

GOVERNMENT COLLEGE FOR GIRLS
LUDHIANA

INCOME-TAX LAW AND ACCOUNTS

P.Y. 2022-23

A.Y. 2023-24

CHAPTER- 8

PROFIT & GAINS FROM BUSINESS OR PROFESSION

The profit and gains of any business or profession, which was carried on by the assessee at any time during the previous year are also taxable under this head.

The word business here means any commerce activity done in the form of trade, commerce or manufacture etc. with a view to generate profits. It is not necessary that the business should be carried on throughout the year and permanently.

Profession means the activities for earning livelihood, which require intellectual skill or manual skill on the basis of special learning e.g. lawyer, doctor, auditor etc. In other words, due qualification is mandatory in profession.

Vocation refers to any activity on which a person spends a major part of his time in order to earn his livelihood e.g. brokerage, insurance agency, music etc. In case of vocation the assessee **may or may not be qualified.**

The distinction between business, profession or vocation is however not material because the income from all these activities is taxable under the same head i.e. 'Profits & Gains of Business or Profession'

The following points must be kept in mind:

1.	Assessee must be the legal as well as beneficial owner of the business/profession. If the person is not in existence on whose behalf the business/profession is carried on, then it becomes a benami transaction and therefore not taxable for benamidars. The person who says that he is doing the business on behalf of benamidar will be treated as owner of the business or profession.
2.	Tax is chargeable on the aggregate income from all business/profession carried on by an assessee.
3.	Loss from one business can be adjusted against the profit from another business.
4.	Income from illegal business will also be taxable under this head.
5.	Loss from illegal business cannot set off against the income from legal business
6.	Expenses incurred to earn income from illegal business , which are incidental to earn such business income are allowed as deduction. However, penalties levied for infraction of law and expenses incurred in defence of criminal proceedings are not allowed.
7.	Profit and losses of speculation business carried on by an assessee are kept separate.
8.	Loss of speculation business can be set off against profit of speculation business only

	and not against profits from any other business.
9.	<p>Notional profits are not taken into consideration. In other words, income tax is levied on the total income earned by the assessee from business/profession and not on notional profits.</p> <p>Notional Profits means the profits which are not actually earned from an outsider, are known as notional profits e.g. profits arises on sale of an asset by business to its owner at a higher price, is to be treated as notional profits and hence it is not taxable.</p>
10.	Amount received under a key men insurance policy including bonus is taxable under this head. Premium paid on such policy is also an allowable expense.
11.	The business or profession is carried on by an assessee for any time during the previous year.
12.	Compensation received by a person on account of termination of his office of management or modification in space the term and conditions will be taxable under his head.
13.	<p>Export incentive taxable as Business income</p> <ul style="list-style-type: none"> ➤ Profit on sale of import licence ➤ Cash Assistance against exports ➤ Duty drawback
14.	Any interest, salary, bonus or remuneration due to or received by a partner from partnership firm will be taxable under the head 'Business Income' provided that such expenses had been allowed as deduction in the books of partnership firm.
15.	If an assessee receives any benefits or perquisites on account of services rendered or arising from business/profession then value of such benefit will be taxable under this head. It is immaterial whether the value of benefit can be converted into cash or not e.g. value of rent free residential accommodation secured by assessee from a company in consideration of the professional services as a lawyer rendered by him to that company, will be assessable in the hands of assessee under the head 'Profit & Gains of Business & Profession'
16.	<p>If an assessee receives any sum of money regarding earlier allowed expenditure or loss, then such amount will be taxable as a business income during the previous year in which such amount is recovered e.g. bad debts recovered.</p> <p>Profits generated by an assessee from a single isolated transaction will also be taxable under this head if it done with a view to generate profits or with a view to rendering services.</p>
17.	If the benefits of expenditure extend beyond the accounting year in which such expenditure has been incurred then full amount of such expenditure is to be allowed as deduction in the year in which it is incurred.

18.	<p>Profit on sale of assets on the winding up of business or profession</p> <p>Case I If an assessee <u>sells his assets in one lot at the time of winding up of business</u> and generates profits from such profits will <u>not be taxable under this head</u> because it was not the purpose for which the business or profession was started.</p> <p>Case II If an assessee <u>sells his inventory or stock</u> at the time of winding up of his business and generates profits then such profits will be <u>taxable under this head</u>. It is immaterial whether the trader sells stock at the time of winding up of business or profession or when B/P is going on.</p> <p>Case III If an assessee <u>sells his assets (including stock) for a fixed amount</u> and generates profits and if is possible to <u>separate profits from stock in trade</u> then such profits will be <u>taxable under this head</u> and the <u>balance amount</u> will be taxable under the head 'Capital Gains'. if it is not possible to separate profits from stock in trade then whole amount will be treated as capital receipt and hence taxable under the head 'Capital Gains'.</p>
19.	Fair market value of inventory on its conversion as capital asset—FMV of inventory on the date of its conversion or treated as capital asset would be chargeable to tax as business income.

INCOME FROM CERTAIN BUSINESS IS NOT TAXABLE UNDER THE HEAD 'PROFIT AND GAINS OF BUSINESS OR PROFESSION'

1. Rent from house property

Where an assessee is carrying on a business of owning and letting out of residential houses, then income derived from such letting will be taxable under the head 'Income from House Property'. However, if residential flats are let out to employees for efficient conduct of assessee's own business or to bank, post office or police station etc in order to enable the assessee to carry on business more efficiently and smoothly and letting of house properties is not the main business of assessee, then income from letting will be **taxable as Business Income**.

2. Dividend Income

Where an assessee is **carrying on a business of dealing** in shares and securities and earns income by way of dividend on such business assets then such income will be taxable under the head 'Income from Other Source'.

3. Winning from lotteries, races etc.

Any winning from lotteries, races etc. are taxable under the head 'Income from Other Source'. It is immaterial whether it is a regular activity or not.

B U S I N E S S L O S S

Trading losses, which are directly incidental to business/profession of the business, are allowable loss while computing business income. In other words, trading losses can be claimed as a deduction provided the following conditions are satisfied.

- a) It should be a real loss and not notional or fictitious
- b) It should be a revenue nature loss
- c) It must have actually arisen and been incurred
- d) It should be one that is incidental to carrying on of the business
- e) There should be no prohibition in the Act, express or implied, against the deductibility thereof, examples of allowable business loss

1	<u>Loss on account of embezzlement:</u> - The embezzlement made by an employee while discharging official duties, is an <u>allowable loss in previous year in which such embezzlement is discovered.</u>
2	<u>Loss on account of robbery or theft is not deductible.</u> If it is incidental to business then it will be allowed as a deduction. <u>E.g.</u> Robbery in a Bank.
3	Theft by a cashier is an allowable loss.
4	<u>A theft committed either by an employee</u> or by someone else by breaking open into business premises after office hours, is allowable loss.
5	<u>Loss of stock by fire and other natural calamities</u> or due to negligence of the employees is an allowable loss.
6	Loss of raw material, finished <u>goods in transit</u> is an allowable loss.
7	Loss caused due to <u>breach of contract</u> for delivery of goods by either party
8	Loss caused by <u>forfeiture of security deposits</u> given at the time of submission of tenders for supply of goods
9	<u>Depreciation in funds</u> kept in foreign country for purchase of <u>stock-in-trade</u>
10	<u>Hedging loss</u> is an allowable loss (hedging contract means to minimize the loss to be occurred in future)
11	<u>Hire machinery loss</u> is a business loss.

L O S S E S W H I C H A R E N O T D E D U C T I B L E F R O M B U S I N E S S I N C O M E

- a) Losses incurred in the **closing down** of the business
- b) Loss incurred due to **damage, destruction etc. of capital assets**
- c) Loss which is **not incidental** to carrying on of the business
- d) Loss due to sale of securities held as **investments**
- e) Loss arising from **non-recovery of tax paid** by an agent on behalf of the non-resident
- f) Loss caused by **forfeiture of advance** given for purchase of capital assets
- g) **Anticipated** losses

ALLOWABLE EXPENDITURE

The following expenses are to be allowed as deduction u/s 30 to 37 to the assessee while calculating profits and gains from B/P.

1. Expenses in respect of business premises u/s 30

- a) If an assessee doing business in a **rented accommodation**, then actual rent paid, cost of repair and maintenance expenses borne by him are allowed as deduction.
- b) If an assessee doing business in **his own accommodation**, then **actual repair and maintenance** paid by him are allowed as deduction.
- c) **Land revenue, local taxes, insurance premium** etc. paid by assessee relating to assessee's business are fully allowed as deduction
- d) **No deduction of rent** will be allowed to the assessee if the assessee is doing the business in his own accommodation
- e) If a **partnership firm** carry on business in accommodation which is occupied by partner, then **rent paid to such partner**, will be fully allowed as deduction.
- f) If an assessee is a **tenant in a premises and a part of that premises is used by him as dwelling house** and other part is used for his business, then amount of deduction in respect of rent, land revenue, local taxes, insurance etc. will be proportionate to that part of the premises which is used for business.

Only revenue nature repair expenses are allowed. Capital nature repair expenditure are not allowed.

2. Repair and insurance of machinery, plant and furniture u/s 31

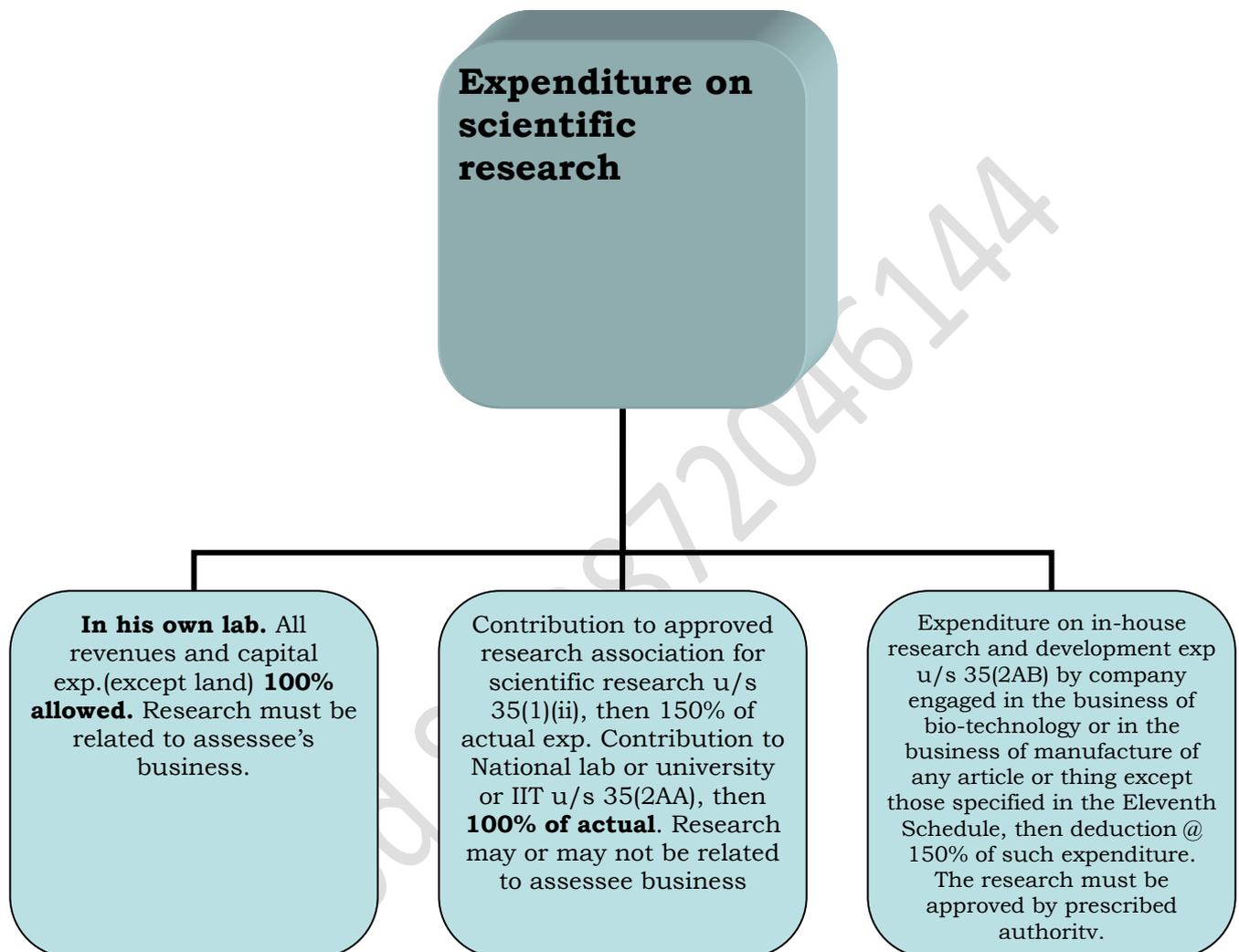
The following deductions are allowable regarding the use of machinery, plant or furniture in the business.

- a) Amount paid on account of **current repairs**
- b) Any insurance premium paid in respect of insurance against risk of damage or destruction of the plant and machinery or furniture

Only revenue nature repair expenses are allowed. Capital nature repair expenditure are not allowed.

