

TAXBOOK⁺

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
Closing WDV	78,000	48,000	66,000	Nil

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)
Closing WDV of Block	91,00,000	3,40,000	5,37,500	18,000

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%)
Actual cost of assets acquired during the PY			
Put to use ≥ 180 days			
• Computer (along with computer software)		50,000	
• Law books		25,000	
• Office furniture	1,50,000		
• Electrical and other fittings	40,000		
Put to use < 180 days			

• Computer printer, UPS and router		10,000	
• Car			4,00,000
	1,90,000	85,000	4,00,000
Less: Depreciation:			
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)	
	19,000	32,000	18,000
Total depreciation		69,000	

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

Particulars	Rs.
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)	-
Actual cost	5,45,000

TAXBOOK⁺

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
Less: Depreciation for AY 2022-23 = 75% of 15% of 15,36,000. 25% disallowed u/s 38 for personal use.	1,72,800
WDV as on 1.4.2022	13,63,200
Less: Depreciation for AY 2023-24 = 75% of 15% of 13,63,200. 25% disallowed u/s 38 for personal use	1,53,360

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)(ia) (Note)	(17,20,00,000)
Closing WDV	72,67,50,000

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)
Closing WDV of Block	51,60,000	80,000

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.
Actual cost of assets acquired during the PY		
• 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
Depreciation:		
Normal depreciation:		
• Machines A, B, C = 15% of 45 lakh	6,75,000	
• Machine E = 50% of 15% of 5 lakh	37,500	
		7,12,500
Additional depreciation:		
• Machines A, B, C = 20% of 45 lakh		9,00,000
• Machine E – Not allowed on second hand machinery		-
Total depreciation		16,12,500

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
Depreciation allowable for AY 2022-23		10,25,000

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)
Closing WDV of Block	29,90,000	3,20,000

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
Total		8,10,000

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	-
Total		80,000

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)
Closing WDV of Block	71.5

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)
Closing WDV of Block	138.775

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

AY 2021-22	Rs.
------------	-----

Opening WDV	-
Actual cost	5,00,000
Less: Depreciation @ 10%	(50,000)
	4,50,000

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.
Computation of depreciation for PY 2020-21	
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
Computation of depreciation for PY 2021-22	
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
Computation of depreciation for PY 2022-23	
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.
Car		
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
Machinery		
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	-	-	-
Profits of business	(10,00,000)	(9,00,000)	18,60,000
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 ¹)		18,60,000	

¹ Covered in Chapter on Losses in detail

TAXBOOK⁺

Working steps of solutions

B21 to B30

Profits and Gains of Business or Profession

Build Your Confidence (BYC)

B21. S. 35AD – CA2012(M) – MNP Ltd., commenced operations of the business of a new 4-star hotel in

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

Particulars	Rs.
Profits from specified business of new hotel in Chennai (before deduction u/s 35D)	80,00,000
Less: Deduction u/s 35AD:	
• 100% of expenditure incurred prior to commencement of operations on 1.4.2021 and capitalized in books on this date	(40,00,000)
• 100% of capital expenditure incurred during PY 2021-22 (except land)	(1,50,00,000)
Loss from specified business of hotel in Chennai	(1,10,00,000)
Profits from existing business of hotel in Kanpur	1,30,00,000
Income under the head PGBP after set off loss of one specified business against profits of another specified business in terms of section 73A¹	20,00,000

B21A. S. 35AD – Ragini carries on business of operating sugar warehouse and manufacture of steel products.

Tax implications arising from transfer of building from sugar business to steel business

Particulars	Rs.
Deemed business income u/s 35AD for PY 2021-22 since building used in specified business is transferred to a non-specified business within 8 years of its acquisition	
Total deduction allowed u/s 35AD for building	20,00,000
Less: Depreciation allowable u/s 32 as if 35AD deduction was not allowed = 10% of Rs. 20 lakh	(2,00,000)
Deemed business income u/s 35AD	18,00,000
Depreciation of the Block (Building) for PY 2021-22	
Opening WDV on 1.4.2021	15,00,000
Add: Actual cost of building = Actual cost 20 lakh – Depreciation allowable since acquisition 2 lakh	18,00,000
WDV (as on 31.3.2022) for depreciation	33,00,000
Less: Depreciation @ 10%	(3,30,000)
Closing WDV	29,70,000

AMORTIZATION

B23. S. 35D – Rajat started the business of manufacturing clothes on 1.6.2021. Following expenditure was.....

Computation of deduction u/s 35D

Particulars	Rs.	Rs.
-------------	-----	-----

¹ Covered in Chapter on Losses in detail

Specified Expenditure		
Preparation of project report by an approved concern: Eligible	1,00,000	
Market survey by self: Eligible	60,000	
Legal charges for drafting agreements by a law firm (not approved u/s 35D): Eligible	40,000	
Engineering services by BCD consultants: Not eligible as not approved	-	2,00,000
Cost of project = Cost of building, P&M, furniture	42,00,000	
Capital employed: Not relevant for non-company assessee	-	
5% of cost of project		2,10,000
Eligible specified expenditure (cannot exceed 2,10,000)		2,00,000
Deduction u/s 35D for each PY from PY 2021-22 to 2025-26 = 2,00,000 / 5		40,000

B24. S. 35DDA – BKC Ltd. offered voluntary retirement to its employees under a VRS scheme rolled out on 15.6.2021. It....

Year	Rs. lakh	Rs. lakh	Rs. lakh	Total deduction
PY 2021-22	8			8
PY 2022-23	8	8		16
PY 2023-24	8	8	8	24
PY 2024-25	8	8	8	24
PY 2025-26	8	8	8	24
PY 2026-27		8	8	16
PY 2027-28			8	8
				120

EXPENDITURE FOR SPECIAL PURPOSES

B25. S. 35 – Mr. Pharma commenced business of manufacture of medicines on 1.6.2021. Compute the deduction....

Particulars	1.4.18 to 31.5.18	1.6.18 to 31.5.21	1.6.21 to 31.3.22	Deduction	Note
Purchase of land and building for scientific research (30% towards land) (not certified)	-	30,00,000	-	21,00,000	Exclude land; certification not required
Purchase of equipments for scientific research (not certified)	1,00,000	-	-	-	Prior to 3 year period
Purchase of plant and machinery for manufacturing medicines (not certified)	-	-	2,50,000	-	Not for scientific research. Depreciation can be claimed.
Purchase of equipment for conducting scientific search (purchased on 1.1.2022 and put to use on 1.5.2022) (not certified)	-	-	1,25,000	1,25,000	Put to use not relevant; certification not required
Purchase of scientific research material	20,000	50,000 (90% certified)	30,000	75,000	3 year pre-commencement expenditure should be certified
Salary to employees engaged in scientific research	-	6,00,000 (4 lakh certified)	2,00,000	6,00,000	3 year pre-commencement expenditure should be certified
Expenditure on scientific research in relation to Food & Beverage sector	-	1,50,000	25,000	-	Not related to business of assessee
Other revenue expenses	40,000	1,80,000	1,00,000	1,00,000	Pre-commencement expenditure not deductible
Total deduction u/s 35				30,00,000	

B26. S. 35 – Compute the deduction allowable u/s 35 for AY 2022-23 from the following particulars of expenditure

Particulars	Section	Deduction	Note
Payments for scientific research:			
National Science Institute	35(1)(ii)	1,30,000	
IIT, Mumbai	35(2AA)	90,000	
Zeta Ltd.	35(1)(iia)	1,00,000	
Beta Inc	35(1)(iia)	-	Not a company registered in India
PQR college	35(1)(ii)	50,000	
DEF college	35(1)(ii)	-	Not approved and notified
National Laboratory	35(2AA)	75,000	Withdrawal of program subsequent to payment does not effect deduction
Expenditure on in-house R&D facility:			
Revenue expenditure on scientific research	35(1)(i)	1,80,000	
Acquisition of land	35(1)(iv)	-	Expenditure on land not deductible
Acquisition of premises	35(1)(iv)	5,00,000	
Deduction u/s 35		11,25,000	

B27. S. 35 – CA2011(M) – Praveen Kumar has furnished the following particulars relating to payments made

Particulars	Section	% deduction	Deduction Rs. Lakhs
Payment for scientific research			
K Research Ltd.	35(1)(ii)	100	20
LMN college	35(1)(ii)	100	15
OPQ college (assuming it is not approved)	35(1)(ii)	-	-
National Laboratory	35(2AA)	100	8
In-house research			
Machinery purchased – capital expenditure	35(1)(iv)	100	25
Salaries to research staff	35(1)(i)	100	12
Deduction allowable u/s 35			80

INTEREST

B28. S. 36(1)(iii) – Mr. Shree purchased a machinery for Rs. 10 lakh on 1.8.2021 by utilizing loan of Rs. 8 lakh.....

