



Computation of Total Income of SS Ltd. for the A.Y. 2026-27

Particulars	Amount (₹)		
Income from house property			
Rental income [Rs. 60,000*12m]	7,20,000		
Less: Municipal Taxes paid	(8,000)		
Net Annual Value	7,12,000		
Less: Deduction u/s 24 (30%)	(2,13,600)		
Income from House Property			4,98,400
Profits and gains of business and profession			
- Net profit from business [See working note 1]		225,70,260	
- Profits and gains from Speculation business		-	
Speculative Business Loss will be carried forward as it cannot be adjusted against Other Business Income			
- <u>Profits and gains from the business of setting up a warehouse for storage of edible oil</u>			
Profit from setting up of warehouse (before providing for depreciation under section 32)	5,00,000		
Less: Depreciation as per Income-tax Rules, 1962 on construction of warehouse [₹12,00,000 x 10%] [Since it is not a specified business under section 35AD]	1,20,000	3,80,000	
- <u>Profit and gains from the business of setting up a warehouse for storage of agricultural produce</u>			
Profit from setting up of warehouse (before providing deduction u/s 35AD)	15,00,000		
Less: Deduction under section 35AD [100% of capital expenditure is allowable as deduction, since setting up and operating a warehousing facility for storage agricultural produce is a specified business, where operations are commenced on or after 01.04.2009]	23,00,000		
Loss from the specified business under section 35AD to be carried forward indefinitely for set-off against profits of the specified business, assuming that the firm has filed the return of income on or before the due date u/s 139(1)	(8,00,000)	-	
Total Profit from business or profession			229,50,260
Capital Gain			
- Additional compensation received from State Government [Since the additional compensation has been received pursuant to an interim order of the Court, the same would be deemed as income chargeable to tax under the head "Capital Gains" in the year of final order as per section 45(5). Consequently, such compensation would not be taxable during P.Y. 2025-26].	-	-	
- Profit on sale of building to 100% Indian subsidiary [Short-term capital gains arise on sale of building held for	-		



less than 24 months. However, in this case, since the transfer is to a 100% subsidiary company and the subsidiary company is an Indian company, the same would not constitute a transfer for levy of capital gains tax as per section 47(iv)]			
- Sale of shares of Yara Ltd			
- Original shares [250 * (2050 - 1980)]	17,500		
- Bonus shares [250 * (2050 - 1980)]	17,500	35,000	35,000
<u>Income from other sources</u>			
- Dividend income from specified foreign company [Since M/s Kaveri Ltd. holds 26% or more equity shares in foreign company, such foreign company is a specified foreign company u/s 115BBD. Expenditure on earning dividend income from specified foreign company is not allowable as deduction.]	15,00,000		
- Interest on income tax refund	45,000		15,45,000
Gross Total Income			
Deduction			
- Deduction u/s 80G in respect of donation to Swachh Bharat Kosh, assuming that the donation is otherwise than by way of cash	2,00,000		
- Deduction under section 80GGB (donation to political party) [No deduction for donation to electoral trust in cash]	50,000		
- Deduction u/s 80M in respect of inter-corporate dividends [being lower of ₹ 15 lakh, being dividend received from specified foreign company, and ₹ 12 lakh, being dividend distributed by SS Ltd. on or before the due date specified u/s 139(1) of filing return of income]	12,00,000		
- Deduction u/s 80JJAA [30% of (30*10*15000 + 3*5*22000)]	14,49,000		(28,99,000)
Total Income			221,29,660

Working Note:1. Computation of Profit or gain from business or profession of SS Ltd for the AY 2026-27

Particulars	Amount (in ₹)	
Net profit as per Statement of profit and loss		200,00,000
<u>Add: Difference in valuation of stock:</u>		
Overvaluation of opening stock [₹ 55,00,000 × 10/110]	5,00,000	
Undervaluation of closing stock [₹ 54,00,000 × 10/90]	6,00,000	11,00,000
<u>Add: Items debited but to be considered separately or to be disallowed</u>		
- Depreciation as per Companies Act	45,00,000	
- Interest & borrowing cost included in Opening & Closing inventory	2,50,000	



