

## Unit 6 : INCOME FROM BUSINESS/PROFESSION

Business is an activity of purchase and sell of goods with the intention of making profit. Profession is an occupation requiring intellectual skill. E.g. Doctor, Lawyer etc. Vocation is an activity, which requires a special skill, which is used to earn income. e.g. Painter, Singer etc. For income tax purpose there is no difference between business income, profession income and vocation income.

### Section 2 ( 13 ) : Business

Business includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

#### Explanation: -

Thus business is any activity carried out with the intention to earn profit, whether such an activity is continuous or temporary is immaterial.

In determining whether a particular transaction is an adventure in the nature of trade or not, total impression and effect of all relevant facts and circumstances of the transaction have to be seen. To bring a transaction within the term "business", the transaction must be a "trade" or in the nature of "trade". Hence everything depends upon the facts and circumstances of the case. **E.g.** A person making investment of surplus funds in shares or debentures cannot be deemed to be carrying on the business of trading in shares although occasionally he may be selling "some" shares or debentures and making gains thereon.

### METHODS OF COMPUTING TAXABLE INCOME

1. Gross Sales or Gross fees as the case may be are to be taken as the base if Receipt and Payment A/c or cash Book is given. From this Gross income expenses which are specifically allowed by the income tax act are deducted to arrive at taxable income.
2. If profit & loss a/c or income & expenditure a/c is given Net Profit or (Surplus) is taken as the base and then following adjustments are made: -
  - 1) Expenses, which are debited, to profit & loss a/c, but disallowed by the Income Tax Act and either fully or partially are added back.
  - 2) Expenses, which are not debited, to profit & loss a/c but which are allowed by the Income Tax Act are deducted.
  - 3) Income that is credited to profit & loss a/c but not taxable at all or taxable under some different head is to be deducted.
  - 4) Income that is not credited to profit & loss a/c, but which is chargeable to tax as business income is to be added.

### **BASIS OF CHARGE: SECTION 28**

Under Section 28 following are the income chargeable to tax under the head Profits or Gains from Business or profession: -

- 1) Profits and Gains of any business or profession that is carried on by the assessee at any time during the previous year.
- 2) Any compensation or other payment due to or received by an assessee for loss of agency due to termination or modification of terms.
- 3) Income derived by a trade, professional or a similar association for specific services performed for its members.
- 4) Any profit on sale of a license granted under Imports (controls) Order 1955 made under Imports & Exports (control) Act of 1947.
- 5) Any cash assistance (by whatever name called) received or receivable against exports under any scheme of Government of India.
- 6) Any duty of customs or excise repaid or repayable as drawback to any person against exports under the Customs and Central Excise Duty's Drawback Rules 1971.
- 7) Any profit on the transfer of the Duty entitlement pass book scheme under export import policy.
- 8) Any profit on the transfer of the Duty free replenishment certificate under export import policy.
- 9) The value of any benefit or perquisite whether convertible into money or not arising from business or exercise of a profession e.g. A gift received by the lawyer from his client.
- 10) Any interest, salary, bonus, commission or remuneration due to or received by partner of a firm from such firm.
- 11) Sum received or receivable in cash or in kind under an agreement for not carrying out any activity in relation to any business or not sharing any know how, patent, copyright, trade mark, license franchise or any other business or commercial right of similar nature or information or technique likely to assist the manufacture or processing of goods or provision of services.
- 12) Any sum received including bonus under Keyman Insurance Policy.
- 13) Any sum received (or receivable) in cash or kind, on account of any capital asset (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as a deduction under section 35AD.
- 14) Income from a speculative business.

DEDUCTIONS FOR EXPENSES SPECIFICALLY ALLOWED SECTION 30 TO SECTION 43D

**1. Rent, rates, taxes, repairs and insurance of building (Section 30):**

- 1) If assessee has occupied the premises as a tenant, rent of the premises and if he has agreed to bear cost of repairs, such cost is allowed as deduction, provided it is not of capital nature.
- 2) If assessee has occupied premises as the owner; repairs, land revenue, local taxes, insurance premium etc. are allowed as deduction. However, no expenditure in form of capital expenditure is allowed.

