

EKATVAM ACADEMY
SOLUTION FOR PAPER 8 : CAPITAL GAINS
CA/CMA INTER

SOLUTION 1

(i) Computation of depreciation for A.Y. 2024-25

Particulars	₹
Opening balance of the block as on 1.4.2023 [i.e., W.D.V. as on 31.3.2023 after providing depreciation for P.Y. 2022-23]	8,50,000
Add : Purchase of second - hand plant during the year	8,50,000
	17,00,000
Less : Sale consideration of old machinery during the year	11,00,000
W.D.V of the block as on 31.03.2024	6,00,000

Since the value of the block as on 31.3.2024 comprises of a new asset 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 ₹ 45,000, being 7½% of ₹ 6,00,000.

(ii) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

- (a) When one or some of the assets in the block are sold for consideration more than the value of the block.
- (b) When all the assets are transferred for a consideration more than the value of the block.
- (c) When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block.

In the given case, capital gains will not arise as 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.

(iii) If the three machines are sold in June, 2023 for ₹ 21,00,000, 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		21,00,000
Less: Opening balance of the block as on 1.4.2023 [i.e., W.D.V. as on 31.3.2023 after providing depreciation for P.Y. 2022-23]	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000

SOLUTION 2

Computation of capital gains on slump sale of Unit 1

Particulars	₹
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2023 or FMV of monetary consideration received]	30,00,000
Less: Expenses for transfer	28,000
	29,72,000
Less: Net worth (See Note 1 below)	12,50,625
Long-term capital gain	17,21,375

Notes :

1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	₹	₹
Building (excluding ₹ 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125
Other assets (₹ 1,50,000 – ₹ 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of ₹ 1,50,000)	37,500	
Bank Loan (70% of ₹ 2,00,000)	1,40,000	1,77,500
Net worth		12,50,625

2. Written down value of patents as on 1.4.2023

Value of patents	₹
Cost as on 1.7.2021	50,000
Less: Depreciation @ 25% for Financial Year 2021-22	12,500
Balance as on 1.4.2022	37,500
Less: Depreciation for Financial Year 2022-23	9,375
Balance as on 1.4.2023	28,125

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of ₹ 3 lakh and ₹ 9 lakh (₹ 12 lakh – ₹ 3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

SOLUTION 3

Computation of total income and tax liability of Mr. Mithun for A.Y. 2024-25

Particulars	₹
Long term capital gains on sale of original shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage @1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) (Refer Note 2)	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage @1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares	NIL
Short term capital gains	3,96,000
Income from other sources	
Dividend received from M/s Good money Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share]	2,000
Total Income	5,94,000
Tax Liability	
Tax on dividend (since it is lower than the basic exemption limit)	Nil
Tax on STCG u/s 111A	
15% of (₹3,96,000 - ₹ 2,98,000, being unexhausted basic exemption limit)	14,700
Tax on LTCG u/s 112A	
10% of (₹ 1,96,000 - ₹ 1,00,000)	9,600
	24,300
Less : Rebate u/s 87A	14,700
	9,600
Add: Health and education cess @4%	384
Tax payable	9,984
Tax payable (rounded off)	9,980

Notes :

- (1) Long-term capital gains exceeding ₹1 lakh on sale of original shares through a recognized stock exchange (STT paid at the time of acquisition and sale) is taxable under section 112A at a concessional rate of 10%, without indexation benefit.
- (2) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of
 - Cost of acquisition i.e., ₹ 1,000 per share and
 - lower of
 - Fair market value of such asset i.e., ₹ 2,000 per share and

Full value of consideration i.e., ₹ 4,000 per share.

Therefore the cost of acquisition of original share is ₹2,000 per share.

- (3) Since bonus shares are held for less than 12 months before sale, the gain arising there From is a short-term capital gain chargeable to tax @ 15% as per section 111A after Adjusting the unexhausted basic exemption limit (₹ 3,00,000 less ₹ 2,000, being the amount of dividend). Since Mr. Mithun is over 60 years of age, he is entitled for a higher basic exemption limit of ₹ 3,00,000 for A.Y. 2024-25.
- (4) Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).
- (5) Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
- (6) Securities transaction tax is not allowable as deduction.

SOLUTION 4

Computation of capital gains and business income of Harshita for A.Y. 2024-25

Particulars	₹
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [₹ 35,00,000 × 331/113]	1,02,52,212
	1,07,47,788
Proportionate capital gains arising during A.Y. 2024-25 [1,07,47,788 x 2/3]	71,65,192
Less: Exemption u/s 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2024-25	21,65,192
Business Income	
Sale price of flats [10 × ₹30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [₹210 lacs × 2/3]	1,40,00,000
Cost of construction of flats [10 × ₹ 10 lakhs]	1,00,00,000
Business income chargeable to tax for A.Y.2023-24	60,00,000

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer u/s 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade (i.e., P.Y. 2022-23, in this case).
- (2) However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2022-23) and not up to the year of sale of stock-in-trade (i.e., P.Y.2023-24).
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset. In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2023-24, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2024-25.

- (5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year. Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y. 2023-24 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y. 2024-25, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2024-25, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2023-24, is only ₹ 50 lakhs.

SOLUTION 5

(i) Compensation towards loss of stock: Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head “Profit and gains of business or profession”.

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head “Profits and gains of business or profession”.

(ii) Compensation towards damage to machinery: The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

Note : If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

(iii) Compensation towards loss of gold chain and diamond ring: Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not “personal effects”, which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.