

Unit I : Income from ‘Profits and Gains of Business or Profession’ (Sections 28 to 44D)

- 1.1 Basis of Charge
- 1.2 Important rules regarding assessment of PGBP
- 1.3 Computation of Profits of Business or profession
- 1.4 Deductions expressly allowed
- 1.5 Expenses expressly disallowed

Sec. 2(13) Business :

Business means the **purchase and sale or manufacture** of a commodity with a **view to make profit**. It includes any **trade, commerce or manufacture or any adventure** (Doing activity for the first time without knowing the outcome) **or concern in the nature of trade, commerce and manufacture**.

To judge a transaction as business transaction, following points should be considered -

1. Nature of commodity
2. Nature of transaction (Whether incidental to a business or not)
3. Intention of the related party
4. Duration of transaction
5. Effort applied in transaction.

Sec. 2(36) Profession:

Profession means the activities for earning livelihood which require **intellectual skill or manual skill**, e.g. the work of a lawyer, doctor, auditor, engineer and so on are in the nature of profession. **Profession includes vocation**.

Vocation : Vocation implies natural ability of a person to do some particular work e.g. singing, dancing, etc. Here, no training or no qualification is required but having natural ability.

Profits : Excess income over expenditure.

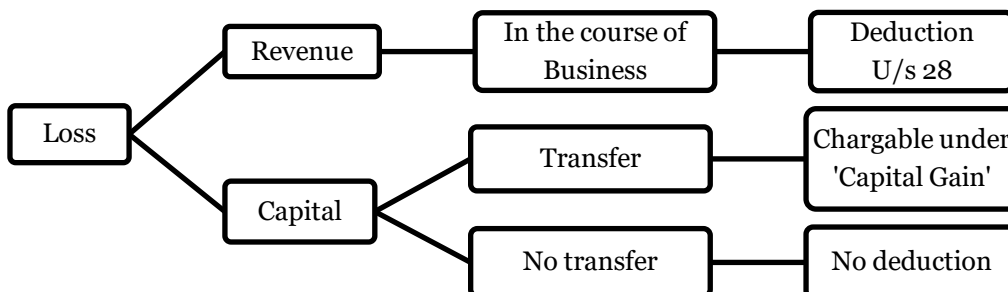
Gains : Any incidental revenue from business.

As the rules for the assessment of business, profession or vocation are the same, there is no importance of making any distinction between them for income tax purposes.

Sec. 28 : Basis of Charge :

The following incomes are chargeable to income tax under the head ‘PGBP’:

- i) **Revenue Profits from Business or Profession** : The profits and gains of any business or profession which was carried on by the assessee at any time during the previous year;

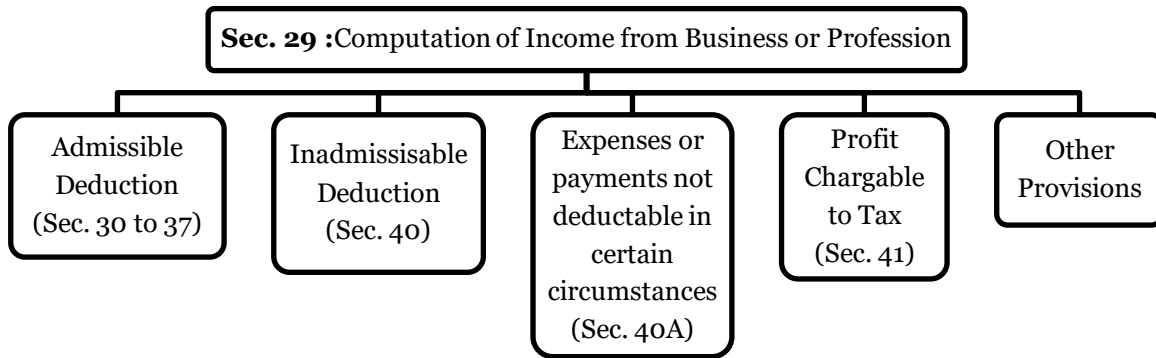


- ii) **Any Compensation due to or received by an agent :** Any compensation or other payment due to or received by an agent, managing the whole or substantially the whole of the affairs of any person, at the termination his management or modification of the terms and conditions relating thereto.
- iii) **Income of trade association, etc :** Income derived by a trade, professional or similar association from specific services performed for its members.
- iv) **Receipts in connection with foreign trade :**
 - a) Profit on sale of import license.
 - b) Duty Draw back / Duty remission (decrease) scheme / Duty free replenishment (refill) certificate.
 - c) Cash Assistance.
 - d) Profit on sale of Duty Entitlement Passbook.
 - e) Repayment of any customs or excise duty to any person against exports.
- v) **Value of any benefit or Perquisite from business or profession :** The value of any benefit or perquisite whether convertible into money or not, arising from business or the exercise of profession.
- vi) **Remuneration to partner from the firm :** Any interest, salary, bonus, commission or remuneration due to or received by a partner of a firm from the firm provided that it has been allowed as deduction in computing the taxable profits of such firm.
- vii) **Amount received or receivable for certain agreement :**
 - a) Not carrying out any activity in relation to any business or
 - b) Not sharing any know-how, patent, copyright, trade mark, license, franchise or any other business or commercial right of similar nature or information or technique.
- viii) **Keyman Insurance Policy :** Any sum received under a keyman insurance policy including the sum allocated by way of bonus on such policy.
- ix) **Interest on securities :** Interest on securities, if the business of the assessee is to invest in securities, otherwise interest on securities shall be chargeable to income tax under the head 'Income from other sources'.
- x) **Recovery against certain capital assets covered u/s 35AD :** Any sum received on account of any capital asset (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as deduction u/s 35AD.
- xi) **Income from speculative transaction.**

Sec. 43(5) Speculative Transaction : Speculative transaction means a transaction in which a contract for the purchase or sale of any commodity, including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrip.

Sec. 29 : Computation of Income from Business or Profession :

According to Section 29, the profits and gains of any business or profession are to be computed in accordance with the provisions contained in Section 30 to 43D.



Rules for adjustment of Profit and Loss Account prepared by the Assessee :

The profit and Loss Account prepared by the assessee is not correct from the income tax point –

- a) Several expenses are charged to it which are wholly or partly inadmissible.
- b) Some admissible expenses are omitted.
- c) Some taxable income are not credit
- d) Some such incomes are credited which are either not taxable under the head PGBP or are not taxable at all.