Particulars	Working	Rs.	Rs.
Interest for PY 2021-22	10% p.a. on 10 lakh for 9 months		75,000
Actual cost of machinery			
• Purchase price		10,00,000	
• Add: Interest	10% p.a. on 10 lakh for 6 months (1.7.2021 to 31.12.2021)	50,000	10,50,000
Interest deductible u/s 36(1)(iii)	10% p.a. on 10 lakh for 3 months (1.1.2022 to 31.3.2022)		25,000

B29. S. 36(1)(iiia) – Z Ltd., a public sector company, issued 10,000 notified zero coupon bonds on 10.10.2021.....

Particulars	Working	Rs.
Discount	10,000 × (100 – 75)	25,000
Life of bond (calendar months)	October 2021 is considered as 1 month (since ≥ 15 days) while October 2024 is to be ignored (since < 15 days)	36
Pro-rata discount p.m.	25,000 / 36	694
Deduction for PY 2021-22	694 × 6 months (October 2021 to March 2022)	4,164

EMPLOYEE WELFARE

B30. CONTRIBUTION TO EMPLOYEE WELFARE FUNDS – Analyze the tax implications for Welfare Ltd. in the following cases for AY 2022-23.

#	Case	Impact
1	Welfare Ltd. contributes Rs. 2 lakh to RPF during the PY (Rs. 1.5 lakh is 43B compliant)	1.5 lakh deductible u/s 36(1)(iv)
2	Welfare Ltd. receives Rs. 1 lakh from employees as their contribution towards RPF. Out of this Rs. 80,000 is credited to their account by the due date as per the rules of the Fund.	1 lakh first included in income then 80,000 deductible u/s 36(1)(va). Thus, 20,000 taxable.
3	Welfare Ltd. pays Rs. 1 lakh as gratuity to retiring employees. It does not maintain any gratuity fund.	1 lakh deductible u/s 37(1)
4	Welfare Ltd. contributes to an approved gratuity fund every year. During the PY 2021-22 it pays Rs. 6 lakh as gratuity from this fund.	Contribution to AGF is deductible u/s 36(1)(v). Payment from fund is not deductible again.
5	Welfare Ltd. contributes 20% of basic salary to the account of each employee under the NPS. DA is 40% of basic and it forms part of pay. Aggregate basic salary during the PY 2021-22 is Rs. 10 lakh.	Salary for purpose of 36(1)(iva) = 10 lakh + 4 lakh = 14 lakh. 10% thereof is 1.4 lakh. NPS contribution = 2 lakh. Deductible = 1.4 lakh. Disallowed = 60,000.

TAXBOOK⁺

Working steps of solutions

B31 to B40

Profits and Gains of Business or Profession

Build Your Confidence (BYC)

SPECIAL DEDUCTIONS

B31. BAD DEBT – Analyze the tax implications in the following cases for AY 2022-23.

#	Case	Deduction u/s 36(1)(vii)	Remarks
1	Yug sells goods for Rs. 3 lakh on 1.1.2020 to Shubh who does not make any payment owing to a dispute. Yug claims the amount as deduction towards bad debt for PY 2021-22 while retaining the debt in the books of account.	No	Since not written off as irrecoverable in the books
2	Yug writes off Rs. 50,000 as irrecoverable on 1.5.2021, out of Rs. 3 lakh receivable from Jug towards sale of goods during PY 2019-20.	Yes	Debt taken into account in computing income and written off as irrecoverable in the books
3	Yug sold plant and machinery for Rs. 10 lakh on 1.6.2020 which he was using in manufacturing products for his business. He wrote off Rs. 1 lakh on 1.7.2021 as irrecoverable.	No	Debt not taken into account in computing income, being sale of capital asset
4	Yug, carrying on business of cloth retailer, extended loan of Rs. 5 lakh to another trader to help him start a new business. He wrote off the entire loan as irrecoverable on 1.4.2021.	No	Debt not taken in account in computing income and Yug is not in business of banking or money lending
5	Yug, carrying on money-lending business, extended loan of Rs. 5 lakh to Shubh. Shubh became insolvent. Yug wrote off entire loan of Rs. 5 lakh together with interest due of Rs. 50,000 on 1.3.2022.	Yes	Interest deductible as it is taken into account in computing income. Principle is also deductible as it is money lent in money lending business.

B32. S. 40(b) – Compute the remuneration liable to be disallowed u/s 40(b) to Rohit & Mohit, a partnership firm.....

Particulars	A	B	C
Remuneration eligible for deduction	7,50,000	2,00,000	1,00,000
Computation of remuneration allowable u/s 40(b)			
First 3 lakh of book profit (or loss) = Higher of 1.5 lakh or 90% of book profit	2,70,000	1,50,000	1,50,000
Balance of book profit = A: 60% of 7,00,000; B & C Nil	4,20,000	-	-
Maximum remuneration allowable u/s 40(b)	6,90,000	1,50,000	1,50,000
Remuneration eligible for deduction	7,50,000	2,00,000	1,00,000
Less: Remuneration allowed u/s 40(b)	(6,90,000)	(1,50,000)	(1,00,000)
Remuneration disallowed u/s 40(b) in the hands of the firm	60,000	50,000	-

B33. S. 40(b) – CA2011(N) – Rao and Jain, a partnership firm consisting of two partners, reports a net profit.....

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

Particulars	Rs.	Rs.
Computation of Book Profit of the firm u/s 40(b)		
Net profit (before deduction of salary, depreciation and interest)		7,00,000

Less:		
• Depreciation u/s 32	(1,50,000)	
• Interest @ 12% p.a. [being the maximum allowable u/s 40(b)] = 12% of 5 lakh	(60,000)	(2,10,000)
Book profit		4,90,000
Less: Remuneration to working partners (4,80,000) subject to a maximum of amount allowable u/s 40(b) computed as follows:		
• First 3 lakh of book profit (or loss) = Higher of 1.5 lakh or 90% of book profit	2,70,000	
• Balance of book profit = 60% of 1,90,000	1,14,000	(3,84,000)
Profit and gains of business or profession		1,06,000

B33A. S. 40(b) - CA2021(JAN) - M/s Bhandari & Batra, a partnership firm consisting of two partners, reports a net profit.....

Computation of book profits of the firm for AY 2022-23

Particulars	Rs.	Rs.
Net profit (before deduction of salary, depreciation, interest)		7,00,000
Less: Depreciation	1,50,000	
Less: Interest deductible u/s 40(b) @ 12% of 5 lakh	60,000	(2,10,000)
Book profit (salary to partners and c/fd loss is not to be adjusted)		4,90,000

Computation of salary that can be paid to working partners u/s 40(b)

Particulars	Rs.
First 3 lakh of book profit (or loss) = Higher of 1.5 lakh or 90% of book profit	2,70,000
Balance of book profit = 60% of 1,90,000	1,14,000
Salary that will be allowed to the firm u/s 40(b)	3,84,000

GENERAL DEDUCTION

B34. S. 37 – Determine whether the following expenditure will be allowed as deduction for the AY 2022-23.

#	Expenditure	Deductible?	Section
1	Loss due to embezzlement by employee	Yes	29 (as per general principles)
2	Rent of building hired for business	Yes	30
3	Municipal taxes for building	Yes	30 (subject to 43B)
4	Repair of furniture	Yes	31
5	Insurance premium for machinery	Yes	31
6	Insurance premium for stock in trade	Yes	36(1)(i)
7	Extension of a floor on the office building	No	32 – depreciation allowed
8	Purchase of books	No	32 – depreciation allowed
9	Cost of goods sold	Yes	37(1)
10	Sundry office expenses	Yes	37(1)
11	Electricity	Yes	37(1)
12	Freight and installation expenses for machinery incurred before it is put to use	No	32 (add to actual cost for depreciation)
13	Payment to approved and notified university for scientific research	Yes	35
14	Purchase of laboratory equipment for scientific research	Yes	35
15	Expenditure on notified skill development project	Yes	35CCD
16	Market survey and feasibility study before commencement of business	Yes	35D amortization
17	VRS compensation paid to employees	Yes	35DDA amortization
18	Building, plant, machinery and furniture purchased for new fertilizer production business	Yes	35AD, if opted for
19	Salary paid to employees	Yes	37(1)
20	Health insurance premium paid for employees	Yes	36(1)(ib)
21	Bonus and commission paid to employees	Yes	36(1)(ii) (subject to 43B)
22	Employer's contribution to RPF	Yes	36(1)(iv) (subject to 43B)

