD] (Only for companies) (Exp on L&B not allowed)

(xx)

15. Deduction of Preliminary Expenses [Section 35D]:

[(Actual or below limit) which is lower] in 5 equal instalments in 5 years

Max Limit:

- Indian company: 5% of (Cost of project or capital employed, whichever is higher)
- Other resident assessee: 5% of Cost of project

16. Amortisation of exp for Amalgamation/demerger: Only to Indian com: 1/5th exp for 5 years.

17. Amortisation of exp incurred under VRS [Section 35DDA]: 1/5th exp for 5 years.

18. Deduction under Section 36 (Refer Annexure 1)

19. Deduction under Section 37 (Refer Annexure 2)

20. Overvaluation of closing stock

21. Undervaluation of opening stock

22. Income Tax refund and Interest on income tax refund

Note : Interest on Income tax refund will be IFOS income

23. Feasibility study expenses conducted for technological advancements relating to existing business will be allowed even if it is abandoned without creation of new asset

24. Deduction u/s 33AB is allowed (Refer Annexure 5)

25. Legal fess incurred in defending title of factory premises related to business

26. Interest payable converted to equity shares allowed as per latest case law

27. **Income belonging to other heads will be deducted from PL A/c and taxable under such other heads**

Taxable PGBP Income xx

Section 36 (Other Deductions) (Annexure 1)

1. Insurance premium of stock is allowed however Insurance on life of partners is not allowed

- Premium paid under keyman insurance policy is allowed.

2. Premia paid by employer (not in cash) for health insurance of employees

3. Bonus and Commission to employees other than payable to them as profits or dividends

4. Interest on borrowed capital for purposes of B/P. **However Interest paid, in respect of capital borrowed for acquisition of new asset** upto date of put to use of asset: Added to cost of asset

5. Discount on Zero Coupon Bonds amortized over life of bond

6. Contribution to employees' recognised provident fund/approved superannuation fund

7. Employer's contribution to account of employee under Pension Scheme referred to in 80CCD up to **14% of salary** of employee in PY. Salary includes DA, if terms of employment so provide, but excludes all other allowances and perquisites

8. Amount received by employer as contribution from his employees towards their welfare fund to be allowed only if such amount is credited on or before due date i.e within 15 days from end of month. (Note: Section 43B not apply here)

9. Deduction in respect of animals which have died or become permanently useless.

(Deduction = Actual cost of animal - scrap value)

10. Bad Debts:

- Incurred in ordinary course of business is allowed i.e Sales made to customers.
- However Bad debts w.r.t Loan given: Not allowed (Except money lending business)
- Provision for Bad debts: Not allowed (Except banks)

11. Expenses on family planning amongst its employees by company.

Capital expenditure (CE) allowed 1/5th in 5 years.

12. Deduction of STT/CTT paid only if securities/commodities are held as SIT.

13. Only M2M losses specifically permitted under any ICDS would be allowable as deduction

Section 37 General Deduction: (Annexure 2)

Exp. (other than covered above) is allowed as deduction, if following conditions are satisfied:

- Revenue in Nature
- Incurred wholly and exclusively for BP (not personal)
- Legal (not prohibited by law)

