

PGBP Master Question (50+ adjustments)

SS Ltd, is a multi-national company engaged in the **manufacture** of **footwear** and **leather** products and **various other businesses**, for the past 8 years, reported a net profit of ₹ 200 lakhs as per the statement of profit and loss for the year ended 31st March, 2025. The company was subject to tax audit under section 44AB of the Income-tax Act, 1961. The net profit is arrived at after debiting or crediting the following amounts:

- (i) Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 45 lakhs.
- (ii) The opening and closing stock for the year were ₹ 55 lakhs and ₹ 54 lakhs respectively. Opening stock was overvalued by 10% and Closing stock was undervalued by 10%.
- (iii) Interest and borrowing costs amounting to ₹ 9,50,000 and ₹ 7,00,000 though not meeting the criteria for recognition as a component of cost, included in cost of opening and closing inventory, respectively.
- (iv) A sundry creditor whose amount of ₹ 32 lakhs was outstanding since long time, has been settled for ₹ 26 lakhs on 31st March, 2025 based on compromise settlement. The amount waived has been credited to the statement of profit and loss.
- (v) Employees Provident Fund (EPF) for the month of March, 2025 amounting to ₹ 5,20,000 was remitted on 17th May, 2025 which includes ₹ 2,60,000 of employer's contribution and ₹ 2,60,000 of employee's contribution.
- (vi) Company contributed 15% of basic salary in National Pension Scheme referred in section 80CCD towards salary paid to an employee Mr. Gaurav whose basic salary was ₹ 6,00,000 p.a. and Dearness allowance of 30% of basic salary was considered. 50% of Dearness allowance formed part of the salary.
- (vii) Rent of Rs. 60,000 p.m. received from letting out a part of its office premises. Municipal tax paid in respect of the said part of the building is Rs. 8,000. The same has been debited to statement of profit and loss.
- (viii) Loss incurred in transactions of purchase and sale of shares (without delivery) of various companies - ₹ 3 lakhs.
- (ix) Rs 3,00,000 being interest on fixed deposit made with a bank as margin money for obtaining a guarantee required by a State Government for a particular contract.
- (x) Payment of ₹ 30 lakhs to A & Co., a subcontractor, for processing raw leather without deduction of tax is debited to statement of profit & loss. This amount includes ₹ 20 lakhs for purchase of chemicals and ₹ 10 lakhs towards labour charges which is separately shown in bills submitted.
- (xi) The company has paid ₹ 2,25,000 to share brokers for transactions in relation to equity shares listed in stock exchange and ₹ 1,20,000 to commodity broker for transactions in relation to commodities at MCX. Tax was not deducted at source on such transactions.
- (xii) Fees of ₹ 1 lakh paid to independent directors for attending Board meeting without deduction of tax at source under section 194J.
- (xiii) Payment made to transporter Rs. 60,000 by account payee cheque, but no tax has been deducted at source. (Transporter is having PAN and furnished declaration that he is covered under section 44AE and not having more than 10 goods carriages at any time during the previous year).
- (xiv) SS Ltd. receives a sum of Rs. 10 lakhs from Adidas Ltd. on 3rd January, 2025 for agreeing not to carry on any business relating to footwear in Chennai for the next five years.
- (xv) The company has paid through bank ₹ 1,20,000 to National Fund for Rural Development.
- (xvi) Expenditure of ₹ 41,000 paid in cash comprising of ₹ 22,000 directly paid to producer of dairy farming products and ₹ 19,000 paid towards printing and stationery items for office.
- (xvii) Rs. 32,000 paid to B & Co., a goods transport operator, in cash on 31st January, 2025 for carrying company's products to the warehouse.
- (xviii) ₹ 35,000 towards expenditure for earning income from transfer of carbon credits. It also included income from carbon credits amounting to Rs. 4,00,000
- (xix) Employee benefits include a sum of ₹ 4,41,000 in respect of bonus payable to employees. There is a dispute between company and employee union w.r.t. such bonus. In order to avoid late payment of

bonus, the company formed a trust and transferred the amount of bonus payable to employees to the said trust on May 2025. The dispute was settled in the month of November, 2025 and the trust paid the amount of bonus to the employees on 30th December, 2025