23	Employee's contribution to RPF received but not paid by the due date under EPF Act	No	36(1)(va)
24	Payment to approved gratuity fund even though no gratuity is payable during the PY	Yes	36(1)(v) (subject to 43B)
25	Amount payable by buyers of stock-in-trade written off as irrecoverable	Yes	36(1)(vii)
26	Interest on loan taken from SBI for purchase of office vehicles pertaining to period after these are put to use	Yes	36(1)(iii) (subject to 43B)
27	Brokerage, commission and bank charges paid for arranging the loan	Yes	37(1)
28	Interest on unpaid purchase price of raw material	Yes	37(1)
29	Interest on loan taken from a colleague to meet office expenses	Yes	36(1)(iii)
30	STT paid on dealing in shares held as investments	No	36(1)(xv). As not stock-in-trade
31	Premium paid on Keyman insurance policy taken on the life of CEO	Yes	37(1)
32	Payment to lawyer for defending tax appeal in the Supreme Court	Yes	37(1)
33	Payment to CA for compliance with various provisions of income tax and GST	Yes	37(1)
34	Damages paid to buyer for not supplying goods on time	Yes	37(1)
35	Advertisement and sales promotion expenses	Yes	37(1)
36	Celebration expenses in office on the occasion of Diwali and Holi	Yes	37(1)
37	Fee paid for employees attending a business conference	Yes	37(1)
38	Provision created to meet expenses on damages which may need to be paid if a legal dispute is lost in the court	No	37(1), it is contingent
39	Income tax paid for the current year	No	40(a)(ii)
40	CSR expenditure incurred under the Companies Act	No	37(1), Explan 2
41	Penalty paid under GST law for not passing ITC benefit to buyers	No	37(1), it is penal in nature
42	Penalty paid under GST law to compensate for delay in payment of tax	Yes	37(1), it is compensatory in nature
43	Bribe paid to income tax office to pass a favorable order	No	37(1), it is offence/prohibited
44	Advertisement in a brochure published by the JJP, a political party	No	37(2B)
45	Loss of stock in trade due to fire	Yes	29
46	Expenditure on business travel incurred during PY 2020-21	No	37(1), doesn't pertain to PY 2021-22
47	Dividend paid to shareholders	No	37(1), appropriation of profits
48	Postage, stationery, food and beverage expenses	Yes	37(1)
49	Purchase of computers and computer software	No	32 – depreciation allowed

EXPENSES NOT DEDUCTIBLE IN CERTAIN CIRCUMSTANCES

B35. S. 40(a)(i)/(ia) – Determine the PY in which the expenditure on payment of fees for professional service Rs.

#	Payee	Tax deducted by payer	Tax paid by payer	Action by payee	Deduction	Remarks
1	NR	15.3.2022	15.12.2022	-	1,00,000 in PY 2022-23	Tax deducted in PY 2021-22 but paid after ROI due date of such PY. 100% allowed u/s 40(a)(i) in PY in which tax paid.
2	ROR	15.3.2022	30.11.2022	-	1,00,000 in PY 2021-22	Tax deducted in PY 2021-22 and paid by ROI due date of such PY. 100% allowed u/s 40(a)(ia) in PY in which expense incurred.
3	ROR	15.3.2022	1.12.2022	-	70,000 in PY 2021-22 30,000 in PY 2022-23	Tax deducted in PY 2021-22 but paid after ROI due date of such PY. 30% allowed u/s 40(a)(ia) in PY in which tax paid.
4	RNOR	Not deducted	Not paid	-	70,000 in PY 2021-22	Tax not deducted and paid. 30% disallowed u/s 40(a)(ia).
5	ROR	Not deducted	Not paid	ROI filed on 1.11.2022 after including Rs. 1,000 and paying tax due.	70,000 in PY 2021-22 30,000 in PY 2022-23	Tax not deducted by payer but payee filed ROI after including income in ROI and paid tax due. 30% allowed u/s 40(a)(ia) in PY in which ROI filed. Assumed that Radius Ltd.

has furnished certificate of accountant.

B36. S. 40(a)(ia) - Compute the amount of income under the head PGBP in the hands of Roshan for the.....

Computation of income under the head PGBP for AY 2022-23

Particulars	Rs.	Remarks
Gross receipts from profession	55,00,000	-
<i>Less: Expenses:</i>		
Salary to employees	9,40,000	TDS deductible u/s 192. Tax not deducted and paid. 30% of 2 lakh disallowed u/s 40(a)(ia).
Commission to agent	1,00,000	TDS deductible u/s 194H since gross receipts > 50 lakh from profession in preceding FY 2020-21 (see para 215). Tax deducted in PY 2021-22 and paid by ROI due date of such PY. No disallowance u/s 40(a)(ia).
Catering charges for business function	1,05,000	TDS deductible u/s 194C since gross receipts > 50 lakh from profession in preceding FY 2020-21 (see para 216). Tax deducted in PY 2021-22 but paid after ROI due date of such PY. 30% disallowed u/s 40(a)(ia); it will be allowed in PY in which tax paid, i.e., PY 2022-23.
Fees for professional services	25,000	TDS not deductible u/s 194J as sum ≤ limit of 30,000 specified under that section (see para 216). No disallowance u/s 40(a)(ia)
PGBP income	43,30,000	

B37. S. 40A(2)– Identify whether the following expenditure can be disallowed u/s 40A(2) in the hands of Rohan, carrying on business of electronics, for AY 2022-23.

#	Expenditure	Disallowance	Remarks
1	Purchase of raw material from his brother for Rs. 1 lakh. Market value is Rs. 60,000.	Rs. 40,000	Brother is related party
2	Rs. 2 lakh paid for consultancy service taken from PQR Pvt. Ltd. in which Rohan's sister holds 25% equity shares. Market value of such service is Rs. 50,000.	Rs. 1.5 lakh	Sister (relative) has SI in the company as equity holding ≥ 20%. Hence, PQR Pvt. Ltd. is related party.
3	Vehicles taken on hire for Rs. 6 lakh from Z Pvt. Ltd. in which Rohan holds 10% equity shares. Rs. 4 lakh is charged for similar arrangement in the market.	No	Rohan does not have SI in company as equity holding < 20%. Z Pvt. Ltd. is not related party.
4	Products sold to his father for Rs. 1 lakh where similar products are sold in the market for Rs. 75,000.	No	Sale value is not an expenditure. 40A(2) not applicable.
5	Repayment of loan taken from partnership firm in which Rohan is a partner with 30% share.	No	Firm is related party as profit share ≥ 20% but there is no expenditure. Hence, 40A(2) not applicable.

B38. S. 40A(3)– Identify whether the following expenditure can be disallowed u/s 40A(3) in the hands of Rohan, following mercantile system of accounting, for AY 2022-23.

#	Case	Disallowance u/s 40A(3)	Note
1	Payment to Jones of Rs. 40,000 for legal services – Four cash payments of Rs. 8,000 each on 1 June 2021.	Yes	Payments to a person in a day by non-specified mode > 10,000
2	Payment to Jones of Rs. 32,000 for goods supplied – Four cash payments of Rs. 8,000 each on 1 June, 2 June, 3 June and 4 June 2021.	No	Payments to a person in a day by non-specified mode ≤ 10,000
3	Payment to Jones and Jane of Rs. 8,000 each in cash on 1 June 2021 for consultancy services	No	Payments to a person in a day by non-specified mode ≤ 10,000
4	Payment to Shri Ltd. for raw material purchased on credit on 1 June 2020 for Rs. 20,000. Payment made by uncrossed cheque on 1 June 2021.	-	Payment will be deemed profits for PY 2021-22
5	Payment to brother in cash on 1 May 2021 for hiring machinery for Rs. 20,000. Hire charges in the market are Rs. 8,000.	12,000 u/s 40A(2)	Balance Rs. 8,000 is < 10,000. No disallowance u/s 40A(3).

6	Repayment of loan taken from ICICI Bank. Principal of Rs. 1,00,000 and interest of Rs. 20,000 is paid in cash on 1 May 2021.	No	Principal repayment is not expenditure. Interest paid to bank is covered as exception u/r 6DD
7	Jones sold goods for Rs. 1 lakh to Roshan on 1 May 2021. Roshan provided services to Jones for Rs. 60,000 on 1 June 2021. This was adjusted in the accounts by an entry made on 1 May 2021.	No	Book adjustment is covered as exception u/r 6DD
8	Cash payment of Rs. 50,000 is made to Railways on 1 May 2021 for transportation of goods.	No	Payment to Government is covered as exception u/r R 6DD

B39. S. 43B – Determine the year in which the following expenses incurred by Bharat, for the purposes of his business during the PY 2021-22, will be allowed as deduction. Due date of filing return of income for Bharat is 31.10.2022.