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**2. Repairs & Insurance of machinery, Plant & Furniture (Sec.31):** Amount paid on account of repairs and insurance premium against risk of damage in respect of machinery, plant & furniture are allowed as deduction provided they are not of capital nature.

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**3. Depreciation u/s 32:** Under Section 32 depreciation on assets is allowed as deduction while computing income from business or profession. To claim this deduction following conditions should be satisfied:

- 1) Assessee should be owner of the asset.
- 2) Asset must be used for the business.
- 3) Such use must be in the previous year.

Depreciation is allowed not on individual asset items, but on block of assets under following categories: -

- 1) Buildings
- 2) Plant & Machinery
- 3) Furniture
- 4) Intangible Assets acquired after March 31, 1998 such as know- how, Patents, Trademarks, licenses, franchises or any other business or commercial rights of similar nature.

The term plant includes ships, vehicles, books, scientific apparatus and surgical equipments used for the business but excludes tea bushes or live stock.

If any asset falling in block of assets is acquired during the year and **put to use** during the previous year for **less than 180 days** depreciation on such asset shall be restricted to **50% of the normal depreciation.**

No depreciation is allowed on motor car which is manufactured outside India and acquired on or after 1<sup>st</sup> March 1975 but before 1<sup>st</sup> April 2001. However, this restriction does not apply if:

- 1) Assessee carries on a business of running the car on the hire for tourist, or
- 2) If assessee is using the car outside India for his business in another country.

If business is carried on in a building not owned by the assessee but acquired on lease or any other occupancy right and any capital expenditure is incurred by him in respect of this building, such expenditure will be considered as cost of asset as if he is the owner of such property.

### A. METHOD OF CALCULATING DEPRECIATION

1. Consider total W.D.V. of assets falling in a particular block of assets at the beginning of the year.
  2. Add cost of assets purchased during the previous year.
  3. Deduct Sale Price (or Scrap value) of asset sold, discarded, demolished or destroyed during the year.
  4. On the balance amount i.e. 1+2-3, calculate depreciation at the given rate. If WDV becomes negative, no depreciation is allowed. If all assets in the block are sold depreciation is not allowed even if block has any balance WDV.
- B.** In the first year if asset acquired is used for less than 180 days depreciation is restricted to 50% of normal depreciation.
- C.** W.e.f. A.Y. 1998-99 an undertaking engaged in generation / distribution of power has an option to claim depreciation on Straight Line Method. Once option is exercised it will apply to all subsequent years.

### Additional depreciation

It can be claimed on new plant & machinery acquired after 31<sup>st</sup> March 2005 by an assessee in the previous year in which it begins manufacturing or producing.

**Rate of additional depreciation:** 20% of actual cost.

### UNABSORBED DEPRECIATION SECTION 32 (2)

If profit for the year is not sufficient to absorb depreciation either fully or partially, unabsorbed depreciation can be deducted from any other head of income. If it still remains unabsorbed it can be carried forward to subsequent assessment years to be adjusted against future taxable income. It can be carried forward for unlimited period.

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### PROBLEMS

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1. Find out WDV on block of assets for depreciation purpose under Income Tax Act for assessment year 2016-17. Also find out amount of depreciation
  - i)
    - 1) WDV on 1<sup>st</sup> April 2015 ₹ 35,000
    - 2) Purchase of assets during the year
      - a. On 5<sup>th</sup> April, 2015 ₹ 13,000
      - b. On 30<sup>th</sup> Sept. 2015 ₹ 10,000
    - 3) On 7<sup>th</sup> March 2016, one asset WDV of which at the beginning of the year was ₹ 7,000 was sold for ₹ 5,000.
    - 4) Rate of depreciation: 10%

