

# TAXBOOK<sup>+</sup>

## Hints to solutions

### Profits and Gains of Business or Profession

MCQ

#### INCOMES CHARGEABLE AS PGBP

**M3. Priya received compensation of Rs. 1 crore for premature termination of agency contract. She claims .....**

Taxable under PGBP u/s 28(ii)

**M4. Chelmsford Club has received Rs. 25 lakh as annual fee from its members during the PY 2021-22. The club.....**

Not taxable on principle of mutuality. 28(iii) not applicable as income not from specific services rendered to members.

**M5. A Chartered Accountant availed of a fully paid trip to Australia hosted by his client. The client provided .....**

U/s 28(iv) – Benefit or perquisite arising from B/P

**M6. Mr. Scientist developed a patented formula to manufacture packaged fruit juice. Rasna Ltd. paid .....**

Taxable as PGBP – non compete fee u/s 28(va)

**M7. Swiggy Ltd. took a Keyman insurance policy on the life of its COO. It paid premiums every year as per .....**

Premium deductible u/s 37(1); payment received taxable u/s 28(vi)

**M8. Shyam, a farmer, earned taxable business income of Rs. 1 lakh and exempt agricultural income of Rs. 2 lakh .....**

1L business income + 1L expenditure wrongly deducted

#### DEDUCTIONS FOR ASSETS

**M11. Radhey carries out manufacturing operations in a rented factory premises. During the PY 2021-22.....**

10,000 local taxes + 3,00,000 rent + 10,000 premium + 20,000 repairs + Nil construction - 50,000 rent = 2,90,000

**M12. Rohit carries out manufacturing operations using plant and machinery taken on hire for Rs. 1,20,000 for.....**

1,20,000 rent + 10,000 + insurance + 20,000 repairs = 1.5L - 25% deduction for asset not used in business of Rohit .

**M17. Which of the following is not entitled to 40% rate of depreciation?**

25% rate for know-how

**M18. On sale of asset, moneys payable is to be reduced from the WDV to the full extent even if the WDV.....**

WDV cannot become negative

**M22. Jagan started his business on 1.10.2021 by acquiring the following assets: Land for Rs. 30 lakh, building.....**

Land NO + Building 50L + License and know-how 20L + Machines on lease NO + Books 30,000 + Furniture on rent NO

**M23. Jagan purchased 10 equipments of Rs. 50,000 each on 14.6.2021 for his production business, entitled.....**

WDV for depreciation = 5 items 2,50,000 put to use  $\geq$  180D + 2 items NO as not put to use + 1 item NO as personal use + 1 item 50,000 put to use  $<$  180D + 1 item not unboxed NO as not put to use = 3,00,000. Dep = 50% of 15% of 50,000 + 15% of 2,50,000 = 41,250

**M24. BSL Ltd., a power undertaking, following SLM method of depreciation, purchased a machine for .....**

Full dep already allowed till PY 2020-21 @ 25% for 4 years.

**M25. Rahul commenced his business on 12.7.2021 by acquiring the following assets: Office building for .....**

Building @ 10% 3,00,000 + furniture @ 10% 1,00,000 + computer/software/books @ 40% 1,08,000 + intangible @ 25% 1,25,000 = 6,33,000

**M26. Raju acquired two machines for Rs. 60,000 each on 1.2.2021. The first machine was put to use .....**

Opening WDV = 1,15,500 (1,20,000 – 4,500 50% dep on 1 machine put to use < 180D). WDV for depreciation = 1,15,500 opening WDV – 40,000 sale = 75,500. Dep @ 15% on 75,500 = 11,325.

**M28. Which of the following expenses incurred in connection with acquisition of the asset does not form.....**

Limit of 35,000 for transporters u/s 40A(3) not applicable here

**M29. Mr. Z, a retailer, acquired furniture on 10.5.2021 for Rs. 10,000 in cash and on 15.5.2021 for.....**

Actual cost = 10,000 cash + NO bearer cheque (as > 10,000) + 20,000 a/c payee cheque = 30,000. 10% depreciation.

