

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B11 to B20

#### Profits and Gains of Business or Profession

#### Build Your Confidence (BYC)

**B11. S. 32 – ACTUAL COST – CA2018(N) - Mr. Rangamannar resides in Delhi. As per the new rule in the city.....**

Particulars	Rs.
Cost of car	12,00,000
Cost of car - ITC is not available on car used for his professional purpose and not covered by any exception u/s 17(5)(a) of CGST Act, 2017. Thus, GST will be included in actual cost.	3,36,000
Actual cost of car (used $\geq$ 180 days): Use on alternate days does not make put to use for < 180 days	15,36,000
<b>Less: Depreciation for AY 2022-23 = 75% of 15% of 15,36,000. 25% disallowed u/s 38 for personal use.</b>	<b>1,72,800</b>
WDV as on 1.4.2022	13,63,200
<b>Less: Depreciation for AY 2023-24 = 75% of 15% of 13,63,200. 25% disallowed u/s 38 for personal use</b>	<b>1,53,360</b>

**B12. S. 32 – ADDITIONAL DEP – CA2020(JAN) (modified) - Compute the quantum of depreciation available u/s 32 in respect of the.....**

*Computation of closing WDV for AY 2022-23*

Computation	Rs.
WDV of Block as on 1 April 2021	Nil
Add: Actual cost of assets acquired during the PY	
Put to use $\geq$ 180 days:	
• New machinery installed on 1.5.2021	84,00,00,000
Put to use < 180 days:	
• Lorries for transporting goods to sales depots	3,00,00,000
• Fork-lift-trucks, used inside factory	4,00,00,000
Not put to use	
• New imported machinery	12,00,00,000
	103,00,00,000
Less: Assets sold during the year	-
WDV of Block (as on 31.3.2022) for depreciation	1,03,00,00,000
Less: Normal depreciation u/s 32(1)(ii) (Note)	(13,12,50,000)
Less: Additional depreciation u/s 32(1)(iia) (Note)	(17,20,00,000)
<b>Closing WDV</b>	<b>72,67,50,000</b>

*Computation of depreciation for AY 2022-23*

Computation	Normal Dep	Addl. Dep
New machinery installed on 1.5.2021 of 84 crore: Normal depreciation @ 15% and additional depreciation @ 20%	12,60,00,000	16,80,00,000
Lorries for transporting goods to sales depots of 3 crore: : Normal depreciation @ 50% of 15%; no additional depreciation on road transport vehicle	22,50,000	-
Fork-lift-trucks, used inside factory of 4 crore: Normal depreciation @ 50% of 15% and additional depreciation @ 50% of 20%	30,00,000	40,00,000
New imported machinery: No normal or additional depreciation since not installed (put to use) during the year	-	-
	13,12,50,000	17,20,00,000

**B12A. S. 32 – ADDITIONAL DEP – CA2013(N) – Abhimanyu is engaged in the business of generation and distribution.....**

*Computation of depreciation for AY 2022-23*

Computation	P&M 15%	P&M 40%
WDV of Block as on 1 April 2021	42,00,000	-
Add: Actual cost of assets acquired during the PY		
• New machinery purchased on 12.10.2021 (put to use < 180 days)	10,00,000	-
• Imported machinery (put to use ≥ 180 days)	9,00,000	-
• New computer installed (put to use ≥ 180 days)	-	2,00,000
WDV of Block (as on 31.3.2022) for depreciation	61,00,000	2,00,000
Less: Depreciation		
• Normal depreciation		
o 50% of 15% of 10 lakh + 15% of remaining 51 lakh	(8,40,000)	
o 40% of 2 lakh		(80,000)
• Additional depreciation		
o 50% of 20% of 10 lakh (put to use < 180 days). Not allowed on second hand imported machinery.	(1,00,000)	
o 20% of 2 lakh. Allowed since computer not installed in office.		(40,000)
<b>Closing WDV of Block</b>	<b>51,60,000</b>	<b>80,000</b>

**B13. S. 32 – ADDITIONAL DEP – CA2018(N) - Mr. Sharad set up a manufacturing unit of detergent powder in .....**

*Computation of depreciation allowance u/s 32 for AY 2022-23*

Particulars	Rs.	Rs.
<b>Actual cost of assets acquired during the PY</b>		
• Machines A, B, C (used ≥ 180 days) (assuming payment made by a specified mode)		45,00,000
• Machine D (not included in actual cost as payment in cash > Rs. 10,000)		-
• Machine E (used < 180 days)		5,00,000
Actual cost		50,00,000
<b>Depreciation:</b>		
<b>Normal depreciation:</b>		
• Machines A, B, C = 15% of 45 lakh	6,75,000	
• Machine E = 50% of 15% of 5 lakh	37,500	
		7,12,500
<b>Additional depreciation:</b>		
• Machines A, B, C = 20% of 45 lakh		9,00,000
• Machine E – Not allowed on second hand machinery		-
<b>Total depreciation</b>		<b>16,12,500</b>

