
COMPUTATION

(PGBP, MAT & 115BAA/BAB)

QUESTION 1: MASTER PROBLEM

The Statement of Profit and Loss of Maxus Ltd., engaged in the manufacture of pharmaceuticals and other products for the year ended 31st March, 2025, exhibits a **Net Profit** of ₹ 180 lakhs **after debiting/crediting the following items:**

- 1) Interest on term loan from bank ₹ 24 lakhs relating to F.Y.2024-25, which is settled by issuing 8% debentures of ₹ 100 each in August, 2025.
- 2) Income-tax assessment of A.Y.2023-24 was completed in September, 2024 with a tax demand of ₹ 5,80,000 which included surcharge of ₹ 50,700 and cess of ₹ 22,308. The entire sum has been duly paid during the F.Y. 2024 -25.
- 3) GST paid includes an amount of ₹ 1,20,000 charged as penalty for delayed filing of returns and ₹ 1,54,000 towards interest for delay in deposit of tax.
- 4) Provision for gratuity based on actuarial valuation ₹ 18 lakhs. Actual gratuity paid during the year of ₹ 15 lakhs is debited to provision for gratuity account.
- 5) Depreciation ₹ 36 lakhs.
- 6) ₹ 6,00,000 to Mr. George, a non-resident, towards fee for technical services without deduction of tax at source. TDS was, however, deducted and paid on 30th December, 2025.
- 7) ₹ 10 lakhs as sales commission paid during the year without deducting tax at source to Mr. John, a citizen of U.S.A. and non-resident, for procuring orders from outside India.
- 8) Marked to market loss amounting to ₹ 6,00,000 in respect of an unsettled derivative contract.
- 9) Industrial power tariff concession of ₹ 5.40 lakhs, received from State Govt was credited to Statement of Profit and Loss.
- 10) Interest of ₹ 15 lakhs paid on term loan taken specifically for purchase of plant and machinery. Out of this, ₹ 5 lakhs is for the period till such machinery was commissioned on 12.08.2024.

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- 11) Expenditure incurred towards foreign travel of directors ₹ 6.5 lakhs to explore opening of a branch in a foreign country to market its products in the said foreign country.
- 12) Sold a vacant land to its wholly owned subsidiary Presi (P) Ltd., Mumbai. The LTCG of ₹ 18 lakhs is credited to the Statement of Profit & Loss.
- 13) Paid ₹ 2.2 lakhs to a university as donation to be used for research in social science approved under section 35(1)(iii). Out of this, ₹ 1.2 lakh was paid through net banking and balance by cash.
- 14) Interim dividend distributed during the year of ₹ 15 lakhs.
- 15) Contributed ₹ 300 lakhs towards employees' pension scheme notified by the Central Government u/s 80CCD calculated at 15% of aggregate of salary and dearness allowance (forming part of retirement benefits) payable to employees as per the terms of employment.
- 16) ₹ 40 lakhs by way of dividend received from Kellogs Ltd. of Singapore in which Maxus Ltd. has 28% voting power. Interest paid on loan to invest in shares of Kellogs Ltd. ₹ 9 lakhs is also debited to the Statement of Profit and Loss.
- 17) Paid ₹ 6 lakhs as donation to a recognised political party and ₹ 1 lakh to electoral trust by way of account payee cheque.
- 18) ₹ 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 the previous year 2021-22.
- 19) 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%.
- 20) ₹ 45,000 paid in cash to Mr. Raj employee of the company at the time of his retirement.
- 21) Profit on sale of 2000 shares of KT Ltd. a listed company ₹ 3,50,000. These shares acquired on 10.06.2021 and sold on 04.06.2024. STT paid both at the time of purchase and sale of shares.
- 22) ₹ 2,00,000 paid as penalty for company's failure in performance.

- 23) An amount of ₹ 5 lakhs was paid to the manager of the company under Voluntary Retirement Scheme.
- 24) Employer's contribution to EPF of ₹ 18 lakhs together with similar amount of Employee's contributions for the month of March, 2025 was remitted on 20 May, 2025. (The due date for the remittance to the credit of employee's EPF account being 15 April, 2025).
- 25) ₹ 10 lakhs incurred on notified skill development project u/s 35CCD.
- 26) The company has paid ₹ 2,25,000 to share brokers for transaction 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.
- 27) Expenses of ₹ 7,00,000 has been incurred for providing freebies to medical practitioners.
- 28) Interest and borrowing costs amounting to ₹ 6,50,000 and ₹ 5,00,000 though not meeting the criteria for recognition as a component of cost, is included in the cost of opening and closing inventory, respectively.
- 29) Advertisement expenditure includes a sum of ₹ 1.60 lakhs paid in cash to sister concern of a director of the company. The Fair market value of such expenditure in the market is ₹ 50,000.
- 30) Repairs of plant and machinery include ₹ 1.80 lakhs towards replacement of worn-out parts of machineries.
- 31) An executive Mr. Q, while on business trip abroad, died and the company voluntarily paid gratuity to his family amounting to ₹ 2 lakhs.
- 32) Capital Expenditure of ₹ 2 lakhs incurred for the purpose of promoting family planning amongst its employees debited in the Profit and Loss account.
- 33) Retrenchment compensation paid to employees of one of the unit of the company which was closed down during the year amounted to ₹ 14 lakhs.