#	Expense	PY of deduction	Remarks
1	Commission on sales paid to employees on 15.4.2022	PY 2021-22	36(1)(ii) + 43B
2	Bharat's contribution to recognized PF of employees – Rs. 50,000 paid on 10.3.2022 and Rs. 30,000 paid on 1.12.2022. Due date as per PF law is 15 days from the close of every month.	50,000 for PY 2021-22; 30,000 for PY 2022-23	36(1)(iv) + 43B. Due date as per PF law is not relevant for employer's contribution.
3	GST and customs duty paid on 15.9.2022 – Rs. 1 lakh	PY 2021-22	37(1) + 43B
4	Municipal taxes on factory building not paid – Rs. 60,000	-	30 + 43B
5	Bharat's contribution to approved superannuation fund for employees paid on 31.10.2022 – Rs. 45,000	PY 2021-22	36(1)(iv) + 43B
6	Interest on loan taken from friend, paid on 1.3.2023 – Rs. 50,000	PY 2021-22	36(1)(iii). 43B not applicable.
7	Interest on loan taken from HDFC, paid on 1.3.2023 – Rs. 50,000	PY 2022-23	36(1)(iii) + 43B
8	Electricity bill of UPPCL paid on 15.11.2022 – Rs. 2 lakh	PY 2021-22	37(1). 43B not applicable.
9	Annual bonus to employees declared on Diwali, 2021 and paid on 1.10.2022 – Rs. 3 lakh	PY 2021-22	37(1) + 43B
10	Income-tax paid on 1.3.2023 – Rs. 1 lakh	Disallowed	40(a)(ii). 43B not relevant.

B40. S. 43B – Gyani, engaged in manufacturing business, took loans of Rs. 10 crore each from Bank of India

Interest converted into a loan is not deductible. Such converted interest is deductible only once it is actually paid. Interest deductible u/s 36(1)(iii) read with 43B for AY 2022-23 is computed below.

Bank	Interest outstanding	No. of instalments	Amount per instalment	Instalments paid	Interest allowable
Bank of India	50 lakh	48	1,04,167	9	9,37,503
Dena Bank	30 lakh	48	62,500	9	5,62,500
Total amount eligible for deduction					15,00,003

TAXBOOK⁺

Working steps of solutions

B41 to B50

Profits and Gains of Business or Profession

Build Your Confidence (BYC)

SPECIAL PROVISIONS

B41. S. 41(1) – Identify whether deemed profits would arise u/s 41(1) for AY 2022-23 in the following situations in the hands of Zen, carrying on manufacturing business.

#	Situation	Deemed profits u/s 41(1)
1	Refund of excise duty of Rs. 20,000 on 1.10.2021 which was claimed as deduction for PY 2019-20.	20,000 in PY 2021-22
2	Deduction of Rs. 1 lakh on account of telephone expenses allowed for PY 2020-21. Out of this, Rs. 20,000 is refunded on 1.10.2021 as the earlier billing was erroneous.	20,000 in PY 2021-22
3	Refund of GST of Rs. 50,000 received by Zen's son on 1.10.2021 who has succeeded Zen in his business after his death. This amount was deducted while computing business income of Zen for PY 2018-19.	50,000 in hands of son in PY 2021-22
4	Zen purchased goods on credit from Yen on 1.10.2019 for Rs. 1 lakh and this was allowed as deduction in his hands for PY 2019-20. Owing to a dispute regarding defect in the goods, Yen agreed to accept Rs. 60,000 in full and final settlement. Zen made the payment on 1.10.2021 and squared off the account.	40,000 in PY 2021-22
5	Stock-in-trade worth Rs. 5 lakh was destroyed in fire on 1.10.2020 and this was deducted as a business loss for PY 2020-21. Zen received Rs. 2 lakh as compensation from the insurance company on 1.10.2021.	2 lakh in PY 2021-22
6	Zen obtained a loan of Rs. 5 lakh from another businessman on 1.10.2020. The loan was waived off by the lender on 1.10.2021.	No, since deduction not made on this count ¹

B42. S 43CA – Sky Builders has sold a building, held as stock-in-trade, on 10.12.2021 whose cost of construction is

Computation of income from sale of building

Particulars	I	II	III
Sale price u/s 43CA (Note)	24,00,000	20,00,000	25,00,000
Less: Cost	(10,00,000)	(10,00,000)	(10,00,000)
Income on sale	14,00,000	10,00,000	15,00,000

Note:

I: SDV on date of transfer taken as consideration as it is > 110% of actual consideration. SDV on date of agreement not considered as actual consideration (or part) not received on or before that date by specified mode.

II: Actual consideration taken, as SDV on date of agreement ≤ 110% of actual consideration. SDV on date of agreement considered as actual consideration (or part) is received on or before that date by specified mode.

¹ Waiver of loan taken for trading activities can be taxed under general principles of s. 28 [222 ITR 344 (SC)]. Waiver of loan taken for capital purposes can be taxed u/s 2(24)(xviii) in certain cases.

III: SDV on date of transfer taken as consideration as it is > 110% of actual consideration. SDV on date of agreement not considered as actual consideration (or part) not received on or before that date by specified mode.

B42A. S. 43CA - JK Builders sold a residential unit to Mr. B on 1.6.2021. The sale was by way of first time allotment

Actual consideration of Rs. 175 lakh will be taken, as SDV on date of agreement ≤ 120% of actual consideration. SDV on date of agreement will be considered as actual consideration (or part) is received on that date by specified mode. Safe harbor limit of 120% will apply as transfer of residential unit, by way of first time allotment, takes place during the period 12.11.2020 to 30.6.2021 and actual consideration ≤ 2 crore. Profit on sale will be Rs. 75 lakh (Rs. 175 lakh – Rs. 100 lakh).

If date of sale is 1.7.2021, safe harbor limit of 120% will not apply as date of sale is not during the period 12.11.2020 to 30.6.2021. SDV on date of agreement will be taken as it is > 110% of actual consideration. Profit on sale will be Rs. 100 lakh (Rs. 200 lakh – Rs. 100 lakh).

B43. S. 43CA – DLF Ltd, a builder, sold a building, held as stock-in-trade, on 1.9.2021 for Rs. 75 lakh.....

- (a) 90 lakh will be taken as SDV > 110% of consideration.
 (b) Case (i): DVO value is 92 lakh: Full value of consideration will be taken as 90 lakh as DVO value > SDV. Case (ii): DVO value is 80 lakh: Full value of consideration will be taken as 80 lakh as DVO value ≤ SDV.

COMPLIANCE

B44. S. 44AA – Identify whether Suraj Sharma needs to maintain books of accounts under the Income Tax Act for the AY 2022-23 in the following situations.

Business/ profession	Parameter	2021-22	2020-21	2019-20	2018-19	Requirement
Lawyer	Gross receipts Income from profession	1.5 lakh (50,000)	1.6 lakh (40,000)	1.8 lakh 20,000	1.9 lakh 70,000	It is specified profession. As per R 6F, as GR > 1.5L in all 3 preceding PYs
Film music director	Gross receipts Income from profession	12.5 lakh 10 lakh	10.5 lakh 8 lakh	5.5 lakh 4 lakh	1.5 lakh 1 lakh	It is specified profession. Sufficient books*, as GR is not > 1.5L in all 3 preceding PYs
Author	Gross receipts Income from profession	26 lakh 3 lakh	24 lakh 2 lakh	23 lakh 2.6 lakh	20 lakh 1 lakh	It is non-specified profession. Sufficient books*, as income from B/P > 2.5L in one of 3 preceding PYs
Bookseller	Turnover Income from business	27 lakh 3 lakh	20 lakh 2.5 lakh	24 lakh 1.5 lakh	25 lakh 1.8 lakh	It is business. No books as income from B/P is not > 2.5L and S/TO/GR is not > 25L in any of 3 preceding PYs

*Sufficient books are such books of account and other documents as would enable the AO to compute total income.

B45. S. 44AB – Identify whether Veena needs to get her books of accounts audited u/s 44AB of the Income Tax Act for AY 2022-23 in the following cases based on the following particulars given for PY 2021-22.

Business/ profession	S/TO/GR in business or GR in profession	Total receipts	Receipts in cash mode*	Total payments	Payments in cash mode*	Tax audit?
Doctor	45 lakh	55 lakh	20 lakh	15 lakh	10 lakh	No, as GR is not > 50L
Retailer	1 crore	1.2 crore	10 lakh	40 lakh	Nil	No, as S/TO/GR is not > 1 cr
Retailer	11 crore	12 crore	Nil	6 crore	Nil	Yes, as S/TO/GR > 10 cr. 10 cr limit applies as receipts in cash mode ≤ 5% of total receipts and payments in cash mode ≤ 5% of total payments for the PY
Retailer	4 crore	4 crore	15 lakh	2 crore	15 lakh	Yes, as S/TO/GR > 1 cr. 1 cr limit applies as cash payments > 5% of total payments for the PY

Retailer	2 crore	2 crore	9 lakh	1 crore	4 lakh	No, as S/TO/GR is not > 10 cr. 10 cr limit applies as receipts in cash mode ≤ 5% of total receipts and payments in cash mode ≤ 5% of total payments for the PY
----------	---------	---------	--------	---------	--------	--

*Cash or cheque/DD (which is not A/c payee)

PRESUMPTIVE INCOME FOR SMALL ENTERPRISES

B46. S. 44AD – CA2018(M) (modified) - Mr. Quereshi is a businessman. During the year ended 31.3.2022, he was

Since total turnover for PY 2021-22 of Rs. 1.25 crore is up to Rs. 2 crore, he is eligible to opt for presumptive income scheme u/s 44AD.