Proforma for computation of Income under the head PGBP

	Particulars	Rs.	Rs.
	Profit as per P & L A/c		xxx
Add :	i) Expenses or losses disallowed but charged in P & L A/c	xxx	
	ii) Incomes taxable as business income but not credited to the P & L A/c	xxx	
	iii) Expenses in excess of the allowed amount charged to P & L A/c	xxx	
	iv) Under valuation of closing stock or over valuation of opening stock	xxx	xxx
Deduct	i) Expenses or losses allowed but not debited to P & L A/c	xxx	
	ii) Incomes not taxable as business income but credited to the P & L A/c	xxx	
	iii) Income exempt from tax but credited in P & L A/c	xxx	
	iv) Over valuation of closing stock and under valuation of opening stock	xxx	xxx
	Taxable income from Business		xxx

Deductions Expressly Allowed (Sec. 30 to 37)

Sec. 30 : Expenses in respect of business premises : Revenue expenses for use of premises for business or profession is allowed.

- a) **Premises are occupied as tenant :** Rent, Repair, Insurance and Tax.
- b) **Premises are occupied as owner :** Repair, Insurance and Tax.

Note :

1. If the business premise belongs to the assessee no deduction in respect of rent will be allowed.
2. If the assessee is a partnership firm and the business premises belongs to a partner of the firm, the rent payable to the partner will be an allowable deduction.

Sec. 31 : Revenue Expenditure on Plant and Machinery / Furniture and Fixture :

Revenue expenditure incurred on current **repairs and insurance** premium incurred on plant and machinery / furniture and fixture is allowed. **[Rent and taxes are allowed u/s 37]**

Note : Capital expenditure shall not included in repairs.

Sec. 32 : Depreciation :

Difference between Depreciation under Accounting Rules and Taxation Rules

No.	Accounting System	Taxation System
1.	Charges against profit.	Allowances in nature
2.	WDV / SLM method is allowed.	Only WDV method is allowed. (Electricity Generation Unit can adopt SLM Method)
3.	Depreciation is charged on Individual Asset	Depreciation is charged on Block of asset.
4.	On the basis of number of days asset used.	50% of normal Depreciation (If asset is used below 180 days) or Normal Depreciation.
5.	Only on Tangible Asset.	Tangible and Intangible asset.
6.	Life of the asset.	Prescribed rate.

Category of Asset : Five categories of asset.

- I. Building
- II. Furniture and Fittings.
- III. Machinery and Plant
- IV. Ships
- V. Intangible Asset (Know-how, Patents, Copyrights, Trademarks, Licenses, Franchises or Commercial rights).

Block of Assets :

1. Falls under the same category.
2. On which same rate of depreciation is applied.

Conditions of Allowance of depreciation :

There are two essential conditions :

1. Asset should be owned, wholly or partly by the assessee.
2. It should be used for the purpose of assessee's business or profession.

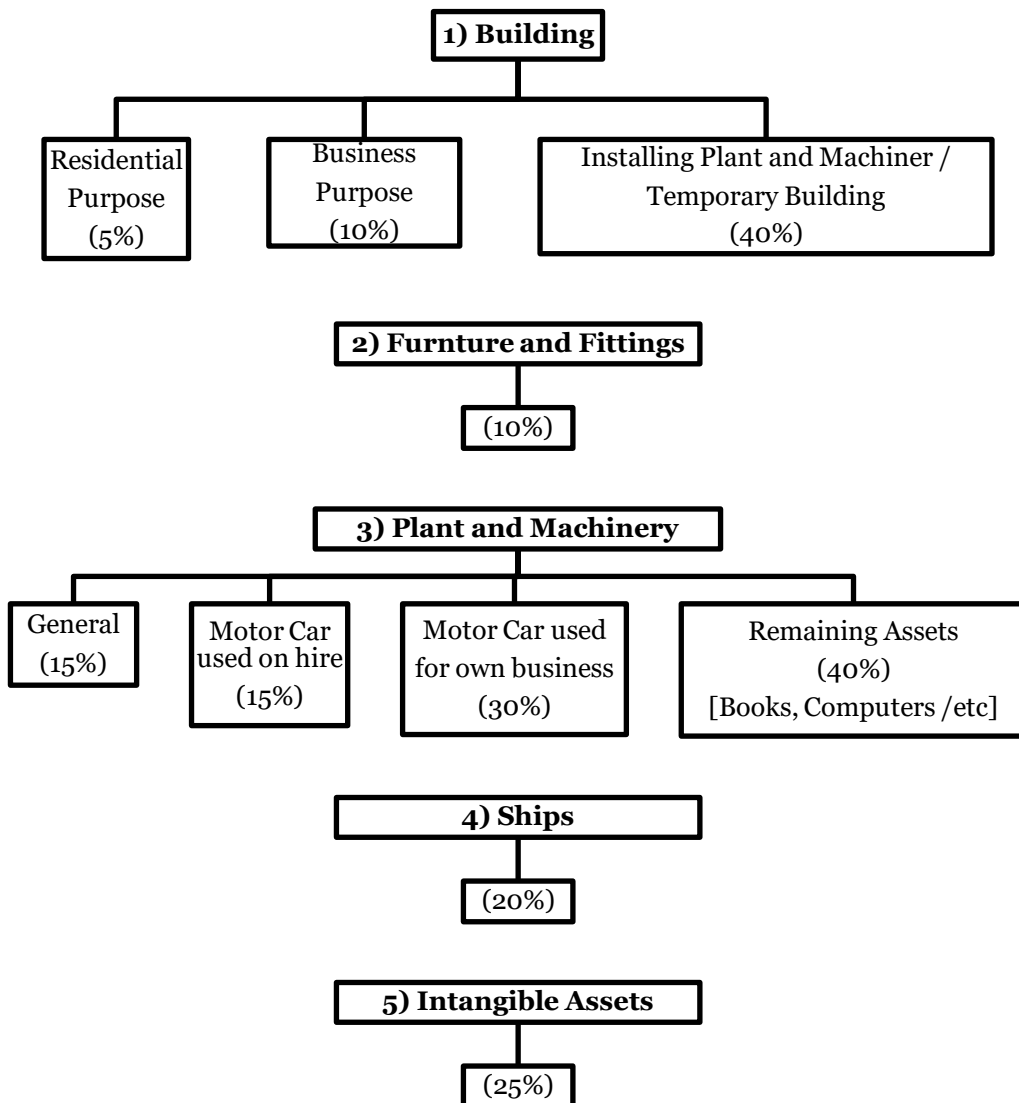
50% of normal Depreciation :

If any asset is acquired and put to use not to excess of 180 days during same previous year then assessee can get the benefit of depreciation only 50% of normal depreciation.