3. Depreciation u/s 32 to be discussed in next chapter

4. Expenditure on Scientific Research u/s 35



U/S 43(4), Scientific research means any activity for the extension of knowledge in the fields of natural or applied science including agriculture, animal husbandry or fisheries. Research in social sciences like human behavior and marketing research work are also covered under this section.

- a) **If an assessee incurred revenue expenditure on scientific research in his own lab** during the relevant previous year, then such expenditure will be fully **allowed as deduction** only if such **research relates to the business**. e.g. X Limited is engaged in the business of manufacture of paper and it incurs revenue expenditure for conducting scientific research for improving the quality of steel, then such expenditure is not deductible, because it is not related to the business of the assessee. Similarly, revenue expenditure incurred during the **preceding three years prior to the year of**

commencement of business/profession, will be allowed as deduction to the extent these are certified by prescribed authority in the year of commencement of business/profession. Revenue expenditure includes payment of salary to employees (not perquisites) engaged in scientific research and purchase of material used in scientific research. E.g. if the assessee commences its business on 15-12-2022 then all revenue expenses on scientific research related to the business incurred, on or after 15-12-2022, will be allowed as deduction. Further, expenses incurred during the period 15-12-2019 to 14-12-2022 and which are certified by the prescribed authority will be deemed to be expenses of the previous year 2022-23 and will be allowable in that year.

- b) Capital expenditure incurred by the assessee on scientific research in his own lab., will also be fully allowed as deduction (except land) in the relevant previous year in which such expenditure is actually incurred.

Similarly, aggregate capital expenditure incurred by assessee (except land) in the preceding three year prior to the year of commencement of business/profession, will be fully allowed as deduction in the year of commencement of business/profession. Capital expenses may be incurred on acquisition of plant and machinery, construction of building, acquisition of plant and machinery, construction of building, acquisition of vehicles etc. for the purpose of scientific research.

c) Sale of an asset used for scientific research

I) Sold without having been used for other purposes

If such asset is sold off without having been used for other purposes then actual price (must be less than Cost of asset allowed as deduction) realized from the sale of such asset will be treated as business income in the year of sale. Any excess of sale price over cost price shall be treated as capital gain. (Capital Gain == Sale price – Cost Price)

II) Sold after having been used for business

If such asset is used in the business after it ceases to be used for scientific research, then actual cost of such asset to be included in the relevant block of asset shall be taken as NIL (because full amount has been allowed as deduction u/s 35). If later on, this asset is sold, then sale price shall be deductible from relevant block.

- d) Carry-forward and set-off of Unabsorbed Capital Expenditure--If capital expenditure cannot be absorbed on account of insufficiency of profits under business head, then it will be carried forward in the same manner as unabsorbed depreciation.

CONTRIBUTION TO OUTSIDERS OR AMOUNT PAID TO OUTSIDE AGENCIES FOR SCIENTIFIC RESEARCH

- e) If an assessee gives any sum of money to an approved scientific research association or university, college or other institution, whether related to the business of the assessee

or not, then weighted deduction of 100% of such sum of money u/s 35(1)(ii) or 35(1)(iii) shall be allowed as deduction after the fulfillment of following conditions:-

- Such college, university, research association must be **approved by the Central Govt. by notification in the official Gazette.**
 - The **main objects** of the company should be **Scientific Research and Development.**
- f) **Deduction @ 100%** of any amount **paid to a company** to be used by it for scientific research u/s **35(1) (iia)**. However, such deduction would be available only if the company is registered in India and has as its main object the scientific research and development.
- g) If an assessee paid any sum of money to a **National Laboratory or an Indian Institute of Technology (IIT) for approved scientific research programme u/s 35(2AA)**, then deduction @ 100% of such sum will be allowed.
- h) If an assessee paid any sum of money to approved research institute for social science or statistical research or to a university, college or other institution approved by the Central Govt by notification in the official Gazettee for social science or statistical research then deduction will be allowed @ 100% of such sum will be allowed as deduction.

EXPENDITURE ON IN-HOUSE RESEARCH AND DEVELOPMENT EXPENSES U/S 35(2AB)

The benefit of this deduction is **available to company assessee** only. If a company engaged in any business of **bio-technology or of manufacture or production** of any article or thing, (not being an article or thing specified in Eleventh Schedule), an amount equal to 100% of the expenditure incurred on Scientific Research shall be allowed as deduction.

Conditions/Restrictions in respect of 150% deduction are---

- a) **Cost of land will not** be allowed as a deduction.
- b) Cost of building is not entitled for weighted deduction, but eligible for 100% deduction.

Summary of section 35

Particulars	Section	Amount of deduction
Expenditure revenue and capital (except land) incurred on scientific research related to assessee's business	35(1)(i) and 35(2) capital	100% of actual expenditure incurred
<u>Payment to outsiders for scientific research</u>		
Payment to college, university, research association approved by CG for scientific research	35(1)(ii) and 35(1)(iii)	100% of actual amount paid
Payment to company registered in India for SR	35(1)(iia)	100% of actual amount paid

Payment to National Laboratory or IIT	35(2AA)	100% of actual amount paid
Expenditure incurred by in-house research centre by company except land	35(2AB)	100% of actual expenditure
For social science or statistical research	35(1)(iii)	100% of actual amt paid

Question 1 (IPCC M 11) X has furnished the following particulars relating to payments made towards scientific research for the year ending **March 31, 2023**—

Rs in Lakh

Payment made to K Research Ltd.	20
Payment made to LMN College	15
Payment made to OPQ college (not an approved institution)	10
Payment made to National Laboratory	8
Machinery purchased for in-house scientific research	25
Salaries to research staff engaged in in-house scientific research	12

K research Ltd and LMN college are **approved research institutions** and these payments are to be used for the purposes of scientific research.

Compute the **amount of deduction available u/s 35** while arriving at the business income of the assessee.

Answer-- COMPUTATION OF DEDUCTION ALLOWABLE U/S 35

Type of payment	Amount (Rs in lacs)	%age of weighted deduction	Amount of Deduction (Rs. in lacs)
Towards scientific research			
K Research Ltd.	20	100%	20
LMN College	15	100%	15
OPQ College (No deduction) (See Note 2)	10	NIL	NIL
National Lab.	8	100%	8
In house research			
Capital expenditure	25	100%	25
Revenue expenditure	12	100%	12
Deduction available u/s 35			101.50

Question 2 (M8) Mr A furnishes the following particulars for the **PY 2022-23**. Compute the deduction allowable under section 35 **for AY 2023-24** while computing its income under the head Profit and gains of business or profession.

	Particulars	Amount
1	Amount paid to Indian Institute of Science, Bangalore, for scientific research	1,00,000
2	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4	Expenditure incurred on in-house research and development facility as approved by the prescribed authority	
a)	Revenue expenditure on scientific research	3,00,000
b)	Capital expenditure (including cost of acquisition of land Rs 5,00,0000 on	7,50,000

scientific research	
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Answer—

	Amt	% of weighted	Amt of deduction
Payment to Indian institute of science	1,00,000	100	1,00,000
Payment to IIT, Delhi	2,50,000	100	2,50,000
Payment to X Ltd.	4,00,000	100	4,00,000
Expenditure incurred on in-house research and development facility			
Revenue expenditure	3,00,000	100	3,00,000
Capital expenditure (excluding cost of land)	2,50,000	100	2,50,000
Deduction allowable under section 35			13,00,000

Question 3 (81.9-E2) X Ltd. is engaged in the business of manufacture of telecommunication equipments. During the **previous year 2022-23**, it incurs the following expenditure on in-house research and development facility—

- | | |
|------------------------------------|-----------|
| a) Purchase of land | 26,00,000 |
| b) Construction of building | 12,90,000 |
| c) Purchase of plant and equipment | 7,80,000 |
| d) Research materials etc. | 2,10,000 |

Find out the amount of deduction under section 35 if (a) the research and development facility is approved by the prescribed authority for **the purpose of section 35(2AB)**, (b) it is not approved by the prescribed authority.

Answer—**Computation of allowable deduction of scientific research**

No.	Particulars	Approved by prescribed authority	Not approved by prescribed authority
a)	Purchase of land	NIL	NIL
b)	Construction of building (100%)	12,90,000	12,90,000
c)	Purchase of plant and equipment	11,70,000	7,80,000
d)	Research materials	3,15,000	2,10,000
	Total	27,75,000	22,80,000

7. Expenditure incurred on the acquisition of patent right and copy right u/s 35A
assessee can claim depreciation u/s 32. (Depreciation rate 25%)

8. Expenditure on Know-how u/s 35AB

The assessee can claim depreciation u/s 32 @ 25% on the amount spent on the acquisition of know-how.

9 Capital expenditure incurred to obtain licence to operate Telecommunication services u/s 35ABB

1) Conditions for allow ability:

- The expenditure is capital in nature.
- It is incurred for acquiring any right to operate telecommunication services.
- The expenditure is incurred either before the commencement of business or thereafter at any time during any previous year.
- The payment for the above has been actually made to obtain licence.

2) Amount of deduction:

a) License Fees actually paid before commencement of business

= License Fee actually paid before the commencement of business

No. of years from the previous year of commencement of business to P.Y. in which license expires

b) License Fees paid after the commencement of business:

= License Fee actually paid after the commencement of business

No. of years from the previous year in which License fee actually paid to the P.Y. in which License expires

3) Consequences in case of transfer:

A. Determination of Unallowed Amount:

Step 1	Actual cost of License	Xx
Step 2	Less: Amount of deduction already allowed u/s 35ABB	Xx
Step 3	Unallowed Amount (Step 1- Step 2)	Xx

B. Treatment of Consideration received on transfer:

a) Where whole license is transferred and net consideration is less than "Unallowed Amount":

Business Expenditure= Unallowed amount less Net Consideration

b) Where part of license is transferred and Net consideration is less than "Unallowed Amount"

Amount of deduction= Unallowed amount – Net Consideration
Remaining period of license

c) Where whole or part of license is transferred and Net consideration is more than the "Unallowed Amount":

i) Net Consideration is more than unallowed amount but less than original cost of license:

Business Income = Net Consideration – Unallowed amount

ii) Net Consideration is more than Original Cost of License:

Business Income = Original Cost of License – Unallowed Amount

Capital Gain = Net Consideration – Original Cost of License

d) Treatment in the hands of the transferee in all the above cases:

The amount paid by the Transferee towards the acquisition of license shall be allowed in equal instalments over the balance license period.

- 4) No Further deduction for Transferor: In case the whole license is transferred or part of license is transferred for consideration more than the Unallowed amount, no deduction shall be allowed in the hands of transferor in the previous year in which such license is transferred or in subsequent previous year.
- 5) No Depreciation: Depreciation u/s 32 shall not be allowed on such assets.

Q4 (81.10P1) X Ltd., a company providing telecommunication service, obtains a telecom licence on April 20, 2022 for a period of 10 years which ends on March 31, 2032 (licence for being Rs 18 lakh). Find out the amount of deduction u/s 35ABB if—

- a) the entire amount is paid on May 6, 2022; or
b) the entire amount is paid on April 1, 2023; or
c) the entire amount is paid in three equal instalments on April 30, 2022, April 30, 2023 and April 30, 2024

Answer—

- a) The payment of Rs 18 Lakh is deductible in 10 installments over a period of 10 years during the previous year's 2022-23 to 2031-32 (the amount deductible each year being Rs 1.8 lakh).
- b) The payment is deductible in 9 years starting from the payment of payment, i.e. the previous year 2021-22 and ending with the previous year 2029-30 (the amount deductible each year being Rs 2 lakh).
- c) The entire payment is made in three instalments. Deduction u/s 35ABB is available as under—

	First Instalment	Second Instalment	Third Instalment	Total
Date of payment	30.4.2020	30.4.2021	30.4.2022	
Period during which deduction is available	10 years (2020-21 to 2029-30)	9 years (2020-21 to 2028-29)	8 years (2021-22 to 2028-29)	
Amount of payment	6 lakhs	6 lakhs	6 lakhs	
Amount deductible in previous year				
2020-21	60,000	--	--	60,000
2021-22	60,000	66,667	--	1,26,667
2022-23 onwards	60,000	66,667	75,000	2,01,667

10. Payment to Rural development fund u/s 35CCA

1. Applicability	All assessees.
2) Nature of Expenditure:	Contribution made to approved association/institution for implementation of rural development programme and contribution to: a) National Fund for Rural Development b) National Urban Poverty Eradication Fund
3) Deduction:	Actual expenditure incurred
4) No other deduction	No deduction will be available under any other section, in respect of expenditure claimed and allowed u/s 35CCA.

11. Weighted deduction for expenditure incurred on agricultural extension project u/s 35CCC

—If an assessee incurs any expenditure on notified agricultural extension project, then he is eligible to claim deduction @ 150% of such expenditure. Other points must be kept in mind while claiming such weighted deduction—

1	Project shall be undertaken by an assessee for training, education and guidance of farmers.
2	Project shall have prior approval of the Ministry of Agriculture.
3	Expenditure (not being cost of land/building) exceeding Rs 25 lakh is expected to be incurred for the project.