- 34) ₹ 4 lakhs, being amounts waived by a co-operative bank out of principal and ₹ 1 lakh being amount waived by the bank on arrears of interest, respectively, in one-time settlement. The loan was obtained for meeting working capital requirement four years back.
- 35) One-time license fee of ₹ 22 lakh paid to ABC Ltd (an Indian company) for obtaining franchise on 1st June, 2024.
- 36) Rent of ₹ 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 ₹ 10,000. The same has been debited to statement of profit and loss.
- 37) Salary of ₹ 20,00,000 to foreign technicians for installation of machinery at the factory premises was paid.
- 38) ₹ 32 lakhs received from Zen Ltd. under an agreement in the form of non-compete fees for not carrying out any business in a particular product.
- 39) Advance received amounting to ₹ 22 lakhs on proposed sale of land, forfeited due to non-receipt of balance amount of ₹ 70 lakhs on time, as per terms of agreement. The land was purchased during FY 2020-21.
- 40) Excess on sale of unlisted shares - ₹ 18 lakhs (Sold on 18th July 2024). The unlisted shares were acquired for ₹ 75.25 lakhs. Indexed Cost of Acquisition is 82.75 lakhs.
- 41) Loss of ₹ 2 lakh from hedging contracts entered into for mitigating the loss arising due to fluctuation in foreign currency payment towards an imported machinery purchased from Japan for ₹ 70 lakhs, which was installed and put to use in the month of November 2024.
- 42) Loss of ₹ 2.2 lakhs due to hedging contract against future price fluctuations in respect of import of raw material, used in the course of manufacturing.
- 43) Payment of ₹ 65 lakhs on 15th October 2024 to a foreign company for obtaining know how for a product launched in the month of November 2024.

Additional Information:

- (i) Normal depn. as per Income-tax - ₹ 82 lakhs.
- (ii) Additional depn. as per Income-tax - ₹ 24 lakhs
- (iii) Brought forward unabsorbed depreciation (out of normal depreciation) of A.Y. 2021-22 ₹ 14 lakhs.
- (iv) Debenture of face value of ₹ 1500 lakhs having 5 years tenure were issued at a discount of 3% and were subscribed in full.
- (v) The company has purchased 1,00,000 units of chemicals at ₹ 50 per unit from a firm in which it has 30% interest. The normal selling price in the market for the same material is ₹ 80 per unit.
- (vi) The company had credited in the account of a sub-contractor, an amount of ₹ 23,33,330 on 31st Mar. 2024 towards repairs of factory building. TDS on such payment was remitted on 31st Dec., 2024.
- (vii) 102 new employees employed during the P.Y. 2024-25, the details of whom are as follows –

	No. of employees	Date of joining	Regular or Casual	Total monthly emoluments per employee (₹)
(i)	15	1.4.2024	Regular	24,000
(ii)	35	1.5.2024	Regular	26,000
(iii)	42	1.8.2024	Casual	24,500
(iv)	10	1.9.2024	Regular	24,000

- The regular employees participate in recognized provident fund while the casual employees do not.
- (viii) The company had collected GST from its customers and remitted to the Government before the due dates. Consequent to an appeal filed, the 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".

- (ix) The company sold goods for ₹ 22 lakhs to M/s ABC, a sole proprietary concern, on 01.11.2021. On 01.02.2025 ₹ 12 lakhs was written off in the books as bad debts. The sole proprietor died on 01.03.2025 and the company managed to collect ₹ 11 lakhs 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 & Loss.
- (x) The company has obtained a loan of ₹ 4 lakhs from ABC Private Limited in which it holds 16% voting rights. The accumulated profit of ABC Private Limited on the date of receipt of loan was ₹ 1 lakh.
- (xi) The company has given iPhone Mobile sets to 5 distributors as incentive costing ₹ 60,000 each on 28.10.2024. The accountant of the company debited the same amount to the Statement of Profit and Loss, being business expenditure and did not deduct any tax at source.

You are required to compute the **total income** and **tax liability** of Maxus Ltd. for A.Y. 2025-26 with **brief reasons** for the treatment of each item given above. Maxus Ltd. has **opted** to pay tax as per the provisions of **sec. 115BAB**.