**M30. An assessee purchases a machine worth Rs. 80,000 on 5.9.2021 and makes the payment of.....**

45,000 a/c payee cheque + Cash NO + Bearer cheque NO

**M31. The WDV of a block (plant and machinery, rate of depreciation 15%) as on 1.4.2021 is Rs. 3,20,000.....**

WDV for dep = Opening WDV 3,20,000 + machinery 50,000 (put to use < 180D) – sale 2,00,000 = 1,70,000. Depreciation = 50% of 15% of 50,000 + 15% on 1,20,000 = 21,750

**M32. Sumit acquired life saving medical equipment of Rs. 10 lakh during the PY 2021-22. It was ordered.....**

Actual cost = 10,00,000 cost + 20,000 (interest till first put to use) + 10,000 (not disallowed as ≤ 10,000) + Installation NO (> 10,000) + GST with ITC allowed NO – 5,00,000 subsidy – 1,00,000 bearer cheque (as > 10,000) = 4,30,000. Dep = 50% of 40% of 4,30,000 as put to use < 180D = 86,000.

**M35. Mr. Shine, engaged in manufacture of computers, purchased machinery A, B and C on 5.9.2021 .....**

Normal dep = 15% of 3,00,000 = 45,000. Addl dep = 20% on 1,00,000 for machine C = 20,000.

**M36. Spark Ltd, a power company, following WDV method of depreciation, acquired Machine A on 5.3.2021.....**

Machine A (remaining 10% from PY 2020-21) 10,000 + Machine B 20% 20,000 + NO on furniture and patent = 30,000.

**M37. Madhav, a retail trader in electronic items, acquired and installed a machine costing Rs. 1 lakh in his.....**

Not engaged in manufacture or production

**M38. BSES Ltd., following SLM method of depreciation, purchases a machine on 15.3.2022 for use in the .....**

50% normal dep as put to use < 180D; no addl dep for power undertaking following SLM method

**M40. Rambo imported machinery on 1.8.2020 for USD 10,000 from the USA using loan of Rs. 5 lakh taken.....**

43A not applicable as entire payment made upon purchase. Dep for PY 2020-21 = 15% of 7,50,000 = 1,12,500. WDV on 1.4.2021 = 6,37,500. Dep for PY 2021-22 = 15% of 6,37,500 = 95,625.

**M41. Rambo imported machinery on 1.8.2020 for USD 10,000 from the USA by paying 25% of the price upfront.....**

Section 43A applies. PY 2020-21 dep = 15% of 7,50,000 = 1,12,500. WDV on 1.4.2021 = 6,37,500. Gain = 2 USD for 7,500 USD = 15,000. Adjusted WDV = 6,22,500. Dep for PY 2021-22 = 15% of 6,22,500 = 93,375.

**M42. Sumit acquired a building for Rs. 15 lakh in June 2019, in addition to the cost of Rs. 3 lakh in respect.....**

Actual cost = Actual cost – Dep allowable since acquisition (at current rate). Closing WDV of PY 2019-20 = 15,00,000 – 10% = 13,50,000; for 2020-21 = 13,50,000 – 10% = 12,15,000. Dep for PY 2021-22 = 10% of 12,15,000 = 1,21,500.

**M43. Jay gifted his personal laptop to Viru on 10.4.2021. This was purchased by Jay on 15.4.2019 for Rs. 30,000.....**

Actual cost = Actual cost to previous owner – Dep allowable if asset only asset in block. For 2019-20: 30,000 – 12,000 (40% dep) = 18,000. For 2020-21: 18,000 – 7,200 (40% dep) = 10,800. For 2021-22 40% of 10,800 = 4,320

**M44. Sunil purchased a laptop on 10.4.2019 for Rs. 30,000, sold it to Sahil on 10.4.2021 for Rs. 5,000 and.....**

AC is lower of (a) original cost – dep as if asset only asset in block, i.e., 2021-22 opening WDV of 10,800 or (b) 30,000 reacquired = 10,800. Dep @ 40% = 4,320.

**M45. Mr. King earned composite agricultural income from tea business. He purchased his first machinery.....**

PY 2020-21: 1,00,000 – 15,000 dep = 85,000 closing WDV. Dep for PY 2021-22 = 15% of 85,000 = 12,750.