- (xx) Loss of Rs. 2.2 lakhs due to hedging contract against future price fluctuations in respect of import of raw material, used in the course of manufacturing.
- (xxi) Marked to market loss amounting to ₹ 6,00,000 in respect of an unsettled derivative contract. The contract was settled in May, 2025 with a gain of ₹ 1,00,000.
- (xxii) Profit of ₹ 3,00,000 received from hedging contract entered into for meeting out loss in foreign currency payments towards an imported manufacturing machinery valued at ₹ 95 lakhs, installed on 15th December, 2024 and put to use from that date.
- (xxiii) ₹ 5 lakhs, being the additional compensation received from the State Government pursuant to an interim order of Court in respect of land acquired by the State Government in PY 2015-16.
- (xxiv) The assessee had made some structural changes in their factory contrary to what was earlier approved by the municipal authorities and hence paid a sum of ₹ 98,000 as regularization fee.
- (xxv) Secret commission amounting to Rs. 50,000 was paid during the previous year 2024-25.
- (xxvi) Expenditure incurred on CSR - ₹ 1,45,000
- (xxvii) Donation to Swachh Bharat Kosh (not considered as CSR) - Rs. 2,00,000
- (xxviii) During the PY 2024-25, the assessee company decided to expand its business and open a retail petrol out let (not related to existing business). Accordingly, a sum of ₹ 1,75,000 was deposited with the concerned authority. However, the assessee could not start this operation and the deposit with the authority was forfeited.
- (xxix) Advertisement expenses include an amount of ₹ 50,000 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- (xxx) It paid Rs. 75,000 to an electoral trust by cash
- (xxxi) The company sold its products for Rs. 22,00,000 to M/s ABC Co Engineers, a sole proprietary concern, on 01.11.2019. On 01.02.2024 Rs. 12,00,000 was written off in the books as bad debts. The sole proprietor died on 01.03.2025 and the company managed to collect Rs. 11,00,000 towards full and final settlement on 30.03.2025. The entire amount collected was shown as bad debts recovered and credited to Statement of Profit and Loss.
- (xxxii) The company had made a provision of 10% of its debtors towards bad and doubtful debts. Total sundry debtors of the company as on 31-03-2025 was ₹ 200 lakhs.
- (xxxiii) Commission of ₹ 1 lakhs paid to a recovery agent for realization of a debt. Tax has been deducted and remitted as per Chapter XVIIB of the Act.
- (xxxiv) Interest of ₹ 45,000 on income tax refund
- (xxxv) Amount of ₹ 15,000 paid towards penalty for non-fulfilment of delivery conditions of a contract of sale for the reasons beyond control
- (xxxvi) Goods and Services Tax demand paid includes an amount of ₹ 50,000 charged as penalty for delayed filing of returns and ₹ 12,000 towards interest for delay in deposit of tax.
- (xxxvii) Interest amounting to ₹ 60,000 for short payment of advance tax paid as per section 234B relating to the assessment year 2024-25.
- (xxxviii) Advertisement expenditure debited to profit and loss account includes the sum of ₹ 60,000 paid in cash to the sister concern of a director, the market value of which is ₹ 52,000.
- (xxxix) Sales includes 5000 leather bags sold to M/s Sankar (firm), a related party, at a price of ₹ 1,000 each. The selling price to others in the market is at ₹ 1,300 each.
- (xl) Rs. 2 lakh, being contribution to a scientific research association approved and notified under section 35(1)(ii).
- (xli) Provision for gratuity based on actuarial valuation was ₹ 32 lakhs. Actual gratuity paid debited to gratuity provision account was ₹ 18 lakhs.
- (xlii) Capital gains on sale of shares in Yara Ltd. ₹ 3,77,500

- (xliii) Profit of ₹ 15 lakhs on sale of a building to X Ltd., a domestic company, the entire shares of which are held by SS Ltd. The building was acquired by SS Ltd. on 1st December, 2023.
- (xliv) Dividend of Rs. 15 lakhs received from a foreign company in which the company holds 32% of the equity share capital of the company, Rs. 50,000 was also expended on earning this income.