*Mistake by students – Cash payment included in actual cost. Additional depreciation allowed on second hand machinery.*

**B14. S. 32 – ADDITIONAL DEP - Jagat started his business of manufacturing rubber based products. After .....**

*Computation of depreciation for AY 2022-23*

Computation	Rs.	Rs.
Total cost of plant and machinery	50,00,000	
Less: Used for scientific research [No depreciation on asset on which deduction allowed u/s 35 [u/s 35(2)(iv)] (see para 100)]	(15,00,000)	
	35,00,000	
Normal depreciation : 15% on Rs. 35 lakh		5,25,000
Additional depreciation:		
• Total cost of plant and machinery	50,00,000	

• Less: Second hand plant and machinery (no addl dep on second hand P&M)	(10,00,000)	
• Less: Machinery for scientific research (no addl dep on P&M whose 100% actual cost allowed as deduction – S. 35(1)(iv) in this case (see para 100))	(15,00,000)	
Cost of plant and machinery eligible for additional depreciation	25,00,000	
Additional depreciation = 20% of 25 lakh		5,00,000
<b>Depreciation allowable for AY 2022-23</b>		<b>10,25,000</b>

**B15. S. 32 – ADDITIONAL DEP – CA2016(M) – Venus Ltd., engaged in manufacture of pesticides, furnishes the .....**

Computation	P&M 15%	P&M 40%
WDV of Block as on 1 April 2021	20,00,000	-
Add: Actual cost of assets acquired during the PY		
• New machinery (put to use $\geq$ 180 days)	10,00,000	-
• New car (assuming 15% rate of depreciation) (put to use < 180 days)	8,00,000	-
• Computer (put to use < 180 days)	-	4,00,000
Less: Moneys payable for assets sold during the PY	-	-
WDV of Block (as on 31.3.2022) for depreciation	38,00,000	4,00,000
Less: Depreciation allowed (see working below)	(8,10,000)	(80,000)
<b>Closing WDV of Block</b>	<b>29,90,000</b>	<b>3,20,000</b>

*Depreciation:*

P&M 15% Block	Particulars	Rs.
Normal depreciation	50% of 15% of 8 lakh (car used < 180 days) + 15% of remaining 30 lakh (machinery used $\geq$ 180 days)	5,10,000
Additional depreciation	20% of 10 lakh (machinery used $\geq$ 180 days) + 50% of 20% of 10 lakh (machinery purchased in PY 2020-21; used < 180 days, balance addl. dep now allowed in PY 2021-22). Not allowed on car, being road transport vehicle.	3,00,000
<b>Total</b>		<b>8,10,000</b>

P&M 40% Block	Particulars	Rs.
Normal depreciation	50% of 40% of 4 lakh (computer used < 180 days)	80,000
Additional depreciation	Not allowed on computer installed in office	-
<b>Total</b>		<b>80,000</b>

**B16. S. 32 – ADDITIONAL DEP – CA2014(M) - JK Ltd., a manufacturing company, purchased the following plant and.....**

AY 2022-23	Rs. Crore
WDV of Block as on 1 April 2021 (assumed Nil)	Nil
Add: Actual cost of assets acquired during the PY (put to use $\geq$ 180 days)	110.0
WDV of Block (as on 31.3.2022) for depreciation	110.0
Less: Depreciation	
• Normal depreciation = 15% of 110 cr. 15% general rate assumed.	(16.5)
• Additional depreciation = 20% of 110 cr	(22.0)
<b>Closing WDV of Block</b>	<b>71.5</b>

AY 2023-24	Rs. Crore
WDV of Block as on 1 April 2022 (see above Table)	71.500
Add: Actual cost of assets acquired during the PY (put to use $\geq$ 180 days)	120.000
WDV of Block (as on 31.3.2023) for depreciation	191.500
Less: Depreciation	
• Normal depreciation = 15% of 191.5	(28.725)
• Additional depreciation = 20% of 120	(24.000)
<b>Closing WDV of Block</b>	<b>138.775</b>

**B17. S. 32 – SLM FOR POWER UNDERTAKING – Tata Power, an electricity company, is claiming depreciation on .....**

AY 2021-22	Rs.
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Opening WDV	-
Actual cost	5,00,000
Less: Depreciation @ 10%	(50,000)
	<b>4,50,000</b>

