GOVERNMENT COLLEGE FOR GIRLS

LUDHIANA

INCOME-TAX LAW AND ACCOUNTS P.Y. 2022-23 A.Y. 2023-24

Chapter- 9

PROFIT & GAINS FROM BUSINESS OR PROFESSION

DEPRECIATION

(SECTION 32)

Depreciation is the diminution in the value of an asset due to normal wear and tear and due to obsolescence. There are **different methods for calculation of depreciation** under financial accounting. The system of claiming **depreciation under the Income Tax Act is quite different** from financial accounting. In order to get the benefit of depreciation, the **following conditions** must be satisfied by the assessee.

a) The asset must be **owned by the assessee, wholly or partly**.
b) The asset must be **used for the purposes of Business or Profession.**
c) The asset must be **used during the previous year.**

If any of above **conditions is not satisfied** then the depreciation shall **not be allowed**. As per Income Tax Act, Depreciation is **charged on the block of assets**. "**Block of asset" means a group of assets** falling within a class of assets comprising,

(a) **tangible assets**, being building, machinery, plant or furniture:

(b) **intangible assets,** being know-how, patents, copyright, trademarks, licences, franchises or any other business or commercial rights of similar nature, in respect of which the same percentage of depreciation is prescribed.

Class of Assets:-- Assets eligible for depreciation have been classified **into four classes**.

(a) Building
(b) Plant and machinery
(c) Furniture
(d) Intangible assets of the type discussed above,

Each class of assets other than intangible assets may have different blocks or groups on which separate rates of depreciation are prescribed and for each such rate, separate block will be formed.

In the case of **intangible assets there will be only one block** as only one rate **i.e. 25%** has been prescribed for all such intangible assets.

DEPRECIATION CHART

Block PART A	Name of Asset	Rate of Depreciation
I	**BUILDINGS**	
Block 1	Building which are used mainly for **residential purposes**	5%

	except hotels and boarding houses	
Block 2	Non-residential building like office, factory, godown or Buildings which are **not mainly used for residential purposes** (it covers hotels and boarding houses)	10%
Block 3	a) Buildings for Installing machinery and plant forming part of water supply project or water treatment system and which is put to use for the purpose of business of providing infrastructure facilities u/s 80-IA(4)(i) b) **Purely temporary erections** such as wooden structure 1."Building" include **roads**, bridges, culverts, wells and tube-wells. 2. Water treatment system includes system for desalinization, demineralization and purification of water.	40% 40%
II	**FURNITURE & FITTINGS**	
Block 1	Furniture and fittings including electrical fittings **'Electrical fittings' include** electrical wiring, switches, socket, other fittings and fans, etc.	10%
III	**PLANT AND MACHINERY**	
Block 1	Plant and Machinery (**General Rate)** Motor Cars **other than those used in a business of running** them on hire	15% 15%
Block 2	Motor buses, motor lorries and motor taxies (vans and Three wheelers) used in a business of running them on hire	30%
Block 3	**Aero planes-** Aero engines.	40%
Block 4	**Computers including computer software** **Annual publications** owned by the assesses carrying on a profession or (b) books owned by assesses carrying on business in running lending libraries) or books other than annual publication	**40%** 40%
Block 5	**Energy Saving Devices**	40%
Block 6	(1) Air pollution Control equipment, Water Pollution Control Equipment, Solid Waste Control Equipment's, solid waste recycling and resource recovery system (2) **Machinery and plant**, acquired and installed in a **water supply project or a water treatment system** and which is put to use for the purpose of business of providing infrastructure facility	40%
IV	Ships including speed boats	20%
PART B	**Intangible assets**	

Block 1	All tangible assets being know-how, patents, copyrights, trademarks, licences, franchises	**25%**

Machinery and plant includes pipes needed for delivery from the source of supply of raw material to the plant and from the plant to the storage facility.
Plant shall not include buildings, furniture and fittings and as such the building, electrical fittings, etc. cannot be treated as plant.