**M49. Gupta ji commenced business of fertilizer production in India on 20.4.2021. He had acquired plot of .....**

35AD = Land NO + 40L factory + 2<sup>nd</sup> hand imported machine 5L + Furniture NO (cash payment > 10,000) = 45L

**M50. Sharma ji carries on the business of operating a one-star hotel in Delhi. During the year he incurred .....**

No 35AD as hotel is not 2 star or above. Dep = 50% of 10% of 5,00,000 (as put to use < 180D) = 25,000.

**M51. Jaguar Pvt. Ltd., engaged in warehousing business, sold a building for Rs. 50 lakh during the PY 2021-22.....**

Sum received/receivable taxable u/s 28(vii) if 35AD asset is transferred.

**M52. Jaguar Pvt. Ltd, engaged in warehousing business, transferred a building to its retail business on.....**

Taxable income for PY 2021-22 = 50L 35AD deduction – Dep allowable of 5L @ 10% for PY 2020-21 = 45L. Actual cost = 50L – 5L dep = 45L. Dep for PY 2021-22 = 10% of 45L = 4.5L.

**M53. Jaguar Pvt. Ltd, engaged in cold chain business, transferred a machinery to its retail business.....**

No taxable income since transfer from specified to non specified business after 8Y period. No dep as actual cost is Nil.

## AMORTIZATION

**M55. Mr. Rajput, a resident, set up a new manufacturing unit during PY 2021-22 for which he incurred.....**

Eligible expenditure = 5L + Feasibility report NO (as concern unapproved) = 5L. Limit = 5% of cost of project of 80 lakh = 4L. Deduction u/s 35D per year is 4L/5 = 80,000

**M57. Expenditure under voluntary retirement scheme is deductible in 5 equal instalments starting from.....**

From year of payment

**M58. Seva Ltd. launched a voluntary retirement scheme for its employees during PY 2016-17. Total .....**

NO for 2016-17 as 5 instalments over; 2L each (1/5<sup>th</sup>) for 2017-18 and 2018-19 = 4L.

## EXPENDITURE FOR SPECIAL PURPOSES

**M61. Rain Pvt. Ltd. made the following donations during the PY 2021-22: Rs. 20,000 to Gyan University.....**

20,000 Gyan university + NO Sudha college (not notified) + German company NO (not regd in India) + 15,000 IIT = 35,000.

**M62. M/s Science & Co. commenced its business of medicines on 1.4.2021. From 1.4.2019 to 31.3.2021,.....**

U/s 35 = 2L (40% of 5L) + 6L + Land NO + 10L equipment = 18L.

**M64. Mr. Y purchased a machine for Rs. 3 lakh on 10.4.2019 on which full deduction was allowed u/s 35.....**

Lower of 1L sale proceeds or 3L deduction u/s 35

## INTEREST

**M66. Raju paid interest on loan taken to purchase a machine which was put to use on 10.8.2021 (interest.....**

Interest till 10.8.2021 capitalized. Out of balance of 30,000, 4,000 not allowed u/s 43B.

**M67. Rajnish took a business loan from a firm, in which his wife held 50% profit share, @ 20% interest .....**

Wife's firm 45,000 (@15%; 5% disallowed u/s 40A(2); 43B not applicable) + Creditors 30,000 (43B not applicable) + Personal loan NO = 75,000.

**M68. Danny took loan of Rs. 1 crore from a NBFC for business purposes, in respect of which interest of .....**

Entire interest allowed. No disallowance u/s 43B as paid by ROI date.

**M69. Raj Dhan Bank, a scheduled bank, issued 20,000 notified zero coupon bonds on 10.10.2021 at issue .....**

Discount = 20,000 bonds @ 50 = 10,00,000; Life = 36 months (Oct 21 taken as 1 month; Oct 24 ignored); Discount p.m. = 10,00,000 / 36 = 27,778. Discount for PY 2021-22 for 6 month (Oct to Mar) = 1,66,668

## EMPLOYEE WELFARE

**M75. Zydus Ltd. incurred the following employee welfare cost during PY 2021-22: Group health insurance .....**

Health premium 1L + Commission NO as paid in guise of dividend + Zydus EPF contribution 2L + Employee EPF contribution NO as paid after fund due date = 3L.