Format for computation of Depreciation :

	Opening WDV of block	xxx
Add	Actual Cost of asset acquired during P.Y.	xxx
Less	Money payable in respect of asset sold / discarded / damaged, etc.	xxx
	WDV for Depreciation	xxx
Less	Depreciation at prescribed rate	xxx
	Closing WDV	xxx

Rates of depreciation prescribed under IT Act :



Sec. 33AB : Tea, Coffee and Rubber Development Account

- The assessee should deposit in special account with the **National Bank for Agricultural and rural Development**.
- The deposit should be made within a period of six months from the end of the PY or before furnishing the return of his income, whichever is earlier.
- Limit** : Sum equal to deposited or **40% of profits** of such business (before making deduction under this section and before setting off brought forward business losses), whichever is less.
- Utilization of funds** : Must be used in the same previous year in which it is withdrawn.

Sec 33ABA : Site Restoration Fund :

Deduction will be allowed in respect of prospecting, extraction or production of petroleum or natural gas in India. It is necessary that, agreement with central government.

- The assessee should deposit in special account with the **State Bank of India**.
- The deposit should be before the end of the previous year.

- c) **Limit** : Sum equal to deposited or **20% of profits** of such business (before making deduction under this section and before setting off brought forward business losses), whichever is less.

Sec. 37 : General Deduction (Residuary section) :

Conditions should be fulfilled –

- a) Expenses not covered under section 30 to 36.
- b) Revenue nature expenditure.
- c) Not of capital nature
- d) Not of personal nature
- e) Expenses incurred for running of business / profession.
- f) Expenditure shall be made during the previous year.

Explanation 1 : Expenditure incurred on protection money, hafta, bribes, etc. will not be allowed.

Explanation 2 : Expenditure incurred on CSR activities will not be allowed.

Examples of expenses allowed :

- 1. Expenses incurred in the purchase, manufacture and sale of goods.
- 2. Expenses incurred on day to day running of the business.
- 3. Expenses incurred on breach of contract.
- 4. Amount of Value Added Tax / GST, excise duty, professional tax.
- 5. Compensation paid for retrenchment of undesirable employee.
- 6. Contribution made to provident fund.
- 7. Commission paid for securing orders.
- 8. Compensation paid to employees due to accident on duty.
- 9. Royalties paid for mines.
- 10. Insurance premium paid for policy of its employees for compensation during work.
- 11. Compulsory subscription to an association.
- 12. Legal expenses for – normal course of business, to avoid business liability, defend for title of his assets, terminate a disadvantageous trading relationship, and resist a winding-up petition by some shareholders.
- 13. Annual listing fee paid to stock exchange.
- 14. Expenditure on inauguration ceremony.

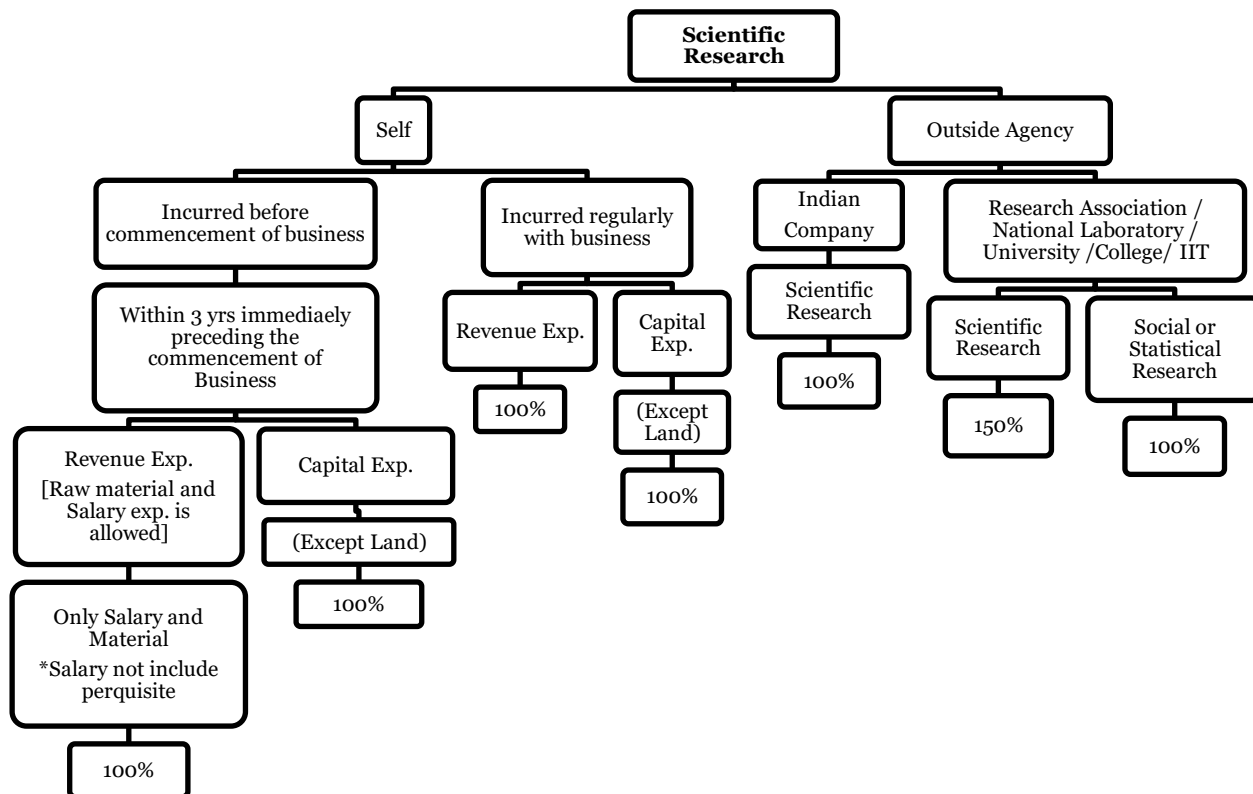
Sec 34 : Conditions for depreciation allowance and development rebate [Omitted w.e.f. **1.4.1988**].