<p>[Since the same have been included in the opening and closing inventory, the difference between ₹ 9,50,000, being interest included in opening inventory - ₹ 7,00,000, being interest included in closing inventory, has to be added back]</p>		
<p>- Employees' contribution to EPF [Since employees' contribution to EPF has not been deposited on or before the due date under the PF Act, the same is not allowable as deduction as per Explanation 2 below to section 36(1)(va). Since the same has been debited to Statement of profit and loss, it has to be added back for computing business income]</p>	2,60,000	
<p>- Employer's contribution to EPF [As per section 43B, employers' contribution to EPF is allowable as deduction since the same has been deposited on or before the due date of filing of return of income u/s 139(1). Since the same has been debited to statement of profit and loss, no further adjustment is necessary]</p>	-	
<p>- Contribution towards NPS in excess of 14% of salary disallowed [Contribution to the extent of 14% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction under section 36(1)(iva). In this case, ₹ 90,000 (15% of ₹ 6,00,000) is contributed. Allowed deduction is upto 96,600 [14% of (₹ 6,00,000 + 50% of 30% × ₹ 6,00,000)]. Therefore, no disallowance as it is within limit.</p>	-	
<p>- Municipal taxes in respect of let-out part of office premises [Municipal taxes paid in respect of office premises, debited to Statement of Profit and Loss has to be added back to compute business income, since same is to be considered separately under the head "Income from house property"]</p>	8,000	
<p>- Loss from trading in shares [without delivery] [Loss incurred on purchase and sale of shares of other companies without delivery is a speculative transaction. Since the same is debited to profit and loss account, the same is required to be added back while computing business income]</p>	3,00,000	
<p>- Payment of labour charges to A & Co., a sub-contractor, without deduction of tax [30% of ₹ 10 lakh] [Under section 40(a)(ia), 30% of any sum paid to any resident on which tax is deductible is disallowed if tax is not deducted at source. In this case, TDS provisions under section 194C are attracted on labour charges which are shown separately in the bills. Since tax has not been deducted on labour charges, 30% of the expenditure shall be disallowed]</p>	3,00,000	
<p>- Payment to share brokers for transaction in relation to equity shares and commodity brokers for transaction in commodities [Since the company is engaged in the manufacture business, it is assumed that investment in equity shares and commodities is not related to the business and such payment is not wholly and exclusively for the purpose of assessee's business. Since the said payment has been debited to statement of profit and loss, the same has to be added back]</p>	3,45,000	



<p>- Fees paid to directors without TDS [30% of ₹1 lakh] [Disallowance @ 30% would be attracted under section 40(a)(ia) for non-deduction of tax at source from director's remuneration on which tax is deductible under section 194J]</p>	30,000	
<p>- Payment to transport contractor [As per section 194C, no tax is required to be deducted at source since the payment is to a transport contractor who opts for sec 44AE and he has given a declaration to that effect along with his PAN. Hence, disallowance u/s 40(a)(ia) for non-deduction of tax at source is not attracted. Also, since payment is made by account payee cheque, no disallowance under section 40A(3) is attracted]</p>	-	
<p>- Contribution to National Fund for Rural Development [Allowed as deduction u/s 35CCA while computing business income]</p>	-	
<p>- Cash payment in excess of ₹ 10,000 [Disallowance u/s 40A(3) is attracted in respect of expenditure, for which payment exceeding ₹ 10,000 in a day has been made in cash. Since expenditure of ₹ 19,000 towards printing and stationery items is debited to the statement of profit and loss, the same has to be added back. However, payment of ₹ 22,000 to producer for dairy farming products is not disallowed since it is covered under the exceptions specified in Rule 6DD]</p>	19,000	
<p>- Payment in cash to a goods transport operator [Rs. 32,000 paid to B & Co., a goods transport operator, in cash is deductible while computing business income, as the disallowance under section 40A(3) would be attracted in case of payment to a transport contractor only when such cash payment exceeds Rs. 35,000. Since it is already debited to statement of profit and loss, no further adjustment is required]</p>	-	
<p>- Expenditure for transfer of carbon credits [Income by way of transfer of Carbon Credits is chargeable to tax u/s 115BBG at a flat rate. No deduction is allowed under any provision of the Act in respect of any expenditure or allowance in relation thereto. Since such expenditure is debited to the statement of profit and loss, the same has to be added back]</p>	35,000	
<p>- Bonus transferred to the trust [The bonus would be allowable as deduction u/s 36(1)(ii), even though the amount of bonus payable was initially remitted to the trust created for the purpose of avoiding late payment of bonus, provided actual payment of bonus is made to the employees on or before the due date. However, since in the present case, actual payment of bonus to employees is made on 30th December 2026, after due date of filing return of income i.e., after 31st October 2026, deduction u/s 36(1)(ii) would not be allowable merely because the amount was remitted to the trust before the stipulated due date. Since the same has been debited to the profit and loss account, it has to be added back]</p>	4,41,000	
<p>- Loss due to hedging contract in respect of raw material [Loss due to hedging contract against future price fluctuations in respect of import of raw material for manufacturing is not deemed</p>	-	



