

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B10

#### Profits and Gains of Business or Profession

#### Build Your Confidence (BYC)

#### BASIC CONCEPTS

**B1. BASIC CONCEPTS – Examine whether the following amounts would be taxable in the hands of Ravi under the head PGBP for PY 2021-22.**

#	Situation	Taxable under PGBP?	Remarks
1	Rent from a house situated in Delhi and owned by Ravi	No	Taxable under IHP
2	Income from share trading	Yes	-
3	Income of a practicing Chartered Accountant	Yes	-
4	Income from business owned by Ravi but managed by senior most employee	Yes	-
5	Income from business carried on only for 1 month during the PY 2021-22	Yes	-
6	Income from business carried on during PY 2020-21	No	Taxable for PY 2020-21
7	Income from business carried on in USA (Ravi is ROR)	Yes	Global income is taxable for ROR
8	Income from business carried on in UK and accruing/received there (Ravi is a NR)	No	Accrual/arisal/receipt not in India
9	Profits from sale of machinery used to manufacture products to be sold in the market	No	Sale of capital asset is taxable under Capital Gains
10	Gross turnover of Rs. 10 lakh during the PY	No	Profits are taxable, not turnover
11	Income which will arise if an ongoing legal dispute with a customer is settled	No	Contingent income is not taxable
12	Notional income on rise in market value of stock in trade	No	Real income is taxable; not notional
13	Royalty income received from profession of authoring books	Yes	-
14	Interest on amounts deposited in bank accounts	No	Not business; income taxable under IFOS
15	Profits on shares held as investment	No	Not business; income taxable under Capital Gains

#### INCOMES CHARGEABLE AS PGBP

**B2. INCOMES CHARGEABLE AS PGBP – Examine whether the following incomes would be taxable under the head PGBP for AY 2022-23.**

#	Situation	Taxable under PGBP?
1	Due to dispute between directors of Fight Ltd., Mr. Fighter's position of Managing Director was prematurely terminated, for which he received a compensation of Rs. 1 crore.	Yes, u/s 28(ii)
2	James Bond was appointed as the sole agent in India of Guns Ltd., a foreign company. Subsequently, the company terminated the agency agreement and paid him a compensation of Rs. 50 lakh.	Yes, u/s 28(ii)
3	The Federation of Hotel Association of India received advertisement charges from its members for	Yes, u/s 28(iii)

	publication of their advertisements in its monthly journal.	
4	Disputes Ltd. provided a rent free residential accommodation to Mr. Advocate, a lawyer, in view of excellent legal services rendered by him to the company.	Yes, u/s 28(iv)
5	Software Ltd. received Rs. 10 crore from Computer Ltd. for agreeing not to carry on software development business for the next 5 years.	Yes, u/s 28(va)
6	Cold Drink Ltd. uses a patented formula developed by Fluid Ltd. to manufacture cold drinks. On termination of agreement, it paid Rs. 1 crore to Fluid Ltd. not to share the formula with any person for the next 3 years.	Yes, u/s 28(va)
7	Risk-free Ltd. took a Keyman insurance policy on the life of its managing director. Upon his death, the company received Rs. 1 crore.	Yes, u/s 28(vi)

### DEDUCTIONS FOR ASSETS

**B3. S. 30, 31 – Ascertain whether the following expenses incurred by Raghav, engaged in a manufacturing business, would be allowable in computing business income for PY 2021-22?**

#	Situation	Deduction
1	Rs. 50,000 p.m. paid by Raghav for factory premises taken on rent	Yes, u/s 30
2	Premium of Rs. 10,000 paid for insuring machines purchased by him	Yes, u/s 31
3	Premium of Rs. 5,000 for insuring office premises taken on rent. Premium is paid by owner.	No as not paid by Raghav
4	Rs. 10 lakh spent by Raghav on major repairs and renovation of another office which he owns.	Depreciation u/s 32
5	Rs. 5,000 spent on routine repairs to office which he has taken on rent	Yes, u/s 30
6	Rs. 2,000 spent on repairs of furniture installed at his residence	No, not for business

**B4. S. 32 - CONDITIONS – Whether depreciation will be allowed in the following cases for the PY 2021-22?**

#	Situation	Depreciation
1	Plot of land is leased on which building is constructed at a cost of Rs. 1 crore	On building, even if land is not owned
2	Two Chartered Accountants purchase law books for use in their profession by contributing equal amount of money	50% each
3	Reliance Ltd. pays Rs. 20 lakh to acquire a patent right for use in a manufacturing process	Yes, it is specified intangible asset
4	Mr. Smart spends Rs. 5 lakh to construct an additional room in the office premises that he has taken on rent for his business.	On room; capital expenditure deemed to be building owned
5	JK Ltd. acquired a genset for Rs. 10 lakh on 1 April 2021 which is kept ready for use in case of power failure. There was no power failure during PY 2021-22.	Yes; use includes ready to use
6	PQR Ltd. has purchased machinery on 1 January 2022 which can only be used once installed. Installation takes place on 1 April 2022.	No; not put to use
7	Saurabh purchases a sofa set for Rs. 50,000 for his residence	No; not used for business
8	Suman purchases a building for Rs. 50 lakh and uses half of the building for his business	50% (extent used for business)
9	Mr. Jain takes possession of a building u/s 53A of Transfer of Property Act which he has agreed to purchase, though it is not yet registered in his name.	Yes; treated as owner; registered ownership not necessary
10	LeasePlan Ltd. purchases 10 vehicles for its leasing business. 7 vehicles are leased to different parties during the PY.	Yes; lessor entitled to depreciation
11	VerySmart Ltd. claims depreciation on stock-in-trade of computers worth Rs. 5 crore.	No; no depreciation on stock-in-trade