12. Weighted deduction for expenditure for skill development u/s 35CCD

—If a company incurs any expenditure (not being expenditure in the nature of cost of any land or building) on any notified skill development project, then such company can claim a weighted deduction of 150% of such expenditure.

13. Amortization of Certain Preliminary Expenses u/s 35D

a) **Applicability:** The assessee should be an **Indian company** or a Non-Corporate **Resident assessee**.

b) **Purpose of Preliminary expenses:**

Time of Incurring expenses	Purpose of expenses
Before commencement of business	For setting up of any undertaking or business
After commencement of business	Extension of the existing undertaking or setting up new undertaking

c) **List of specified expenditure:** Expenditure incurred in connection with:

For Non-corporate resident Assessee

- i. **Preparation of feasibility report**, project report or for conducting market survey or any other survey or engineering services relating to the business of the assessee.
- ii. **Legal charges for drafting any agreement** for setting up or for conduct of any business.

For Indian Company (additional expenditure other than above)

- iii. Where the assessee is a company, the expenses incurred for **legal charges for drafting and printing Memorandum and Articles of Association, fees of registering the company** under the Company Act, 2013, **issue of shares or debentures** of the company, **underwriting commission**, brokerage and charges for drafting, typing, printing and advertisement of the prospectus.

d) Maximum permissible expenditure:

In case of company	Actual expenditure or (5% of the cost of project or 5% of capital employed, at the option of the company), Whichever is less
In case of any other assessee,	Actual expenditure Of 5% of cost of project, whichever is less

e) Amount of deduction: The maximum permissible expenditure as computed above will be allowed as a deduction in **5** equal installments.

f) Capital employed= Issued share capital + Debentures + long term borrowings

g) Cost of the project means actual cost of fixed assets like land, buildings, leaseholds, plant and machinery, furniture and fittings and railway sidings as shown in the books of the assessee on the last day of the previous year in which the assessee commences business.

h) Audit Report: In case of **non-corporate assessees**, the assessee is required to furnish the audit report in **Form 3AE** along with the return of income **for the first year**.

i) **No other deduction**—No deduction will be available under any other section in respect of expenditure incurred u/s 35D

Question 5 (35D)—J Ltd. is an existing Indian Company, which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit:

Preparation of Project Report	4,00,000
Market survey expenses	5,00,000
Legal and other charges for issue of additional capital required for the new unit	<u>2,00,000</u>
Total	<u>11,00,000</u>

The following further data is given:--

Cost of project	30,00,000
Capital employed in the new unit	40,00,000

What deduction is admissible to the company u/s 35D for **the AY 2023-24?**

Answer—

Computation of deduction u/s 35D of J LTd. for the AY 2023-24

1.	<u>Actual Preliminary expenses=</u> Project Report (4,00,000) + Market Survey (5,00,000) + Legal charges (2,00,000) = 11,00,000
2.	<u>Maximum Permissible amount to be amortized: Least of (a) or (b)</u> (a) Higher of the following, i.e. Rs 2,00,000 5% of the cost of project = 30,00,000 x 5% = Rs 1,50,000 5% of the capital employed = 40,00,000 x 5% = Rs 2,00,000 (b) Actual Preliminary Expenses Rs 11,00,000
3.	Amount eligible for Amortization :-- Rs 2,00,000
4.	Deduction for AY 2023-24—1/5th of the Eligible Amount= 1/5 of Rs 2,00,000 = Rs 40,000. The balance will be allowed in the next four assessment years.

14. Expenditure by way of VRS compensation u/s 35DDA

1. **Applicability :** All assesses.

2. **Conditions:**

- The Retirement should be in accordance with the scheme of Voluntary Retirement.
- The payment can be made in any year, each such payment independently being admissible for **amortization over a period of five years.**

3. **Deduction:** The amount of expenditure so paid will be **allowed in 5 equal instalments** commencing from the previous year in which such payment/ part payment was made.

4. **Business Re-organization:**

Nature	Assessee entitled to deduction	Years of deduction
Amalgamation	Amalgamated Company (i.e new company)	From the year of amalgamation or demerger or business or reorganization
Demerger	Resulting Company (means new company)	Re-organization
Partnership Firm or Proprietary Concern converted into company	New Company	Re-organization

5) **No other deduction:** No deduction will be available under any other section, in respect of expenditure incurred under this section.

15. Amortisation of Expenditure on Prospecting etc. for development of Certain Mineral etc. u/s 35E

1) **Applicability:** The assessee should be an **Indian Company or Non-corporate resident assessee**

Eligible expenditure	Ineligible expenditure
<p><u>Expenditure incurred wholly for</u></p> <p>a) Operation relating to prospecting of such mineral or group of minerals specified in VII Schedule or</p> <p>b) On the development of mine or other natural deposits of such mineral or group of minerals</p> <p><u>As reduced by –</u></p> <p>a) Expenditure met directly or indirectly by any other person or authority,</p> <p>b) Sale, salvage, compensation or insurance money realized by the assessee</p>	<p>c) Expenditure on acquisition of site of the source of any minerals or rights in or over such site</p> <p>d) Exp. On acquisition of deposits of such minerals or any rights in or over such deposits</p> <p>e) Capital exp. on any building, P&M or furniture for which dep. is allowed.</p>

2) **Period of incurring expenditure:** Expenditure should be incurred at any time during the year of commercial production and any one or **more of the 4 years immediately preceding the year of commercial production.**

3) **Period of amortization :** Deduction is available for a period of **10 years** commencing with the previous year of commercial production.

4) **Maximum amount of deduction in a previous year:** Least of the following—

- Amount of instalment (1/10th of the Eligible Expenditure)
- Income arising from commercial exploitation.

5) **Benefit of Carry forward**—the unallowed amount of instalment of a previous year can be c/f to the succeeding previous years till the commencement of the 10th year of the commercial production.

6) **Audit Report:** In case of non-corporate assessee, audit report in **Form 3AE** should be furnished along with the return of income.

7) **Amalgamation/Demerger**—In case of amalgamation or demerger, the outstanding instalments will be allowed to the amalgamated company or in the hands of the resultant company.

Note:- If amount of installment relating to any relevant previous year, to the extent to which it remains unallowed, will be carried forward and added to the installment of next previous year.

Investment linked tax incentives on specified business u/s 35AD

1) To whom deduction shall be allowed—Such deduction shall be allowed to the assessee who is carrying on **any of the following specified business:**

S. No.	Nature of Business
1.	Setting up and operating a cold chain facility for specified products
2.	Setting up and operating a warehouse facility for storage of agriculture produce
3.	Laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network.
4.	The business of building and operating anywhere in India, a hotel of two star or above category, as classified by the Central Govt.
5.	Building and operating, anywhere in India, a hospital with at least 100 beds for patients.
6.	Developing and building a housing project under a scheme for slum redevelopment or rehabilitation framed by the Central Govt. Or a State Govt.
7.	Developing and building a housing project under a scheme for affordable housing framed by the CG or SG and notified by the Board
8.	Production of Fertilizer in India
9.	Setting up and operating an inland container depot or a container freight station
10.	Bee-keeping and production of honey and beeswax
11.	Setting up and operating a warehousing facility for storage of sugar
12.	Laying and operating a slurry pipeline for the transportation of iron ore
13.	Setting up and operating a semi-conductor wafer fabrication manufacturing unit
14.	Developing or maintaining and operating or developing, maintaining and operating a new infrastructure facility

2) Nature and amount of deduction—100% of capital nature expenditure incurred during the year for this purpose. However, expenditure incurred on acquisition of any **land, goodwill or financial instrument would not be eligible.** Further, any expenditure in respect of which payment or aggregate of payment made to person of an **amount exceeding Rs 10,000 in a day** otherwise than by account payee cheque drawn on a bank or an account payee bank draft or use of

electronic clearing system through a bank account would not be eligible for deduction.

3) Conditions to be fulfilled—

- a) It is **not set up by splitting up or reconstruction** of a business already in existence.
- b) It is **not set up by the transfer** to the specified business of Machinery or Plant **previously used for any purpose**. In other words, it should not be set up by the transfer of old plant and machinery.

Exception –

1	20% old machinery is permitted —the assessee can use old or second hand machinery upto 20% of total value of machinery used in the business. If value of second hand machinery does not exceed 20% of total value of machinery, then he can avail the benefit of this deduction.
2	Treating second hand machinery as a new machinery —Any machinery or plant which was used outside India by any person (other than assessee) shall not be regarded as machinery previously used for any purpose, if the following conditions are fulfilled — <ul style="list-style-type: none">• Such plant or machinery was not used in India at any time prior to the date of its installation by the assessee;• The plant or machinery was imported into India from a foreign country.• No deduction on account of depreciation in respect of such machinery has been allowed or is allowable under the Act in computing the total income of any person for any period prior to the date of the installation of the machinery or plant by the assessee.

4) Expenditure incurred prior to commencement of operation to be allowed in the year of commencement of operation—Allowed as deduction during the year in which he **commences operation** of specified business, if

- The expenditure is incurred **prior to the commencement** of its operations; **and**
- The **amount is capitalised in the books of account** of the assessee on the date of commencement of its operations.

5) Set off and Carry forward of Losses u/s 73A—B/F loss of specified business u/s 35AD can be set off **only against income from any other specified business**. It can be **c/f for any number of years** until it is fully set off.

Note—Any expenditure of capital nature shall **not include** any expenditure incurred on the **acquisition of any land or goodwill or financial instrument**.

Question 6 (Sec 35AD)—R Ltd. Constructed a building and started operating a hotel of 3 star category w.e.f. 1.4.2022. The company incurred the following expenditure in this connection.

1. Capital expenditure (including **cost of land Rs 50 lakhs**) incurred during December, 2020 to March 2022 which were capitalised in the books of account 31.3.2022 1,10,00,000
 2. Capital expenditure incurred during previous year 2022-23 (it includes **Rs 20 lakhs paid for goodwill**) 1,40,00,000
- Compute the deduction available u/s **35AD** in the assessment year **2023-24**.

Answer—

Capital expenditure incurred before commencement but capitalised in the books of Account	1,10,00,000
Less: Cost of land not eligible for deduction u/s 35 AD	<u>(50,00,000)</u>
	60,00,000
Capital expenditure incurred during previous year 2022-23 exclusive of value Of goodwill	<u>1,20,00,000</u>
Allowable deduction u/s 35 AD	<u>1,80,00,000</u>

OTHER DEDUCTIONS (SECTION 36)

A. EXPENDITURE ALLOWABLE FOR ALL ASSESSEES

1. **Insurance Premium on risk of damage or destruction of stocks/** stores used in business.
Condition—Deduction is allowable only **in the year of payment**.
2. **Interest on borrowed capital**
 - a) Nature of Expenditure:
 - **Interest will be deductible irrespective** of the fact that it is borrowed for working capital or for acquiring capital asset.
 - Interest on Borrowing is deductible, if capital is used for business purpose irrespective of what may be the result of using the capital which assessee has borrowed.
 - b) **Conditions**
 - Money should be borrowed for purpose of business. Interest on Borrowed Capital **not used for the purpose of business shall not be allowed as deduction**.
 - In case of amount borrowed from Financial institutions or any loan or advance from banks, interest should be **paid on or before due date** of filing return of income as per **section 43B**.
 - In case of **extension of existing business/profession**, interest on the capital borrowed for the purchase of asset, paid from the date on which the capital was

borrowed upto the date such asset was **first put to use**, shall **not be allowed** as a deduction. Interest paid after the use of asset will be allowed.

3. **Allowance for dead/permanently useless animals which were used for the purpose of business---** If the animals of which are used for the purpose of Business/profession (**not as stock in trade**) and died or become useless then difference between actual cost and amount realized on the sale of animals is to be allowed as deduction. No depreciation is allowed on purchase cost of animals.

4. Bad debts (excluding provision for bad debts)

a) Nature of expenditure—

- **Successor of business** is entitled to write off Predecessor's debt.
- **Amount written off in P & L A/s as Bad debts** are allowable as deduction, on fulfillment of conditions stated below.

b) Conditions:--

- The debt must be **incidental to the business**
- Such debt should be **revenue in nature**.
- It must be taken into account in computing the income of the assessee.
- The debt may be money lent in the ordinarily course of banking or money lending business.
- The Bad bed **must have been written off in** the books of assessee.
- The **business** in which such debt is incurred should **be continued** during the previous year.

5. Securities Transaction Tax paid-

Condition—

- Taxable securities transactions **should be entered into the course of his business during the previous year.**
- **Income arising from such transactions** is included under the head Profits and Gains of Business or Profession.