Computation of profits and gains of business or profession of Mr. Quereshi under presumptive income scheme u/s 44AD

Particulars	Rs.
Hypermarket business (100% cash sales) = 8% of 75 lakh	6,00,000
Supermarket business (online sales) = 6% of 50 lakh	3,00,000
Profits and gains of business or profession computed u/s 44AD	9,00,000

No deduction is allowed in respect of any expenditure.

Since Mr. Quereshi maintains proper books of accounts, his income as per books can be computed and if such income is more than income computed u/s 44AD, the higher income can be declared u/s 44AD.

Computation of profits and gains of business or profession of Mr. Quereshi as per books of account

Particulars	Rs.	Rs.
Net profit (as given in question)		3,93,950
<i>Add:</i>		
Depreciation debited in the books (not as per Income Tax Act)	8,12,000	
Cash payment in excess of Rs. 10,000 to accountant in a day (disallowed u/s 40A(3))	75,000	
Building construction expenditure debited to P&L (not deductible)	1,00,000	9,87,000
<i>Less:</i>		
Depreciation under Income Tax Act	7,17,000	
Depreciation on building extension of a room @ 10% (assuming it is not included in the above figure of depreciation)	10,000	(7,27,000)
Profits and gains of business or profession computed as per books of account		6,53,950

PGBP computed as per books is less than that computed u/s 44AD. However, since Mr. Quereshi wants to declare presumptive income u/s 44AD, his PGBP income would be Rs. 9,00,000.

B47. S. 44AD/44ADA – MASTER QUESTION - Compute income under the head PGBP in case of Rachna, a resident

Computation of profits and gains of business or profession of Rachna u/s 44AD or 44ADA

Rachna is a resident. In case A, she is eligible to claim income computation u/s 44AD since turnover ≤ 2 crore and she does not claim deduction u/s 10AA or Ch. VIA-C (80C is covered u/c VIA-B and not u/c VIA-C). In case B, she is eligible to claim income computation u/s 44ADA as she is carrying on a specified profession and gross receipt ≤ 50 lakh.

Particulars	Case A	Case B
Income u/s 44AD:		
• 6% of turnover received by a/c payee cheque till due date of ROI = 6% of 30,00,000	1,80,000	
• 8% of remaining turnover = 8% of 15,00,000	1,20,000	
Income u/s 44ADA = 50% of 45,00,000		22,50,000
Profits and gains of business or profession	3,00,000	22,50,000

Deductions u/s 30 to 38 are deemed to have been allowed. Hence, no further deduction is allowed.

Computation of profits and gains of business or profession of Rachna as per books

Particulars	Rs.
Total turnover /gross receipts	45,00,000
Less:	
• Depreciation	(10,00,000)
• Other expenses (Rs. 1,00,000 paid in cash disallowed u/s 40A(3) as it is > 10,000)	(33,00,000)
Profits and gains of business or profession	2,00,000

Case A: Income computed as per presumptive provisions of section 44AD is more than income computed as per books. PY 2020-21 being the first year of opting for 44AD, she should continue to do so for PY 2021-22 to 2025-26. If she does not opt for 44AD in PY 2021-22, benefit of 44AD will cease for 5 PYs subsequent to PY 2021-22 and she will need to comply with 44AA and 44AB for PY 2021-22 to 2026-27 if her total income > basic exemption limit of Rs. 2,50,000.

Case B: Income computed as per presumptive provisions of section 44ADA is more than income computed as per books. She can claim the lower income as per books. In such case, she will need to comply with 44AA and 44AB for PY 2021-22 since her total income > basic exemption limit of Rs. 2,50,000.

B47a. CA2021(JULY) – M/s MN & Co., a partnership firm, is engaged in the business of plying and hiring goods vehicles.....

Since the firm is engaged in the business of plying and hiring goods vehicles and it does not own > 10 goods carriages at any time during the PY, it is eligible for section 44AE.

Computation of presumptive income as per section 44AE

Gross vehicle weight (kg)	No. of carriages	No. of months (or part) carriage owned during PY	Rate p.m. (per ton p.m. for HGV)	Ton	Presumptive income
	(1)	(2)	(3)	(4)	(1) × (2) × (3) × (4)
Heavy goods vehicle (> 12 ton)					
15,000	2	12	1,000	15	3,60,000
15,000	1	10*	1,000	15	1,50,000
Other than heavy goods vehicle					
7,000	2	12	7,500	-	1,80,000
9,000	2	12	7,500	-	1,80,000
12,000	3	12	7,500	-	2,70,000
					11,40,000

*Months vehicle is owned is to be considered and not months used.

Computation of income of the firm for AY 2022-23 if it opts for section 44AE

Particulars	Rs.
Income as computed u/s 44AE	11,40,000
Less: Partner's remuneration within the limits prescribed u/s 40(b)	(1,50,000)
	9,90,000

If the firm wants to claim its income as per books of accounts of 6,50,000 (which is lower than income of 9,90,000 computed based on section 44AE), it should maintain books of account u/s 44AA and get tax audit done u/s 44AB.

If the firm opts for section 44AE, it would not need to comply with section 44AB. Its due date to file ROI would be 31 July 2022. However, if it does not opt for section 44AE, it would need to comply with section 44AB and its due date to file ROI would be 31 October 2022 (para 232).

Mistake by students – Lack of preparation while computing business income applying section 44AE.

B48. S. 44AE – MASTER QUESTION - Sunanda is engaged in the business of plying, hiring and leasing goods

Sunanda can avail the presumptive taxation provision of section 44AE as she is engaged in the business of plying, hiring and leasing goods carriages and she does not own > 10 goods carriages at any time during the PY.

Computation of presumptive income as per section 44AE

Gross vehicle weight (kg)	No. of carriages	No. of months (or part) carriage owned during PY	Rate p.m. (per ton p.m. for HGV)	Ton	Presumptive income
	(1)	(2)	(3)	(4)	(1) × (2) × (3) × (4)
Heavy goods vehicle (> 12 ton)					
15,000	1	1	1,000	15	15,000
15,000	4	12	1,000	15	7,20,000
Other than heavy goods vehicle					
12,000	1	3	7,500	-	22,500
12,000	4	12	7,500	-	3,60,000
10,000	2	4	7,500	-	60,000
					11,77,500

Computation of income as per books

Particulars	Rs.
Freight charges	15,00,000
Less: Operational expenses	(6,00,000)
Less: Depreciation	(2,50,000)
Business income	6,50,000

Since her income from such business computed as per books is lower than presumptive income, she can claim the lower income of Rs. 6,50,000 if she complies with sections 44AA and 44AB for the PY 2021-22.

B49. S. 44AE – CA2019(N) - Prakash is in the business of operating goods vehicles. As on 1.4.2021, he had

Benefit of section 44AE is available since Prakash does not own more than 10 goods carriages at any time during PY 2021-22.

Computation of presumptive income as per section 44AE

Type of carriage	No. of months (or part) vehicle is owned during PY	Rate p.m. (per ton p.m. for HGV)	Ton	Amount
(1)	(2)	(3)	(4)	(5) = (2) × (3) × (4)
Heavy goods vehicle (> 12 ton)				
Vehicle B	12	1,000	13	1,56,000
Vehicle E	11	1,000	15	1,65,000
Other than heavy goods vehicle				
Vehicle A	12	7,500	-	90,000
Vehicle C	12	7,500	-	90,000
Vehicle D	12	7,500	-	90,000
Total				5,91,000

Mistake by students – Date of owning is relevant and not the date of put to use.

COMPREHENSIVE

B50. COMPREHENSIVE - CA2015(N) - State with reasons, the allowability of the following expenses incurred by MN Ltd....

#	Expense	Allowability
1	Construction of school building in compliance with CSR activities amounting to Rs. 5,60,000	CSR expenditure u/s 135 of Companies Act is not allowable as per Exln 2 to S. 37(1)
2	Purchase of building for setting up a warehousing facility for storage of food grains amounting to Rs. 4,50,000	Eligible for investment linked tax deduction u/s 35AD @ 100% of such amount if the relevant conditions of that section are satisfied
3	Interest on loan paid to Mr. X (a resident) of Rs. 50,000 on which tax	TDS is to be deducted u/s 194A (para 213). Rs. 15,000 (30% of Rs. 50,000) will be disallowed u/s 40(a)(ia) assuming that Mr. X has also not paid the tax, if any, on

	has not been deducted.	such interest. Balance will be allowed u/s 36(1)(iii) assuming that amount was borrowed for purposes of business.
4	Commodities transaction tax paid Rs. 20,000 on sale of bullion.	Allowable as deduction u/s 36(1)(xvi) assuming that income from commodity transactions is included in computing business income.