<p>to be speculative transaction. Hence, the same is allowable as deduction while computing income from manufacturing. Since the same is already debited in statement of profit and loss, no further adjustment is required]</p>			
<p>- Marked to market losses [Marked to market loss or other expected loss as computed in accordance with the ICDS would be allowed as deduction u/s 36(1)(xviii). As per ICDS I, marked to market losses cannot be recognized unless the recognition of such loss is in accordance with the provisions of any other ICDS. Marked to market loss in respect of an unsettled derivative contract is not allowable as deduction. Since such losses have been debited to the profit and loss A/c, they have to be added back for computing business income.]</p>	6,00,000		
<p>- Regularization fee paid to Municipal Authorities [Regularization fee paid to Municipal authorities to regularize the deviation from the earlier approved construction plan in its on-going projects is in the nature of penalty as it is paid to compound an offence. Hence, it does not qualify for deduction u/s 37. As the same has been debited to the profit and loss account, it has to be added back]</p>	98,000		
<p>- Secret commission paid during the year [Explanation 1 below section 37(1) of Income-tax Act, 1961 provides that any expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law, shall not be deemed to have been incurred for the purpose of business and no deduction shall be made]</p>	50,000		
<p>- Expenditure on CSR Activities As per Explanation 2 to section 37(1), expenditure incurred on CSR activities is not deductible. Assuming that such expenditure is not deductible under sections 30 to 36, the entire amount is liable for disallowance. Since</p>	1,45,000		
<p>- Donation to Swachh Bharat Kosh [Not an allowable expenditure under section 37 since it is not laid out wholly or exclusively for the purposes of business or profession. Hence, the same has to be added back while computing business income</p>	2,00,000		
<p>- Expenditure on expansion of new business of retail petrol outlet [Where expenditure is incurred on project not related to the existing business and the project was abandoned without creating a new asset, the expenses are capital in nature. Retail petrol outlet is not related to the existing business of construction and real estate, the expenditure incurred on setting up such business would not be allowed as deduction. As the same has been debited to the statement of profit and loss, it has to be added back]</p>	1,75,000		
<p>- Advertisement in the souvenir of political party not allowable as per section 37(2B)</p>	50,000		
<p>- Donations to electoral trust (irrespective of mode of payment)</p>	75,000		
<p>- Provision for doubtful debts [10% of ₹ 200 lakhs] [Provision for doubtful debts is allowable as deduction under section 36(1)(viiia) only in case of banks, public financial institutions,</p>	20,00,000		



state financial corporations, state industrial investment corporations and non-banking financial corporations. Such provision is not allowable as deduction in the case of a manufacturing company. Since the same has been debited to Statement of profit and loss, it has to be added back for computing business income]			
- Commission paid to recovery agent for realization of a debt: [Commission of ₹ 1 lakh paid to a recovery agent for realisation of a debt is an allowable expense under section 37 as per DCIT v. Super Tannery (India) Ltd. (2005). Since the same has been debited to Statement of profit and loss, and tax has been deducted at source, no further adjustment is required]		-	
- Penalty for non-fulfilment of contract [Penalty for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense]		-	
- Penalty levied by the GST department for delayed filing of returns not allowable as being paid for infraction of law	50,000		
- Interest for delay in deposit of GST [Interest paid on delayed deposit of GST is not penal in nature but is compensatory in character and is an allowable deduction u/s 37]	-		
- Interest under section 234B for short payment of advance tax [Any interest payable for default committed by assessee for discharging his statutory obligations under Income-tax Act, 1961 which is calculated with reference to the tax on income is not allowable as deduction under section 40(a)(ii). Since the same has been debited to statement of profit and loss, it has to be added back]	60,000		
- Payment of advertisement expenditure (i) ₹ 8,000, being the excess payment to a relative disallowed u/s 40A(2) (ii) As the payment is made in cash and since the remaining amount of ₹ 52,000 exceeds ₹ 10,000, 100% shall be disallowed under section 40A(3)	60,000		
- Sale of leather bag at a price lower than the fair market value [₹300x5,000] [Section 40A(2) is attracted where assessee makes payment to related person for expenditure and payment is excessive and unreasonable. However, it is not attracted in case of sales. Hence, there is no adjustment required.]	-		
- Provision for gratuity [Provision of ₹ 32 lakhs for gratuity based on actuarial valuation is not allowable as deduction. However, actual gratuity of ₹ 18 lakhs paid is allowable as deduction. Hence, difference has to be added back to income [32 - 18]	14,00,000		
- Expenditure on earning dividend income [Allowability or otherwise of expenditure on earning dividend income has to be considered under the head "IFOS". Since the said expenditure has been debited to statement of profit and loss, the same has to be added back]	50,000		