B EXPENDITURE ALLOWABLE FOR ALL EMPOLYERS

No.	Nature of Expenditure	Amount of Deduction/Conditions
1.	Insurance Premium paid on health of employees	Payment should be made by any mode other than cash under an approved scheme of GIC or any insurer approved by IRDA
2.	Bonus or commission paid to employees	<ol style="list-style-type: none"> 1. Allowable as deduction only if such sum is not payable as profit or dividend. 2. Payment should be made before due date of

		filing return u/s 43B.
3.	Contribution to RPF or approved Superannuation fund	Payment should be actually made on or before the due of filing return of income u/s 43B
4.	Contribution towards Pension Scheme u/s 80CCD (see example)	<ol style="list-style-type: none"> 1. Contribution should not exceed 10% of this salary of the Employee in the previous year. 2. Salary includes DA if the terms of employment so provide, but excludes all other allowances and perks
5.	Contribution to Approved Gratuity Fund	<ol style="list-style-type: none"> 1. Payment should be actually made before the due of filing return of income u/s 43B 2. Payment directly to LIC towards Group Gratuity Fund is deductible.
6.	Contribution from Employees towards welfare fund accounts	<ol style="list-style-type: none"> 1. Remittances must be made before the due date under the relevant Act for the relevant Fund. 2. Payment made within the grace period allowed under the respective Act can not be disallowed.

Example to point no 4 Disallowance of expenditure incurred on Pension Scheme u/s 40A(9)

Q 7 X Ltd. contributes **20% of basic salary** to the account of each employee under a pension scheme referred to in **section 80CCD**. Dearness allowance is **40% of basic salary** and it forms part of pay of the employees. Compute the amount of deduction allowable u/s 36, if the basic salary of the employees aggregate to Rs 10 lakh. Would **disallowance u/s 40A(9)** be attracted, and if so, to what extent ?

Answer—

Particulars	Amount
Basic Salary	10,00,000
Dearness Allowance @ 40% of basic salary (DA forms part of pay)	4,00,000
Salary for this purpose	14,00,000
Actual contribution (20% of basic salary i.e. 20% of Rs 10 lakh)	2,00,000
Less: Permissible deduction u/s 36 (10% of basic + DP= 10% of 14,00,000)	(1,40,000)
Excess contribution disallowed u/s 40A (9)	60,000

C. ENTITY SPECIFIC EXPENDITURE

1. Promoting Family Planning amongst Employees

Applicability	The benefit of this deduction is made available for Company assessee only.
Conditions:--	<ul style="list-style-type: none"> • Revenue expenditure is fully allowed as deduction. • Capital expenditure incurred will be

	<p>allowed in 5 years in equal instalments, commencing from the previous year in which it was incurred.</p> <ul style="list-style-type: none"> • Unabsorbed Family Planning Expenditure shall be c/f in the same manner as unabsorbed depreciation. • In case of amalgamation, the Amalgamated company will be allowed to write off the balance amount unallowed in the hands of the Amalgamating company.
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Expenses deductible form commission earned by life insurance agents, UTI agents, post office/Govt. securities agent and agents of notified mutual funds—If the aggregate commission of these agents does not **exceed Rs 60,000** then they can claim an ad hoc deduction as follows—

LIC agents	<p>a) 50% of the first years commission b) 15% of renewal commission OR Rs 20,000 Whichever is less, will be the amount of deduction. If separate figures are not available, then 33.33% of total commission or Rs 20,000 whichever is less, will be amount of deduction.</p>
UTI agents, agents of specified govt. securities and agents of notified mutual fund	50% of commission.
No deduction is available out of bonus commission.	

Q 8 (81.38P1) X an agent of LIC and UTI. His gross commission for the previous year 2022-23 is computed as follows—

- 1) **From LIC**—First year commission Rs 41,000; renewal commission Rs 6,000, bonus commission Rs 4000
- 2) From UTI Rs 7000.

Calculate the amount of ad hoc deduction assuming that X does not maintains detailed account for expenses.

Answer

	Gross	Rate of ad	Amount	Maximum
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	receipt	hoc ded.		ceiling
Commission from LIC				
a) First year's commission	41,000	50%	20,500	
b) Renewal commission	6,000	15%	900	
c) Bonus commission	4,000	NIL	NIL	
Total of a+b+c			21,400	
Maximum ceiling in respect of LIC's commission				20,000
Commission from UTI	7000	50%		3,500
Ad hoc deduction				23,500

GENERAL DEDUCTION U/S 37(1)

Q-Discuss the conditions for allowability of expenditure u/s 37.

1. Conditions for allowability of expenditure:

- a) **Revenue:** There should be an expenditure of revenue nature incurred during the previous year.
- b) **Not Capital in Nature:** The expenditure should not be of capital in nature.
- c) **Connection:** It should be incurred in connection with business or profession carried on by the assessee.
- d) **Wholly/Exclusively:** It should have been expended wholly and exclusively for the purpose of business or profession.
- e) **Not covered in Sec. 30-36:** The expenditure should not be in the nature as prescribed u/s 30 to 36.
- f) **Non-Personal:** It should not be in the nature of personal expenditure.
- g) **Legal:** It should not be incurred for any purpose, which is an offence or in contravention of any provision of law.

3. General Principles for claiming expenditure u/s 37:

- a) **Motive:** Motive to earn profit is not essential.
- b) **Benefit:** Giving direct benefit to the business is not essential.
- c) **Purpose:** Purpose and concern should be verifiable.
- d) **Third Party:** Expenditure will be allowed even if third party is benefited.
- e) **Prudence:** Prudence is a basic principle of accounting.
- f) **Feasibility:** Commercial feasibility related to business.

4. Allowable Expenditure u/s 37 under specific instructions of CBDT:

- a) **Diwali and Muharat expenses (personal nature expenses are not allowed)**
- b) **Expenditure on Fluorescent Tubes** including wiring and fitting expenditure—Initial expenditure is of capital nature but all replacement expenditure should be treated as revenue nature.
- c) Loss of profit policy

- d) Commitment charges paid by Borrower to Lender.
- e) Professional Tax paid

5. Allowable Deductions as per Legal Decisions

1.	General Welfare Expenses
2.	Employee Welfare Expenses
3.	Technical Knowhow related —Expenditure incurred for the purchase of loom hours is allowable expenditure.
4.	Legal/Litigation Expenses —Litigation Expenses in protecting the trade or business, Legal charges for obtaining a loan from a Financial Institution.
5	Interest related Expenses —Interest paid on outstanding balance of purchase consideration, Expenditure incurred to secure overdraft facilities for business purposes, Expenses for obtaining loan for acquiring capital assets, cannot be treated as capital expenditure, because of their nexus with the acquiring of the loan, and not with the acquiring of any asset.
6	Damages —Any damages incurred by the assessee on account of non-fulfillment of business contract for reasons beyond his control, is incidental to business, and it is an allowable deduction, Damages paid on account of breach of warranty is allowable.
7	Interest and Penalty on GST : Penalty on GST is not allowable . But interest paid on GST is allowable expenses.
8	Profit related payments —Commission paid at a %age of profits to GM, Share of profit given by Debtor to Creditor besides interest
9	Damages paid to a worker in order to dismiss him in the interest of business.
10	Commission paid to selling agents.
11	Contribution to a union formed for opposing nationalization of assessee's business.
12	Salary and perquisites to employees.
13	Professional tax paid by a person carrying on business or trade.
14	Traveling expenses and guest house expenses.
15	Entertainment expenditures incurred exclusively for the business or profession are allowable deduction.
16	Advertisement expenditure : - No allowance is available in respect of expenditure incurred by an assessee on advertisement in any souvenir, brochure, tract, pamphlet published by a political party . Other remaining expenses on advertisement are deductible.
17	Cash shortage , expenses on registration of trademarks
18	Entertainment expenses incurred on opening of new Branches at different places
19	Subscription to trade association
20	Subscription paid for newspaper , magazine, journal for the interest of B/P.

21	Excise duty, Royalty paid.
22	Bank charges, office expenses like rent of office building, depreciation of office building, depreciation of office equipment, repair of office asset, heating, lighting, stationery and misc. office expenses including telephone rent, postage and telegrams etc.
23	General expenses incurred in the day to day running of the business
24	Expenditure incurred on Income Tax proceeding.

EXPENSES EXPRESSLY DISALLOWED

1	Penalty paid for violation or infringement of any law is not allowable. Income Tax, wealth Tax, Advance Income Tax.
2	Damages and penalty paid for transgressing the terms of agreement with the state.
3	Litigation expenditure incurred for curing any defect in title of assets or completing that title.
4	Fines paid for breach of the Factories Act
5	Penalty paid for illegal import of goods
6	Insurance premium paid by a firm on life insurance policies of its partners/proprietor
7	Penalty payable for non-payment of GST within prescribed time
8	Interest paid for late payment of income tax
9	Contribution or Donations to political party (However, the assessee can avail the benefit of deduction u/s 80GGB or 80GGC)
10	Gift to relatives i.e. personal nature. (But gifts to customers, clients are allowed expenses)
11	Provision for income tax , provision for bad debts, provision for depreciation, provision for gratuity
12	Drawings , Household expenses, LIP of proprietor or any household members, medical expenditure of his own or family member, Interest on capital, salary paid to proprietor
13	Expenditure on shifting of registered office
14	All types of donations and charities
15	Penalty paid on account of criminal proceeding
16	Transfer to any reserve fund e.g. General Reserve, Capital Reserve, Reserve of losses
17	Payment made outside India without deducting TDS
18	Payment made for acquisition of goodwill
19	Expenditure not connected to assessee's business / profession
20	Loss on sale of Fixed asset
21	Capital expenditure on neon-sign board (only depreciation is allowed)
22	Salary paid to his relative or son who casually helps in Business
23.	Contribution to staff welfare fund .
24	All types of provision are fully disallowed e.g. provision for bad debts, provision for tax, bad debt reserve, Proposed dividend

25	Expenses on the construction of pucca well are fully disallowed because such expenditures are capital nature expenditure.
26	Difference in Trial balance
27	Advertisement in souvenir, brochure, pamphlet etc of political party

Note—Contribution to rural development fund, National Urban Poverty Eradication fund, railway demurrages and staff welfare expenses, are however allowed as deduction.

Disallowances under Section 40

- Interest, royalty, fees for technical services payable outside India or payable to a non-resident u/s 40(a)(i)**—If the following three conditions are satisfied, the assessee (i.e. the payer) is supposed to deduct tax at source (TDS)—
 - 1) The amount paid is interest, royalty, fees for technical services or other sum.
 - 2) The aforesaid amount is chargeable to tax under the Act in the hands of the recipient.
 - 3) The aforesaid amount is paid/payable to a non-resident.

When disallowance is applicable—Disallowance provisions are applicable in the following two cases when TDS default is committed by the payer and recipient is non-resident—

Case 1	Tax is deductible but not deducted in the current year.
Case 2	Tax is deductible (and is so deducted) during the current financial year but it is not deposited on or before the due date of submission of return of income u/s 139(1).

Amount of disallowance---Entire expenditure (100%) in the above two cases will **be disallowed** in the current year.

Reversal of disallowance—The amount which is disallowed in the current year will be allowed as deduction in the year in which tax is deposited by the payer.

- Payment to a Resident u/s 40(a)(ia)**—If recipient is resident in India, tax is deductible on any payment made to him (including Salary), but not deducted or deducted but not deposited, then 30% of the total payment will be disallowed.

When disallowance is applicable—Disallowance provisions are applicable in the following two cases when TDS default is committed by the payer and recipient is resident—

Case 1	Tax is deductible but not deducted in the current year.
Case 2	Tax is deductible (and is so deducted) during the current financial year but it is not deposited on or before the due date of submission of return of income u/s 139(1).

Amount of Disallowance—30% of the expenditure in the above two case will be disallowed in the current year.

Reversal of disallowance—The amount which is disallowed in the current year will be allowed as deduction in the year in which tax is deposited by the payer.

Relief from Case 1—U/s 201(1), the payer is not deemed to be an assessee-in-default if—

- a) The resident recipient has furnished his return of income u/s 139
- b) The resident recipient has taken into account the above income in such return of income
- c) The resident recipient has paid the tax due on the income declared in such return of income; and
- d) The payer furnishes a certificate to this effect from a CA in Form No 26A.

If the above conditions are satisfied, then it shall be deemed that the payer has deducted and paid the tax on such amount on the date of the furnishing of return of income by the resident recipient. In other words, disallowance provisions of 30% will not be applicable.

Example— Tax on royalty paid to Mr.A, a resident, has been deducted during the previous year 2022-23, the same has to be paid by 31st July/30th Sept 2023, as the case may be. Otherwise, 30% of the royalty paid would be disallowed in computing the income for AY 2024-25. If in respect of such royalty, tax deducted during the PY 2022-23 has been paid after 31st July/30th Sept., 2023, 30% of such royalty would be allowed as deduction in the year of payment.

Q 9 Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2023 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the previous year 2022-23 assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

1)	Salary to its employees(credited and paid in March, 2023)	12,00,000
2)	Directors' remuneration (credited in March, 2023 and paid in April, 2023)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2023 at the time of payment and remitted the same in July, 2023?

Answer—

Amount disallowance u/s 40(a)(ia)

	Particulars	Amount paid	Disallowance @ 30%
1)	Salary	12,00,000	3,60,000
2)	Directors' Remuneration	28,000	8,400
Disallowance u/s 40(a)(ia)			3,68,400

If the tax is deducted on directors' remuneration in the next year i.e. PY 2022-23 at the time of payment and remitted to Govt, the amount of Rs 8400 would be allowed as deduction while computing the business income of AY 2024-25.