TAXBOOK⁺

Working steps of solutions

B51 to End

Profits and Gains of Business or Profession

Build Your Confidence (BYC)

B51. COMPREHENSIVE - CA2011(N) – Ramji Ltd., engaged in manufacture of medicines, furnishes the following,....

#	Item	Allowability
1	Municipal tax relating to office building Rs. 51,000 not paid till due date of filing ROI for AY 2022-23	Disallowed u/s 43B since tax paid after due date of filing ROI for PY
2	Patent acquired for Rs. 20 lakh on 1.9.2021 and used from the same month	Depreciation @ 25% u/s 32 since it is put to use \geq 180 days during the PY
3	Capital expenditure on scientific research of Rs. 10 lakh which includes cost of land of Rs. 2 lakh	Rs. 8 lakh deducted u/s 35(1)(iv). No deduction for land.
4	Amount due from customer X outstanding for more than 3 years written off as bad debt in the books – Rs. 5 lakh	Deductible as bad debt u/s 36(1)(vii) since amount taken into account in computing income and now written as irrecoverable in the books of account.
5	Income tax paid Rs. 90,000 by the company in respect of non-monetary perquisites provided to its employees	Disallowed u/s 40(a)(v). It is, however, exempt in the hands of employees u/s 10(10CC).
6	PF contribution of employees of Rs. 5,50,000 remitted in July 2021.	Included in income u/s 2(24)(x). But disallowed u/s 36(1)(va), assuming that fund is EPF and contribution not remitted within 15 days from close of month.
7	Expenditure towards advertisement in souvenir of a political party – Rs. 1,50,000	Disallowed u/s 37(2B)
8	Refund of GST Rs. 75,000 received during the year which was claimed as expenditure in an earlier year.	Taxable u/s 41(1)

B52. COMPREHENSIVE - Madhav is a sole proprietor of Hari Silks. He reports turnover of Rs. 240 lakh for

Computation of business income of Madhav for AY 2022-23

Particulars	Rs.	Rs.
Net profit as per profit and loss account		8,10,000
Add: Expenses debited but not deductible:		
• Bonus paid after due date of filing return: Disallowed u/s 43B	60,000	
• Interest paid without TDS: TDS deductible u/s 194A as turnover for preceding year > 1 cr. 30% disallowed u/s 40(a)(ia) assuming payee is a resident and has not paid tax, if any, on such interest.	3,600	
• Municipal taxes for property: Considered while computing income from IHP	15,000	
• Salary to wife: Excess disallowed u/s 40A(2) @ 10,000 p.m.	1,20,000	
		1,98,600
Less: Incomes credited but not taxable under the head PGBP:		
• Dividend: Taxable under the head IFOS	21,000	
• PPF interest: Exempt u/s 10	27,000	
• Saving bank interest: Taxable under the head IFOS	13,500	
• Rent from property: Taxable under the head IHP	1,65,000	
		(2,26,500)
Less: Subsidy for generator: It is adjusted from actual cost for purpose of depreciation		(18,000)

Less: Depreciation on generator @ 50% of 15% of 72,000 (90,000 purchase price – 18,000 subsidy) as it is put to use < 180 days. Additional depreciation not eligible assuming Madhav is not engaged in manufacture or production.		(5,400)
Income from business		7,58,700

B53. COMPREHENSIVE - Bhushan, engaged in manufacture of chemicals, furnishes his Manufacturing,

Computation of income chargeable under the head PGBP of Bhushan for AY 2022-23

Particulars	Rs.	Rs.
Net profit as per Manufacturing, Trading and Profit and Loss account		8,90,000
Add: Expenses debited but not deductible:		
• Salary to daughter: Excess disallowed u/s 40A(2)	40,000	
• Factory rent to brother: Excess disallowed u/s 40A(2) = 1,20,000 – 96,000	24,000	
• Office rent paid without TDS: Since TO for preceding FY > 1 cr, Bhushan is liable to deduct TDS u/s 194-I, assuming payee is a resident. Hence, 30% of 2,10,000 is disallowed u/s 40(a)(ia), assuming payee has not paid the tax, if any, on such rent.	63,000	
• Cash payment to agriculturist for purchase of grains (raw material): Not disallowed u/s 40A(3) as covered by Rule 6DD exception.	-	
• Commission paid to purchase agent without TDS: Since TO for preceding FY > 1 cr, Bhushan is covered under TDS provisions of 194H on commission. However, no TDS is to be deducted u/s 194H since amount ≤ 15,000, being the threshold limit u/s 194H. Hence, no disallowance u/s 40(a)(ia).	-	
• Term loan interest not paid till due date of filing ROI: Disallowed u/s 43B	35,000	
• Demurrages to Indian Railways not paid till due date of filing ROI: Disallowed u/s 43B	30,000	
		1,92,000
Less: Incomes credited but not taxable under PGBP or taxable under other heads:		
• Agricultural income: Exempt u/s 10(1)	1,50,000	
• Dividend: Taxable under the head IFOS	75,000	
		(2,25,000)
Less: Depreciation :		
• For assets held on 1.4.2021 (assuming this is the block value as on 31.3.2022 as well)	45,000	
• Machinery purchased = Normal depreciation of 37,500 being 50% of 15% of 5,00,000 + Additional depreciation of 50,000 being 50% of 20% of 5,00,000. 50% depreciation as machinery is put to use < 180 days.	87,500	
		(1,32,500)
Profits and gains of business or profession		7,24,500

B54. COMPREHENSIVE - Gopinath carries on business of retail trade in electronic items. Following is the Trading.....

Computation of income under the head PGBP for Gopinath for AY 2022-23

Particulars	Rs.	Rs.
Net profit as per Trading and Profit & Loss account		39,80,000
Add: Expenses debited but not deductible:		
Deposit in PPF account: Personal expense; deduction can be claimed u/s 80C from gross total income	1,50,000	
Under valuation of closing stock	15,000	
Salary of 1,50,000 on which TDS deducted during PY but paid after due date to file ROI: 30% disallowed u/s 40(a)(ia) assuming employees are residents	45,000	
Gopinath's contribution to recognized provident fund: Not disallowed u/s 43B as paid on or before due date to file ROI	-	
Group health insurance premium: Not deductible u/s 36(1)(ib) as paid in cash	15,000	
Payment to BCD Pvt. Ltd.: Company is not related party as brother holds < 20% equity shares. No disallowance u/s 40A(2).	-	
Rent of office paid by crossed cheque: Disallowed u/s 40A(3) as sum > 10,000.	20,000	
Depreciation debited (deducted separately)	5,50,000	
Income-tax: Disallowed u/s 40(a)(ii)	50,000	
GST: Disallowed u/s 43B as paid after due date to file ROI	30,000	

STT: Not deductible u/s 36(1)(xv) as shares are not stock-in-trade	20,000	
Municipal taxes for house: Considered while computing IHP for let out property	10,000	
Penalty for contravention of GST law: Not deductible u/s 37(1) as it is not compensatory in nature but penal in nature	20,000	
Penalty for contravention of Income Tax law: Disallowed u/s 40(a)(ii)	10,000	
Interest on business loan taken from bank: Disallowed u/s 43B as paid after due date to file ROI	30,000	
Interest on business loan taken from friend: Allowed as 43B not applicable	-	
Interest on personal loan taken from neighbor: Not allowed as personal expenditure	5,000	
Mediclaime premium for self and spouse: Not allowed as personal expenditure; deduction can be claimed u/s 80D from gross total income	10,000	
Advertisement in pamphlet of political party: Disallowed u/s 37(2B)	5,000	
		9,85,000
Less: Incomes credited but not taxable or taxable under other heads of income:		
Dividend: Taxable under the head IFOS	40,000	
Interest on saving bank account: Taxable under the head IFOS	20,000	
Rent from house property: Taxable under the head IHP	2,40,000	
Under valuation of opening stock	20,000	
		(3,20,000)
Less: Depreciation:		
F&F Block = 10% of 3,00,000	30,000	
P&M Block 15% (machinery) = 15% of 15,00,000 (20,00,000 – 5,00,000)	2,25,000	
P&M Block 40% (computers) = 50% of 40% of 2,50,000 as put to use < 180 days	50,000	
Additional depreciation not allowed as Gopinath not engaged in manufacture or production or article or thing	-	
		(3,05,000)
Profits and gains of business or profession		43,40,000

B55. COMPREHENSIVE - Pankaj, a resident, is engaged in the business of manufacturing food products in Delhi.....