## TAXES

**M78. For the PY 2021-22, Jacky, a dealer in commodities, paid CTT of Rs. 10,000. He further paid STT of .....**

CTT 10,000 + STT NO as shares not stock-in-trade + Income tax, interest, penalty NO + GST NO as disallowed u/s 43B + compensatory penalty 4,000, rest NO = 14,000.

**M80. Refund of income-tax and GST (allowed deduction when paid) is taxable as business income.**

GST refund taxable u/s 41(1)

## SPECIAL DEDUCTIONS

**M83. Rohit sold goods to Mohit in PY 2020-21 for Rs. 3 lakh out of which he wrote off Rs. 1 lakh during .....**

Mohit 1L bad debt u/s 36(1)(vii) + Shobhit 50K loss u/s 29 + Friend NO since not related to business = 1.5L

**M84. Gaurav, a money lender, advanced loan of Rs. 10 lakh to Saurav on 15.5.2019 to help him meet a.....**

Interest deductible as bad debt. Principal also deductible since Gaurav is money lender.

**M85. Gaurav, a manufacturer, advanced Rs. 1 lakh to Saurav on 15.3.2021 towards purchase of plant and machinery.....**

It is capital loss as it is not on revenue account. Not deductible.

**M86. Green Ltd. sold goods to Mr. Z for Rs. 1 lakh during PY 2019-20. It wrote off Rs. 30,000 during PY .....**

Debt 1,00,000 – Deduction u/s 36(1)(vii) 30,000 = 70,000. Deficiency (recovery 20,000 – 70,000 shortfall) is deductible.

**M87. Red Ltd. manufactured and sold medical equipment to Mr. K for Rs. 1 lakh during PY 2019-20. It .....**

Debt 1,00,000 – Deduction u/s 36(1)(vii) 30,000 = 70,000. Excess recovery of 20,000 (90,000 – 70,000) taxable even if business ceased to exist.

**M89. Sharma & Sons, paid Rs. 1 lakh to each of the 3 partners as remuneration for PY 2021-22 in terms.....**

Limit u/s 40(b): First 3L = 2.7L; next 2L = 1.2L = 3.9L. Thus, entire remuneration deductible.

**M90. M/s Thakur & Sons paid Rs. 11 lakh as remuneration to its partners. The same was in accordance.....**

Book profit = 37,00,000 – 1,30,000 interest = 35,70,000. Limit u/s 40(b) = First 3,00,000 is 2,70,000; next 32,70,000 is 19,62,000 = 22,32,000. Entire remuneration deductible.

**M91. M/s Ram & Shyam paid Rs. 1.5 lakh each to both its partners as remuneration. Further, it paid .....**

Book Profit = 1L + 3L remuneration = 4L. Limit u/s 40(b) = First 3L is 2.7L, next 1L is 60,000 = 3.3L. PGBP = 1L, since entire interest/remuneration is deductible.

**M92. M/s Krishan & Co. paid salary of Rs. 3 lakh each to its two partners, Krishna and Balaram. It also paid.....**

Salary allowed to firm u/s 40(b) on 5L book profit = 2.7L + 60% of 2L = 3.9L (1.95L each).

Interest allowed to firm @12% is 1.2L.

Krishna = Salary 1.95L + Profit share exempt = 1.95L.

Balaram = 1.95L salary + 1.2L interest + Profit share exempt = 3.15L

**M92a. JK & Co, a partnership firm, paid Rs. 1,50,000 each as remuneration to its working partners, A, B and C. It also.....**

Book Profit = Net loss (-) 80,000 + 4,50,000 remuneration = 3,70,000. Remuneration deduction u/s 40(b) = 3,12,000.  $\frac{1}{3}^{\text{rd}}$  for B = 1,04,000.

## GENERAL DEDUCTION

**M96. During the PY 2021-22, Roma availed loan of Rs. 20 lakh from SBI to purchase raw material and paid.....**

Interest on bank loan (post 43B disallowance of 1,00,000) 1,00,000 + 20,000 loan charges + advertisement NO as disallowed u/s 37(2B) + Depreciation 40,000 (@ 40% of 1L assuming these are the only assets in the block) = 1,60,000.