1. Advance given to employee and became bad debt: **Allowed as revenue expense.**
2. Advertisement expenditure in political party publications: **Not allowed** (Deductible in 80GGB allowed only for companies).
3. Commission paid to doctors by a diagnostic center for referring patients: **Not allowed.**
4. Contribution to electoral trusts and other donations: **Not allowed.**
5. CSR Expenditure: **Not allowed** (except if it qualifies under sections 30-36).
6. Debenture issue expenses (including convertible debentures): **Allowed.**
7. Discount on the issue of debentures: **Allowed** over the life of debentures.
8. Expenses incurred for obtaining ISO certification: **Allowed.**
9. Expenses incurred on heart surgery of individual assessee: **Not allowed.**
10. Expenses incurred on projects unrelated to existing business, which were abandoned: **Not allowed.**
11. Expenses on glow sign boards: **Allowed.**
12. Freebies provided by pharmaceutical companies to doctors: **Not allowed.**
13. Goods confiscated by customs authorities in foreign due to statutory violations (SIT loss): **Allowed**
14. Keyman insurance policy expenses: **Allowed.**
15. Loss due to theft if incidental to business: **Allowed.**
16. Loss of illegal business allowed from profits of legal business: **Allowed**
17. Payment to consultant for opinion on new business: **Not allowed.**
18. Provision based on fair estimate and reasonable certainty as per ICDS: **Allowed.**
19. Prov for gratuity (even based on actuarial valuation): **NA** (Only gratuity actually paid is allowed).
20. Any Provision made for loss of subsidiary, deferred tax/income tax, diminution in asset value, or unascertained liability: **Not allowed.**
21. Regularization/compounding fees: **Not allowed.**
22. Securities deposit to landlord and became irrecoverable: **Not allowed.**
23. Share issue expenses (other than preliminary):
 - For IPO/FPO/Right issues: **Not allowed.**
 - For buyback or bonus issues: **Allowed.**
24. Sponsorship Fees: **Allowed.**
25. Penalties for infraction/ violation/ breach of law: **Not allowed**
26. Penalties for breach of contract: **Allowed**
27. Tax on non-monetary perquisites of employees paid by employers: **Not allowed.**
28. Website development, corporate membership of clubs: **Allowed.**
29. Dividend & DDT: **Not allowed**
30. Secret commission, bribe, payment to gundas: **Not allowed**
31. **Tax, interest and penalties of Direct and Indirect Tax**

Income Tax	Indirect Tax (GST, Customs, Sales Tax)
Tax, Advance tax, TDS, Interest (including interest on TDS & advance tax) & Penalty: NOT ALLOWED	Tax, Advance tax, TDS, Interest (including interest on TDS & advance tax): ALLOWED Penalty: NOT ALLOWED

Note: Fees for delayed filing of TDS statement u/s 234E: Allowed

Refund of Direct and indirect Tax

- Income tax refund: Not taxable
- GST etc refund: Taxable (net of amount refunded to customers)

32. Expenditure incurred on abandoned films not treated as Capital Expenditure but will be treated as revenue expense and will be allowed

Exceptions to Section 40A(3) (Annexure 3)

1. Payments made by **A/c payee cheque, ECS, DD, any other electronic mode such as NEFT, RTGS, Debit card, Credit card**
2. Payment made to **bank/ LIC/ Government**
3. where payment is made by
 - any **letter of credit** arrangements through a bank;
 - a mail or **telegraphic transfer** through a bank;
 - a **book adjustment** from any A/c in bank to any other A/c in that or any other bank;
 - a **bill of exchange** made payable only to a bank
4. Payment by **book entry**

Debtor 100,000 To Sales 100,000	Purchase 100,000 To Creditor 100,000	Creditor 100,000 To Debtor 100,000
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5. Payment made in **village or town** where no banking facility available to any person who ordinarily resides, or is carrying on any business, profession or vocation, in any such village or town;
6. Payment of **retirement benefits** to employees/ their family upto Rs **50000**
7. **Salary to employee** who is posted to place other than his normal place of duty for **(15 days or more)** or (on a ship) + TDS deducted u/s 192 + he does not have any bank account at such place/ ship
8. Payment to producers, grower or cultivators of agricultural product, forest product, poultry, dairy product, fish product, live stock etc (Not to middlemen or trader). Producers of vegetables, milk products and Eggs are covered under this exception

Notes -

- 'Fish or fish products' would include 'other marine products such as shrimp, prawn, cuttlefish, squid, crab, lobster etc.'
- Producers of fish or fish products would include, besides fishermen, any headman of fishermen, who sorts catch of fish brought by fishermen from sea, at sea shore itself and then sells fish or fish products to traders, exporters etc