Section 35 : Expenditure on Scientific Research :

- a) **Scientific Research** : It means activities for the extension of knowledge in the fields of natural or applied science including agriculture, animal husbandry or fisheries.
- b) **Scientific Research Expenditure** : It means expenditure incurred on scientific research would include all expenditure incurred for the prosecution or the provision of facilities for the prosecution of scientific research but **does not include any expenditure incurred in the acquisition of right in or arising out of scientific research.**

A summary of weighted deduction u/s 35

Section	Expenditure incurred / contribution made	Deduction (As a % of contribution made)
35(1)(i)	Revenue Exp. Incurred on scientific research related to the assessee's business	100%
35(1)(ii)	Research Association for scientific research	150%
35(1)(ia)	Company for scientific research	100%
35(1)(iii)	Research Association for research in social science or statistical research	100%
35(1)(iv)	Capital expenditure (Other than expenditure on land)	100%
35(2AB)	Expenditure on in-house research (Except land and building)	150%



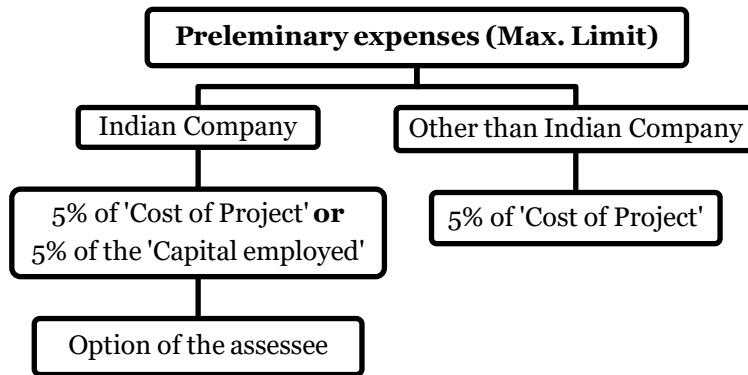
In-house Research : A deduction of an amount equal to **150%** of expenditure (excluding land or building) shall be allowed.

Sec. 35D : Amortization (paying off) of Preliminary Expenses :

Preliminary expenses includes –

1. Preparation of feasibility report,
2. Preparation of project report
3. Conducting market survey.
4. Legal charges for drafting any agreement.
5. Printing charges for the Memorandum and Articles of Association.
6. Fees paid for registering the company.
7. Expenses regarding issue of shares or debentures e.g. underwriting commission, brokerage, typing, printing, advertisement of prospectus etc.

Deduction : Deduction is allowed is **1/5 of such expenditure** for each of the five successive previous year beginning with the previous year in which the **business is commences**.



Sec. 35DD : Expenditure for amalgamation or demerger of an undertaking :

Allowed deduction of **20%** of such expenditure for each of **five** successive previous years beginning with the year in which amalgamation or demerger takes place.

Section 35DDA : Expenditure on voluntary retirement :

Allowed deduction of **20%** of such expenditure for each of **five** successive previous years beginning with the year in which the expenditure was incurred.

Sec. 35 AD : Expenditure on Specified Business :

- 100% expenditure of capital nature is allowed [**Excluding land, goodwill, financial instrument**]
- **Deduction** is allowed in the year in which business is commenced –
 - a) Expenditure incurred prior to commencement of its operations.
 - b) The amount is capitalised in the books of accounts on the date of commencement of its operations.
- Payment of **Rs. 10,000 in a day** should not be made in cash.

Businesses :-

1. Setting up and operating of cold chain facility.

Cold chain facility means a chain of facilities for storage or transportation of:

- a) Agriculture and forest produce,
 - b) Meat and meat products,
 - c) Poultry
 - d) Marine and dairy products
 - e) Products of horticulture, floriculture and apiculture
 - f) Processed food items.
2. Warehousing facility – for storage of agricultural produce.
 3. Laying and operating of petroleum oil pipeline.
 4. At least one hundred beds hospital.
 5. Building for slum redevelopment or rehabilitation framed by Central or State Government.

6. Housing project under a scheme for affordable housing framed by Central or State Government.
7. Two-star or above category hotel.
8. Production of fertilizer in India.
9. Inland container depot / container freight station.
10. Bee-keeping and production of honey and beeswax.
11. Warehousing facility for storage of sugar.
12. Infrastructure facility – toll road, bridge, water supply, water treatment, irrigation project, sanitation, port, airport, etc.
13. Semiconductor wafer fabrication manufacturing unit.

Sec. 36 : Other deduction :

1. Insurance premium paid for stock which is used for purpose of business / profession.
2. Insurance premium for cattle, Paid by federal milk co-operative society.
3. Insurance premium paid (**any mode other than cash**) for the **health** of employees.
4. Bonus or commission to employee. (**On actual payment basis**)
5. **Interest paid on borrowed capital** for purpose of business / profession (**On actual payment basis**). No deduction of 'interest paid' for acquisition of asset from the date of borrowing till the date of 'put to use'. (It would be added to cost of asset).
6. Discount on **Zero Coupon Bond** allowed as deduction on pro-rata basis.
7. **Bad debts** – The debt should be incidental to the business.
8. Loss regarding animals (Not for stock in trade) – allowed as deduction. [**Cost of animal – carcasses of animals**]
9. Employers contribution to provident Fund – only Recognized provident fund or approved superannuation fund. [**Subject to Sec. 43B**]
10. Employees contribution to provident fund or superannuation fund etc. [**Subject to Sec. 43B**].
11. Approved gratuity fund. [**Subject to Sec. 43B**].
12. Expenditure on family planning (Only when assessee is company) : Capital expenditure = 5 equal installments; Revenue expenditure – in the same previous year.
13. Entertainment expenses, advertisement expenses (Except section 37(2B) i.e. advertisement in political party).
14. Security Transaction Tax (STT).

Sec. 40(a) : Expenses not allowed in any circumstances :

1. Expenditure on advertisement in any souvenir, etc. published by a political party.
2. Payments outside India, in India to a non resident or a foreign company on which TDS is not deducted and has not paid on or before the due date specified.
3. Payment to residents – on which TDS has not been deducted or before the due date of filing the return of income – 30% of such sum shall not allowed as deduction.
4. **Wealth tax** : Wealth tax chargeable under the Wealth Tax Act shall not be allowed as deduction.
5. **Tax on Profits and Gains** : Any sum paid on account of any tax levied on the profits and gains of any business or profession shall not be allowed as a deduction.