METHOD OF CHARGING DEPRECIATION ON BLOCK OF ASSETS

COMPUTATION OF DEPRECIATION AND WRITTEN DOWN VALUE OF ASSETS FOR THE ASSESSMENT YEAR 2023-24

Step I	Written down value as on **1.4.2022**	Xx
Step II	Assets acquired during the year	xx
		Xx
Step III	Assets sold or discarded or amount received from insurance co	(xx)
Step IV	Written down value as on **31.3.2023** for charging current year depreciation	Xx
Less:	Depreciation	(xx)
	Written down value as on **1.4.2023**	xx

"The deduction under step III cannot exceed the aggregate amount of step I and step II. If it exceeds such amount, then there will be no written down value for the purpose of charging depreciation. The excess amount will be treated as short term capital gain."

UNABSORBED DEPRECIATION (v imp)

When depreciation allowance of the any previous year is **not fully adjusted due to lack of sufficient profits** and other income, then such **unadjusted depreciation allowance** will be treated as unabsorbed depreciation. The following points **must be kept in mind** regarding the treatment of unabsorbed depreciation.

1. **Depreciation allowance** of the **previous year** is **first deductible** from the income chargeable under the head "Profits and gains of business or profession".
2. **If depreciation allowance** is not **fully deductible** under the business head **due to lack of profits,** then it is **deductible** from income chargeable **under other heads (except salary income) of income for the same A.Y.**

If depreciation allowance is **still unabsorbed**, then it can be **carried forward to the subsequent** assessment year(s). **No time-limit is fixed** for the purpose of carrying forward of unabsorbed depreciation, then it can be **carried forward for indefinite period** In the subsequent year(s), unabsorbed depreciation can be **set off against any income** **EXCEPT SALARY** whether chargeable under business head or under any other head. **Continuity of business is not relevant**. If there is any carry forward of business loss or speculation loss also, then the set off to the succeeding previous year shall be done in the **following order**:-

- Current depreciation
- Brought forward business loss
- Unabsorbed depreciation

Q-Write short notes on carry forward and set-off of Unabsorbed Depreciation.

Answer-

1. Treatment for Current Year depreciation

Step 1	Claim deduction of Current Year Depreciation from the business to which it relates.
Step 2	Deficiency in **Step 1** can be set off against Profits or Gains of any other business of the assessee.
Step 3	Deficiency in **Step 2** can be set off against any other head of Income of current previous year.
Step 4	Deficiency in **Step 3** is "**Unabsorbed Depreciation**" for the current previous year.

2. Treatment for Unabsorbed depreciation:

- Unabsorbed Depreciation of current previous year shall be **added** to following previous year's depreciation.
- It can be set off **against any head except salary**.
- It can be **carried forward to any number of years,** until it is fully set-off.
- In case of **carry forward of Business Loss** or Speculation Loss, the set-off shall be done **after setting off current depreciation and such losses**.

3. **Continuity of Business:** Continuity of business is **not relevant** for set-off and carried forward.
4. **Carry Forward of Depreciation:** Depreciation can be carried forward by the **same assessee, except in case of Amalgamation**, Demerger and Business Reorganization. In other words, the purchaser of the business cannot carry forward the unabsorbed depreciation of the seller.
5. **To carry forward Unabsorbed Depreciation,** it is **not compulsory to file the return**. Unabsorbed Depreciation can be set off during the current period, even if no valid return was filed for the previous Assessment year.

Q 1 Anshul furnishes the following particulars of his income for the previous year **2022-23:**

(a) Business income (**before providing for depreciation**)	72,000
(b) Depreciation	94,000
(c) Income from house property	60,000
(d) Income from other sources	6,000

Compute the taxable income of Anshul for **the assessment year 2023-24.**

Answer—

• Income from Business (Rs 72000—Dep. 72000)		NiL
Unabsorbed depreciation (Rs 94000—Rs 72000)= Rs 22000		
• Income from house property	60,000	
Less: Unabsorbed depreciation	22,000	38000
• Income from other Sources		6000
Total Income		44,000

Q 2 In question no.1 what would be the total income if the depreciation is Rs 1,48,000?

Answer—

• Income from business (Rs 72000—dep Rs 72000)		NiL
Unabsorbed depreciation (148000—72000==76000)		
• Income from House Property	60,000	
Less: Unabsorbed depreciation	60,000	NiL
• **Income from other sources**	6,000	
Less: Unabsorbed depreciation	6,000	NiL
Total Income		NiL

Balance unabsorbed depreciation i.e. Rs 10,000 (Rs 1,48,000- 72,000-60,000-6000) shall be carried forward to next assessment year and shall be merged with the current year depreciation.