9. Purchase of products manufactured or processed without aid of power in cottage industry to producer of such products.
10. Payment by any person to his agent who is required to make payment in cash for G/S on behalf of such person
11. Payment is made by authorised dealer or money changer against purchase of foreign currency or travelers cheques in normal course of his business

Certain Deductions To Be Made Only On Actual Payment [Section 43B] (Annexure 4)

- a) Tax, duty, cess or fee (Including interest on tax)
- b) Employer contribution to any PF or superannuation fund or gratuity fund or
- c) Bonus or Commission payable to employees, or
- d) Interest on any loan or borrowing from any PFI or SFC or SIIC or NBFC or scheduled bank or co-operative bank other than Primary Agricultural Credit Society (PACS) or Primary Co-Operative Agricultural and Rural Development Bank (PCARDB), or
- e) Leave encashment to employees
- f) Sum payable to Indian Railways for use of Railway assets.
- g) Sum payable to Micro or Small enterprise beyond time-limit specified in Sec. 15 of MSMED Act

Notes:

1. For clauses (a) to (f), deduction will be allowed if above exp have been paid by assessee on or before due date of ROI in respect of P.Y. in which the liability to pay such sum was incurred.
2. If interest payable on loan/borrowing is further converted into loan, borrowing, debenture, etc., then this converted interest is not allowable as deduction in year of conversion as loan. Deduction allowed in P.Y. in which converted interest is actually paid.
3. Employer vs. Employee Contributions to Welfare Funds:

Employer Contributions u/s 43B	Deductible if paid by due date of ROI
Employee Contributions u/s 36(1)(va)	Deductible only if paid by specific due date in relevant Act. Thus, even 1 day delay = disallowance forever.

4. Meaning of Micro and Small enterprise (Medium not covered here):

Type of Enterprise	Investment in P&M		T/O
Micro	≤ Rs. 2.5 crore	AND	≤ Rs. 10 crores
Small	≤ Rs. 25 crore	AND	≤ Rs. 100 crores

As per Sec. 15 of MSMED Act, if there is written agreement, payment to micro or small enterprise must be made by that agreed date, which cannot exceed 45 days from acceptance of G/S. If there is no written agreement, payment must be made within 15 days.

If payment is made within stipulated time (45 days/15 days), assessee can claim a deduction on accrual basis if he follows mercantile system of accounting. However, if payment is delayed beyond these periods, deduction is allowed only in P.Y. in which payment is actually made.

Tea/ Coffee/ Rubber Development Account [Section 33AB] (Annexure 5)

Deduction available to assessee carrying on business of growing and manufacturing tea or coffee or rubber in India.

Amount of Deduction:

Amount Deposited or 40% of profits of business before making any deduction under this section, whichever is less. (Above deduction will be allowed before setting off of b/f loss)

Time limit to deposit amount: Before expiry of 6 months from end of FY OR before due date of ROI, whichever is earlier

Audit of BOA is mandatory u/s 44AB to claim deduction.

- Any amount cannot be withdrawn except for purposes specified in scheme (Also revenue exp. Not allowed from deposit account)
- Above amount can also be withdrawn in following circumstances: (a) Closure of business (b) Death of assessee (c) Partition of HUF (d) Dissolution of a firm (e) Liquidation of a company
- In case of Point a and d above, amount withdrawn shall be deemed to be income of that PY and shall be chargeable to tax as income of that PY, as if business had not closed or firm had not been dissolved

Where sum standing to credit of assessee is utilised for purchase of:

- PM installed in office premises or residential accommodation including a guest house.
- Office appliances (other than computers)
- PM whole of actual cost of which is allowed as deduction in any one PY
- PM installed of business any article specified 11th Schedule.

whole amount so utilised treated as income of that year and taxed accordingly (Same for 33ABA)

Amount withdrawn during PY but not fully utilized, unutilised amount treated as income of that PY
However, where such amount is released during PY at closing of account on death of assessee, partition of HUF or liquidation of company, above restriction will not apply

Acquired asset t/d before expiry of 8 years from end of PY in which it was acquired; cost of such asset shall be income of PY in which it is t/d.