SOLUTION

STATEMENT OF TOTAL INCOME [Amt. in lakhs]

Particulars	Amt.	Amt.
* Income from Salaries		Nil
* Income from HP [60,000 x 12 months] [Gross Rent because assessee opted sec. 115BAB]		7.20
* Income from Business [Note 1]		252.81
* Capital Gains:		
LTCCG on sale of land to 100% sub.. [Ex. u/s 47]		—
Addl. Compensation for compulsory acquisition [Received as per the interim order of court] [Taxable at the time of final order]		—
LTCCG on listed shares [STT paid]		3.50
LTCCG on unlisted shares [FVOC 93.25 L – Indexed COA 82.75 L]		10.50
* Income from Other Sources:		
Dividend from Kellogs Ltd. [Gross Amt because assessee opted sec. 115BAB]		40
Deemed Dividend u/s 2(22)(e) [Loan from closely held company to the extent of accumulated profits]		1
Advance money forfeited		22
GROSS TOTAL INCOME		337.01
Less: Deduction under Chapter VI A:		
→ Sec. 80M: Inter-Company Dividend		- 15
→ Sec.80JJAA: 30% of the Salary of New Employees 30% of [24,000 x 12m x 15 Employees]		- 12.96
NET TAXABLE INCOME		309.05

STATEMENT OF TAX

	STCG u/s 111A	LTCCG u/s 112A	LTCCG [Others]	Mfg Profits	Excess Profits	Other Heads
	15%*	10%*	20%*	15%	30%	22%
Net Taxable Income	Nil	3.50	10.50	209.85	30	55.20
Tax on above	Nil	0.25	2.10	31.4775	9	12.144
				54.9715		
Add: Surcharge				+5.49715		
Add: HEC @ 4%				+2.418746		
TAX PAYABLE				62.887396		

* If transfer before 23/7/2024

Note 1: STATEMENT OF INCOME FROM BUSINESS

Particulars	₹ [Lakhs]	₹ [Lakhs]
Net Profit as per Profit & Loss A/c		180
Add: DISALLOWED EXPENSES:		
Int. on term loan from bank settled by issue of debentures [not treated as paid as per sec. 43B]	24	
Income Tax [Sec. 40(a)]	5.80	
GST Penalty [Breach of Law]	1.20	
Provision for Gratuity [Sec.40A(7)]	18	
Depreciation as per books	36	
Fees for technical services paid to NR [TDS deposited after due date of return] [Sec.40(a)]	6	
Comm. to NR for securing orders outside India [Allowed even if tax not deducted because TDS not applicable as income is accrued outside India]	Nil	
MTM Loss - unsettled derivative contract [Sec.40A(13)]	6	
Interest on loan for Machinery up to put to use date	5	
Interest on term loan after put to use [allowed assuming paid up to due date of filing return]	Nil	
Foreign Travel Exps. for opening new branch [Allowed as it is for existing business – disallowed as capital exp. if it would have been for new business]	Nil	
Donation for research in social science [Disallowed as the assessee has opted Sec. 115BAB]	2.20	
Interim Dividend [Not an expense – appropriation]	15	
Excess Contribution to NPS [1% of Basic + DA(in terms) is disallowed – 300L x 1/15]	20	
Interest paid on loan to earn dividend	9	
Donation to P.Party and E.Trust [not a business exp.]	7	
Opening stock overvalued [55L x 10/110]	5	
Payment of terminal benefit to employee [Mr. Raj] [Allowed in cash up to ₹ 50,000 as per Rule 6DD]	Nil	

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Penalty for failure in performance [Penalty for breach of contract is allowed]	Nil	
Voluntary Retirement Compensation [5L x 4/5]	4	
Employer's Contribution to PF [Allowed as it is paid up to the due date of filing return]	Nil	
Employee's Contribution to PF [Disallowed as it is paid after the due date of PF]	18	
Exp on Skill Development Project [Disallowed as the assessee has opted Sec. 115BAB]	10	
Brokerage to share brokers [not related to business]	2.25	
Brokerage to commodity brokers [related to business assuming assessee deals in such commodity – 30% disallowed as TDS is not deducted – sec. 40(a)] [1,20,000 x 30%]	0.36	
Freebies to medical practitioners [prohibited by Indian Medical Council Regulations]	7	
Borrowing cost included in opening stock	6.50	
Excess advt paid to sister concern of director [Se.40A(2)]	1.10	
Reasonable amount of Advt paid in cash [Se. 40A(3)]	0.50	
Replacement of worn-out parts of Machinery [Allowed u/s 31 – Revenue in nature]	Nil	
Gratuity to family of deceased employee [Allowed u/s 37(1)]	Nil	
Capital Exp. for Family Planning [2,00,000 x 4/5]	1.60	
Retrenchment Compensation [Allowed u/s 37(1)]	Nil	
One time license fees [Intangible asset – Capital Exp.]	22	
Mun..Taxes on Let out property	0.10	
Salary to technician -installation of machinery [Cap.Exp]	20	
Loss from hedging [Machinery] [Capital in nature]	2	
Loss from hedging [Raw Materials] [Revenue in nature]	Nil	