- ii) 1) Block of asset-Plant & Machinery.  
 2) W.D.V. on 1<sup>st</sup> April 2015 ₹ 8,000.  
 3) Purchases of a new machine on 1<sup>st</sup> September 2015 ₹ 6,000.  
 4) One machine W.D.V. of which at the beginning was ₹ 7,000 was sold for ₹ 16,000.  
 5) Rate of depreciation 15%.
- iii) 1) Block of asset-Plant & Machinery  
 2) W.D.V. on 1<sup>st</sup> April 2015 ₹ 50,000.  
 3) Machines purchased during the year  
     (a) On 15<sup>th</sup> May 2015 ₹ 20,000  
     (b) On 18<sup>th</sup> Oct 2015 ₹ 4,000  
 4) Rate of depreciation 10%
- iv) 1) W.D.V. as on 1<sup>st</sup> April 2015 ₹ 60,000  
 2) Purchases on 30<sup>th</sup> March 2016 ₹ 10,000  
 3) Sales W.D.V. ₹ 8,000, Selling Price ₹ 5,000.  
 4) Rate of depreciation 15%.  
 5) Block of Assets: Furniture
- v) If selling price is ₹ 62,000 in case (iv) find the amount of depreciation.
- vi) WDV on 1.4.2015 ₹ 16,000  
 All assets sold for ₹ 4,000  
 Rate of depreciation 10%
- vii) Following assets were acquired for a new business. Form block of assets & calculate depreciation:

Particulars	Rate of Depreciation	Cost(₹)
1. Building	5%	60,00,000
2. Machinery	20%	2,00,000
3. Machinery	40%	3,00,000
4. Machinery	50%	1,00,000

**Investment Allowance for investment in new plant and machinery [U/s 32AC]**

This deduction is allowed for A.Y. 2014-15 & 2015-16 only to a Company engaged in manufacture and invests more than ₹ 100 crores in new plant and machinery during the period between 1st April 2013 & 31st March 2015. This deduction is allowed in addition to normal and additional depreciation.

**Actual Deduction:** a. In A.Y. 2014-15 15% of actual cost of new assets acquired and installed in the previous year 2013-14

b. In A.Y. 2014-15 15% of actual cost of new assets acquired from 1st April 2013 to 31st March 2015 as reduced by deduction allowed in A.Y.2014-15.

U/s 32AC(1) Investment Allowance is available if the aggregate amount of actual cost of new asset acquired and installed by the company during any previous year exceeds ₹ 25 crore. This is applicable from A.Y. 2015-16 to 2017-18.

If asset on which this deduction is claimed is transferred within 5 years from the date of installation then the amount that was allowed as deduction shall be treated as business income in the year in which it is transferred.

### **Expenditure on Scientific Research [U/S 35]**

Scientific Research means any activities for the expansion of knowledge in the fields of natural or applied science including agriculture, animal husbandry or fisheries. The following expenditure on scientific research is allowed as deduction:

- a) Revenue expenditure incurred for scientific research related to assessee's business will be fully allowed. This may be the payment of any salary to the persons engaged in scientific research or purchase of materials for use in such scientific research.
- b) Capital expenditure incurred on scientific research related to assessee's business, will be allowed in full, however purchase of land is not allowed. No depreciation is allowed u/s 32 in respect of such asset during the previous year and subsequent year.
- c) Contribution made to approved scientific research association or college or university or other approved institutions for scientific research and to approved university, college or institution for the use of scientific research is allowed. Above may or may not be related to assessee's business & a weighted deduction of 1.75 times of amounts paid is allowed as a deduction.
- d) Contribution made to approved university, college or institution for research in social science or statistical research is allowed. Above may or may not be related to assessee's business & a weighted deduction of 1.25 times of amounts paid is allowed as a deduction.
- e) Any sum paid to a "National laboratory" or I.I.T. or a university or a specified person approved by prescribed authority, to be used for scientific research under an approved program, will be allowed deduction of 2 times of the amount so paid [ Sec. 35(2AA)].
- f) In case of a company engaged in manufacture or production of any drugs pharmaceuticals, electronic equipments, computers, tele-communication equipments, chemicals or any other article or thing notified by the board, incurs any expenditure on scientific research (excluding the cost of land and building) or in-house research and development facility as approved by the prescribe authority, a weighted deduction of 2 times of such expenditure shall be allowed. The weighted deduction which was allowed in respect of such expenditure u/s 35(AB) will not be considered for any deduction under any other provision of this Act. This weighted deduction is allowed subject to the condition that the research and development facility is approved by the prescribed authority and the company has entered into an agreement of cooperation and for audit of the accounts maintained for this purpose. The prescribed authority shall submit the report of the approval of the said facility to the director General in such form and within such time as may be prescribed. This subsection is amended to allow the said deduction in respect of expenditure incurred upto 31<sup>st</sup> Day of March 2012.