- Contribution to unrecognized provident fund.

Sec. 40A : Expenses not deductible in certain circumstances :

- Excessive payment to relatives.
- Payment in Cash :** Payment made to a person in a day is made exceeding Rs. 10,000 other than account payee cheque, bank draft or use of electric clearing system, it will be disallowed. **Entire amount will be disallowed.**

Exception : Where payment is made for plying, hiring or leasing goods carriages, the limit of disallowance shall be exceeding Rs. 35,000.

Sec. 43B : Deductions allowable only on actual payment :

- Any sum payable by the assessee by way of tax, duty, cess or fee.
- Any sum payable by him as an employer by way of contribution to any provident fund, superannuation fund or gratuity fund or any other fund for the welfare of employees.

Certain Allowable Losses

Losses which are directly incidental to the business or profession of the assessee are allowable. Following are some examples of such losses.

1) Robbery or Dacoity : Loss caused by robbery or **dacoity is not deductible.** But, if it is incidental to business it will be allowed as a deduction and this depends upon the specific circumstances and conditions. For example, if cash is sent for disbursement at different centers by a sugar factory in rural area, it is incidental to business and is, therefore, allowed. Any loss due to robbery in a bank will be allowed as the bank is under an obligation to maintain some cash outside the strong room for payments.

2) Embezzlement (Misappropriation), Theft, etc. : The loss of money due to embezzlement by an employee handling the funds of the business while discharging his official duties is allowed as deduction. When an employee goes to bank to deposit the cash and he takes away the money for his own use, even then, the loss is allowable. Theft by a cashier, who is in charge of cash, is also an allowable loss. A theft committed either by an employee or by someone else by breaking open into the business premises after office hours, is also allowable.

3) Loss due to Non-recovery of Advances : If it is the practice in a business to give advance money to the suppliers and if the supplier neither supplies the order nor refunds the advance money, the loss sustained by the assessee is incidental to business and is, therefore, allowable.

- Penalty paid for **infraction of law** is not allowed.

Illustration 1 :

Mr. Amitabh prepared the following profit and loss account of his cloth shop for the year ended 31st March, 2019. Find out his income from business for the AY 2019-20.

Profit and Loss Account
(For the year ended 31st March, 2019)

Particulars	Rs.	Particulars	Rs.
Salaries and wages	33,000	Gross Profit	3,34,725
Rent, etc.	1,600	Gifts received from relatives	275
Household expenses	82,000		
Income Tax	900		
Advertisement	800		

Postage expenses	600		
Gifts to relatives	900		
Fire Insurance Premium	400		
Life Insurance Premium	2,100		
Bad Debts Reserve	800		
Audit Fees	400		
Net profit	2,11,500		
Total	3,35,000	Total	3,35,000

Solution :

Computation of Income from PGBP

A.Y. : 2019-20

	Particulars	Rs.	Rs.
	Profit as per P & L A/c		2,11,500
Add :	Household expenses	82,000	
	Income Tax	900	
	Gifts to relatives	900	
	Life Insurance Premium	2,100	
	Bad Debts Reserve	800	86,700
			2,98,200
Less	Gifts received from relatives	275	275
	Taxable income from Business		2,97,925

Illustration 2 : Given below is the Profit and Loss Account of a Timber Merchant for the year ended 31st March, 2019. Compute total income for the AY 2019-20.

Profit and Loss Account

(For the year ended 31st March, 2019)

Particulars	Rs	Particulars	Rs
Opening Stock	25,000	Sales	6,00,000
Purchases	2,50,000	Rent for Property	15,000
Wages	1,00,000	Closing Stock	35,000
Audit Fees	1,000		
Repairs (House Property)	2,000		
General Charges	1,500		
Commission for raising loan	1,000		
Bad debts Reserve	500		
Bad debts	2,000		
Interest on capital	10,500		
Contribution to Staff Welfare Fund	2,500		
Provision for Income Tax	1,500		
Depreciation (Allowable)	2,500		
Net Profit	2,50,000		
Total	6,50,000	Total	6,50,000

Solution :

Computation of Income from Business

	Particulars	Rs.	Rs.
	Profit as per P & L A/c		2,50,000
Add :	Repairs (House Property)	2,000	
	Bad debts Reserve	500	
	Interest on capital	10,500	
	Contribution to Staff Welfare Fund	2,500	
	Provision for Income Tax	1,500	17,000
			2,67,000
Less	Rent for Property		15,000
	Taxable income from Business		2,52,000

Problem 1 : The following is the Profit and Loss Account of Mr. X for the year ended on 31st March, 2019. Compute his taxable income from business for that year: [**Problem 10, Page 236**]

Profit and Loss Account
(For the year ended 31st March, 2019)

Particulars	Rs	Particulars	Rs
Opening Stock	15,000	Sales	2,80,000
Purchases	1,40,000	Closing Stock	20,000
Wages	20,000	Gift from Father	10,000
Rent	46,000	Sale of Car	17,000
Repairs of Car	3,000	Income tax Refund	3,000
Medical Expenses	3,000		
General Expenses	10,000		
Depreciation of Car	4,000		
Profit for the year	89,000		
Total	3,30,000	Total	3,30,000

Following further information is given:

- (1) Mr. X carries on his business from rented premises half of which is used as his residence.
- (2) Mr. X bought a car during the year for Rs 20,000. He charged 20% depreciation on the value of the car. The car was sold during the year for Rs 17,000. The use of the car was 3/4th for the business and 1/4th for personal use.
- (3) Medical expenses were incurred during the sickness of Mr. X for his treatment.
- (4) Wages include Rs 250 per month on account of Mr. X's driver for 10 months.

Problem 2 :

The following is the Profit and Loss Account of the Raj Oil Mills for the financial year 2018-19. Compute its business income on the basis of additional information.