3. Salary payable outside India without tax deduction u/s 40(a)(iii)—Any amount chargeable under the head "Salaries", if it is payable outside India or to a non-resident, if tax has not been paid thereon nor deducted therefrom, then such expenditure will be disallowed. In other words, if salary is payable outside India, then tax on this should be deducted at source or paid according to the law and if no tax is deducted, then the payment of salary will not be allowed as deduction while computing profit under business or profession.
4. Tax on non-monetary perquisite paid by the employer u/s 40(a)(v)—The provisions of this sections are given below—
 - 1) The employer provides non-monetary perquisites to employees.
 - 2) Tax on non-monetary perquisites is paid by the employer.
 - 3) The tax so paid by the employer is not taxable in the hands of employees u/s 10(10CC)
 - 4) While calculating income of the employer, tax paid by the employer on non-monetary perquisites is not deductible u/s 40(a)(v).

For Example—During the previous year 2022-23, A Ltd. pays Rs 40,000 p.m. as salary to X (age: 31 years) and provides a rent free unfurnished house (lease rent being Rs 10,000 p.m.). The tax on perquisite is paid by A Ltd as follows-

Salary	480,000
Value of perquisite (15% of salary)	72,000
Gross salary/Net income	5,52,000
Tax on net income	23587
Average rate of tax (23587/552000x100)	4.27%
Tax on perquisites (4.27% of Rs 72000)	3077

Total expenditure incurred by A Ltd. in respect of employee X is as follows—

Salary to X	4,80,000
Rent free house to X (10000X12)	1,20,000

Tax on perquisite borne by A Ltd.	3,077
Total	6,03,077

While calculating business income of A Ltd. Rs 3077 is not deductible. In the hands of X, Rs 3077 is not chargeable to tax.

EXPENSES OR PAYMENTS NOT DEDUCTIBLE WHERE SUCH PAYMENTS ARE MADE TO RELATIVES U/S 40A (2) (M 00, M 10)

1. Nature of Payment--

- a) The payment is in respect of goods, services or facilities supplied/provided by a relative.
- b) The amount paid to such relative is considered to be excessive or unreasonable as compared with the market value of such goods, services or facilities.

2. Amount disallowed: The **excessive or unreasonable** sum shall not be allowed as deduction.

3. Specified persons for this section:-

Payment made by	Payment received by
a) Individual	i) Relative, or ii) Person in whose business the individual or his relative has substantial interest.
b) Firm	i) Partner, ii) Relative of the Partner, iii) Person in whose business the firm, any partner or any relative of such member has substantial interest.
c) AOP	i) Member, ii) Relative of the member, iii) Person in whose business the AOP, any member or any relative of such member has substantial interest.
d) HUF	i) Member, ii) Relative of the member, iii) Person in whose business the HUF, any member or any relative of such member has substantial interest.

4. Relative to an Individual means **Husband, wife, brother, sister or any lineal ascendant or descendant** of the individual u/s 2(41).

5. Substantial Interest: A person shall be deemed to have substantial interest in the business or profession, if such person is the beneficial owner of **atleast 20% of equity capital to 20% of the profits** of the concern at any time during the previous year.

Where the assessee incurs any expenditure, in respect of which payment has been made or is to be made to certain specified persons and according to opinion of A.O. such expenditure is excessive or unreasonable then such excessive and unreasonable expense will not be allowed as deduction.

Example—

1	X is a trader. He purchases goods from his brother. Market value is Rs 1,30,000 whereas amount charged by his brother is Rs 1,40,000. The excess payment i.e. Rs 10,000 will be disallowed.
2	X is a trader. He sells his goods to his brother. Amount of bill is Rs 1,00,000 whereas market value is Rs 1,40,000. In this case, X has not incurred any expenditure. Section 40A(2) would not be attracted. Business income

DISALLOWANCE OUT OF CASH EXPENDITURE EXCEEDING RS. 10,000 U/S 40A(3) OR

Write short notes on payments exceeding Rs 10,000 made otherwise than by an Account Payee Cheque drawn on a Bank or Account payee Bank Draft u/s 40 A (3).

1. Nature of expenditure:

Where an assessee incurs any expenditure for which, payment or aggregate of payments is made to a person **in a day is in excess of Rs 10,000 (Rs 35000 in case of payment made for plying**, hiring or leasing goods carriages), **otherwise than by an Account Payee Cheque** drawn on a Bank or an Account Payee Bank Draft or other banking mode e.g. credit card, debit card, RTGS., then whole **of such expenditure** shall **be Fully disallowed.**

2. Payment of Outstanding Liabilities---If an expenditure is allowed as a deduction on due basis, and the liability is settled after the end of the previous year otherwise than by way of Account Payee Cheque/Draft, by payment or aggregate of payments in excess of Rs 10,000 to a single person on a day, then the expenditure so allowed shall be treated as business income of the previous year in which such payment is made.

3. Applicability:

- This rule does **not apply in respect of an expenditure, which is not claimed as deduction u/s 30 to 37.**
- This rule is **applicable even in respect of advance** for an expenditure covered u/s 30 to 37.

4. Exceptions as per Rule 6DD

a)	Payment made to Reserve Bank of India, Banking Company , State Bank of India and its Subsidiaries, any co-operative Bank or Land Mortgage Bank, any primary agricultural credit society or any Primary Credit Society and LIC of India
b)	Payment made to Government , and as per Rules such payment is required to be made in legal tender. (e.g taxes, duties etc.), Indian Railways
c)	Payment through Banking System---

	<ul style="list-style-type: none"> • any Letter of Credit arrangement through a Bank • Mail or Telegraphic Transfer through a Bank. • Book Adjustment from any account in a Bank to any other account in that or any other Bank. • Bill of Exchange made payable only to a Bank. • Use of ECS through a Bank Account • Credit Card • Debit Card
d)	Payment by book adjustment against liability
e)	Payment made for agricultural or forest produce, or produce of animal husbandry, or dairy or poultry or fish or fish products, or products of horticulture, to a Cultivator, Grower or Producer of such products.
f)	Payment to producers of goods in cottage Industry without the aid of power
g)	Payment made in a place which on the date of such payment is not served by any bank.
h)	Any Terminal Retirement or Gratuity Payment to an employee or his legal heirs, provided the aggregate of the sum payable does not exceed Rs 50000
i)	Payment to employees on temporary posting , if such payment is made after deduction of tax at source, and such employee does not maintain any Bank Account at such place.
j)	Payment made on a day on which Banks were closed due to holiday or strike.

Conceptual clarity of the payment by cash more than Rs 10000 in a day—

e.g. If, in respect of expenditure of Rs 32,000 incurred by X Ltd., 4 cash payments of Rs 8000 are made on a particular day to one Mr. Y—one in the morning at 10 a.m., one at 12 noon, one at 3 p.m. and one at 6 p.m., the entire expenditure of Rs 32000 would be disallowed u/s 40A(3), since the aggregate of cash payments made during a day to Mr. Y exceeds Rs 10,000. However, if such payments are made on different dates, then disallowance provisions will not be applicable.

Cash payment made in excess of Rs 10,000 deemed to be the income of the subsequent year, if an expenditure has been allowed as deduction in any previous year on due basis.

Q 10 (82.6–P1) Determine the amount of disallowance in the cases given below:-

- 1) Generally X pays salary to his employees by account payee cheques. Salary of December 2022, is however, paid to three employees A, B and C by bearer cheques (payment being Rs 6,000, Rs 10,000 and Rs 10,500 respectively).
- 2) X Ltd. purchases goods on credit from Y Ltd. on May 6, 2022 for Rs 86,000 which is paid as follows—
 - a) Rs 5000 in cash on May 11, 2022;

- b) Rs 30,000 by a bearer cheque on May 31, 2022.
 c) Rs 51,000 by an account payee cheque on May 16, 2022
- 3) Z Ltd. purchases goods on credit from A Ltd. on **May 10, 2022 for Rs 6000 and on May 30, 2022 for Rs 5000**. The total payment of Rs 11000 is made by a crossed cheque on June 1, 2022.
- 4) A Ltd. purchases goods on credit from a relative of a director on June 20, 2022 for Rs 50,000 (market value: Rs 42,000). The amount is paid in cash on June 25, 2022.
- 5) B Ltd. purchases raw material on credit from A who holds 20% equity share capital in B Ltd. (the amount of bill being Rs 36000, market price being Rs 9000). It is paid in cash on July 26, 2022.

Answer—

1.	Rs 10,500, being 100% of salary paid by bearer cheque to C, will be disallowed.
2.	Nothing will be disallowed out of the payment of Rs 5000 in cash on May 11, 2022, as the payment does not exceed Rs 10,000. 100% of Rs 30,000 will be disallowed. Nothing will be disallowed out of Rs 51,000.
3.	Though the amount of payment exceeds Rs 10,000, nothing shall be disallowed. To attract disallowance, the amount of bill as well as the amount of payment should be more than Rs 10,000.
4.	Out of the payment of Rs 50,000, Rs 8000 (being the excess payment to a relative) shall be disallowed u/s 40A(2). As the payment is made in cash and the remaining amount exceeds Rs 10,000, 100% of the balance (i.e. Rs 42000) shall be disallowed u/s 40A(3).
5.	Out of the payment of Rs 36,000, Rs 27000 (being the excess payment to a person holding a substantial interest) shall be disallowed u/s 40A(2). The remaining amount (i.e. Rs 9000) does not exceed Rs 10,000. Nothing shall be disallowed u/s 40A(3) even if the payment is made in cash.

Question 11 (82.6 E1) Compute the amount of disallowance in the cases given below—

- X pays Indian railways a bill of Rs 28,750 in cash.
- Customs duty is paid to the Government in cash (amount being Rs 76,592)
- Y, a grain trader, purchases wheat from a cultivator. The payment, being Rs 1,20,000, is however, made by a crossed cheque.
- Z pays a bill of Rs 36,000 in cash on April 7, 2022 when banks are closed on account of strike.

Answer—

1.	The assessee can make payment in cash to Indian railway because it is a govt. body. Therefore, payment made by X is fully allowable expenses.
2.	Custom duty is paid to the Government in cash is an allowable expenditure.
3.	Payment made to cultivator in cash is an allowable expenditure. Therefore, payment made by crossed cheque by Y is an allowable expenditure.
4.	If banks are closed due to strike, then payment made by assessee in cash is an allowable expense. Therefore, payment made by Z is an allowable expense.

When outstanding liability of earlier years is paid in the current year u/s 40A(3A)—If an outstanding liability was allowed as deduction in any of the earlier year and during the current year payment in respect of such liability is made otherwise than an account payee cheque or draft or other banking mode, then if such payment exceeds Rs 10000 (Rs 35000 in case of transporter) in a day to a person, the payment so made shall be chargeable to tax as business income in the year of payment.

For example—Vinod claimed a deduction of Rs 70,000 in the previous year 2020-21 pertaining to an outstanding bill of purchase of raw material (payable to B Ltd.). Out of Rs 70,000, Rs 15,000 is paid to B Ltd. in cash on April 20, 2020 and Rs 55,000 is paid by an account payee cheque on April 28, 2020. In this case, Rs 15000 (being payment in cash) will be treated as business income of Vinod for the previous year 2020-21.

CERTAIN DEDUCTIONS TO BE ALLOWED ONLY ON ACTUAL PAYMENT U/S 43B (Most Imp)

Deduction in respect of the following sums is allowed only on “**payment basis**”, not on due basis even if books of account are maintained on the basis of mercantile system of accounting.

A. Nature of Expenses:

1.	Any sum payable by an employer by way of contribution to PF or Superannuation Fund or other Fund or other Fund for the welfare of the employees.
2.	Tax, vat, Duty, Cess or any fee payable.
3.	Bonus or commission payable to employees
4.	Interest payable on Loan or Borrowing from a Public Financial Institution or interest on any Loan or Advances payable to a Scheduled Bank.
5.	Any sum payable by an Employer in lieu of leave at the credit of his employee.
6.	Any sum payable to the Indian Railways for the use of railway assets.

B. Time Limit for payment:

1. **Time Limit for Payment:** Payment shall be made either during the relevant previous year or on or before the **due date of filing of return u/s 139(1)**

2. **Delay in Payment:** If the payment is made subsequent to the due date of filing return, shall be **allowed only in the year of payment.**

3. Royalty payable to Government for extraction of limestone is a tax, and hence section 43B applies.

Conversion of unpaid Sales Tax into loan by a State Govt.—

Conversion of unpaid sales tax into loan by a State Govt. is treated as payment of sales tax in the year of conversion

Conversion of interest into a loan or borrowing –If any interest due on

loan or borrowing converted into loan or borrowing, then interest so converted into loan and not actually paid shall not be deemed as actual payment, and hence would not be allowed as deduction. The deduction will be allowed in the previous year in which converted interest is actually paid.