**4. Deduction u/s. 36 & 37:**

- 1. Insurance:** Section 36(1) (i)- Premium paid to cover the risk of damage or destruction of stocks, stores, cattle and on health of employees under the approved scheme.
- 2. Insurance Premium paid by Federal milk co-op. society on the lives of cattle owned by the members of a Primary Milk Co-op, Society affiliated to it.** Section 36(1) (ia)
- 3. Premia for insurance on health of employees in accordance with scheme framed by GIC & approved by Central Government or any other insurer & approved by the Insurance Regulatory & Development Authority (only if paid by cheque)** Section 36(1) (ib).
- 4. Bonus or commission paid to Employees:** Section 36(1) (ii): It is allowed as deduction so far as they are not paid as profit or dividend.
- 5. Interest on borrowed capital:** Section 36(1) (iii): - It is allowed as deduction. However, interest paid by firm to its partners is allowed subject to provisions of Sections 40(b).
- 6. Discount on zero coupon bonds** is deductible by issuing Company on pro rata Basis Sec.36(1)(iii a)
- 7. Contribution to recognised Provident fund or an approved super annuation fund:** Section 36(1)(iv). Any sum paid by the assessee as an employer by way of contribution towards pension scheme.
- 8. Contribution to Pension Scheme:** Section 36(1)(iv a) Any contribution by an employer by way of contribution towards a pension scheme for an employee up to 10% of salary shall be allowed as deduction.
- 9. Contribution to approved Gratuity Fund** Section 36(1)(v): - Amount contributed to the fund which is for the exclusive benefit of the employees will be allowed as deduction.
- 10. Contributions received from employees (when deposited)** Section 36(1)(va): - Any contribution received from employees towards any funds for the welfare of the employees e.g. P.F. will be allowed as deduction when such contribution is credited to employees a/c on or before the due date. It is allowed as deduction not because it is an expenditure of the assessee. In fact, it is not at all an expenditure of the assessee. But when this amount is deducted from salary of employees, it is treated as an income under section 2(24)(x). Therefore, deduction is allowed when payment is made by the due date.
- 11. Animals used for the business:** Section 36 (1) (vi): - Deduction is allowed when animals have died or have become permanently useless. Amount of deduction will be difference between actual cost of the animals and amount realised if any in respect of carcasses of the animals.

Deduction is allowed only if animals are used for the purpose of business but not as stock in trade.

**12. Bad debts:** Section 36(1)(vii) and Section 36(2): - Deduction is allowed on this account if debts have arisen out of business transaction. It is the responsibility of the assessee to prove to the satisfaction of income tax officer that such debts are irrecoverable.

**13. Expenditure for promoting family planning:** Section 36(1)(ix): - Only a company can claim this deduction. Any expenditure incurred by a company to promote family planning among its employees is allowed as deduction fully, provided it is revenue expenditure. Any capital expenditure on this account is allowed as deduction in 5 equal instalments. If profit is not sufficient to absorb this expenditure it can be carried forward to be set off in future. No depreciation can be claimed under section 32 on capital assets used for promoting family planning and allowed as deduction under section 36(1)(ix).

**14.** Any amount of banking cash transaction tax paid during the year. 36(1)(xiii)

**14. General Expenditure for the purpose of business or profession Section 37:** - Any other expenditure not covered by section 30 to 36 which is of revenue nature will be allowed as deduction provided it is incurred exclusively for the purpose of business or profession. e. g

1. Embezzlement of cash.
2. Expenses on local festival such as Diwali, Muhurta etc.
3. Cash shortage found in the business at the end of the day.
4. Entertainment Expenses
5. Advertisement Expenses
6. Travelling Expenses
7. Guest House Expenses.
8. Lawful expenses related to illegal business.
9. Premium on redemption of debentures
10. Discount on issue of debentures (on pro rata basis)

#### **Expenses Not Deductible Under Section 37**

1. Donations
2. Charities
3. Gifts to relatives
4. Income tax
5. Wealth tax
6. Advance income tax
7. Fines and penalties for breach of any laws.
8. Personal Drawings
9. Salary to owner
10. Interest on proprietors capital
11. Capital expenditure