Computation of income under the head PGBP for Pankaj for AY 2022-23

Particulars	Rs.	Rs.
Net profit as per Trading and Profit & Loss account		1,16,500
Add: Expenses debited but not deductible:		
Commission to employees @ 1% of 1.5 crore: Deductible u/s 36(1)(ii) but disallowed u/s 43B as paid after ROI due date	1,50,000	
Health insurance premium: Cash payment not allowed u/s 36(1)(ib)	15,000	
Keyman insurance premium: Allowed u/s 37(1)	-	
Municipal taxes of PY 2020-21: Allowed in PY 2021-22 in terms of section 43B since paid after ROI due date of PY 2020-21	-	
Municipal taxes of PY 2021-22: Disallowed u/s 43B as paid after ROI due date	15,000	
Depreciation: Computed separately	4,23,500	
Patent and know-how: Depreciation computed separately	4,50,000	
Interest on bank loan: Deductible u/s 36(1)(iii) for period after machinery first put to use but disallowed u/s 43B as paid after ROI due date	20,000	
Cash payment to transporter: Not disallowed u/s 40A(3) as ≤ 35,000	-	
Salary, material and equipment for scientific research related to business: Allowed in full u/s 35(1)(i) for revenue expenditure and u/s 35(1)(iv) for capital expenditure	-	
Donation to IIT for scientific research: Not allowed u/s 35(2AA) since program approved after payment	25,000	
Provision for payment to approved gratuity fund: Allowable u/s 40A(7) but disallowed u/s 43B to the extent paid after due date of ROI	1,40,000	
Provision for bad and doubtful debts: Not allowed u/s 36(1)(vii)	1,10,000	
		13,48,500
Add: Incomes taxable but not credited:		
Non compete fee: Taxable u/s 28(va)		3,00,000
Less: Expenses not debited but deductible:		
Wages not recorded for 4 months @ 5,000 p.m.		(20,000)

Less: Incomes credited but not taxable or taxable under other heads of income:		
Share of profit from firm: Exempt u/s 10(2A)	6,00,000	
Remuneration from firm: Not taxable to the extent disallowed for firm	80,000	
Winning from lottery: Taxable under the head IFOS	1,00,000	
Sale of machinery: Capital receipt; considered while computing depreciation	2,00,000	
Income-tax refund: Not taxable	60,000	
Insurance compensation for loss of raw material: Taxable u/s 41(1) assuming loss was deducted in PY 2020-21	-	
		(10,40,000)
Less: Depreciation:		
Land: Depreciation not allowed	-	
Machinery: WDV for depreciation = 10,00,000 WDV on 1.4.2021 – 2,00,000 sale of machinery = 8,00,000. Depreciation = 15% of 8,00,000. Assumed that machinery is entitled to 15% rate of depreciation and machinery sold forms part of this block. Interest on SBI loan is not added to actual cost since machinery already first put to use in PY 2020-21.	1,20,000	
Computers: WDV for depreciation = 4,50,000 WDV on 1.4.2021 + 30,000 purchased (20,000 cash payment not part of actual cost as > 10,000) – 10,000 sold = 4,70,000. Depreciation = 50% of 40% of 30,000 (as put to use < 180 days) + 40% of remaining 4,40,000	1,82,000	
Patent and know-how = 50% of 25% of 2,50,000 (as put to use < 180 days) + 25% of 2,00,000	81,250	
Additional depreciation: Not allowed on computers as installed in office; not allowed on patent and know-how	-	
		(3,83,250)
Profits and gains of business or profession		3,21,750

B56. COMPREHENSIVE - CA2012(N) - Following is the profit and loss account of Mr. Q for the year ended 31.3.2022.....

Computation of income under the head PGBP of Mr. Q for the AY 2022-23

Particulars	Rs.	Rs.
Net profit as per profit and loss account		93,950
Add: Expenses not allowable		
Expenses on laying a toilet roof – Capital expenditure – Not allowed u/s 37(1), depreciation allowed but it is ignored as per the question.	1,00,000	
Interest payable on which tax not deducted at source – Disallowed u/s 40(a)(ia) @ 30% assuming payment is made to a resident	15,000	
Penalty for contravention of GST Act – Not allowed u/s 37(1), since it is penal and not compensatory	24,000	1,39,000
Less: Incomes not forming part of PGBP		
Interest on company deposits – Taxable under the head IFOS ¹	6,400	
Income-tax refund (not income)	8,100	(14,500)
Profits and gains of business and profession		2,18,450

B57. COMPREHENSIVE - MASTER QUESTION – Sunil, a resident, is a manufacturer of electronic equipments

Computation of income under the head PGBP of Sunil for the AY 2022-23

Particulars	Rs.	Rs.
Net profit as per profit and loss account		10,00,000
Add: Income taxable under the head PGBP but not credited:		
Benefit of free car: Taxable u/s 28(iv) as benefit or perquisite arising from business	60,000	
Non-compete fee receipt from Z Pvt. Ltd.: Taxable u/s 28(va)	5,00,000	
Sum received under Keyman insurance policy: Taxable u/s 28(vi)	10,00,000	
Amount payable to Sure Ltd., deducted in PY 2019-20 but waived off in PY 2021-22: Taxable u/s	20,000	

¹ This may also be treated as business income on the assumption that interest is earned out of temporary surplus funds meant for business though not immediately required.

41(1)		
		15,80,000
Add: Expenses debited but disallowed:		
Rent of factory building: Allowed u/s 30		-
Loss of stock by fire: Allowed u/s 29 in view of general principles		-
Provision for contingent liability: Not allowed u/s 37(1) as expenditure not incurred		50,000
Provision for gratuity (assuming it is not for payment to approved gratuity fund or for payment of gratuity payable during PY): Disallowed u/s 40A(7)		15,000
Depreciation (considered separately)		2,00,000
Transfer to reserve – Not allowed u/s 37(1)		1,00,000
Insurance premium:		
• Office building – Allowed u/s 30		-
• Machinery and motor car – Allowed u/s 31		-
• Keyman insurance – Allowed u/s 37(1)		-
• Stock of goods – Allowed u/s 36(1)(i)		-
• Health insurance premium for employees – Not allowed u/s 36(1)(ib) since paid in cash		15,000
Repairs:		
• Structural addition to building: Entitled to depreciation (considered separately) since Sunil deemed to be the owner of structure as per Explan 1 to S. 32(1).		1,00,000
• Current repairs of furniture and fixtures: Not disallowed u/s 40A(3) since payment made to a person in a day in cash of Rs. 7,500 does not exceed limit of Rs. 10,000.		-
Employee cost:		
• Employee's contribution not credited to RPF by due date: Not allowed u/s 36(1)(va)		10,000
• Employer's contribution to RPF paid beyond due date of filing ROI: Disallowed u/s 43B		5,000
• Employer's contribution to NPS in excess of 10% of salary: Not allowed u/s 36(1)(iva) = 5% / 15% × 24,000. Assuming salary does not include anything other than basic salary, DA (if forming part of salary for computing retirement benefits) and commission based on fixed percentage of turnover.		8,000
• Bonus: Disallowed u/s 43B since not paid till due date of filing ROI		1,00,000
• Salary paid without TDS: 30% of 3 lakh disallowed u/s 40(a)(ia) since TDS not deducted in PY 2021-22 (assuming payees are residents). Disallowance will be reversed in PY 2022-23, i.e., PY in which tax is paid.		90,000
Taxes:		
• Municipal taxes for factory: Not disallowed u/s 43B since paid by the ROI due date		-
• Local taxes for office: Disallowed u/s 43B since paid after ROI due date		5,000
• Securities Transaction Tax: Not allowed u/s 36(1)(xv) since income from shares not taxable under PGBP as shares not held as stock-in-trade		5,000
• Income tax: Tax as well as interest, disallowed u/s 40(a)(ii)		80,000
• GST: Disallowed u/s 43B to the extent paid after ROI due date		10,000
• GST penalty: Not allowed u/s 37(1) to the extent not compensatory		20,000
• Tax on non-monetary perquisites: Disallowed u/s 40(a)(v)		10,000
• Professional tax paid: Allowed u/s 37(1)		-
Scientific research expenditure:		
• Payment to JBL college for scientific research: Not allowed u/s 35(1)(ii) since not notified		30,000
• Payment to National Laboratory: Allowed u/s 35(2AA) even if program withdrawn later		-
• In-house expenditure on equipment and salary: Allowed u/s 35(1) even if not certified. Certification is required only for pre-commencement revenue expenditure.		-
• Pre-commencement expenditure on scientific research: Expenditure incurred is eligible for deduction u/s 35, but in PY 2019-20 (year of commencement of business), not in the current PY. No impact since this is not debited to P&L		-
Interest:		
• Interest on loan from HDFC bank to purchase machinery: Interest of 8,000 till 31.10.2021 is added to actual cost (see Note 1) and interest thereafter of 20,000 is deductible u/s 36(1)(iii) (assuming it is paid by the due date to file ROI in terms of section 43B).		8,000
• Interest on loan from SBI: Payment on 15.11.2021 disallowed u/s 43B as made after due date of ROI		11,000
• Interest on loan taken from friend: Not disallowed u/s 40A(2) (as friend is not relative) or u/s 40A(3) (as it does not exceed 10,000) or u/s 43B (as it is not covered by 43B)		-