ACTUAL COST U/S 43(1)

S.No.	Mode of Acquisition	Actual Cost
1.	Where assessee **himself** acquired the asset	Purchase Price xxxx **Add:** • **Interest on loan** for the period **up to the date of usage of the asset** • Freight, insurance • Loading, unloading Charges etc. • installation & erection charges

		Less: • Any amount met by any authority or any other person by way of **subsidy** • **CENVAT** credit
2.	**Assets used in scientific research** subsequently put into use for business (**IMP. Point**)	**NIL**
3.	Asset received under **Gift, Will or Inheritance**	WDV to the **previous Owner**
4.	**Transfer and Re-acquisition:** Transfer of an asset and re-acquisition of the same	WDV at the time of original transfer or re-purchase price, whichever is **less.**
5.	**Sale and Lease Back**: Sale of an asset to the lessor and taking them back on lease	WDV to the Transferor
6.	**Building previously used for private purpose:** Building used for private purpose and subsequently put into use for the purpose of business	Cost of Acquisition or Construction, reduced by **deemed depreciation** for the period of personal use **Deemed Depreciation:** Total Depreciation that would have been allowable had the Building been used for Business since its acquisition.
7.	**Succession of business**	WDV to the Previous Owner
8.	**Assets brought into India by a non-resident**	Actual cost of acquisition xxx **Less:** Notional dep. for the period held outside India

Notes:

1	Where **any asset is acquired by** the assessee during the previous year and is **put to use** for the purposes of business or profession for a period of **less than 180 days** in that previous year, then **50% of normal depreciation rate** will be charged on such asset. If an asset is **kept ready for use for more than 180 days** before the end of the previous year but **actually used for less than 180 days,** then **full depreciation rate** will be charged on such asset.
2	**Depreciation on imported cars**: Where the assessee was acquired any import motor car during March 1,**1975 and March 31,2001** then depreciation on such motor car is allowable only in the following cases: (a) Where the car is used for the business of running it on hire for tourists:

	(b) Where the car is used for the purpose of his business or profession outside India. However, where a motor car manufactured outside India is **acquired by the assessee on or after 1.4.2001**, then depreciation will be allowable on such motor car.
3	**No depreciation is allowed on machine purchased for scientific research.**
4	If an asset is **not used at all, no depreciation** in respect of that asset is available. This rule is applicable in the **first year** in which the asset is acquired **as well as in the subsequent year.**
5	In the **subsequent year**, if the asset is **put to use for less than 180 days**, then **normal depreciation** is available.
6	Where an asseessee incurs any expenditure for acquisition of any expenditure for acquisition of asset in respect of which a payment or aggregate of payments made to a person in a day, **otherwise than by account payee cheque** drawn on bank or account payee bank draft or through electronic clearing system, **exceeds Rs 10,000,** then such expenditure shall not form part of actual cost of such asset.

Capital Gain on Depreciable Assets

Method of Computation of Capital Gains for Depreciable Assets:

<table>
<tr><th colspan="2">Particulars</th><th>Rs.</th></tr>
<tr><td colspan="2">Consideration for Transfer
Less: <u>Expenses of Transfer</u>
Net Consideration
Less: (a) Opening WDV of the Block
(b) Actual Cost of assets acquired during the previous year in the Block</td><td>Xxxxx
<u>(xxx)</u>
Xxxx
(xxx)
(xxxx)</td></tr>
<tr><td colspan="2">Difference [Surplus/(Deficit)]</td><td>Xxxxx</td></tr>
<tr><td>Particulars</td><td>Situation (A)</td><td>Situation (B)</td></tr>
<tr><td>Situation</td><td>All the Assets in the Block are not transferred</td><td>All Assets in the block are transferred</td></tr>
<tr><td>Section</td><td>Section 50(1)</td><td>Section 50(2)</td></tr>
<tr><td>Tax Treatment</td><td>If difference as computed above is—
a) Deficit—Depreciation can be claimed u/s 32 at relevant rates, on the Balance Value
b) Surplus—
• Taxable as STCG
• WDV of the Block shall be NIL</td><td>If Difference is—
a) Surplus—STCG
b) Deficit--STCL</td></tr>
</table>

Q4 Written down value of **4 machines** at the beginning of the previous year **2022-23,** forming part of a block of assets carrying **15%** rate of depreciation was Rs.5,00,000. The following 5 machines of the same block were bought:

Machinery	**Date of purchase**	**Date when put to use**	**Cost (Rs.)**
P	5-1-2022	14-1-2023	50,000
Q	5-4-2022	15-5-2022	1,00,000
R	15-5-2022	31-1-2023	2,00,000
S	15-11-2022	27-3-2023	1,50,000

Four machines of this block (other than those which were acquired and put to use for less than 180 days) were sold for Rs.4,00,000. Calculate the depreciation for the assessment year **2023-24.** What will be the answer if four machines were sold for Rs. 7,00,000 instead of Rs. 4,00,000?