<ul style="list-style-type: none">- Free air ticket provided by a supplier [Value of free air ticket provided by a supplier is taxable as business income u/s 28, as the value of any benefit, whether convertible into money or not, arising from business is taxable as business income. Since the same is not credited to profit and loss account, the same is required to be added while computing business income]- GST not refunded to customers out of GST refund received from Government [The amount of GST refunded to the company by the Government is a revenue receipt chargeable to tax. Out of the refunded amount of ₹ 5 lakhs, the amount of ₹ 3 lakh stands refunded to customers and hence, would not be chargeable to tax. The balance amount of ₹ 2,00,000 lying with the company would be chargeable to tax]- Salary paid to employees through bearer cheques [Salary paid through bearer cheques (9 employees x ₹ 15,000 x 10 months) will attract disallowance u/s 40A(3) and hence, the same has to be added back] [See Note at the end of the solution]- Claim for Escalation price in respect of ongoing construction contracts [As per section 145B, claim for escalation of a price of ₹ 8,50,000 would be deemed to be income of P.Y. 2025-26 i.e., the previous year in which reasonable certainty of its realization is received, being the year in which the judgment in the favour of the company was given. Since only the sum of ₹ 2,00,000 received by the company till 31.3.2026 is included in the profit and loss account, balance ₹ 6,50,000 has to be included in business income]	10,00,000	
	2,00,000	
	13,50,000	
	6,50,000	
		147,01,000
<u>Less: Items credited but not taxable or taxable under another head or expenses allowed but not debited</u>		
<ul style="list-style-type: none">- Waiver of sundry creditor's outstanding amount [Waiver of ₹ 6,00,000 from the sundry creditors is a benefit in respect of a trading-liability by way of remission u/s 41(1). Since the amount is already credited to statement of profit & loss, no adjustment is necessary]- Rental income from letting out of office premises (Rental income from letting out a part of the office premises is taxable under "Income from house property". Therefore, it has to be deducted while calculating business income, since the income has been credited to statement of profit and loss)- Interest on bank fixed deposit [Since the fixed deposit has been made with a bank as margin money for obtaining a guarantee required by a State Government for a particular contract, interest income of such deposit is <u>inextricably</u> linked to the business of the assessee and hence, has to be treated as business income and <u>not as income from other</u>	-	
	7,20,000	
	-	



<p><u>sources</u>. Since the same has been credited to the statement of profit and loss, no adjustment is required]</p>		
<p>- Amount received from Adidas Ltd as non-compete fees Amount received for agreeing not to carry on any business relating to computer software in India for the next five years is chargeable to income-tax under the head "PGBP". And hence no adjustment required.</p>	-	
<p>- Transfer of Carbon Credits chargeable u/s 115BBG [Income by way of transfer of Carbon Credits chargeable under section 115BBG can be treated as business income or income from other sources, depending upon the facts of the case. In this case, since the question mentions that SS Ltd. is engaged in production and marketing of diversified products, it is logical to assume that the same is in the nature of business income. Since the amount of ₹ 4 lakh has already been credited to statement of profit and loss, no further adjustment is necessary]</p>	-	
<p>- Profit from hedging contract [Hedging contract is entered into for safeguarding against any loss that may arise due to currency fluctuation. The profit from such contract entered into for meeting loss in foreign currency payments towards imported printing machinery has to be adjusted against the cost of machinery. Since the said profit has been credited to the statement of profit and loss, the same has to be deducted while computing business income]</p>	3,00,000	
<p>- Additional compensation received from State Government in respect of land [Since the additional compensation has been received pursuant to an interim order of the Court, the same would be deemed as income chargeable to tax under the head "Capital Gains" in the year of final order as per section 45(5). Since the compensation has been credited to the statement of profit and loss, the same has to be deducted while computing business income"]</p>	5,00,000	
<p>- Bad debt recovered [The deduction of bad debt allowed u/s 36 was Rs. 12 lakhs out of the total debt of Rs. 22 lakhs; Since the amount not written off as bad debt is Rs. 10 lakhs (Rs. 22 lakhs - Rs. 12 lakhs) while the amount recovered in respect of such debt is Rs. 11 lakhs, only the excess sum of Rs. 1 lakh would be chargeable to tax as business income. Since the entire amount of Rs. 11 lakhs recovered has been credited to the statement of profit and loss, Rs. 10 lakhs has to be reduced while computing business income.]</p>	10,00,000	
<p>- Interest received on income tax refund [Chargeable to tax under the head "Income from other sources"]</p>	45,000	
<p>- Capital gains on sale of shares in Yara Ltd. [Capital gains on sale of shares in Yara Ltd. is chargeable to tax under the head "Capital Gains". As the same has been credited to the profit and loss account, it has to be reduced]</p>	3,77,500	
<p>- Profit on sale of building to 100% subsidiary [Taxability or otherwise to be considered under the head "Capital Gains". Since</p>	15,00,000	