Apportionment of Income into Taxable Business income and Agriculture income

Income from growing and manufacturing in India	Agriculture income	Business Income
Tea	60%	40%
Rubber	65%	35%
Coffee (Grown and cured)	75%	25%
Grown, cured, grounded, roasted	60%	40%

Calculation of taxable business Income: [Net Profit as per Income tax Act (before section 33AB) - Deduction u/s 33AB + (Misutilized amount during PY + Amount withdrawn but not utilized during PY + Cost of Asset sold within 8 years)] - Agricultural portion - Business loss = PGBP Income

Imp note: In case revenue exp incurred during PY from deposit account, amt of such exp shall be added to Net profit first and then eligible deduction shall be calculated u/s 33AB.

In cases of composite income, for computing WDV, dep shall be computed as if entire composite income is chargeable under PGBP. Dep so computed shall be deemed to have been actually allowed to assessee

Expenditure on Scientific Research [Section 35] (Annexure 6)

<p>Inhouse: (Revenue and capital exp related to the business carried on by assessee)</p> <ul style="list-style-type: none"> • Within 3 years before start of business: 100% deduction in year of commencement of business <ul style="list-style-type: none"> Revenue Exp. (Material and salary (salary doesn't include perquisites)) Capital Exp. (Except land) (whether land is acquired as such or part of property) • After commencement of business: 100% deduction in the year of expense: Revenue and Capital Exp. (Except land) (whether land is acquired as such or part of property) <p>Note: Deduction of WDV allowed where asset tfd from existing business to scientific research business.</p>	<p>Outside contribution: 100% deduction allowed of the following:</p> <ul style="list-style-type: none"> • To Indian co. engaged in R&D, IIT, IIS, national laboratory for scientific research • To approved research association, college, for scientific research or social & statistical research <p>Notes:</p> <ul style="list-style-type: none"> • Deduction allowed even if approval of institution is withdrawn after payment. • Unabsorbed CE of section 35 can be c/f and set off same as unabsorbed Dep
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Exp on scientific research by company engaged in business of Bio-technology or in business of manufacture of any article, not being article or thing specified in 11th Schedule on **approved in-house research and development facility:** 100% of exp incurred (other than expenditure on L&B)

Expenditure for obtaining telecom spectrum/ telecom license [Section 35ABA] (Annexure 7)

(Capital Exp only) actually paid for obtaining spectrum /license shall be allowed as deduction in equal installments during number of years for which spectrum /license is in force.

- **If payment made before commencement of business:** Ded. Allowed from PY in which business commences till PY in which spectrum /license expires.
- **If payment made after commencement of business:** Ded. Allowed from PY in which spectrum/ license fees paid till PY in which spectrum expires.

Transfer of spectrum /license

Case 1: Where SP < Exp. remaining unallowed: Where license tfd. and SP < expenditure remaining unallowed, Amount of deduction = Expenditure remain unallowed - Sale proceeds

Case 2: Where SP > Exp. remaining unallowed

Least taxable as PGBP: Sale price - Exp. remaining unallowed OR Deduction allowed till date
Excess of cost upto SP of course is capital gain

Case 3: Where part of spectrum is tfd and proceeds of transfer of part of spectrum does not exceed amount of exp remaining unallowed

Amount of deduction = (Unallowed Exp.- Sale proceeds)/ Unexpired relevant no of P.Y.s

Note: Depreciation is not allowed on spectrum and in case of amalgamation/ demerger, remaining deduction shall be allowed to amalgamated/ resulting company