12. Purchase of an assets
13. Extension of building
14. Personal expenditure
15. Household expenses.
16. Drawings
17. Education expenses of children
18. Residential telephone bill
19. Residential electricity bill
20. Residential maintenance
21. Amount transferred to reserve
22. Personal Hotel expenses
23. R.D.D. But deduction is allowed for actual bad debts
24. Personal motor expenses
25. L.I.C. on own life.
26. Any Investments
27. Any expenses related to let out house property.
28. Expenditure on Advertisement (Section 37(2B)): It is allowed as deduction. However, as per Section 37 (2B), any expenditure incurred by an assessee on the advertisement in any souvenir, brochure, pamphlet etc. published by a political party will not be allowed as deduction.
29. In case of all assessee Section 40(a): Interest, royalty, fees for technical services or any other sum chargeable to tax payable outside India without deducting tax at source & where there is no person to be treated as an agent of person receiving this amount.
30. Salary paid outside India without deducting tax at source
31. Any contribution to PF or any other Fund, if there is no arrangement for TDS from any payment to be made from such Fund if it is taxable under the head Salaries.
32. Expenditure on Corporate Social Responsibility.(W.e.f A.Y. 2016-17)

#### 5. Deductions under section 40:

##### Deduction to firm / AOP on certain appropriations: -

1. In case of partnership firm **Section 40(b)**: - Payment of salary, bonus, commission or remuneration to partner of the firm, by the firm is allowed as deduction only to the following extent: -
  1. Loss or profit up to ₹ 3,00,000 - ₹ 1,50,000 or 90% of book profit which ever is more
  2. On the balance - 60% of book profit
2. In case of A.O.P. Section 40(ba): Any payment of Interest, Salary, bonus, commission or remuneration made by A.O.P. or B.O.I. to the member thereof shall not be allowed as deduction.

3. Interest to partners – Interest on capital of partners is allowed as deduction provided it is authorized by the partnership deed & rate of interest does not exceed 12% p.a.

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**EXPENSES OR PAYMENTS NOT DEDUCTIBLE IN CERTAIN CASES UNDER SECTION 40 A**

**1. Payments to certain persons which are unreasonable or excessive** under Section 40A(2).

Payments made by assessee to following persons :-

- (a) Who is relative of assessee, if assessee is an individual i.e. spouse, brother, sister or any lineal ascendant & descendant
- (b) Who is director, partner, member or their relatives, if assessee is a company or a firm or AOP or HUF
- (c) Any person who is having substantial interest in business or profession of the assessee. i.e. a person who is beneficial owner of at least 20% of equity capital or entitled to 20% profit.

If any payment is made by assessee on any account to above mentioned persons & if in the opinion of assessing officer such payment is excessive or unreasonable then to the extent it is unreasonable will be disallowed.

**2. Payments exceeding ₹20,000 made otherwise than by a crossed cheque or a draft** Section 40A(3) & 40A (4):- If assessee incurs any expenditure exceeding ₹ 20,000 otherwise than by a crossed cheque or a draft it shall be disallowed to the extent of 100%.

Where the assessee incurs any expenditure in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft, exceeds twenty thousand rupees, no deduction shall be allowed in respect of such expenditure.

If expenses are incurred in earlier years and remained outstanding in that year but deduction was allowed on accrual basis and if actual payment (exceeding ₹ 20,000) is made in the next year in cash it will be considered as if expenditure allowed earlier as deduction was wrong & necessary amount will be added to income of year in which it is paid.

However, Rule 6DD provides for exceptional or unavoidable circumstances where payments exceeding ₹ 20,000 are to be made in cash. Taking into consideration genuineness of such transaction they will be allowed as deduction.

With effect from October 1, 2009, the monetary limit of ₹ 20,000 under section 40A(3) has been raised to ₹ 35,000 in the case of payment made for plying, hiring or leasing goods carriages. For other payments, the limit of ₹ 20,000 will continue.

For the purpose of this Section even payment for purchase of goods is considered as expenses.