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Purchase of Technical Know-how [Intangible Asset]	65	
Value of Benefit provided to distributors on which TDS u/s 194R is not deducted [60,000 x 5 x 30%]	0.90	+321.51
Less: NON-BUSINESS INCOMES:		
Industrial power tariff concession [business income]	Nil	
LTCG on sale of land to wholly owned subsidiary	18	
Dividend from Kelloggs Ltd. – IFOS	40	
Add. Compensation for compulsory acquisition [as per the interim order of court]	5	
Profit on sale of shares [LTCG]	3.50	
Borrowing cost included in closing stock	5	
Waiver of working capital loan [Principal Amt] [Taxable as business income u/s 41(1)]	Nil	
Waiver of Interest on above [Not Taxable as interest exp. was not allowed in past]	1	
Rent of Let out property [60,000 pm x 12][IFHP]	7.20	
Non-Compete fees [Taxable u/s 28]	Nil	
Forfeiture of advance money [IFOS]	22	
Excess on sale of unlisted shares [CG]	18	
Recovery of 11L from Debtors credited to P&L		
⇒ Good Debts ₹10L fully recovered – Not an income	10	
⇒ Bad Debts ₹12L out of which recovered ₹1L	Nil	- 129.7
Less: UNRECORDED BUSINESS EXPS:		
Gratuity paid debited to provision for gratuity a/c	15	
Normal Depreciation (as per Income Tax)	82	
Additional Depreciation (as per I.Tax) [Not allowed as assessee has opted for sec. 115BAB]	Nil	
Discount of issue of deb. [1500 L x 3% = 45 L ÷ 5 yrs.]	9	
Payment to sub-contractor [TDS deposited in PY 24-25]	7	- 113
Add: UNRECORDED BUSINESS INCOME:		
Closing Stock undervalued [54L x 10/90]	6	
GST Refund recorded as current liability	2	+ 8
Less: B/f Business Loss (as per tax)		Nil
Less: Unabsorbed Depreciation (as per tax)		- 14
TAXABLE INCOME FROM BUSINESS		252.81

QUESTION 2:

Auris Builders and Constructions (P) Ltd. a closely held company, is engaged in the business of construction and real estate. Net profit as per profit and loss account is ₹58,80,000 (prepared in accordance with ICDS) after debiting / crediting the following items:

- (i) The company committed breach of building norms while extending the office building. The City Corporation initiated proceedings against the company and the company settled the issue by paying compounding fee of ₹1 lakh.
- (ii) Interest paid on loan from bank for payment of advance tax ₹3,00,000.
- (iii) Trade creditors ₹5,00,000 were outstanding for more than 5 years and there is no business relationship with them. The amount was unilaterally written back and transferred to credit of statement of profit and loss.
- (iv) Gross revenue includes ₹5,00,000 in respect of a service contract for maintenance of the office building for NX 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.
- (v) The amount of employee benefits includes a sum of ₹4,41,000 in respect of bonus payable to employees. In the PY 2024 – 25, the company and its employee's union had a dispute over payment of bonus. 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 24th December, 2024. 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.
- (vi) In respect of one of its on – going projects, the assessee had made some structural changes contrary to what was earlier approved by the municipal authorities. The assessee paid a sum of ₹98,000 as regularization fee in respect of such changes made in the construction plan.
- (vii) During the PY 2024 – 25, the assessee company decided to expand its business and open a retail petrol outlet. 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.

- (viii) Loss of ₹17 Lakhs, due to destruction of a machine worth ₹24 Lakhs by fire due to short circuit. ₹ 3 Lakh received as scrap value was credited to the statement of profit and loss. The insurance company did not admit the claim of the company on charge of gross negligence.
- (ix) Depn as per books ₹4,00,000

Additional information:

- (a) Depreciation as per Income – tax Act, 1961 ₹5,14,000.
- (b) On 26th October 2024, out of 5 unsold office space in a mall, the assessee converted one such space into its own office. The fair market value of that space as on that date was ₹15,00,000. The cost incurred originally to construct such space was ₹10,00,000.
- (c) In respect of ongoing construction 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 2021. In the previous year 2024–25, the court gave its judgement in favour of the company. The company has received ₹2,00,000 till 31.3.2025. Gross revenue in the profit and loss account includes ₹2,00,000 in respect of such claims.
- (d) The assessee completed one civil construction contract of the value of ₹ 15 lakhs. The contractee withheld 20% of the contract amount which would be released only after 2 years. The amount withheld has not been credited to statement of profit and loss.
- (e) During the year, 1,00,000 equity shares of ₹10 each were issued for ₹25 per share. The fair market value of the shares as per rule 11UA of the Income-tax Rules, 1962 was determined @ ₹17 per share.

You are required to compute the income – tax payable by the company for the assessment year 2025–26. The turnover of company for the P.Y. 2022–23 was ₹350 crore. Ignore the provisions of MAT.