• Interest on outstanding trade payables: Allowed u/s 37(1). S. 43B does not apply.	-	
Bad debt:		
• Trade recoverable written off: Deductible u/s 36(1)(vii) as bad debt assuming debt taken into account in computing income	-	
• Loan written off: Not deductible u/s 36(1)(vii) since debt not taken in computing income	10,000	
• Provision for bad debts: Not deductible u/s 36(1)(vii)	5,000	
Legal expenses:		
• To lawyer to defend civil suit against brother: Not allowed u/s 37(1) since not incurred for business of Sunil	40,000	
• To CA for appeal filing: Allowed u/s 37(1)	-	
Sundry expenses:		
• Damages for breach of contract due to supply of defective products: Allowed u/s 37(1)	-	
• Office celebration expenses: Allowed u/s 37(1)	-	
• Bribe paid: Not allowed u/s 37(1) since it is an offence/prohibited by law	5,000	
• Office expenses pertaining to PY 2020-21: Not allowed u/s 37(1) since does not pertain to current PY	15,000	
Advertisement expenses in brochure published by political party: Disallowed u/s 37(2B)	15,000	
Transport expenses paid to Swift Ltd.: Not disallowed u/s 40A(3) since limit for plying, hiring or leasing goods carriage is Rs. 35,000 u/s 40A(3)	-	
Fees for technical services paid to JKL Pvt. Ltd.: Disallowed u/s 40A(2) in excess of market rate (1,50,000 – 1,00,000) as Manav (relative) holds substantial interest (≥ 20% equity shares) in the company. No disallowance u/s 40(a)(ia) for non-deduction of TDS since TDS not deductible u/s 194J as Sunil's turnover for FY 2020-21 ≤ 1 crore (refer para 216).	50,000	
		10,12,000
Less: Expenses allowed but not debited		
Depreciation u/s 32 (Note 1)	3,65,344	
Amortization of preliminary expenses u/s 35D (Note 2)	25,000	
Amortization of VRS expenses u/s 35DDA (Note 3)	3,00,000	
		(6,90,344)
Less: Income credited but not taxable or taxable under other heads of income		
Compensation for termination of business contract: Taxable u/s 28(ii)	-	
Profit on sale of import license: Taxable u/s 28(iii)	-	
Dividend from companies: Taxable under the head IFOS	20,000	
Payments from Sunil & Sushil, partnership firm:		
• Salary and interest: Exempt to the extent disallowed in the hands of the firm (Note 4)	29,000	
• Share of profit: Exempt u/s 10(2A)	50,000	
Sundry receipts:		
• Amount recovered for bad debts deducted earlier: Taxable u/s 41(4) even if business does not exist = Excess of recovery of 20,000 over difference of Nil (i.e., Amount of debt 50,000 – deduction u/s 36(1)(vii) 50,000) = 20,000. Already credited to P&L.	-	
• Interest on Bank FD: Taxable under the head IFOS	20,000	
• Medical insurance claim: Not income	50,000	
• Refund of excise duty allowed as deduction earlier: Taxable u/s 41(1)	-	
• Receipt from sale debtors after discontinuance of business: Not taxable again u/s 176 assuming that the sum would have been included in the income in the relevant PY when it accrued since Sunil follows mercantile system of accounting	50,000	
		(2,19,000)
Profits and gains of business or profession		26,82,656

Is Sunil required to keep and maintain books of account as prescribed by Rule 6F for PY 2021-22?

No, since Rule 6F makes prescription for a specified profession and not for a business. However, since turnover of business of Sunil has exceeded Rs. 25 lakh in one or more of the 3 preceding PYs, he is required to maintain such books and documents as may enable the AO to compute his total income, as per provisions of section 44AA.

Is Sunil required to get audit of his accounts done u/s 44AB for AY 2022-23?

No, since turnover for PY 2021-22 does not exceed Rs. 1 crore.

Notes:**1. Computation of depreciation**

Computation	Building (Block @ 10%)	P&M (Block @ 15%)	P&M (Block @ 40%)	Furniture (Block @ 10%)	License (Block @ 25%)
WDV as on 1.4.2021	20,00,000	3,00,000	-	2,00,000	-
Add: Actual cost of assets acquired during PY					
• Second hand motor car (put to use < 180 days): 2,00,000 - 20,000 ITC allowed assuming GST is included in cost.		1,80,000			
• New machine (put to use < 180 days). 2,92,000 + 8,000 interest on loan from HDFC bank to purchase machine for period till it is first put to use		3,00,000			
• Furniture (put to use ≥ 180 days): 30,000 - 15,000 paid in cash (as > 10,000) + 10,000 freight & installation paid in cash (not disallowed as ≤ 10,000).				25,000	
• License (put to use ≥ 180 days)					1,00,000
• Structure to building added (put to use ≥ 180 days): Sunil is deemed owner and entitled to depreciation	1,00,000				
• Computer gifted (put to use ≥ 180 days) (refer (d) below)			30,000		
• Machine purchased from USA – Adjustment u/s 43A (refer (e) below)		(3,375)			
Less: Moneys payable for assets sold during PY		(75,000)		(10,000)	
WDV (as on 31.3.2022) for depreciation	21,00,000	7,01,625	30,000	2,15,000	1,00,000
Less: Normal depreciation					
• Building @ 10% of 21,00,000	(2,10,000)				
• 15% P&M: [50% of 15% of 4,80,000] + [15% of remaining 2,21,625]		(69,244)			
• 40% P&M: 80% of 40% of 30,000. 20% disallowed for personal use.			(9,600)		
• 10% F&F: 10% of 2,15,000				(21,500)	
• 25% intangibles: 25% of 1,00,000					(25,000)
Less: Additional depreciation @ 50% of 20% of actual cost of new machinery of Rs. 3,00,000 (refer (f) below)		(30,000)			
Total depreciation = Rs. 3,65,344					

- Since rate of depreciation for plant and machinery is not specified in the question, 15% general rate of depreciation is assumed for plant and machinery (except computer which is entitled to 40% rate).
- Machine purchased on 1.3.2021: 50% depreciation limit for put to use < 180 days is only applicable in year of acquisition. Hence, full depreciation allowed for PY 2021-22.
- Plot of land: Depreciation not allowed.
- Computer gifted: Actual cost is actual cost to previous owner less depreciation allowable as if asset was the only asset in the block = 50,000 less 40% depreciation for PY 2020-21 = 30,000. Market value is not relevant.
- There is foreign exchange rate gain on payment of 75% of purchase price of machinery on 20.4.2021, that was purchased from USA, i.e., $(75 - 72) \times 1,125 \text{ USD} = \text{Rs. } 3,375$. The machine was added to the block for PY 2020-21 and it is, thus, a part of the block for PY 2021-22. This gain will be reduced from actual cost u/s 43A.
- Addition depreciation is not allowed on building structure, motor car, computer, furniture and license. Also, not allowed on machine purchased on 1.3.2021 (on the basis of 50% remaining from PY 2020-21) since it was installed in office.

2. Amortization of preliminary expenses u/s 35D

- Cost of project = Actual cost of fixed assets (L&B, leaseholds, P&M, F&F and railway sidings) as per books on last day of First PY, i.e., as on 31.3.2020 = Rs. 25 lakh

- Specified expenditure = Rs. 1,00,000 (market survey by approved concern) + Nil (engineering services by unapproved concern not eligible) + 50,000 (project report preparation by self) = Rs. 1.5 lakh
- Eligible expenditure cannot exceed 5% of cost of project = Rs. 1,25,000
- Amortization in 5 equal instalments from PY 2019-20 to PY 2023-24 = Rs. 25,000

3. Amortization of VRS expenses u/s 35DDA

- Payment of Rs. 10 lakh on 1.9.2019: Rs. 2 lakh deductible from PY 2019-20 to 2023-24
- Payment of Rs. 5 lakh on 1.9.2020: Rs. 1 lakh deductible from PY 2020-21 to 2024-25
- Deduction for PY 2021-22 = Rs. 3 lakh

4. Payments from Sunil & Sushil, partnership firm

Payment	Deductible for firm	Not deductible for firm
Salary	First 3 lakh of book profit: Higher of 1,50,000 or 90% of book profit = 2,70,000 Balance 2 lakh of book profit: 60% of 2,00,000 = 1,20,000 Total deductible: 3,90,000	4,40,000 – 3,90,000 = 50,000 50% attributed to Sunil, i.e., 25,000
Interest	@ 12%, i.e, $12/15 \times 20,000 = 16,000$	20,000 – 16,000 = 4,000

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 + 2nd 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 (1/5th) 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. Kamya, 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