<p>such profit has been credited to the profit and loss, the same has to be deducted]</p> <p>- Dividend received from specified foreign company [Dividend income from specified foreign company is taxable under the head "IFOS". Since the said dividend has been credited, it has to be deducted]</p> <p>- Audit fees of P.Y. 2024-25 [30% of ₹ 2,50,000, being the audit fees disallowed in the P.Y. 2024-25 for non-deduction of TDS in the P.Y. 2024-25 would be allowed in the year of deduction and payment of TDS i.e., P.Y. 2025-26]</p> <p>- Payment of new loan converted from arrear interest [Conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose section 43B. The amount of unpaid interest converted into a new loan will be allowable as deduction only in the year in which such converted loan is actually paid. Since Rs. 1,60,000 (Rs. 8,00,000/10 x 2) has been paid in the P.Y. 2025-26, the same would be allowed as deduction]</p> <p>- Provision for wages payable to workers [The provision based on fair estimate of wages and reasonable certainty of revision is allowable as deduction, since ICDS X requires 'reasonable certainty' for recognition of a provision, which is present in this case. As the provision has not been debited to statement to profit and loss, the same has to be reduced while computing business income]</p> <p>- Loss due to destruction of machinery by fire [Loss of ₹ 20 lakhs due to destruction of machinery caused by fire is not deductible since it is capital in nature. As the loss has not been debited to statement of profit and loss, no adjustment is required]</p> <p>- Revenue from service contract for maintenance of the office building of Nitup Ltd. [Since the service contract for maintenance of office building is for a period of 61 days i.e., from 1st March 2026 to 30th April 2026 (less than 90 days), the revenue from such contract would be determined on the basis of project completion method. Consequently, the income from contract and the expenditure would also be chargeable/ allowable in the P.Y. 2026-27. Since the revenue of ₹ 5,00,000 is credited and expenditure of ₹ 1,27,000 has been debited to statement of profit and loss, the net amount of ₹ 3,73,000 (₹ 5,00,000 - ₹ 1,27,000) has to be deducted while computing business income of the P.Y. 2025-26]</p> <p>- Cost of machinery spares included in closing stock [The cost of imported machinery spares is to be capitalised as per ICDS V. Since cost of machinery spares is included in purchases as well as forms part of closing stock, no adjustment is required to be made. Therefore, the cost of machinery spares has to be added to the machinery cost and depreciation has to be allowed thereunder]</p>	<p>15,00,000</p> <p>75,000</p> <p>1,60,000</p> <p>12,00,000</p> <p>-</p> <p>3,73,000</p> <p>-</p>	
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<p>[If machinery spares are assumed to have irregular use, they are capitalized under ICDS V, and depreciation is provided (as is assumed in this case). If it was used that such spares are used regularly, they are treated as inventory under ICDS II, valued at lower of cost (USD 25) or NRV (USD 27) as of 31.03.2026. As per ICDS VI, being a non-monetary item, they are converted at the purchase date exchange rate (15.09.2025). In this case, no adjustment in closing stock or depreciation is required.</p>		
		77,50,500
Less: Depreciation as per Income tax Rules		
- Depreciation under section 32	30,00,000	
- Normal depreciation on imported machinery spares (to be added to cost of machinery) [Rs. 24,86,400 (1200 × \$25 × 82.88) × 15%	3,72,960	
- Additional Depreciation on imported machinery spares [Rs. 24,86,400 × 20%]	4,97,280	
- Add: Depreciation @7.5% on ₹ 92 lakhs [₹ 95 lakhs, being imported printing machinery - ₹ 3 lakhs, being profit from hedging contract] since, machinery is put to use for less than 180 days].	6,90,000	
- Add: Additional depreciation@10% on ₹ 92 lakhs, since machinery is put to use for less than 180 days assuming the conditions for claim of additional depreciation are satisfied.	9,20,000	
Profits and gains from business or profession		54,80,240
		225,70,260