Answer--

Particulars		**Case A**	**Case B**
W.D.V. of machines as on **1.4.2022**		5,00,000	5,00,000
Add: Acquired/purchased(**Machine P,Q, R and S**) during the year		5,00,000	5,00,000
		10,00,000	10,00,000
Less: Amount realized from the sale of Machines		(4,00,000)	(7,00,000)
		6,00,000	3,00,000
Less: Depreciation rate (2,50,000 X 15%)	37,500		(22,500)
Depreciation on 350,000 @ 15% X 50%	26250	(63750)	(3,00,000 X15% X 50%)
W.D.V. of machinery as on **1.4.2023**		536250	2,77,500

Q5 X owns the following machinery as on **1-4-2022:**

Machinery	**WDV as on 1-4-2022**	**Rate of Depreciation**
A	70,000	15%
B	1,64,000	15%
C	84,000	15%

He acquires a new machinery i.e. machinery D for Rs **60,000 on 2-11-2022.**

Machinery B and Machinery C are sold on **15-3-2023** for consideration of Rs 1,80,000 and Rs 40,000 respectively. Compute the depreciation for the assessment year **2023-24** and also indicate **if there is any short-term capital gain/loss.**

Answer--

W.D.V. of machines as on 1.4.2022 (70,000 + 1,64,000 + 84,000)	3,18,000
Add: Acquired/purchased (**Machine D**) during the year (**5.11.2022**)	60,000
	3,78,000
Less: Amount realized from the sale of Machine B and C	(2,20,000)
	1,58,000

Less: Depreciation rate (60000 X 15% X 50%)	4500	
Depreciation rate (98000 X 15%)	14700	(19,200)
W.D.V. of machinery as on **1.4.2023**		1,38,800

Note—There will be **no capital gain** because part of the block is sold and the value of block is more than sale consideration.

Treatment of Depreciation for Power Units

If an assessee is engaged in the business of generation or generation and distribution of power and acquired tangible depreciable assets on or after **1.4.1997**, then such an assessee can claim depreciation on such depreciable asset according to **any one of the following methods**:

1) **Straight Line Method:-** The assessee can claim depreciation according to straight line method on the actual cost of the said individual asset. The **aggregate amount** of depreciation cannot exceed the "actual cost".

2) **Written down value Method:-** The assessee can claim depreciation according to written down value method like any other assessee. The option must be exercised before the due date of furnishing return of income. **Such option, once exercised shall be final and shall apply to all the subsequent assessment years.** If the **option is not** exercised, then depreciation shall be allowed as per **straight line method.**

• Assets acquired by such undertaking **before 1.4.97**, will be eligible for depreciation as per written down value method only.
• **In case of straight line method** of depreciation also if the asset is acquired during the previous year and **put to use** for the purpose of business for a period **less than 180 days** in the previous year, then the depreciation in respect of such asset shall be **restricted to 50%** of the normal rate.

Sale of above stated asset

1. If the assessee opts for charging depreciation **as per WDV method**, then sale of above stated asset will be treated in the same manner as in other cases.

2. When the assessee **opts for charging depreciation as per straight-line method**, then sale of above stated will either arise terminal depreciation or balancing charge.

   a) **Terminal Depreciation (loss on transfer of asset):** - If the **sale consideration is less than written down value** of the depreciable asset, then the loss arising there from will be known as terminal depreciation. Such terminal depreciation will be deductible from the business income. When the **asset is sold in the same previous year in which it is first put to use,** then any **loss arising there from is not be allowed as terminal depreciation but it is treated as capital loss.**

b) **<u>Balancing Charge (profit on transfer of asset):</u>** - If the **<u>sale consideration is more than written down value</u>** of the depreciable asset, then the surplus which is equal to the amount of depreciation already claimed is taxable as balancing charge under the head business income. The remaining surplus (**if any**) is taxable under the head Capital Gains u/s 50A. When the **asset is sold in the same previous year in which it is first put to use,** then any **gain arising there from will not be chargeable to tax as balancing charge but will be treated as short- term capital gains.**