Profit and Loss Account
(For the year ended 31st March, 2019)

Particulars	Rs	Particulars	Rs
Office Salaries	15,000	Gross Profits	80,000
General Expenses	7,000	Profit on Sale of car	15,000
Bad Debts	1,000	Recovery of bad debts	5,000
Advertising Expenses	3,700	Interest on Govt. Securities	3,500
Insurance Premium (fire)	1,500	Dividends	3,500
Depreciation	5,000	Gifts on the occasion of Gruhapravesam	5,000
Reserve for bad debts	3,000		
Donation to a school	2,500		
Car Expenses	2,000		
Net Profit	71,300		
Total	1,12,000	Total	1,12,000

Additional information:

- (a) General expenses include:
 - (i) Rs 2,500 as compensation paid to an accountant who had to be removed from service in the interest of business, and
 - (ii) Rs 3,300 as contribution paid to the Govt. for laying electric cables for the company's plant.
- (b) Depreciation as regards to the relevant blocks of assets under the Income Tax Act was Rs 3,500.
- (c) In the assessment year 2015-16 the Assessing Officer had refused to allow deduction for the bad debts of Rs 5,000 now recovered.
- (d) Car expenses include Rs 500 attributable to use of car for personal work.

Solution :

Computation of Income from Business

AY : 2019-20

	Particulars	Rs.	Rs.
	Profit as per P & L A/c		71,300
Add :	Disallowed Expenses		
	Depreciation	5,000	
	Reserve for bad debts	3,000	
	Donation to School	2,500	
	Car expenses	500	11,000
			82,300
Less	Profit of sale of car	15,000	
	Recovery of Bad debts	5,000	
	Interest on Govt. Securities	3,500	
	Dividends	3,500	
	Gifts on the occasion of Gruhapravesam	5,000	
	Depreciation	3,500	35,500
	Taxable income from Business		46,800

Problem 3 : The following is the Profit & Loss Account of Sri S. Kumar for the year ending 31st March, 2019: [Problem 12, Page 238]

Profit and Loss Account

(For the year ended 31st March, 2019)

Particulars	Rs	Particulars	Rs
Rent	3,870	Gross Profit b/d	55,048
Staff Salaries	8,620	Miscellaneous Receipts	383
General Charges	3,780	Discounts	458
Interest on Capital	1,800	Interest of Govt. Securities	2,400
Audit Fee	1,050	Bad Debts Recovered	560
Bad Debts	840	Profit on Sale of Machineries	5,765
Reserve for Bad Debts	600	Profit on Smuggling Business	1,25,000
Income Tax	2,400	Less:	
Law Charges	3,700	(1) Bribe to Border Police	12,000
Compensation to a retrenched employee	2,800	(2) Smuggled goods Seized	16,000
Cost of extension of office premises	2,000	(3) Penalty to Custom Authorities	13,000
Charity and Donation	184		
Depreciation	5,700		
Entertainment Expenses	12,600		
Net Profit	98,670		
Total	1,48,614	Total	1,48,614

Compute Mr. Kumar's Income from Business for the related Assessment Year after taking into account the following:

- The expenditure of rent includes a sum of Rs 720 being rent charged for a godown owned by the assessee himself.
- Staff salary includes Rs 1,200 being the salary of a servant engaged at the residence of the assessee.
- The general expenses include a sum of Rs 500 being advertisement expenses.
- Law charges include payment of Rs 2,300 being Stamp and Registration Fees and Solicitor's Bill for the Deed of Purchase of a property.
- Depreciation on fixed assets chargeable according to Income Tax Rules amounts to Rs 6,780.

- (f) Bad Debts recovered include an item of Rs 200 the claim for which was disallowed in the related year of assessment.
- (g) The profit on sale of machineries relate to a machine purchased in December 2016 for Rs 15,000. Its written-down value on 1.4.2018 was Rs 10,935 and the same was sold during the year for Rs 16,700.

Problem 4 : From the following Profit and Loss Account of a sole proprietorship business for the year ended 31st March, 2019, compute his taxable income from business and the gross total income for the assessment year 2018-19: **[Problem 11, Page 237]**

Profit and Loss Account
(For the year ended 31st March, 2019)

Particulars	Rs	Particulars	Rs
Salary to Staff	15,000	Gross Profit b/d	2,00,000
General Expenses	8,000	Dividend from an Indian Agricultural Company	5,000
Bad Debts	3,000	Interest on Notified Capital Investment Bonds	1,000
Advertisement	5,000		
Proprietor's Salary	15,000		
Int. on Proprietor's Capital	3,000		
Reserve for Sales Tax	8,000		
Gratuity to Staff	40,000		
Donation	12,000		
Purchase of Land	20,000		
Advance Income Tax Paid	5,000		
Depreciation	10,000		
Legal charges for defending a suit for breach of a trading contract	1,000		
Net Profit	61,000		
Total	2,06,000	Total	2,06,000

Additional Information:

- (1) General Expenses include Rs 2,000 paid as compensation to an employee whose services were terminated as his continuing in service was considered detrimental to the profitable conduct of the business.
- (2) The assessee has received demand notice of sales-tax for the preceding year amounting to Rs 8,000 and he has not disputed the liability.
- (3) The gratuity paid had no relation to the service or salary drawn by the staff. It was given on ad hoc basis.
- (4) Donation was given to the Chamber of Commerce to work against the threat of nationalization of the type of business carried on by the assessee. The Chamber collected such donations from several other parties also doing the same type of business. The Chamber in turn donated money to different parties who exercised their pressure with the Government and ultimately it was averted.
- (5) The assessee purchased land in the name of the District Magistrate for constructing houses for its workers. It was to be done by the Government under the subsidized Housing Scheme for industrial workers. The ownership would vest in the Government.
- (6) Depreciation is found to be in excess by Rs 2,000.

Problem 5 : Sri Pandey is a reputed Vakil of Bikaner. He has prepared the following Income & Expenditure Account for the year ended 31st March, 2019: **[Problem 17, Page 244]**

Profit and Loss Account
(For the year ended 31st March, 2019)

Expenditure	Rs	Income	Rs
Household Expenses	12,000	Legal fees	1,26,000
Office Expenses	7,000	Special commission appointment fees	1,400
Charity	500	Cash gifts received from Clients	2,000
Telephone Expenses	500	House Rent	15,000
Income Tax	900	Int. on Govt. Securities	3,000
Rent	4,000	Salary as part-time Lecturer in Law	6,000
Gift to daughter	2,000		
Electricity Charges	1,000		
Donation to National Defense Fund	1,000		
Contribution to Public Provident Fund	2,400		
Books for profession (Annual publications)	3,000		
Salaries	15,000		
Purchase of Motor-car	60,000		
Purchase of Furniture	2,000		
Life Insurance Premium	5,000		
Motor-car Expenses	6,000		
Purchase of Typewriter	6,000		
Excess of Income over Expenditure	25,100		
Total	1,53,400	Total	3,53,400

Following other particulars were received:

- (a) Sri Pandey lives in one-half of the house and the other half is used for office. Rent and Electricity charges are in respect of this house.
- (b) One-half of car expenses are for personal use.
- (c) Depreciate Motor-car @ 15%, Typewriter @ 15% and Furniture @ 10%.