ANSWER:**STATEMENT OF TOTAL INCOME**

Particulars	Amt.
* Income from Salaries	Nil
* Income from House Property	Nil
* Income from Business [Note 1]	1,03,57,000
* Income from Capital Gains	Nil
* Income from Other Sources:	
Issue of shares at premium in excess of FMV [1,00,000 shares x (25 – 17)] [Note 2]	Nil
GROSS TOTAL INCOME	1,03,57,000
Less: Deduction under Chapter VI A	Nil
NET TAXABLE INCOME	1,03,57,000

STATEMENT OF TAX

	STCG u/s 111A	LTCG u/s 112A	LTCG (Other)	Win.	Balance
Net Taxable Income	Nil	Nil	Nil	Nil	1,03,57,000
Tax on above @25%					25,89,250
Add: Surcharge					+ 1,81,248
					27,70,498
Add: HEC @ 4%					+ 1,10,820
TAX PAYABLE					28,81,318

Note 1:**STATEMENT OF INCOME FROM BUSINESS**

Particulars	₹	₹
Net Profit as per Profit & Loss A/c		58,80,000
Add: DISALLOWED EXPENSES:		
Compounding fee for breach of bldg. norms [penalty for breach of law]	1,00,000	
Interest on loan to pay advance tax [not a loan for business purpose]	3,00,000	
Bonus to employees [disallowed u/s sec.43B since it is not paid upto the due date of filing return]	4,41,000	

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Regularization fees paid to municipal authorities [Penalty for breach of law]	98,000	
Exp on new retail petrol outlet [retail petrol outlet is not related to the existing business of construction and real estate. Hence, the expenditure on setting up such business would not be allowed as deduction]	1,75,000	
Loss on destruction of machinery by fire [capital in nature]	17,00,000	
Depn as per books	4,00,000	+ 32,14,000
		90,94,000
Less: NON-BUSINESS INCOMES:		
Trade creditors written back [Cessation of trading liability is taxable as business income]	Nil	
Revenue from service contract [Since the contract is for a period not exceeding 90 days, revenue should be recognized on completion of contract i.e in PY 2024-25 [5,00,000 – 1,27,000]	3,73,000	
Scrap value of machinery destroyed [to be deducted from the block]	3,00,000	- 6,73,000
		84,21,000
Less: UNRECORDED BUS.. EXPS:		
Depreciation as per I.Tax		- 5,14,000
		79,07,000
Add: UNRECORDED BUS. INCOME:		
FMV of stock in trade converted in to capital asset [cost already debited]	15,00,000	
Claim for escalation to be recognised on the basis of reasonable certainty as per section 145B [8.5 L – 2 L already credited]	6,50,000	
Retention money to be recognised as revenue as per ICDS - III [15 L x 20%]	3,00,000	+ 24,50,000
TAXABLE BUSINESS INCOME		1,03,57,000

Note 2:

Before 1/4/24, issue of shares [at premium] by a **closely held company** at a price in **excess of FMV** was taxable as **IFOS u/s 56(2)(viib)**. However, **w.e.f. 1/4/24**, this section is **not applicable** and it shall not be taxable as IFOS.

QUESTION 3:

Shubh Fragrance Ltd. established in 2015, is engaged in the manufacturing and selling of pharmaceutical products. The net profit of the company as per profit and loss account for the year ended 31st March 2025 is ₹ 900 lakhs, after debiting or crediting the following items:

- (i) Payment of ₹ 50 lakhs in the month of November 2024 to a foreign company for obtaining know-how for a product launched in the month of December 2024.
- (ii) Electricity charges of ₹ 7 lakhs for the month of March 2025 were unpaid up to the due date of filing of return of income.
- (iii) Loss of ₹ 4 lakhs due to hedging contract against future price fluctuations in respect of import of raw material, used in the course of manufacturing.
- (iv) Depreciation charged to the Statement of Profit and Loss was ₹ 38 lakhs.
- (v) Loss of ₹ 2 lakh from hedging contracts entered into for mitigating the loss arising due to fluctuation in foreign currency payment towards an imported machinery purchased from Japan for ₹ 65 lakhs, which was installed in the month of December 2024.
- (vi) ₹ 20 lakhs received from Z Ltd. under an agreement in the form of non-compete fees for not carrying out any business in a particular product.
- (vii) Advance received amounting to ₹ 20 lakhs on proposed sale of land, forfeited due to non-receipt of balance amount of ₹ 70 lakhs on time, as per terms of agreement. The land was purchased during F.Y. 2019-20.
- (viii) Excess on sale of unlisted shares - ₹ 15 lakhs (Sold on 15th Feb. 2025).
- (ix) The company purchased goods from Mr. A, Mr. B & Mr. C.

The details of purchases and payment made are as under:

Supplier	Date of purchase	Purchase amount (₹)	Payment due as per written agreement, if any	Date of payment
Mr. A, a micro enterprise	15.02.25	5 lakhs	Within 30 days from the date of purchase	29.03.25
Mr. B, a small enterprise	17.03.25	7 lakhs	No written agreement	15.04.25
Mr. C, a medium enterprise	25.03.25	8 lakhs	Within 40 days from the date of purchase	30.11.25

Additional Information:

- (1) Normal depreciation allowable as per the Income-tax Act, 1961 ₹ 35 lakhs [depreciation, if any required to be computed on the amount debited or credited to Statement of profit or loss is not included].
- (2) The unlisted shares were acquired on 29.3.2021 for ₹ 80 lakhs.
- (3) Cost Inflation Index F.Y. 2019-20 - 289, F.Y. 2020-21 - 301, F.Y. 2024-25 - 363.