Q 6 An electricity company which was charging depreciation on straight line method and whose actual cost of the asset was Rs 5,00,000 and written down value Rs 4,50,000 sold the said asset **during 2022-23** after 2 year. What will be the tax treatment if the asset is sold for (1) Rs 3,50,000 (2) Rs 4,80,000 (3) Rs 6,00,000.

Answer:- (1) Rs 1,00,000 as Terminal dep. (2) 30,000 as balancing charge (3) 50,000 as balancing charge and Rs 1,00,000 as Short term capital gain

Additional Depreciation on new machinery or plant u/s 32(iia)

1. **Applicability:** It is applicable to assesses engaged in the business of manufacture/ Production of any article/thing.

2. **Eligible Asset:** Any **<u>new Machinery</u>** or Plant acquired and installed **after 31.3.2005**

3. **<u>Ineligible Assets:</u>**

   (a) Ships and Aircrafts;

   (b) Any machinery or plant which, before installation by the assessee, was either within or outside India by any other person (**in other words, second hand machinery**); or

   (c) Any machinery or plant installed in **<u>any office premises</u>** <u>or</u> **<u>any residential accommodation,</u>** including accommodation in the nature of guest house; or

   (d) **Any office appliance or Road transport vehicle**; or

(e) If an assessee incurs any expenditure for acquisition of a depreciable asset in respect of which payment (or aggregate of payments made to a person in a day), otherwise than by an account payee cheque/draft or use of electronic clearing system through a bank account, **exceeds Rs 10,000,** such payment shall not be eligible for additional depreciation.

(f) Any machinery which has been used for scientific research.

4. **Rate of Additional Depreciation: 20% of the Actual cost** of machinery or plant.

5. **Usage Period <180 days:** In case of Asset newly acquired and put to use in the same in the previous year for **less than 180 days**, the rate of Additional Depreciation will be 10% in the year of purchase and remaining 10% shall be allowed as deduction in the next year.

6. **Rate of additional depreciation in Andhra Pradesh, Bihar, Telangana and West Bengal**—If new plant and machinery is acquired for setting up an undertaking/enterprise during 1.4.2015 to 31.3.2020 in a notified backward area in AP, Bihar, Telangana and West Bengal, the additional depreciation will be **35%.** If plant and machinery is put to use less than 180 days in the year of acquisition, then additional depreciation will be allowed at rate of 17.5% in the year of purchase and balance in the next previous year.

Q (81.3-6P1) X Ltd. is a engaged in the business of manufacture of computer hardware in Rajasthan since 1995. During the previous year 2022-23, the following assets are acquired and put to use – **(Rs in thousands)**

	Block 1	**Block 2**	**Block 3**
Rate of depreciation	15%	30%	40%
Number of assets in the block	11	12	17
Depreciated value of block on April 1, 2022	1800	2500	500
Additions of plants (new) during the previous year 2022-23			
Plant A	5700	--	--
Plant B	--	400	--
Plant C	--	--	1700
Sale of old plants (one plant in each block)	8	2870	4200

Plant A, B and C are acquired during May 2022 and put to use during the September 2019. However, Plant B is put to use in the last week of March, 2023. Payment is made through NEFT/RTGS. Find out the amount of depreciation, additional depreciation and capital gains.

Answer—

COMPUTATION OF ADDITIONAL DEPRECIATION

	Plant A	**Plant B**	**Plant C**
Whether additional depreciation is available	Yes	Yes	Yes

Rate of additional depreciation	20%	10%	20%
Actual Cost (Plant A)	57,00,000	4,00,000	17,00,000
Additional Depreciation	11,40,000	40,000	3,40,000
COMPUTATION OF NORMAL DEPRECIATION	**Block 1**	**Block 2**	**Block 3**
Rate of depreciation	15%	30%	40%
Depreciated Value of the block on April1, 2022	18,00,000	25,00,000	5,00,000
Add: Actual Cost of Plant A,B and C acquired during the previous year	57,00,000	4,00,000	17,00,000
Total	75,00,000	29,00,000	22,00,000
Less: Sale proceeds of old plants	(8000)	(28,70,000)	(42,00,000)
WDV of the Block on 31.3.2022	74,92,000	30,000	Nil
Less: Normal Depreciation	(11,23,800)	(4500)	Nil
Less: Additional Depreciation	(11,40,000)	(40,000)	(3,40,000)
Depreciated Value of the Block on 1.4.2023	52,28,200	Nil	Nil