Additional information:

- (a) Depreciation as per income tax amounts to Rs. 30 lakhs. It does not include depreciation on imported machinery included in (xxii) above.
- (b) Closing Stock includes 1200 pieces of imported machinery spares at its landed cost as on the date of import at US\$ 25 per piece. Exchange rate on the date of import i.e. 15.09.2024 was 1 US\$ = Rs. 82.88 (rounded off). Exchange rate on 31.3.2025 was 1 US\$ = Rs. 83. The market value per pieces as on 31.3.2025 was US\$ 27 per piece.
- (c) Provision for audit fees ₹ 2.5 lakhs was made in the books for the year ended on 31.03.2024 without deducting tax at source. Such fees was paid to the auditors in November, 2024 after deducting tax under section 194J and the tax so deducted was deposited on 7th December, 2024.
- (d) A group free air ticket was provided by a supplier for reaching a certain volume of purchase during the financial year 2024-25. The same is encashed by the company for ₹ 10 lakhs in April 2024 and credited to General Reserve Account.
- (e) Andhra Bank sanctioned and disbursed a term loan in the FY 2020-21 for a sum of ₹ 50 lakhs. Interest of ₹ 8 lakhs was in arrears. The bank has converted the arrear interest into a new loan repayable in 10 equal instalments. During the year, the company has paid 2 instalments and the amount so paid has been reduced from Funded Interest in the Balance Sheet.
- (f) In order to venture into new businesses, the company had made an investment of ₹ 23 lakhs and ₹ 12 lakhs on the construction of two warehouses (excluding the cost of land), in rural areas for the purpose of storage of agricultural produce and edible oil respectively. These were made available for use from 15.09.2024. The profits from setting of these warehouses (before claiming deduction under section 35AD and 32) for the A.Y. 2025-26 is ₹ 15 lakhs and ₹ 5 lakhs respectively.
- (g) The company has not made provision for an amount of ₹ 12 lakhs being a fair estimate of the amount as payable to workers towards periodical wage revision once in 3 years in respect of existing employees. The provision is estimated on a reasonable certainty of the revision once in 3 years.
- (h) The company has collected ₹ 14,00,000 as GST from its customers and remitted to the Government before due the dates. Consequent to an appeal filed, the Honorable High Court ordered the GST department to refund ₹ 5,00,000 to the Company. The Company in turn refunded ₹ 3,00,000 to its customers from whom GST was collected. Balance amount is shown under "current liabilities".
- (i) During the year F.Y. 2024-25, the company has employed 56 additional employees. All these employees contribute to a recognized provident fund. 39 out of 56 employees joined on 1-6-2024 on a salary of ₹ 15,000 per month, 14 joined on 1-7-2024 on a salary of ₹ 45,700 per month, and 3 joined on 1-11-2024 on a salary of ₹ 22,000 per month. The **salaries of 9 employees who joined on 1-6-2024 are being settled by bearer cheques** every month. Audit under section 44AB has been done before the due date.
- (j) The assessee held 250 shares in Yara Ltd. On 1-4-2017, Y Ltd. allotted bonus shares in the ratio of 1 : 1. The company sold all the shares in Yara Ltd. on 24th September 2024 for ₹ 2,050 per share. The company had acquired the original shares for ₹ 540 on 23-06-2016. The fair market value of the shares as at 31st January 2018 was ₹ 1,980 per share.
- (k) On 15th May, 2025, SS Ltd. declared and distributed dividend of Rs. 12 lakhs.
- (l) Loss of ₹ 20 lakhs, on destruction of an old machinery by fire in the factory & ₹ 5 lakhs received as scrap value on this machinery. The insurance company did not admit claim of company on charge of gross negligence.

- (m) The company earned ₹ 5,00,000 in respect of a service contract for maintenance of the office building for Nitup Ltd. for the period from 1st March, 2025 to 30th April, 2025. The expenses incurred on the project till 31-3-2025 amounts to ₹ 1,27,000 which is included in other expenses.
- (n) In respect of ongoing contracts, there was a claim for escalation of prices, to the tune of ₹ 8,50,000. The company had filed a lawsuit in the year 2023. In the previous year 2024-25, the court gave its judgement in favour of the company. The company has received ₹ 2,00,000 till 31-03-2025. Rs. 2 lakhs is included in the profit and loss account.

Compute the total income of SS Ltd. for AY 2025-26 as per the normal provisions of the Income-tax Act, 1961. Give brief reasons for the treatment given to each of the items considered in computation of income of the company. Company does not want to opt for section 115BAA.

[Concept Revision Question - 100 marks]