Compute his taxable income from business and profession for the A.Y. 2019-20.

Problem 6 : From the Profit & Loss Account for the relevant assessment year, compute income from business of Sri Babu Rao.

Profit and Loss Account
(For the year ended 31st March, 2019)

Particulars	Rs	Particulars	Rs
To Salaries	88,000	By Gross Profit	3,80,000
To Rent	42,000	By Sundry receipts	20,000
To General expenses	20,000	By dividends	40,000
To Advertisement	25,000	By Commission	30,000
To Legal expenses	15,000	By Bad debts recovered (earlier allowed)	10,000
To Sales-tax	10,000	By Rent of building let out	44,000
To Wealth-tax	20,000		
To Telephone expenses	12,000		
To Gratuity paid	30,000		
To Provision for bad debts	10,000		
To Advance income-tax	20,000		
To Depreciation	38,000		
To Office expenses	12,000		
To Municipal taxes of property let out	10,000		
To Contribution to employees provident fund	6,000		
To Net profit	1,66,000		
Total	5,24,000	Total	5,24,000

Other information:

- (a) Legal expenses were found to have been incurred for the registration of a business asset.

- (b) 50% of the business premises were used for residential purposes.
- (c) General expenses include a donation of Rs 10,000 towards A.P. Chief Minister's Relief Fund.
- (d) Advertisement expenses were paid in Cash.
- (e) Allowable depreciation as per income-tax rules, Rs 46,000.

Solution :

Computation of Income from Business

AY : 2019-20

	Particulars	Rs.	Rs.
	Profit as per P & L A/c		1,66,000
Add :	Inadmissible Expenses		
	Rent	21,000	
	General Expenses(Donation)	10,000	
	Advertisement expenses (Paid in cash)	25,000	
	Wealth tax	20,000	
	Provision for bad debts	10,000	
	Advance Income Tax	20,000	
	Depreciation	38,000	
	Municipal Tax of property let out	10,000	1,54,000
			3,20,000
Less	Inadmissible Incomes		
	Dividends	40,000	
	Rent of building let out	44,000	84,000
	Depreciation	46,000	
	Taxable income from Business		1,90,000

Problem 7: Sri Sunil Dutta furnishes the following information relevant for the A.Y. 2018-19:
[Problem 21, Page 247]

Profit and Loss Account

(For the year ended 31st March, 2019)

Particulars	Rs	Particulars	Rs
Office Expenses	45,000	Gross Profit	3,43,000
Sundry Expenses	39,000	Sundry Receipts	11,000
Entertainment Expenses	15,000	Bad debts recovered	7,100
Audit Fees	12,000	(Not allowed earlier)	
Legal Charges	4,000	Customs duties recovered	32,500
Extension of Building	6,000	from the Government	
Bonus to Staff	36,000	(Allowed earlier as deduction)	
Salary to Staff	43,000	Gifts received from father	1,43,000
Depreciation on Plant & Machinery	23,000		
Contribution towards Recognised P.F.	15,000		
Contribution towards Unapproved Gratuity Fund	4,000		
Provision for Sales Tax	25,000		
Sales Tax	38,000		
Payment to a National Laboratory for Scientific Research	49,600		
Net Profit	1,82,000		
Total	5,36,600	Total	5,36,600

Additional Information:

- (a) Payment to a National Laboratory is for the purpose of carrying on approved scientific research, not related to the business. Besides, Sri Sunil Dutta purchases a plant of Rs 30,000 for the purpose of carrying on scientific research related to the business. Neither cost of plant nor depreciation thereon is debited to profit and loss account.

- (b) Depreciation on plant and machinery and extension of building as per income-tax rule is Rs 19,000.
- (c) Sales tax of Rs 38,000 includes interest for late payment of sales tax Rs 1,200 and penalty for evading GST Rs 10,000.
- (d) Provision for sales tax is however paid on July 10, 2015. Evidence of payment is submitted along with the return of income.
- (e) Salary to staff includes a payment of pension of Rs 8,000 to the widow of a former employee.

Compute business income of Sri Sunil Dutta for the assessment year 2019-20.

Problem 8: Mr. Dewan is a Chartered Accountant in Delhi. From the following information, compute the income from profession. **[Problem 22, Page 249]**

Income and Expenditure Account

(For the year ended 31st March, 2019)

Expenses	Rs	Income	Rs
To Drawings	8,000	By Audit fees	2,24,000
To Office rent	42,000	By Financial consultancy service	98,000
To Telephone charges	15,000	By Dividend from UTI	10,000
To Electricity Bill	4,200	By Accountancy works	14,000
To Salary of staff	66,000		
To Car expenses	21,000		
To Subscription for journals	2,500		
To Institution fee	1,200		
To Stipends given to Trainees	12,000		
To Net Profit/Income	1,74,100		
Total	3,46,000	Total	3,46,000

Notes:

1. Depreciation of car during the year amounts to Rs 5,000.
2. 30% of the car is used for personal purpose.

Problem 9 : Dr. Surendra is a renowned medical practitioner who maintains books of account on cash basis, furnishes his Receipts and Payments Account for the financial year 2018-19. **[Problem 20, Page 152]**

Income and Expenditure Account

(For the year ended 31st March, 2019)

Receipts	Rs	Payments	Rs
Balance b/d	14,000	Electricity and Water Bills	2,000
Consultation Fees:		Rent of Clinic:	
2013-14	3,000	2013-14	600
2014-15	15,000	2014-15	4,800
2015-16	2,000	2015-16	600
Visiting Fees	30,000	Purchase of medicines	40,000
Loan from bank for professional purposes	25,000	Purchases of Professional Books	4,000
Sale of Medicines	60,000	Household expenses	7,800
Gifts and Presents	5,000	Collection charges on Dividend Income	100
Remuneration from Articles Published in Professional Journals	6,000	Motor-car purchased	30,000
		Surgical Equipments	4,800
		Income Tax	10,000
Dividend	10,000	Salary to Staff	15,000
Interest on Post Office Savings Bank A/c	7,000	Life Insurance Premium	15,000
		Gift to Wife	5,000
		Interest on Loan	2,000
		Car expenses	15,000
		Balance c/d	20,300

Total	1,77,000	Total	1,77,000
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Compute his Taxable Professional Income for the assessment year 2019-20, after taking into account the following additional information:

- 1/3 of the use of Motor-car relates to his personal use.
- Depreciation on Motor-car allowable is 15%, on books it is @ 100% and on Surgical Equipments it is @ 15%.
- Gifts and presents include Rs. 3,000 from patients in appreciation of his medical service and Rs 2,000 received as Birthday Gifts from relatives.
- Closing stock of medicine amounted to Rs. 5,500.