Computation of Capital Gains

	Plant A	**Plant B**	**Plant C**
Sale proceeds of old plants	8000	28,70,000	42,00,000
Whether capital gain is taxable (the block does not cease to exist, sale proceeds do not exceed the opening balance plus new addition)	No	No	Yes
Less: Cost of acquisition	--	--	22,00,000
Short term capital gain	Nil	NIL	20,00,000

X Ltd. can claim normal depreciation of Rs 11,28,300 (i.e. Rs 11,23,800+4500). Besides, it is also eligible for additional depreciation of Rs 15,20,000.

Q 7 (PM) M/s Dollar Ltd., a manufacturing concern, furnishes the following particulars:

No	**Particulars**	**Amount**
1	Opening writing down value of plant and machinery (1.4.2022)(15%)	5,00,000
2	Purchase of plant and machinery (put to use before 01.10.2022)	2,00,000
3	Sale proceeds of plant and machinery which became obsolete- the plant and machinery was purchased on 01.04.2014 for Rs 5,00,000	5,000

Further, out of purchase of plant and machinery:

a) Plant and machinery of Rs 20,000 has been installed in office.
b) Plant and machinery of Rs 20,000 was used previously for the purpose of business by the seller.

Compute depreciation and additional depreciation as per Income Tax Act, 1961 for the Assessment year 2023-24.

Answer—

	Detail	**Amount**
Opening Written Down value as on 1.4.2022		5,00,000

Add: Purchase of plant and machinery during the previous year		2,00,000
Less: Sale proceeds of obsolete plant and machinery sold during the year		7,00,000 (5000)
Closing written down value as on 31.3.2023 **Less:** Normal depreciation (695000X15%) **Less:** Additional Depreciation (2,00,000—20,000—20,000=160000X20%)	 1,04,250 32,000	6,95,000 (1,36,250)
		5,58,750

Q 8 (SM) – Keshav, a proprietor started a business of manufacture of tyres and tubes for motor vehicles as on 1.1.2022. The manufacturing unit was set up **on 1.5.2022**. He commenced his manufacturing operations on **1.6.2022**. The total cost of the plant and machinery installed in the unit is Rs 120 crore. The said plant and machinery included **second hand plant and machinery** bought for Rs 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of Rs 15 crore.

Compute the amount of depreciation allowable u/s 32 of the income tax Act, 1961 in respect of the assessment year **2023-24.**

Answer—

COMPUTATION OF DEPRECIATION ALLOWABLE FOR THE A. Y. 2023-24 IN THE HANDS OF KESHAV

Total cost of Plant and Machinery **Less:** Used for scientific Research **Normal Depreciation** at 15% on Rs 105 crore	120 crores (15) 105	 15.75
Additional Depreciation: Cost of Plant and machinery **Less**: Second hand plant and machinery 20 Plant and machinery used for scientific research 15 **Less:** Amount realized from the sale of Machines **Additional Depreciation @ 20% on 85**	 120 (35) 85	 17
Depreciation allowable for A.Y. 2023-24		32.75

Note—

1. No depreciation shall be allowed in respect of plant and machinery purchased **for scientific research** relating to assessee's business, because deduction is allowable **u/s 35 in respect of such capital expenditure.**
2. **Additional depreciation** is allowable in the case of any new machinery or plant acquired and **installed after 31.3.2005** by an assessee engaged in the business of manufacture or production of any article or thing, at the rate of **20% of the actual cost of such machinery or plant.**
3. **No** additional depreciation will be allowed on second hand machinery.

Additional depreciation is not available in respect of building or furniture even if the other conditions are satisfied.

Additional depreciation is allowed **only once** and that too in the previous year in which the eligible asset is acquired and installed.
Additional depreciation allowed shall be deductible while computing the WDV for the next year.