Q 12 Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat etc. He borrowed loans from Andhra Pradesh State Finance Corporation (APSFC) and Indian Bank and has not been paid interest as detailed hereunder:

(i)	Andhra Pradesh State Finance Corporation (PY 2021-22 & 2022-23)	15,00,000
(ii)	Indian Bank (PY 2022-23)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while reconstructing the loan facilities of Hari during the previous year 2022-23, converted the above interest payable by Hari to them as a loan repayable in 60 installments. During the year ended 31.3.2023, Hari paid 5 installments to APFSC and 3 installments to Indian Bank.

Hari claimed the entire interest of Rs 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Discuss whether his claim is valid and if not, what is the amount of interest, if any, allowable.

Answer—

Deduction of interest u/s 43B

	Interest o/s	Number of installments	Amount per installment	Installment paid	Interest allowable
APFSC	15 Lakh	60	25,000	5	1,25,000
Indian Bank	30 Lakh	60	50,000	3	1,50,000
Total amount eligible for deduction u/s 43B					2,75,000

DEEMED INCOME

Q No Write a note on Deemed Income from Business or Profession.

Answer—

Sec 41	Deduction already u/s	Applicability	Nature of Receipt treated as Deemed Income	Year in which taxable.
(1)	30-38	All Assesseees including Successor of business	Recovery of loss or Expenditure or trading liability which was already allowed, including remission or cessation of liability effected by a unilateral act	Year in which recovered or written off by the by remission or cessation
(2)	32(1)(i)	Undertaking engaged in generation and/ or distribution of Power	Balancing Charge on assets in respect of which depreciation is claimed, is sold /discarded / demolished / destroyed. Balancing Charge = Net Consideration Less WDV	Taxable in the year in which the amount becomes due
(3)	35(2)	All Assesseees	Amount realized on sale of Capital Assets used for Scientific Research	Year in which transfer takes place.
(4)	36(1)(vii)	All assesses excluding Successor of Business	Bad debts earlier allowed subsequently recovered by the Assessee (Note—Predecessor's Debt recovered by the Successor shall not be treated as income of the Successor.)	Year in which it is received.

Note—Remission of Unsecured Loan—Remission of unsecured loan cannot be treated as income u/s 41(1) since there have been no allowance or deduction in any of the preceding years in respect of such loan.

AUDIT OF ACCOUNTS OF CERTAIN PERSON U/S

44AB

The following persons are required to get their accounts compulsorily audited by C.A.

A person carrying on business	If the total sales, turnover or gross receipts in business for the previous year relevant to the assessment year exceed or exceeds Rs 1 Crore.
A person carrying on profession	If his gross receipts in profession for the previous year relevant to the assessment year exceeds Rs 50 lakh.

A person covered u/s 44AD(1)	If the total sales, turnover or gross receipts in business for the previous year relevant to the assessment year exceed or exceeds Rs 2 Crore.
A person covered u/s 44AE, 44BB or 44BBB	If such person claims that the profits and gains from the business are lower than the profits and gains computed under these sections (irrespective of his turnover)
A person covered u/s 44ADA	If such person claims that the profits and gains from the profession are lower than the profits and gains computed in accordance with the provisions of section 44ADA and if his income exceeds the maximum amount which is not chargeable to tax.
A person covered u/s 44AD(4)	If a person carrying on business is covered by the provisions of section 44AD(4) and his income exceeds the maximum amount which is not chargeable to income tax in any previous year.

DUE DATE FOR GETTING BOOKS AUDITED

The assessee is required to file his Tax audit report duly certified by C.A. on or before the due date of filing Income Tax returns i.e. **30th September** of assessment year in the case of corporate or non corporate assessee.

PRESUMPTIVE INCOME

Question- Explain the chargeability of presumptive income in case of specific business or profession.

Particulars	Section 44AD
Applicability	Applicable to Resident Individual, a Resident HUF or resident partnership firm (not to limited liability partnership firm). Such scheme is applicable on any business (but not in the negative list given below) . And maximum annual turnover/gross receipt of Rs 2 crore.
Min. amt. of presumptive income	8% or more of annual turnover or receipts (6% of turnover if payment is received in banking mode during the PY or before the due date of filing of return of income.)
Allow ability of deduction u/s 30 to 38	
Option for lesser amount of income	
Computation of presumptive income in case the assessee is a firm	
Benefit of Chapter VIA	

Note—Presumptive rate of tax u/s 44AD—The presumptive rate of tax would be 8% of total turnover or gross receipts. However, the presumptive rate of 6% of total turnover or gross receipts will be applicable in respect of amount which is received in banking mode during the previous year or before the due date of filing of income tax return.

Negative list—The following person are not eligible to avail any benefit u/s 44AD.

S No.	Particulars
1.	A person carrying on profession as referred to in section 44AA(1) i.e. legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy.
2.	A person earning income in the nature of commission or brokerage.
3.	A person carrying on any agency business; or
4.	A person who is in the business of plying, hiring or leasing goods carriages
5.	The assessee who has claimed any deduction u/s 10A, 10AA, 10B, 10BA, 80HH to 80RRB in the relevant assessment year.

Note—

1 **Material supplied by the Contractee** at a fixed cost to the Civil Construction Contractor shall not be included in the Gross receipts or Turnover u/s 44AD.

1 An assessee who is **in possession of a Goods Carriage, whether taken on hire purchase or on instalments** and for which whole or part of the amount payable is still due is deemed to be the Owner of such Goods Carriage.

2 **Income from Vehicles** is to be computed for **every month or part thereof**, during which these were owned by the assessee, even though these are not actually used for business.

SPECIAL PROVISIONS FOR COMPUTING PROFITS AND GAINS OF BUSINESS OF PLYING, HIRING OR LEASING GOODS CARRIAGES U/S 44AE

1. **Eligible Business**—This section provides for estimating business income of an owner of goods carriages from the plying, hire or leasing of such goods carriages;
2. **Eligible assessee**—The scheme applies to persons owning **not more than 10 goods vehicles** at any time during the previous year;
3. **Presumptive Income**—The estimated income from each goods vehicle, being heavy goods vehicle or other than heavy goods vehicle would be

Goods Carriage	Presumptive Income	
Heavy Goods Vehicle	Rs 1000 per ton of gross vehicle weight or unladen weight, as the case may be, for every month or part of a month	during which such vehicle is owned by the assessee for the previous year.
Other than heavy goods vehicle	Rs 7500 for every month or part of a month	

The assessee can also declare a higher amount in his return of income. In such case, the latter will be considered to be his income.

4. **All other deduction deemed to be allowed**—The assessee will be deemed to have been allowed the deductions u/s 30 to 38.

5. **Salary and interest to partners is allowed**—Where the assessee is firm, the salary and interest paid to its partner are allowed to be deducted subject to the conditions and limit specified u/s 40(b).
6. **Not required to maintain books of accounts and get the accounts audited**—The assessee joining the scheme will not be required to maintain books of account u/s 44AA and get the accounts audited u/s 44AB in respect of such income.
7. **Option to claim lower profits** ---An assessee may claim lower profits and gains than the deemed profits and gains. But in this case, assessee is required to maintain books of account u/s 44AA and get the accounts audited u/s 44AB in respect of such income.
8. **Meaning of certain items**—

1)	Heavy goods vehicle	Any goods carriage, the gross vehicle weight of which exceeds 12000 k.g.
2)	Gross vehicle weight	Total weight of the vehicle and load certified and registered by the registered by registering authority as permissible for that vehicle.
3)	Unladen weight	The weight of a vehicle or trailer including all equipment ordinarily used with the vehicle or trailer when working but excluding the weight of driver or attendant and where alternative parts or bodies are used the unladen weight of the vehicle with the heaviest such alternative body or part.

Question 14 (04) – Mr. A furnishes you the following information for the year ended **31.3.2023**—

- a) Income from plying of vehicles (**as per books**) (He owned **5 heavy goods** vehicles having gross weight 12,000 kg. throughout the year) 4,94,400
- b) Income from Retail Trade of Garments (computed as per books) (sales turnover Rs 21,70,000) 75,000
- c) He has brought forward depreciation relating to **AY 2021-22** 1,00,000
- d) He deposited Rs 1,00,000 into his PPF account **on 6.1.2023**

Compute Taxable income of Mr. A and his tax liability for **AY 2023-24** with reasons for your computation.

Answer—

Particulars	Detail	Amount
Profits and Gains of Business or profession		
1. Plying Goods Carriage Vehicles u/s 44AE (Note 1)- higher of the following		
Presumptive income (5 X 7500 X 12)	4,50,000	
Actual	<u>4,94,400</u>	4,94,400
2. Retail Trade u/s 44AD (21,70,000 X 8%)		1,73,600
		6,68,000
Less: B/F depreciation can be set off against any head of income except salary income		(1,00,000)

GTI		5,68,000
Less: Deductions u/s 80C		(1,00,000)
Total Income		4,68,000
Tax on Total Income (4,68,000 –250,000) x 5%		10,900
Less: Rebate u/s 87A (100% of Tax or Rs 12500, whichever is less)		(10,900)
		NIL
Add: Health and Education Cess		NIL
Total tax liability		NIL

Notes

- U/s 44AE**, where an assessee is engaged in the business of plying, hiring, leasing goods carriage vehicle and **does not own more than 10 vehicles** during any part of the previous year, then the presumptive income shall **be Rs 7500 p.m.** or any higher sum declared by the assessee.
- Investment in PPF is permitted to the maximum of Rs 1,50,000 for an account as per PPF rules. Therefore, entire amount of Rs 1,00,0000 invested in PPF is allowed as deduction u/s 80C.

Q 15 An assessee owns a commercial vehicle having Gross Vehicle weight of 10000 k.g. for 9 months 15 days, a goods vehicle weight of 8000 k.g. for 9 month and a goods vehicle weight of 11000 k.g. for 12 months during the previous year. Compute his income applying the provision of section 44AE.

Answer—Rs 2,32,500

Q 16 (20SM) Mr X commenced the business of operating goods vehicles on 1.4.2022. He purchased the following vehicles during the previous year 2022-23. Compute his income u/s 44AE for AY 2023-24.

	Gross Vehicle Weight (in kilograms)	Number	Date of Purchase
1)	7,000	2	10.4.2022
2)	6,500	1	15.3.2023
3)	10,000	3	16.7.2022
4)	11,000	1	2.1.2023
5)	15,000	2	29.8.2022
6)	15,000	1	23.2.2023

Would your answer change if the two light goods vehicles purchased in April, 2022 were put to use only in July, 2022?

Answer—

No. of Vehicles	Date of Purchase	No. of months for which vehicle is owned	No of months x No. of vehicles
For Heavy goods Vehicle			
2	29.08.2022	8	16

1	23.02.2023	2	2
			18
For goods vehicle Heavy goods Vehicles			
2	10.4.2022	12	24
1	15.03.2023	1	1
3	16.07.2022	9	27
1	02.01.2023	3	3
			55

Presumptive income = $18 \times 1000 \times 15 + 55 \times 7500 = 682500$

Computation of professional Income of estimated basis u/s 44ADA

This section is applicable from the assessment year 2017-18. The provisions of this section are as under:--

1	Resident professional can get the benefit of this section. The word professional here means legal, medical, engineering, architectural profession or the profession of accountancy or technical consultancy or interior decoration.
2	Gross receipts of the assessee from the profession does not exceed Rs 50 lakh.
3	Income of the assessee under this section shall be calculated on estimated basis at sum equal to 50% of the total gross receipts.
4	The assessee can voluntarily declare a higher income in his return.
5	All deductions u/s 30 to 38 including depreciation and unabsorbed depreciation, are deemed to have been already allowed and no further deduction is allowed under this section.
6	An assessee can declare his income to be lower than the deemed profits. But such assessee will have to maintain the books of accounts u/s 44AA and will have to get his books of account audited u/s 44AB.

Adjustment of loss u/s 41(5)—Business loss cannot be carried forward after 8 years. If the following conditions are satisfied, then loss of discontinued business can be adjusted **after 8 years** also.

1	The business or profession is discontinued.
2	Loss of such business or profession pertaining to the year in which it is discontinued could not be set-off against any other income of that year.
3	Such business is not a speculation business.
4	After discontinuation of such business or profession, there is a receipt which is deemed as business income

Q 17 (83.6 P1) A business (not being a speculation business) is discontinued on December 10, 1996. At that time there is unadjusted business loss of Rs 35,000 (i.e. Rs 10,000 of the

previous year 1995-96 and Rs 25,000 pertaining to the period commencing on April 1, 1996 and ending on December 10, 1996). On May 20, 2022, the assessee recovers a debt of Rs 48000 from a debtor which was allowed as bad debt in 1995-96 (or may be in some other year). Find out the notional profit chargeable to tax for the previous year 2022-23 u/s 41.