The total turnover of the company for previous year 2022-23 was ₹ 282 crores and for the financial year 2023-24 ₹ 405 crores. The company has MAT credit of ₹ 20 lakhs of the assessment year 2017-18. The book profit (computed) for the assessment year 2025-26 is ₹ 1520 lakhs.

Compute the total income and tax liability (computed in the most beneficial manner) for the assessment year 2025-26.

ANSWER:**STATEMENT OF TOTAL INCOME**

Particulars		Amt.
* Income from Salaries		Nil
* Income from House Property		Nil
* Income from Business [Note 1]		9,09,02,500
* Income from Capital Gains		
FVOC [15 L + 80 L]	95,00,000	
<u>Less: COA [No index after 23/7/24]</u>	- 80,00,000	15,00,000
* <u>Income from Other Sources:</u>		
Advance money forfeited		20,00,000
GROSS TOTAL INCOME		9,44,02,500
<u>Less: Dedn under Chapter VI A</u>		Nil
NET TAXABLE INCOME		9,44,02,500

STATEMENT OF TAX

	STCG u/s 111A	LTCG u/s 112A	LTCG (Other)	Win.	Balance
Taxable Income	Nil	Nil	15,00,000	Nil	9,29,02,500
Tax on above			1,87,500		2,32,25,625
			[12.5%]		[25%]
					2,34,13,125
<u>Add: Surcharge</u>					+ 16,38,919
					2,50,52,044
<u>Add: HEC @ 4%</u>					+ 10,02,082
TAX PAYABLE					2,60,54,126
Rounded off					2,60,54,130

Note 1:**STATEMENT OF INCOME FROM BUSINESS**

Particulars	₹	₹
Net Profit as per Profit & Loss A/c		9,00,00,000
Add: DISALLOWED EXPENSES:		
Payment towards know-how [capital exp. i.e., an intangible asset]	50,00,000	
Electricity charges unpaid upto the due of filing return of income [not covered u/s section 43B]	Nil	
Loss due to hedging contract in respect of raw material [revenue in nature]	Nil	
Depreciation as per books	38,00,000	
Loss from hedging contract in respect of imported machinery from Japan [capital in nature. It should to added to the actual cost of the machinery as per section 43A.]	2,00,000	
Purchase of goods from Mr. B, a small enterprise [disallowed u/s 43B as it is paid after 15 days]	7,00,000	+ 97,00,000
		9,97,00,000

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Less: NON-BUSINESS INCOMES:		
Non-compete fees for not carrying out any business in a particular product [taxable as business income u/s 28]	Nil	
Advance forfeited in respect of sale of land [taxable as IFOS]	20,00,000	
Profit on sale of unlisted shares [Taxable as "Capital Gains"]	15,00,000	- 35,00,000
		9,62,00,000
Less: UNRECORDED BUS.. EXPS:		
Depn on P&M		
- Normal Depn. {[65L+2L] x 15% x ½ }	5,02,500	
- Addl. Depn. {[65L+2L] x 20% x ½ }	6,70,000	
Depn on Knowhow [50 L x 25% x ½]	6,25,000	
Depn. on Other Assets	35,00,000	- 52,97,500
TAXABLE INCOME FROM BUSINESS		9,09,02,500

COMPUTATION OF MAT

Particulars	₹
BOOK PROFITS	15,20,00,000
Tax on above @ 15%	2,28,00,000
Add: Surcharge	+ 27,36,000
	2,55,36,000
Add: HEC @ 4%	+ 10,21,440
MINIMUM ALTERNATE TAX	2,65,57,440

→ **FINAL TAX LIABILITY:**

↑ Normal Tax	2,60,54,130
↑ MAT	2,65,57,440
Tax Payable	2,65,57,440

→ Amount of MAT Credit = 2,65,57,440 - 2,60,54,130 = ₹5,03,310

MAT credit of ₹ 20,00,000 of A.Y. 2017-18 is allowed to be carried forward till A.Y. 2032-33 and MAT credit of ₹ 5,03,310 relating to A.Y. 2025-26 is allowed to be carried forward till A.Y. 2040-41.

Note:

Shubh Fragrance Ltd. is eligible for concessional rate under section 115BAA @22% plus surcharge @10% plus HEC @4%.

In case Shubh Fragrance Ltd. opted for concessional rate of tax u/s 115BAA, it would not be eligible for additional depreciation on plant and machinery. In that case, its total income u/s 115BAA would be as follows:

STATEMENT OF TOTAL INCOME u/s 115BAA

Particulars	₹
Net Taxable Income under regular provisions	9,44,02,500
Add: Additional depn. on plant & machinery	+ 6,70,000
Net Taxable Income under sec. 115BAA	9,50,72,500

STATEMENT OF TAX u/s 115BAA

	STCG u/s 111A	LTCG u/s 112A	LTCG (Other)	Win.	Balance
Taxable Income	Nil	Nil	15,00,000	Nil	9,35,72,500
Tax on above			1,87,500 [12.5%]		2,05,85,950 [22%]
Add: SC @ 10%					2,07,73,450 + 20,77,345
Add: HEC @ 4%					2,28,50,795 + 9,14,032
TAX PAYABLE					2,37,64,827
Rounded off					2,37,64,830

→ Suggestion to Shubh Fragrance Ltd.