**M97. Shine Pvt. Ltd. incurred the following expenditure on its employees for the PY 2021-22: Salary of .....**

Salary 50,00,000 + Health premium 1,00,000 + Employee's EPF contribution 1,00,000 + Own EPF contribution NO (disallowed u/s 43B) + Gratuity NO (as paid out of AGF, contribution to which would already have been allowed as deduction) + Tax on salary is not a separate expenditure; already deducted as part of salary = 52,00,000

**M98. Play Pvt. Ltd. spent Rs. 1.5 lakh during the PY 2021-22 on CSR expenses required under the Company Law.....**

CSR NO (disallowed) + Embezzlement loss deductible u/s 29 1,00,000 + Donation for SR not allowed u/s 35 as program not approved NO + Interest 50,000 allowed u/s 37(1) = 1,50,000.

**M99. Mr. Roy, carrying on agency business, incurred expenditure of Rs. 20,000 during the PY 2021-22 towards.....**

Advertisement 20,000 + Celebrations 10,000 + Training 20,000 + Professional tax 2,500 + Income tax disallowed NO + Last year expenditure not allowed NO = 52,500.

## EXPENSES NOT DEDUCTIBLE IN CERTAIN CIRCUMSTANCES

**M100. 30% of expenditure is disallowed in year of incurrence u/s 40(a)(ia) if:**

Disallowance in PY of incurrence of expenditure but disallowance reversed in PY in which payee files ROI

**M103. Gita pays rent of Rs. 1 lakh to Rohan, a resident, on 5.1.2022 (tax is deductible u/s 194-I) without.....**

30% disallowed for PY 21-22 u/s 40(a)(ia) but allowed in PY 22-23, i.e., PY in which paid.

**M104. Sita incurs expenditure of Rs. 1 lakh as fees for technical services and makes the payment to Mita (a resident).....**

TDS deducted in PY 21-22 but paid after ROI date. 30% disallowed in PY 21-22 but allowed in PY 22-23.

**M105. JP Ltd. credits a sum of Rs. 45,000 as commission to Z Ltd., an Indian company, on 25.6.2021 without.....**

30% allowed for AY 2023-24 in which ROI filed (PY 2022-23). For AY 2022-23, 70% allowed in view of 40(a)(ia).

**M106. Mr. Sweet credited interest of Rs. 1 lakh to the account of Ms. Sweety (a resident) on 15.3.2022 without.....**

No disallowance u/s 40(a)(ia) as tax not deductible

**M107. Salary payable in India to a non-resident is disallowed if tax has not been paid nor deducted therefrom.**

U/s 40(a)(iii)

**M108. Manas has paid interest of Rs. 30,000 on a business loan taken from Flight Ltd. in which his sister holds.....**

Excess disallowed u/s 40A(2)

**M109. Shubham pays office rent of Rs. 3 lakh to M/s Shekhar & Co., owner of the building. Shekhar.....**

Shekhar is relative but he does not hold substantial interest in firm (< 20% profit share). 40A(2) not applicable

**M110. Shyamal pays interest of Rs. 5 lakh for PY 2021-22 on business loan taken from a deposit-taking .....**

Wife is relative with substantial interest in NBFC. 3L disallowed u/s 40A(2). 2L deductible in PY of payment u/s 43B as it is paid to deposit taking NBFC after due date of ROI.

**M113. Mr. Garg made the following payments during the course of PY 2021-22, each on a particular day.....**

Railways 20,000 (payment to Govt covered by R. 6DD) + Farmer 15,000 (covered by R. 6DD) + Wheat trader NO (not covered by R. 6DD) + Gratuity 40,000 (terminal benefit ≤ 50,000 covered by R. 6DD) = 75,000.

**M114. Mr. Dhiman booked expenditure of Rs. 30,000 towards purchase cost of raw material on 15.12.2020 and.....**

12,000 in cash is taxable as deemed profits u/s 40A(3).

**M115. Raju, following mercantile system of accounting, incurred an expenditure of Rs. 45,000 during .....**

Deemed profit u/s 40A(3)

**M118. Jagriti Pvt. Ltd. took a term loan from Bank of Baroda in respect of which the outstanding interest .....**

FITL deductible on payment in terms of section 43B.