Problem 10: The following is the Receipts and Payments Account of Mr. Nagaraja Rao, a practicing Chartered Accountant for the year ended 31.3.2019:

Receipts	Rs.
Audit Fees	19,210
Consultation	10,000
Appellate Tribunal appearance	15,000
Miscellaneous	20,000
Interest on Government Securities	10,000
Rent received	10,000
Presents from clients	10,000
Payments	Rs.
Office expenses	10,000
Office rent	5,000
Salaries and Wages	12,050
Printing and Stationery	1,000
Subscription to C.A. Institute	3,000
Purchase of books for professional purposes (Annual publications)	1,300
Travelling expenses	5,800
Interest on bank loan	3,000
Donation to National Defense Fund	5,000

Loan from bank was taken for the construction of the house in which he lives. Municipal value of this house is Rs 8,000 and the local taxes Rs 800 p.a. 1/4th of travelling expenses are not allowable.

Compute professional income and income from house property for the previous year 2018-19.

Problem 11 : Dr. Gupta is a medical practitioner of Ludhiana. From the following, calculate his income from profession for the assessment year 2019-20: [**Problem 18, Page No. 150**]

	Rs.
1. Gross receipts from dispensary	2,35,000
2. Gross receipts from consultation	1,65,000
3. Operation fees	2,50,000
4. Visiting fees	50,000

- | | | |
|----|-------------------------------|----------|
| 5. | Gifts from patients | 30,000 |
| 6. | Medicine purchased | 1,25,000 |
| 7. | Closing stock of medicines | 35,000 |
| 8. | Salaries paid to employee | 1,50,000 |
| 9. | Surgical equipments purchased | 48,000 |
10. Dr. Gupta went to attend a medical seminar in Germany to update the knowledge and spent Rs 25,000 on it.
11. He owns a house whose municipal value is Rs 50,000. Half portion of the house is used for profession. Expenses paid on the house: Municipal Taxes 10% of M.V., Repairs Rs 10,000.
12. Medical books purchased (Allow depreciation @ 40%) Rs. 30,000.

Problem 12 : Sri Rathore gives you the following particulars from his books of account. Compute his Taxable Business Income for the year ending 31.3.2019: **[Problem 12, Page No. 144]**

Net profit as per Profit and Loss A/C (Before charging the following) Rs. 5,75,000

Expenditure on Family planning Rs. 45,000

Lump-sum payment made for Technical know-how Rs 90,000

Entertainment expenditure Rs. 30,000

Expenditure on acquiring Patent-Right Rs. 84,000

Expenditure on advertisement – Paid in Cash Rs. 18,000

Amount paid to Rajasthan University for an approved Research Programme in Social Sciences not connected with his business Rs. 20,000

Provision for Excise duty (He paid only Rs 20,000 before filing I.T. return) Rs 45,000.

Problem 13 : Miss. Vishnu Priya gives you the following information from her accounts for the year ending 31.3.2019:

Net profit as per the Profit and Loss Account (Before charging the following) Rs. 5,40,000

Expenditure on staff welfare Rs. 30,000

Revenue expenditure on family planning among employees Rs. 32,000

Capital expenditure on the above Rs. 8,00,000

Lump sum consideration for purchase of technical know-how on 1.7.2013 Rs. 1,00,000

Entertainment expenditure Rs. 15,000

Expenditure on acquisition of patent right on 1.11.2012 Rs. 1,25,000

Expenditure on advertisement paid in cash Rs. 90,000

Amount paid to Anna University for an approved research programme in the field of social science not connected with the Business Rs. 40,000

Compute business income of Vishnu Priya for the assessment year 2015-16.

Problem 14 : The Net profit of Mr. Sulaiman of Madurai as per his profit and loss account for the year ended 31.3.2019 after charging the following item was Rs 2,40,000: **[Problem 13, Page 145]**

- | | | |
|-----|---------------------|--------------|
| (a) | Interest on capital | Rs. 20,000 |
| (b) | Salary to staff | Rs. 1,16,000 |
| (c) | Office expenses | Rs. 3,000 |

(d)	Bad debts written-off	Rs. 13,000
(e)	Provision for bad debts	Rs. 10,000
(f)	Provision for income-tax	Rs. 16,000
(g)	Donation	Rs. 10,000
(h)	Depreciation	Rs. 17,000
	Depreciation allowable as per the Act is only	Rs. 12,000.

Compute income from business.

Problem 15 : Mr. Gupta provides you the following detail from his business books for the assessment year 2019-20:

- (a) Computed net profit after charging the following Rs. 72,000
- (b) Provision and reserves debited to P & L A/c.
 - (1) Provision for Discount on Debtors Rs. 42,000
 - (2) Provision for Depreciation Rs. 31,000
- (c) Household expenses Rs. 48,000
- (d) Donation to a recognised school Rs. 70,000
- (e) Computer purchased for scientific research Rs. 20,000
- (f) Bearer cheque issued for a purchase Rs 25,000
- (g) O. Y. T. deposit Rs. 16,000
- (h) Advertisement expenses on sign boards Rs. 45,000
- (i) Audit fees paid in cash Rs. 25,000
- (j) Patent purchased during the year Rs. 75,000
- (k) Market survey and feasibility report expenses (Cost of a new project Rs 6,00,000) Rs. 50,000
- (l) Opening stock is valued at cost + 10% basis and closing stock is valued at cost - 10% basis.
Opening stock was valued at Rs 66,000 and closing stock was valued at Rs. 72,000.

Income credited to Profit and Loss account were:

- (1) Bank Interest on F. D. Rs. 7,000
- (2) Refund of Excise Duty Rs. 5,000
- (3) Dividend from Indian Cos. Rs. 3,000
- (4) Bad debts recovered Rs. 3,000

Compute Business Income of the assessee for the assessment year 2019-20. Give proper notes in support of your answer.