In case Shubh Fragrance Ltd opts for section 115BAA for assessment year 2025-26, it would not be eligible for balance 10% additional depreciation on plant & machinery in A.Y. 2026-27 and would also lose MAT credit of ₹ 20 lakhs. Further, once option under section 115BAA has been exercised for any P.Y., it cannot subsequently be withdrawn for the same or any other P.Y. However, in such a case its tax liability for A.Y. 2025-26 would be ₹ 2,37,64,830 which would be lower than tax liability under regular provisions of the Act including MAT.

QUESTION 4:

SAM Ltd., a foreign company, earned a profit of ₹25 lakhs after debit and credit of the following items to its statement of Profit and Loss for the year ended on 31.3.2025:

(i) Items debited to Statement of Profit and Loss:

No.	Particulars	₹
1.	Provision for the loss of subsidiary	70,000
2.	Provision for doubtful debts	75,000
3.	Provision for income – tax	1,05,000
4.	Provision for gratuity based on actuarial valn.	2,00,000
5.	Depreciation	3,60,000
6.	Interest to financial institution (unpaid before filing of return)	1,00,000
7.	Penalty for infraction of law	50,000
8.	Expenditure of Sick industrial undertaking	2,00,000

(ii) Items credited to Statement of Profit and Loss:

No.	Particulars	₹
1.	Profit from unit in SEZ eligible for sec.10AA	5,00,000
2.	Share in income of an AOP as a member	1,00,000
3.	Income from units of UTI	75,000
4.	Long term capital gains on sale of building	3,00,000
5.	Amount withdrawn from reserve created in P.Y. 2022–23 (Book profit was not increased by the amount trd. to the reserve in the year 2022–23)	4,00,000
6.	Amount withdrawn from revaluation reserve	2,00,000
7.	Royalty from MNO Ltd., an Indian company	3,00,000
8.	Interest from Infrastructure debt fund	1,00,000
9.	Interest from REIT	50,000
10.	Rent from REIT	2,50,000
11.	Profit from Sick industrial undertaking	7,00,000

Other information:

- (i) Depreciation includes ₹1,50,000 on account of revaluation of fixed assets.
- (ii) Depreciation as per Income – tax Rules is ₹2,80,000
- (iii) Brought forward book loss of ₹10 lakhs which includes unabsorbed depreciation of ₹4 lakhs.
- (iv) The AOPs of which the company is a member, has paid tax at maximum marginal rate.
- (v) Provision for income – tax includes ₹45,000 of interest payable in income – tax.

Compute minimum alternate tax under section 115JB of the Income – tax Act, 1961, for A.Y. 2025 – 26.

ANSWER:**COMPUTATION OF MAT**

Particulars	₹	₹
Net Profit as per Profit & Loss A/c		25
Add: P₃ R I D₃ E:		
P ₁ : Provision for unascertained liabilities	Nil	
P ₂ : Provision for diminution in value of assets [RDD]	0.75	
P ₃ : Provision for loss of subsidiary company	0.70	
R: Transfer to Reserves	Nil	
I: Income Tax and Interest on Income Tax	1.05	
D ₁ : Deferred Tax	Nil	
D ₂ : Dividend & Dividend Distribution Tax	Nil	
D ₃ : Depreciation on Revaluation	1.50	
E: Expenses related to incomes exempt u/s 10/11/12 {Except Sec.10AA}	Nil	4
		29
Less: D P R₂ E S:		
D: Deferred Tax	Nil	
P: Amount withdrawn from Provisions	Nil	
R ₁ : Amount withdrawn from Rev. Reserve [to the extent of depn on revaluation]	1.50	

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R ₂ : Amount withdrawn from Other Reserves [If created from P&L A/c]	Nil	
E: Income exempt u/s 10/11/12 [Except Sec. 10AA]	Nil	
S: Profit of Sick Industrial Unit [7L – 2L]	5	
Less: Share in AOP [net]	1	
Less: Royalty u/s 115BBF [net]	Nil	
Less: Income of foreign co. under Chapter XII taxable at a rate below 15% [net]		
- Interest from IDF (Taxable @5%)	1	
- Interest from REIT (Taxable @5%)	0.50	- 9
		20
Less: B/f Business Loss (As per A/c)	6	
↓ UAD (As per A/c)	4	- 4
BOOK PROFITS		16
Tax on above @ 15%		2.40
Add: Surcharge		Nil
Add: HEC @ 4%		0.096
MINIMUM ALTERNATE TAX		2.496