**M119. GST payable by Rashmi for the month of March 2022 became payable under the GST law in April 2022.....**

Liability incurred in PY 21-22 though statutorily payable in PY 22-23. Deductible in PY 2021-22 as paid by ROI due date.

**M120. M/s Jagriti Group, a proprietorship firm following cash system of accounting, incurred the following.....**

Customs – Not an expense of PY 2021-22 as paid in PY 2022-23. Income tax not allowed u/s 40(a)(ii)..

## SPECIAL PROVISIONS

**M121. Any amount recovered against a deduction already made in an earlier PY is:.....**

U/s 41(1)

**M122. Mr. P received refund of GST on 20.12.2021 amounting to Rs. 20,000 in respect of payment of .....**

U/s 41(1)

**M123. Mr. J paid Rs. 10,000 on 15.4.2021 in full and final settlement of a disputed bill of Rs. 50,000 for.....**

40,000 will be taxable u/s 41(1)

**M124. Mr. R purchased raw material from Mr. S during PY 2019-20 for Rs. 1 lakh but did not make any payment.....**

Unilateral write off taxable u/s 41(1)

**M125. Rise Pvt. Ltd., carrying businesses in Units A and B, made payment of Rs. 1 lakh during PY 2019-20.....**

A – Taxable u/s 41(1) even if B/P for which deduction made does not exist.

B – Taxable u/s 41(1) in hands of successor.

C – Taxable u/s 176 in hands of recipient.

**M126. If any business or profession is discontinued in any year, any sum received after the discontinuance.....**

Taxable u/s 176

**M128. Housing Pvt. Ltd., a real estate developer, sold a building on 16.9.2021 for Rs. 50 lakh costing.....**

SDV of 60L taken as consideration u/s 43CA as it is > 110% of 50 lakh. SDV on date of agreement not taken as down payment not made by specified mode. Profit = 60L – 20L.

**M129. DLF builders sold a plot of land on 15.9.2021 for Rs. 50 lakh. AO substituted the value of consideration.....**

DVO value taken u/s 43CA as it is ≤ SDV

## COMPLIANCE

**M131. Who is required to maintain books prescribed by Rule 6F?.....**

Engineer, being specified profession, has GR > 1.5L in all 3 preceding PYs.

**M132. Who is not required to maintain any books of accounts u/s 44AA?.....**

Wholesale trader not having income from business > 2.5L or TO > 25 lakh in any one of 3 preceding PYs

**M133. Kanya, a lawyer, has started her practice on 10.12.2021 and she estimates that the gross receipts.....**

Since GR will not exceed 1.5L for PY 2021-22

**M134. M/s Rohan & Co, a partnership firm, carries on real estate business. It's income from business for.....**

TO is > 10L in any one of 3 preceding PY

**M138. Mr. Merchant, carrying on transport business, has clocked a turnover of Rs. 3 crore for PY 2021-22.....**

Cash payment > 5% of total payments. 1 Cr limit applies

**M139. Mr. Dude, carrying on profession of a sports coach, has clocked gross receipts of Rs. 55 lakh for PY 2021-22.....**

GR > 50 lakh. % of transactions in cash mode is not relevant.

## PRESUMPTIVE INCOME FOR SMALL ENTERPRISES

**M143. Raj is a resident and ordinarily resident for PY 2020-21 and resident but not ordinarily resident for .....**

8% of 10L + 6% of 90L = 6,20,000

**M144. M/s PQR, an eligible assessee, following mercantile system of accounting and carrying on eligible.....**

6% of 50L (received by a/c payee cheque/draft: 25L during PY + 25L before ROI date) + 8% of 80L = 9,40,000

**M146. Srishti, a Chartered Accountant, has gross receipts for the PY 2018-19 to 2021-22 of Rs. 60 lakh.....**

44ADA applies as GR ≤ 50L for PY 2021-22. Presumptive income = 50% of 40L.

**M150. Roxy & Co. is a transporter owning 8 goods carriages having gross vehicle weight of 10 ton each.....**

Carriages are non-HGV. 9 carriages for 12 months; 1 carriage for 3 months; 1 carriage for 9 months. All @ 7,500 p.m. per carriage = 8,10,000 + 22,500 + 67,500 = 9,00,000