Answer—

Recovery of debt earlier allowed as bad debt	48,000
Less: unabsorbed business loss of the previous year in which the business was discontinued	(25,000)
Business Income chargeable to tax for the assessment year 2023-24	23,000

KEY NOTES :-

- Expenses on **special advertisement campaign** are also allowed.
- Expenses on law charges for patent rights are allowed as revenue expenditure.
- Expenses on **income-tax appeal** are fully allowed. Income tax paid fully disallowed.
- According to new rules the **hotel charges and guest house expenses are fully allowed.**
- Salary paid to any family member of HUF is allowed as business expenditure.
- Loss by theft by an employee during night** has been held to be a revenue loss.
- Gifts from relatives are not taxable.
- Salary received as **part time lecturer** is taxable under the head salaries.
- Advance given to suppliers of raw materials if not recovered shall be treated as normal business loss.
- Contribution to staff welfare fund** is disallowed. However, staff welfare expenses are allowed.
- Business loss** cannot be set off from **Salary Income.**
- Railway Demurrage** is allowed expenses. However, **railway penalty** is fully disallowed.
- Cultivation Expenses** are fully disallowed.
- Rent from agricultural land, revenue from fisheries, sale proceeds of cane** are agricultural income and therefore not taxable under the heads Business Income.

Only the sum contributed by the assessee as an employer toward an **approved gratuity fund, recognised provident fund or an approved super annuation fund** shall be **allowed as a deduction.** **No deduction** shall be allowed in respect of any sum paid towards setting up or formation of **any other fund, trust, society etc** for any other purpose.

**COMPUTATION OF BUSINESS INCOME OF -----
 FOR THE ASSESSMENT YEAR 2023-24**

Particulars	Detail	Amount
Business Income		

Net Profit as per P & L A/c		XX
Add: Expenses Inadmissible		
• Interest on capital/ Medical expenses of proprietor	XX	
• Household expenses/ Drawings/LIP/ Pilgrimage Expenses	XX	
• Interest on loan from wife (funds advanced by proprietor)	XX	
• Loss by theft-stolen from house	XX	
• Fines And Penalties	XX	
• Transfer to Any Reserve Fund	XX	
• Income Tax/ Advance Tax /Wealth Tax	XX	
• Reserve for future losses	XX	
• Municipal tax, repair of let out or self occupied house property	XX	
• Patents/Copy right (3/4th part , if full amount debited)	XX	
• Lump sum consideration for Know-how (25% is allowed and balance will be added)	XX	
• Reserve/ provision for Doubtful debts	XX	
• Donation , Charities	XX	
• Cost of extension of building	XX	
• Provision for sales Tax / excise duty	XX	
• Salary to Proprietor	XX	
• Contribution to URPF	XX	
• Interest on loan taken for the payment of income tax	XX	
• Advertisement in Political Party magazine	XX	
• Salary to relative which is unreasonable 40A(2)	XX	
• Purchase of NSC VIIIth issue		
• Contribution to staff welfare fund , PPF	XX	
• Salary paid out of India without deducting TDS		
• Payment other than account payee cheque in excess of Rs 10,000 in single day (35000 in case of transporter)	XX	
• Sales Tax, Bonus, Interest to Bank paid after due date of filing return of income u/s 43B	XX	
• Gifts to relative	XX	
• Income Tax penalty	XX	
• Purchase of motor car , furniture or any capital asset (only depreciation allowed)	XX	
• Difference in Trial Balance	XX	
• Help to poor student	XX	
• Loss on sale of motor car	XX	
• Cost of neon-sign board	XX	
• Cost of goods drawing (wrongly credited to Sales Account)	XX	
	XX	
Add: Under valuation of closing stock		XX

Over-valuation of opening stock	xx	
Less: Under valuation of opening stock	xx	
Overvaluation of Closing Stock	(xx)	
	(xx)	
Less : Amount of sales (wrongly drawing treated as sales)	xx	
	(xx)	
<u>Less: Allowable Expenses</u>		
<ul style="list-style-type: none"> Any allowable expenses which are deducted earlier e.g. Depreciation, expenditure on scientific research 	xx	
<u>Less: Exempted Income (if already included in Net profit)</u>		
<ul style="list-style-type: none"> Dividend from Indian domestic company/ mutual fund/UTI Agricultural income from India Bad debts recovered earlier disallowed Custom duty recovered earlier disallowed Gifts from relative (e.g. spouse, parents, brother, sisters, and children) Income tax Refund/Refund of excise- duty Sale of Car/ Plant and Machinery Refund of Income Tax Penalty 	xx xx xx xx xx xx xx	
<u>Less: Income Taxable under other heads of Income</u>		
<ul style="list-style-type: none"> Income from Let out house property LTCG/ STCG Dividend from co-operative society or Foreign company Agricultural income from outside India Gifts from friends i.e. other than relative Income from investments (e.g. interest on govt. securities, commercial securities) Lottery income/ winnings from races 	xx xx xx xx xx	
Business Income		Xx

**COMPUTATION OF PROFESSIONAL INCOME OF
FOR THE ASSESSMENT YEAR 2023-24**

Particulars	Details	Amount
<u>Professional Receipts</u>		
<ul style="list-style-type: none"> Consultation Fess Visiting Fess Gifts from clients/ patients 	XX XX XX XX	

• Sales of medicines	XX	XX
• Special commission and appointment fees		
Less: Professional Expenses	XX	
• Salary to staff	XX	
• Cost of medicines	XX	
• General Expenses/ office Expenses	XX	
• Rent of dispensary/ chamber	XX	
• Telephone Expenses	XX	
• Car expenses/ Professional Expenses	XX	(XX)
• Depreciation on surgical instruments		
Professional Gain		XX

Important Questions

1. Write a short note on Scientific Research
2. Write a short note on Preliminary Expenses u/s 35D
3. Explain the expenses which are expressly allowable and expressly disallowed while computing the income from business or profession.

Question 18 (05A) . Shri Ram Gopal is carrying on cloth business at Patna which yields him a taxable profit of Rs 70,000 during the accounting year ended on **31.3.2021**. He was also engaged in smuggling business on the Indo-Nepalese border, from which he earned an income of Rs 1,25,000 out of which he claimed the following deductions in connection with **smuggling business**:

- a) Rs 13000 paid as tips the border police in order to carry on this business without restriction.
- b) Goods worth Rs 16000 seized by the Customs Authorities
- c) **Penalty of Rs 1000** paid to Customs Authorities

Answer—

	Details	Amount
Business Income		
Profit from cloth business		70,000
Profit from smuggling business		
Net profit	1,25,000	
Less: Allowable Expenses		
Value of goods seized by the customs authorities	(16000)	109000
		1,79,000

Note—Tips given to border police and penalty are exclusively disallowed expenditure.

Q 19 (K) (43B, 40A) Profit and loss account of M/s Raju and Company.

Particular	Amount	Particular	Amount
General Expenses	7000	Gross Profit	1,40,000
Fire Insurance Premium	2,000	Bad Debts recovered but	4,000

Bad Debts	1,000	disallowed earlier	
Salaries	65,000	Interest from Govt securities	4,000
Advertisement (in cash)	22,250	Rent received from employees	12,000
Proprietor's salary	11,500	Interest from debtors for delayed payment	6,000
Interest on Capital	2,000		
Income tax	1,000		
Depreciation	2,000		
GST (Due)	5,000		
Advance Income Tax paid	1,000		
Donations	500		
Motor Car Expenses	750		
Municipal taxes of quarters let to employees	5000		
Difference in Trial Balance	1000		
Net Profit	39,000		
	1,66,000		1,66,000

General expenses include Rs 4,000 paid as compensation to an old employee whose services were terminated in the interest of the business and Rs 2200 by way of help to a poor student. Depreciation calculated according to the rates comes to Rs 2900. GST was paid on 1.5.2022. Date of filing of return is 31.7.2023.

50% of motor car expenses are for proprietor's personal use.

Compute business income.

Answer— COMPUTATION OF BUSINESS INCOME OF
For the Assessment Year 2023-24

Particulars	Details	Amount
Net Profit as per P & L A/c		39,000
Add: Inadmissible Expenditure		
Advertisement in cash	22250	
Proprietor's salary	11500	
Interest on capital	2000	
Income Tax	1000	
Advance income tax	1000	
Donation	500	
Motor car expenses	375	
Help to poor student	2200	
Depreciation	2000	
Difference in Trial Balance	1000	43825
Less: Expenses allowed but not deducted		82825
Depreciation	2900	(2900)
		79925

Less Income not taxable under this head		
Bad debts recovered	4000	
Interest on Govt. Securities	4000	(8000)
Taxable business income		71925

Question 20 (K) The following is the profit and loss account of a merchant for the year ending 31.3.2023.

Particular	Amount	Particular	Amount
To office salary	6,500	Gross Profit	36750
To Bad debts w/o	1,700		
To provision for bad debts	2,000		
To Proprietor salary	1,000		
To Advertisement (Cash)	3800		
To Fire Insurance premium (house property)	550	By commission	1,250
To General expenses	2750	By Discounts	500
To Depreciation	1200	By Sundry receipts	200
To Interest on Capital	1500	By Rent of building	3600
To Drawings	500	By profit on sale of investments	3000
To Interest on bank loan (Due)	1300		
To Difference in Trial Balance	1200		
To Fines and Penalties	1800		
To Net profit	19500		
	45,300		45,300

Compute the taxable profits from business. The amount of depreciation is Rs 1,000. Interest on bank loan was paid on **1.8.2023**. Due date of filing of return is **31.7.2023**.

Answer-- COMPUTATION OF BUSINESS INCOME OF
For the Assessment Year 2023-24

Particulars	Details	Amount
Net Profit as per P & L A/c		22500
Add: Inadmissible Expenditure		
Provision for bad debts	2000	
Proprietor salary	1000	
Fire Insurance Premium	550	
Depreciation	1200	
Interest on capital	1500	
Drawings	500	
Interest on Bank Loan paid on 1.8.2023 as per sec 43B	1300	8050
Less: Expenses allowed but not deducted		30550
Depreciation	1000	(1000)
		29550

Less Income not taxable under this head		
Rent of building	3600	
Profit on sale of investment	3000	(6600)
Taxable business income		22950

Q 21 (90-E1) X (age 34 years, resident), furnishes the following information relevant for the assessment year 2023-24:

To Household expenses	11,200	By Gross Profit	85,69,000
To Bad debts	600	By Commission	5,000
To Provision for Bad debts	4,800	By Sundry receipts	8,000
To Fire insurance	1,000	By Interest on Investment	11,000
To salary to staff	2,08,000	By Bad debts recovered (earlier allowed as ded)	2,000
To Salary to X	3,000	By Interest on Securities (Gross)	6,000
To contribution towards unrecognized provident fund	32,000		
To interest on overdraft taken for payment of sales tax	6,000		
To interest on capital of X	13,000		
To interest on loan given by X's brother	1,000		
To Depreciation on building and furniture	13,600		
To Advertisement			
--Revenue expenditure	3,800		
--Capital expenditure on a sign board	1,000		
To General Expenses	4,700		
To Net profit	82,97,300		
	86,01,000		86,01,000

Other information:

- General expenses include medical expenditure of X Rs 1,700.
- Income of Rs 3000, accrued during the previous year ending March 31, 2023, is not recorded in the profit and loss account
- Depreciation on building, furniture and sign board comes to Rs 3,000 according to the tax provision.
- X contributes Rs 1,40,000 towards public provident fund.

Determine business income for the assessment year 2023-24. Ignore section 115BAC pertaining to alternative tax regime.

Answer—

COMPUTATION OF BUSINESS INCOME OF
For the Assessment Year 2023-24

Particulars	Details	Amount
Net Profit as per profit and loss account		82,97,300

<u>Add: Expenses Disallowed</u>		
Household expenses	11,200	
Provision for Bad debts	4,800	
Salary to X	3,000	
contribution towards unrecognized provident fund	32,000	
interest on capital of X	13,000	
Capital expenditure on a sign board	1,000	
Medical Expenses of X	1,700	
Depreciation on building and furniture	13,600	80,300
		83,77,600
<u>Less: Allowable Expenses</u>		
Depreciation on building and furniture	(3,000)	(3,000)
		83,74,600
<u>Add: Income Taxable under this head</u>		
Accrued Income	3,000	3,000
		83,77,600
<u>Less: Income Not Taxable under this head</u>		
Interest on Investment	11,000	
Interest on Securities	6,000	(17,000)
		83,60,600
Business Income		

Q 22 (90-E2) X (age: 53 years), a resident individual, furnishes the following particulars for the previous year relevant for the assessment year 2023-24.