QUESTION 5:

The accounts of Sun Pvt. Ltd. are prepared in accordance with the provisions of the Companies Act, 2013. Its Statement of Profit and Loss for the previous year ended 31st March, 2025 shows a net profit of ₹ 95 Lacs after debiting or crediting the following items:

Credits in Statement of Profit and Loss		
(1)	Profit from a new industrial undertaking qualifying for dedn u/s 80-IA (Net)	17,00,000
(2)	Dividend received from Investment in Indian companies	2,50,000
(3)	Net agricultural income	5,00,000
Debits in Statement of Profit and Loss		
(1)	Depreciation	10,00,000
(2)	Penalty for infraction of law	1,00,000
(3)	Provision for GST	3,00,000
(4)	Provision for doubtful debts	2,00,000
(5)	Interest on financial institutions unpaid before due date of filing return of income	1,50,000
(6)	Reserves of currency foreign fluctuation	1,25,000

Other Information:

- i) Depreciation as per I.Tax for the PY 2024-25 is ₹ 19,50,000.
- ii) Depreciation (as per books) includes ₹ 1,90,000 on account of revaluation of assets.
- iii) GST provided in the accounts has been remitted before the due date for filing return of income.
- iv) Brought forward losses as per books are as under:
(₹ In lakhs)

Financial Year	Business loss	Depreciation
2022-23	9.10	6.40
2023-24	6.10	8.10

The National Company Law Tribunal (NCLT), Mumbai Bench has admitted an application under section 7 of Insolvency and Bankruptcy Code, 2016 (IBC) made by financial creditor against the company for initiation of Corporate Insolvency Resolution Process on 30th March, 2025.

The particulars of “Other Comprehensive Income” for the year ended 31.03.2025:

Other Comprehensive Income (OCI)
(that will not be re-classified to Statement of profit and loss)

		Debit	Credit
		(₹ In lakhs)	
(i)	Deferred costs of hedging	2.80	
(ii)	Changes in fair values of equity instruments	7.40	
(iii)	Revaluation surplus for assets		6.10
(iv)	Deferred gains on cash flow hedges		7.50
(v)	Re-measurement of post-employment benefit obligations		6.20

The transition amount as on convergence date (01-04-2023) stood at ₹ 68 lakhs (credit balance) including capital reserve of ₹ 8 lakhs and adjustment of ₹ 6 lakhs relating to translation difference in a foreign operation.

You are required to **compute the MAT liability** for the assessment year 2025-26, applying the provisions relating to **Ind AS compliant companies**.

Assuming that the income tax under normal provisions of Income-tax Act, 1961 for the assessment year 2025-26 works out to ₹ 12.80 lakhs, **compute the tax credit**, if any, to be carried forward by the company.

ANSWER:

COMPUTATION OF MAT

Particulars	₹	₹
Net Profit as per Profit & Loss A/c		95,00,000
Add: P₃ R I D₃ E:		
P ₁ : Provisions for unascertained liabilities	—	
P ₂ : Provision for diminution [RDD]	2,00,000	
P ₃ : Prov. for loss of subsidiary company	—	
R: Trf. to Reserve (currency fluctuation)	1,25,000	
I: I. Tax and Interest on Income Tax	—	
D ₁ : Deferred Tax	—	
D ₂ : Dividend & Dividend Distribution Tax	—	
D ₃ : Depreciation on Revaluation	1,90,000	
E: Exps. related to incomes exempt u/s 10/11/12 {Except Sec.10AA}	—	+5,15,000
		1,00,15,000
Less: D P R₂ E S:		
D: Deferred Tax	—	
P: Amount withdrawn from Provisions	—	
R ₁ : Amount withdrawn from Rev. Reserve	—	
R ₂ : Amt. withdrawn from Other Reserves	—	
E: Income exempt u/s 10/11/12 [Except Sec.10AA]	5,00,000	
S: Profit of Sick Industrial Unit	—	(5,00,000)
		95,15,000
Less: B/f Business Loss (As per A/c)	15,20,000	
UAD (As per A/c)	14,50,000	(29,70,000)
BOOK PROFITS [Before IndAS adjustments]		65,45,000
Add: OCI Credits [except revaluation]		
Deferred gains on cash flow hedges		+7,50,000
Re-measurement of employment benefit		+6,20,000
Less: OCI Debits [except revaluation]		
Deferred costs of hedging		-2,80,000
Add: 1/5th of Transition amount		+10,80,000
1/5th of (68L – 8L – 6L)		
BOOK PROFITS [After IndAS adjustments]		87,15,000
Tax on above @15%		13,07,250
Add: Surcharge @7%		Nil
Add: HEC @4%		+52,590
Minimum Alternate Tax		13,59,540

➔ **FINAL TAX LIABILITY:**

↑ Normal Tax	12,80,000
↑ MAT	13,59,540
Tax Payable	13,59,540

Since MAT is higher, credit will arise.

Amt of MAT Credit = 13,59,540 – 12,80,000 = ₹ 79,540