**B5. S. 32 – BLOCK – Determine the block of assets in respect of which Mr. Joseph, carrying on manufacturing .....**

Block	Rate	Class	Assets
1	5%	Building	Residential quarters
2	10%	Building	Factory building
3	10%	Furniture & fitting	Furniture
4	15%	Plant & machinery	Mobile phones

5	25%	Intangible assets	Know-how, patents and trademarks
6	40%	Building	Temporary wooden sheds
7	40%	Plant & machinery	Trucks, pollution control equipment, computers, laptops, printers, books

**B6. S. 32 – NORMAL DEP – Compute the amount of depreciation allowable to Shri Ltd. for the AY 2022-23 .....**

Computation	I	II	III	III
WDV of Block as on 31 March 2021	1,20,000	1,20,000	1,20,000	1,20,000
Less: Depreciation for PY 2020-21	(20,000)	(20,000)	(20,000)	(20,000)
WDV of Block as on 1 April 2021	1,00,000	1,00,000	1,00,000	1,00,000
Add: Actual cost of Asset 1	30,000	-	30,000	30,000
Less: Moneys payable for Asset 2	-	(20,000)	(20,000)	(1,50,000)
WDV of Block for depreciation	1,30,000	80,000	1,10,000	Nil
Less: Depreciation @ 40% allowed	(52,000)	(32,000)	(44,000)	Nil
<b>Closing WDV</b>	<b>78,000</b>	<b>48,000</b>	<b>66,000</b>	<b>Nil</b>

**B7. S. 32 – NORMAL DEP – Determine the quantum of depreciation allowable to Zigzag Ltd. for the AY 2022-23 and AY 2023-24 for the following plant and machinery:**

Asset	AY 2022-23	AY 2023-24
Acquired on 1 May 2021 and put to use on 15 September 2021	Full	Full
Acquired on 1 May 2021 and put to use on 31 March 2022	50%	Full
Acquired on 1 May 2021 and put to use on 1 April 2022	No	Full
Acquired on 1 May 2021 and put to use on 31 March 2023	No	Full
Acquired on 1 May 2021 and made ready for use on 31 March 2022	50%	Full

**B8. S. 32 – NORMAL DEP – Compute the amount of depreciation allowable to Shri Ltd. for the AY 2022-23 .....**

Computation	Block 1 Building 10%	Block 2 P&M 30%	Block 3 Intangible 25%	Block 4 Furniture 10%
WDV of Block as on 1 April 2021	90,00,000	10,00,000	5,00,000	10,000
Add: Actual cost of assets acquired during the PY				
• Asset 1 (put to use ≥ 180 days)	30,00,000	5,00,000	1,00,000	70,000
• Asset 2 (put to use < 180 days)	20,00,000	4,00,000	3,00,000	-
• Asset 3 (not put to use)	-	-	2,00,000	-
Less: Moneys payable for Asset 4 sold during the PY	(40,00,000)	(15,00,000)	(5,00,000)	(60,000)
WDV of Block (as on 31.3.2022) for depreciation	1,00,00,000	4,00,000	6,00,000	20,000
Less: Depreciation allowed				
• Block 1: 50% of 10% of 20 lakh + 10% of remaining 80 lakh	(9,00,000)			
• Block 2: 50% of 30% of 4 lakh		(60,000)		
• Block 3: No dep on 2 lakh (Asset 3 not put to use) + 50% of 25% of 3 lakh + 25% of remaining 1 lakh			(62,500)	
• Block 4: 10% of 20,000				(2,000)
<b>Closing WDV of Block</b>	<b>91,00,000</b>	<b>3,40,000</b>	<b>5,37,500</b>	<b>18,000</b>

**B9. S. 32 – NORMAL DEP – Sheena started her practice as a lawyer on 1.4.2021. Compute the amount of depreciation .....**

Computation	Block 1 – Furniture (10%)	Block 2 – P&M (40%)	Block 2 – P&M (15%)
<b>Actual cost of assets acquired during the PY</b>			
<b>Put to use ≥ 180 days</b>			
• Computer (along with computer software)		50,000	
• Law books		25,000	
• Office furniture	1,50,000		
• Electrical and other fittings	40,000		
<b>Put to use &lt; 180 days</b>			

• Computer printer, UPS and router		10,000	
• Car			4,00,000
	1,90,000	85,000	4,00,000
<b>Less: Depreciation:</b>			
Furniture = 10% of 1,90,000	(19,000)		
P&M put to use < 180 days = 50% of 40% of 10,000 and 60% of 50% of 15% of 4,00,000		(2,000)	(18,000)
P&M put to use ≥ 180 days = 40% of 75,000		(30,000)	
	<b>19,000</b>	<b>32,000</b>	<b>18,000</b>
<b>Total depreciation</b>		<b>69,000</b>	

**B10. S. 32 – ACTUAL COST – Zap Ltd. purchased a machine on 1.7.2021 which was put to use on 30.9.2021. It took.....**

*Computation of actual cost of machine*

<b>Particulars</b>	<b>Rs.</b>
Purchase price	5,00,000
GST (excluding GST on which ITC allowed)	15,000
Interest on loan till date asset is first put to use (1.4.2020 to 30.9.2021) = 10% p.a. of 1 lakh for 18 months	15,000
Freight and insurance	10,000
Transportation: Not part of actual cost as cash payment > 10,000	-
Installation charges: Not disallowed as payment by uncrossed cheque ≤ 10,000	5,000
Repair expenses paid on 1.3.2022 (not part of actual cost as incurred after asset put to use)	-
<b>Actual cost</b>	<b>5,45,000</b>