To salary to staff	13,000	By Gross profit	15,49,700
To Staff welfare expenditure	6,000	By Sundry Receipts	4,400
To General Expenses	6,500	By Short term capital gains	3,000
To Bad debts	3,000		
To Advance tax for the AY 2023-24	400		
To fire insurance	4,000		
To Advertisement expenses	11,000		
To Interest on X's capital and loan	3,600		
To Expenditure on acquisition of a copyright incurred on March 1, 2023 (it is put to use on same day)	2,800		
To Lump sum consideration for acquiring know how incurred on 10.3.23 (it is put to use on 1.4.23)	12,000		
To Depreciation on other business assets	6,000		
To Provision for income-tax	2,000		
To Contribution to a political party	1,000		
To Net profit	14,85,800		
	15,57,100		15,57,100

Other information:

1. Salary to staff includes salary paid to a relative which is unreasonable to the extent of Rs 3,400.
2. Advertisement expenses include Rs 8000 being cost of 8 diaries presented to the customers.
3. Depreciation on other assets according to income-tax provision comes to Rs 9,600.
4. Provision for income tax is excessive to the extent of Rs 600.
5. During the year 2022-23, X has purchased National Saving Certificate VIII issue of Rs 1,10,000.
6. General expenses include an expenditure of Rs 1780 for arranging a long-term loan.
7. During the previous year 2022-23, the following payments are made:
 - a) Rs 7000 paid on May 5, 2022 on account of outstanding customs duty of the previous year 2021-22; and
 - b) Rs 5000 paid on January 3, 2023 on account of outstanding GST of the previous year 2021-22.

Find out the business income for the assessment year 2023-24.

Answer—

COMPUTATION OF BUSINESS INCOME OF
For the Assessment Year 2023-24

Particulars	Details	Amount
Net Profit as per profit and loss account		14,85,800
<u>Add: Expenses Disallowed</u>		
Advance tax for the AY 2023-24	400	
Interest on X's capital and loan	3,600	
Expenditure on acquisition of a copyright incurred on March 1, 2023 (it is put to use on same day)	2,800	
Lump sum consideration for acquiring know how incurred on 10.3.23 (it is put to use on 1.4.23)	12,000	
Provision for income-tax	2,000	
Contribution to a political party	1,000	
Staff Salary unreasonable	3,400	
Depreciation on other business assets	6,000	31,200
		15,17,000
<u>Less: Allowable Expenses</u>		
Depreciation on other business assets	9,600	
Depreciation on copyright (2800x25%=700x50%)	350	
Depreciation on Know how	NIL	
Outstanding GST	5,000	(14,950)
		15,02,050
<u>Less: Income Not Taxable under this head</u>		

Short term Capital Gain	(3,000)	(3,000)
Business Income		14,99,050

Q 23 (90-E3) X (age:35 years), a resident individual, furnishes the following particulars for the assessment year 2023-24:

Office Expenses	2,400	Gross Profit	28,98,000
Audit fees	8,000	Sundry Receipts	9,000
Legal expenses	1,000	Customs duties recovered from the Govt (earlier not allowed as deduction)	5,300
Cost of extension to building	10,000	Bad debts recovered (earlier allowed as deduction)	3,000
Depreciation on machinery and extension of building	11,000	Gift from a friend	10,000
Salary to staff	21,000		
Bonus to staff	15,000		
Contribution to an approved gratuity fund	6,000		
Outstanding liability in respect of interest payable to IDBI	8,000		
General Expenses	21,000		
Net profit	28,21,900		
	29,25,300		29,25,300

Other relevant particulars:-

- Bonus is outstanding on March 31, 2023. Rs10500 is, however, **paid on July 31, 2023** (being the due date of furnishing return of income).
 - Depreciation on machinery and extension of building shown in the profit and loss account is calculated according to the income tax provision.
 - General expenses include payment of Rs 9000 to an approved institute for the purpose of carrying on a scientific research in natural science. The research is, however, **not related** to the business of the assessee.
 - During the previous year 2022-23, X also makes a capital expenditure of Rs 25000 for the purpose of carrying on a scientific research related to his business. This expenditure is, however, not recorded in the profit and loss account.
 - Outstanding interest payable to IDBI is paid as follows: Rs 500 on April 10, 2023, Rs 1000 on May 10, 2023, Rs 2000 on June 30, 2023 and Rs 1000 on September 10, 2023, Rs 3500 is still outstanding.
 - Salary to staff includes Rs 2000 beings compensation paid for termination of an employee.
- Determine the business income for the **assessment year 2023-24**.

Answer--2796100

Q 24 (90-E4) X (age 26 years), a resident individual, furnishes the following particulars for the assessment year 2023-24:

Office expenses	9,000	Gross Profit	18,86,575
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Salary to staff	24,000	Sundry receipts	38,000
Depreciation	15,000		
Travelling expenses for business	9,000		
Loss of cash by an employee through embezzlement	6,000		
Transfer to special reserve account	1,875		
Expenditure on festival	2,000		
Interest and legal expenses	22,600		
Sundry expenses	5,000		
Telephone for employees	25,000		
Net profit	18,05,100		
	19,24,575		19,24,575

Other information:-

1	Salary to staff includes payment of Rs 6,000 out of India on which tax has not been deducted at source nor paid to the Govt.
2	Depreciated value of plant and machinery on April 1, 2022 is Rs 70,000 (rate of depreciation: 15%) a) An air conditioner (cost price Rs 7,500) whose written down value on 1.4.2020 is Rs 2450, is disposed of for Rs 7,000. b) A typewriter whose written down value on 1.4.2022 is Rs 570 is sold for Rs 200. c) X purchases a telephone set for Rs 10,000 on November 1, 2022 which is eligible for depreciation at the rate of 15%.
3	Travelling expenses include Rs 7,600 being hotel expenditure of an employee in respect of an official visit to Madras for 5 days.
4	Amount debited as expenditure on festival is cost of a gift presented to relative .
5	Sundry expenses include expenditure of Rs 4,000 on maintenance of a guest house at Bombay.
6	Legal expenses include cash payment of Rs 12,000 to an advocate (who is not an employee of X) for giving income tax advice.
7	Sundry receipts include Rs 12,000 being amount of a loan taken from PPF.

Determine Business Income for the **Assessment year 2023-24**.

Answer—18,19,805

Q 25 (90 E-6) X (age:31 years) furnishes the following particulars of his income for the assessment year 2023-24:

Salary to staff	2,40,000	Gross Profit	8,01,000
Repairs of House property	1,00,000	Rent of house property received from tenant (Rs 90000 was received in advance during 2019-20)	2,70,000
Repairs of Machinery	20,000	Refund of deposit from a supplier (deposit was made	2,10,000
Municipal taxes of house property	18,000		
Fire insurance of House Property	2,000		
Fire insurance of Machinery	3,000		
Office expenses	66,500		

Depreciation of House property	30,000	to purchase a machine, the supplier could not supply the machine)	10,000
Depreciation of Business Assets	80,000		
Interest on capital borrowed for construction of house property	1,00,000	Interest on such refund	
Net profit	6,31,500		
	12,91,000		12,91,000

X owns a house property, erection of which was completed in May 1974. 50% of the carpet area (Unit 1) is let out to a tenant at Rs 30,000 per month; 25% of the carpet area (unit 2) is used by X for his own residence and the remaining portion (unit 3) is used by him for his business purposes (no rent is charged). Income of X from other sources not included in the profit and loss account is Rs 8,50,000. Determine the Taxable income for the Assessment Year 2023-24 on the assumption that he deposits on April 1, 2022, Rs 156000 in the Home Loan account Scheme of the National Housing Bank.

Answer— Computation of Total Income of X
For the assessment year 2023-24

<u>Income from House Property</u>		
<u>Unit 1 (Let out house property)</u>		
Gross Annual Value	3,60,000	
Less: Municipal Taxes (18000X50%)	(9000)	
Annual Value	3,51,000	
<u>Less: Deduction u/s 24</u>		
Statutory deduction @ 30% of the annual value	(1,05,300)	
Interest on Loan (1,00,000X50%)	(50,000)	
	1,95,700	
<u>Unit 2 (Self Occupied 25% area)</u>		
Annual Value	NIL	
Less: Deduction u/s 24		
Interest on Loan (1,00,000 X25%)	(25000)	
Loss from House Property	(25000)	
Income from House property (195700---25000)		1,70,700
<u>Business Income</u>		
Net profit as per Profit and Loss A/c	6,31,500	
<u>Add: Expenses disallowed</u>		
Repairs house property (1,00,000 X 75%)	75,000	
Municipal taxes of house property (18000X75%)	13,500	
Fire insurance of House property (2000X75%)	1500	
Depreciation of house property (30000X75%)	22,500	
Interest on capital borrowed for construction of house property (1,00,000 X 75%)	75,000	
	8,19,000	
<u>Less: Income not taxable under this head</u>		

Rent of house property received from tenant	(2,70,000)	
Refund of deposit from a supplier	(2,10,000)	3,39,000
Income from Other Source		850000
Gross Total Income		1359700
Less: Deduction u/s 80C (deposit in Home Loan Account)		(150000)
Total Income		1209700

Note : Interest on refund of deposit from supplier is a business income.

Q 26 (90-E7) X(age:32 years), a lawyer, who maintains books of account on cash basis, furnishes particulars of his income for the previous year ending March 31, 2023:

Receipts and payment account for the year ending March 31, 2023

Balance brought down	21,000	Purchase of typewriter	7,000
Fees from clients		Car expenses	8,000
Of 2020-21	12,40,000	Office expenses	7,000
Of 2019-20	2,03,000	Salary to staff	9,18,000
Presents from clients	4,000	Interest on loan	1,000
Loan from a client	8,000	Income-Tax penalty	2,000
		Contribution to PPF	1,30,000
		Purchase of notified bonds of infrastructure company	72,000
		Balance carried forward	3,31,000
	14,76,000		14,76,000

Notes:-

1	20% of car expenses are attributable towards use of car for personal purposes.
2	Fees due but outstanding is Rs 40,000
3	Depreciation of car is Rs 3,000
4	Income of X from other sources is Rs 1,45,000
5	X purchased a computer for Rs 80,000 on March 10, 2020 . It is, however, put to use on December 3, 2020 (rate of depreciation 40%)
6	Staff salary includes salary of manager of Rs 4,50,000 (tax of Rs 19,000 was deducted by X but it is deposited on December 10, 2021).

Determine the business income for the assessment year 2021-22.

Answer—609150

Q 27 (90-E8) X (age 45 years) a resident individual, is owner of a departmental store at Madras. He requests you to compute his total income and tax liability of the assessment year 2023-24 on the basis of the following profit and loss account for the year ending **March 31, 2023**:

Opening stock	3,60,000	Sale (agency business)	69,00,000
Purchases	50,00,000	Closing stock	4,50,000
Salaries and wages	11,20,000		
Rent and rates	40,000		
Household expenses	1,18,000		

Commission	27,000		
Income tax for 2019-20	42,000		
Advertisement	10,000		
Postage and telegrams	4,000		
Interest on own capital	6,000		
Reserve for future losses	5,000		
Depreciation (furniture)	1,000		
Net profit	6,17,000		
	73,50,000		73,50,000

The following additional particulars are furnished:

1	Stock of goods at the opening as well as closing day of the accounting year had consistently been valued at 10% below the cost price.
2	The amount of household expenses include a contribution of Rs 1,07,000 towards PPF.
3	Sales include a sum of Rs 50,000 representing goods withdrawn for the use of X's family members. These goods were purchased at a cost of Rs 60,000. Market value of these goods is Rs 63,000.
4	Depreciation according to the income-tax rules work out to Rs 500.
5	Salary and wages include salary to an employee of Rs 2,80,000 (tax was deductible but not deducted).
6	Ignore section 115BAC pertaining to alternative tax regime.

Answer—892500

Q 28 (90P1) From the profit and loss account of X (age: 31 years, resident) for the year ending March 31, 2023, ascertain his Business Income for the assessment year 2023-24:

To general expenses	13,400	By Gross profits	14,15,500
To Bad debts	22,000	By commission	8,600
To Advance Tax	2,000	By Brokerage	37,000
To Insurance	600	By sundry receipts	2,500
To salary to staff	26,000	By bad debts recovered (earlier allowed as deduction)	11,000
To salary to X	51,000	By Interest on debenture (i.e. net amount Rs 22,500+ Tax deducted at source: Rs 2500)	25,000
To interest on overdraft	4,000	By interest on deposit with a company (non-trade) (net interest: Rs 11700+tax deducted at source Rs 1300)	13,000
To interest on loan to Mrs X	42,000		
To Interest on capital of X	23,000		
To Depreciation	48,000		
To Advertisement Expenditure	7,000		
To Contribution to employees' recognized provident fund	13,000		
To Net profit	12,60,600		
	15,12,600		15,12,600

Other information:-

1	The amount of depreciation allowable is Rs 37,300 as per the income tax rules. It includes depreciation on permanent sign board.
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2	Advertisement expenditure includes Rs 3000 being cost of permanent sign fixed on office premises.
3	Income of Rs 4500, accrued during the previous year, is not recorded in the profit and loss account.
4	X pays Rs 6,000 as premium on own life insurance policy of Rs 70,000
5	General expenses include (a) Rs 500 given to Mrs. X for arranging a party in honour of a friend who has recently come from Canada (b) Rs 1000 being contribution to a political party.
6	Loan was taken from Mrs X for payment of arrears of income tax.

Answer—Business Income Rs 13,60,300

ALWAYS SMILE, IT INCREASES YOUR FACE VALUE

MAN IS AN ARCHITECT OF WHOM ??? HE IS THE ARCHITECT OF HIS OWN FATE....!

TEAM = T= TOGETHER E= EVERY ONE A= ACHIEVE M= MORE

Vinod Sir 9872046144