AY 2022-23	A	B	C
Opening WDV	4,50,000	4,50,000	4,50,000
Less: Moneys payable	(4,00,000)	(4,80,000)	(5,30,000)
	50,000	(30,000)	(80,000)
Terminal depreciation u/s 32(1)(iii)	50,000		
Balancing charge u/s 41(2)		30,000	50,000
Capital gain			30,000

**B18. S. 43A – Rakesh purchased a machinery from the USA for USD 1,20,000 on 1.10.2020 which was put to use on.....**

Particulars	Rs.
<b>Computation of depreciation for PY 2020-21</b>	
Actual cost of machinery = 1,20,000 × 75	90,00,000
Less: Depreciation at 50% of 15% of 90 lakh since machinery used < 180 days	(6,75,000)
Closing WDV	83,25,000
<b>Computation of depreciation for PY 2021-22</b>	
WDV as on 1 April 2021	83,25,000
Add: Adjustment u/s 43A: Forex loss on payment of USD 40,000 = 40,000 × (80 – 75)	2,00,000
WDV (as on 31.3.2022) for computing depreciation	85,25,000
Less: Depreciation @ 15%	(12,78,750)
Closing WDV	72,46,250
<b>Computation of depreciation for PY 2022-23</b>	
WDV as on 1 April 2022	72,46,250
Less: Adjustment u/s 43A: Forex gain on payment of USD 40,000 = 40,000 × (75 - 70)	(2,00,000)
WDV (as on 31.3.2023) for computing depreciation	70,46,250
Less: Depreciation @ 15%	(10,56,938)
Closing WDV	59,89,312

Forex gain/loss at the end of year in respect of the outstanding purchase price cannot be claimed as deduction or added to income. It is to be ignored.

**B19. S. 32 – WDV – COMPOSITE AGRICULTURAL INCOME – CA2010(M) - Mr. Tenzing is engaged in composite business.....**

*Computation of income from coffee business for AY 2022-23*

Particulars	Rs.	Rs.	Rs.
Rule 7B applies?	Yes		
Sale value of cured coffee			22,00,000
Less: Expenditure for growing coffee			
• Expenses incurred for growing coffee	(3,10,000)		
• Car running and maintenance (80% of 50,000)	(40,000)		
• Depreciation on car (80% of depreciation on car (80% of 15% of 3 lakh)	(36,000)		
Total cost of agricultural operations		(3,86,000)	
Less: Expenditure for curing coffee			
• Expenditure on curing coffee	(3,00,000)		
• Depreciation on machinery (15% of 15,00,000)	(2,25,000)		
Total cost of curing operations		(5,25,000)	
Total cost of composite operations			(9,11,000)
Total profits from composite activities			12,89,000
Business income (25% Taxable under Rule 7B)			3,22,250
Agricultural income (75% exempt under Rule 7B)			9,66,750

*Computation of WDV of depreciable assets as on 1.4.2022*

Particulars	Rs.	Rs.
<b>Car</b>		
Opening WDV on 1.4.2021		3,00,000
Depreciation @ 15%	45,000	
Less: Depreciation @ 20% for personal use	(9,000)	(36,000)
WDV as on 1.4.2022		2,64,000
<b>Machinery</b>		
Opening WDV on 1.4.2021		15,00,000
Less: Depreciation @ 15%		(2,25,000)
WDV as on 1.4.2022		12,75,000

For computing WDV, total depreciation is reduced in terms of section 43(6) (not just 25% actually allowed by virtue of Rule 7B).

**B20. S. 35AD – Sagar is engaged in the business of setting up and operating cold chain facility, production of .....**

Cold chain facility and production of fertilizers in India are specified business u/s 35AD whereas warehousing facility for consumer goods is not a specified business u/s 35AD.

*Computation of profits and gains of business or profession for AY 2022-23*

Particulars	Cold chain business	Fertilizer business	Warehousing business
Profits of business (before deduction u/s 32 or 35AD)	10,00,000	15,00,000	20,00,000
Less: Deductions:			
• Depreciation on building = 10% of 14 lakh (10 lakh + 4 lakh) assuming building extension was put to use for > 180 days during PY 2021-22	-	-	(1,40,000)
• Deduction u/s 35AD = 100% of capital expenditure incurred prior to commencement of operations on 1.4.2021 and capitalized in books on this date (except land) + 100% of capital expenditure incurred during PY 2021-22	(20,00,000)	(24,00,000)	-
• Operational expenses: Already deducted while computing profits of business above	-	-	-
<b>Profits of business</b>	<b>(10,00,000)</b>	<b>(9,00,000)</b>	<b>18,60,000</b>
Income chargeable under PGBP (loss from business specified u/s 35AD can be set off only against profits from business specified u/s 35AD; hence, loss carried forward to AY 2023-24 u/s 73A <sup>1</sup> )		18,60,000	

<sup>1</sup> Covered in Chapter on Losses in detail