Additional deduction allowed to a manufacturing industries set up in notified backward area of the Specified States @ 15 % of newly purchased and installed plant and machinery during the previous year u/s 32AD—

If any assesse purchased and installed new plant and machinery during the previous year in manufacturing industry set up in the notified backward area of the specified states then such assessee will be eligible to claim deduction @ 15% under this section. To claim the benefit of this section, the industry must be set up on or after the 1.4.2015 in any backward area notified by the Central Govt. in the state of Andhra Pradesh or Bihar or Telangana or West Bengal. Such newly plant and machinery cannot be sold before the expiry of 5 year period from the date of acquisition of such plant and machinery. If the asseesee sold such plant and machinery, then deduction claimed earlier will be treated as business income in the year of sale.

Q 10 (KP 1) Mr. R Reddy acquired plant and machinery for Rs 10 crores on 1.11.2019. The cost of installation was Rs 24,00,000. He has taken a loan of Rs 5 crores from ICICI. The details of interest to be charged by ICICI are as follows:-

Interest for the period	**Rs**
1-11-2019 to 31-3-2020	20,00,000
1-04-2020 to 31-3-2021	60,00,000
1-04-2021 to 31-3-2022	60,00,000
1-04-2022 to 31-3-2023	50,00,000
1-04-2023 to 31-3-2024	40,00,000
1-04-2024 to 31-3-2025	30,00,000
1-04-2025 to 31-3-2026	20,00,000
1-04-2026 to 31-03-2027	15,00,000
1-04-2027 to 31-03-2028	10,00,000

The unit commenced production from 1.4.2022. Determine the cost of asset for depreciation purposes.

Answer—The interest paid upto date of usage of asset will be capitalized. In other words, it will be added in the part of cost of asset and interest paid after the date of usage of asset will be treated as revenue expenditure and transferred to profit and loss account. In the given question, interest paid upto 31.3.2022 will be added in the cost of asset,

Cost of asset **Add: Interest from 1.11.2019 to 31.3.2022**	10,00,00,000

2019-20	20,00,000	
2020-21	60,00,000	
2021-22	<u>60,00,000</u>	1,40,00,000
Installation Expenses		24,00,000
Cost of asset for depreciation purposes		11,64,00,000

Q 11 (KP 8) Goodluck Ltd. purchased a plant for Rs 40,00,000 from Raj Udyog Ltd. and received Rs 5,00,000 by way of subsidy from the Govt. for the purchase of plant in June 2021 i.e., during the financial year 2021-22. In January 2023 the plant was completely destroyed in fire and a claim of Rs 4,00,000 was settled by the insurance company. The scrap was sold by the company for Rs 70,000. Assuming that the plant is depreciable at 15%. Compute depreciation etc. for the previous year 2021-22 and 2022-23 in the following cases:

A) If the plant is replaced in Feb. 2023 at a cost of Rs 45,00,000

B) If the Plant is not replaced.

Answer—Case A) If the Plant is replaced in Feb 2023

	Detail	**Amount**
WDV of plant as on 1.4.2022		NIL
Add: Cost of plant purchased	40,00,000	
Less: Govt. Subsidy	(5,00,000)	35,00,000
		35,00,000
Less: Normal Depreciation @ 15%	5,25,000	
Less: Additional Depreciation @ 20%	7,00,000	12,25,000
WDV as on 1.4.2022		22,75,000
Add: New plant purchased		45,00,000
		67,75,000
Less: Sale of old plant		(4,70,000)
		63,05,000
Less: Normal Depreciation		
On 45,00,000 @ 15% for ½ year	3,37,500	
On 6305000—4500000= 1805000 @ 15%	2,70,750	
Additional Depreciation (45,00,000 @ 20% for ½ year)	4,50,000	(10,58,250)
WDV as on 1.4.2023		52,46,750

B) If plant is not replaced

WDV as on 1.4.2022		22,75,000
Less: money realized (4,00,000+70,000)		(4,70,000)
STCL		**18,05,000**

Question1 Write a note on unabsorbed depreciation.

Question 2 Write a short note on additional depreciation.

Question 3 What is meant by written down value for computing depreciation?

SUCCESS IS A PREREQUISITE FOR SURVIVAL AND TIME MANAGEMENT IS THE FOUNDATION FOR SUCCESS……………………………………………………………………………………………

AWAKE, ARISE AND ACHIEVE

A real great man is one who makes every man feel great.