**3. Provision made for payment of gratuity** under section 40 A (7)

- a) Subject to the provisions of clauses (b), no deduction shall be allowed in respect of any provision (whether called as such or by any other name) made by the assessee for the payment of gratuity to his employees on their retirement or on termination of their employment for any reason.
- b) Nothing in clause (a) shall apply in relation to any provision made by the assessee for the purpose of payment of a sum by way of any contribution towards an approved gratuity fund, or for the purpose of payment of any gratuity, that has become payable during the previous year.

**4. Contributions made by employer to non-statutory funds** under section 40A(9) & 40A (10): - Any contribution mentioned above shall not be allowed as deduction. This provision does not apply to contributions to recognised PF, approved gratuity & super annuation fund etc.

**6. Deduction under section 43:**

**Disallowance of unpaid statutory liability** (Section 43B): - This section is applicable only if books are maintained on accrual basis. In the following cases, deduction otherwise allowable under the Income-tax Act will not be allowed unless the amounts are actually paid by the due date for filing return of income. If these liabilities are disallowed under section 43B in the year of provision, they will be allowed in succeeding year or years when actually paid: -

- 1) Tax, duty, cess or fees, under any law (e.g. Sales-tax, Excise duty, etc.)
- 2) Employer's contribution to provident fund or super annuation fund or gratuity fund or any other fund for the welfare of the employees.
- 3) Bonus or commission for services rendered payable to employees referred to in section (1) (ii) & sum due in lieu of leave balance.
- 4) Interest on any loan or borrowing from any public financial institutions or a State Financial Corporation or a State Industrial Investment Corporation, in accordance with the terms and conditions of loan/borrowing agreement.
- 5) Interest on any term loan from a scheduled bank in accordance with the terms and conditions of the agreement governing such loan.

It should be noted that these payments will not be allowed as deduction on accrual basis if not paid by the due date of filing return of income even if books are kept on mercantile basis.

**PROBLEMS**

1. Dr. Vijay a medical practitioner provides you the Income & Expenditure account for the year ended 31<sup>st</sup> March 2016

Expenditure	₹	Income	₹
To Salaries to Staff	54,000	By Consultation Fees	2,60,000
To Rent	36,000	By Visiting fees	30,000
To Purchase of Medicines	28,000	By Winning from horse races	10,000

To Telephone Expenses	12,000	By Sale of medicines	30,000
To Printing & Stationery	11,500		
To Donations	2,500		
To Books & Periodicals	11,800		
To L.I.C. Premium	1,200		
To Income Tax	3,000		
To Paid to L.I.C. Jeevandhara	20,000		
To Surplus for the year	1,50,000		
	<u>3,30,000</u>		<u>3,30,000</u>

Following additional information has been provided:

(a) Visit fees include ₹ 10,000/- received as a gift from father.

(b) Entire stock of medicines has been utilised.

(c) Half of the rent is attributable towards residence.

(d) ₹ 2,300 printing charges are incurred for printing wedding cards of his daughter.

Compute on the basis of the above information Dr. Vijay's taxable income from profession for assessment year 2016-2017.

2. Mr. Jagdish is the owner of Jagdish Industries particulars of which for the year ended 31<sup>st</sup> March, 2016 are given below:

	₹		₹
To Salary to Staff	3,60,000	By Gross Profit	12,00,000
To Rent	60,000	By Income-tax refund	20,000
To Commission to Dealers	1,00,000	(including interest 3,000)	
To Reserve for Bad Debts	80,000	By L. I. C. (amount received	4,80,000
To Depreciation on Machinery	1,25,000	under Keyman Insurance)	
To Entertainment Expenses	1,75,000		
To Advertisement	47,500		
To Bonus to Staff	22,500		
To Expenses for approved Scientific Programme:			
Payment to IIT	1,00,000		
Land	20,000		
Building	50,000		
Salary	15,000		
Material	5,000		
Other Exp.	<u>10,000</u>	2,00,000	
To L. I. C. Premium on Own life	30,000		
Staff (accident)	<u>30,000</u>	60,000	
To Vehicle Running Exps.	70,000		
To Net Profit	4,00,000		
	<u>17,00,000</u>		<u>15,00,000</u>

Following additional information has been provided:

- Commission to dealers includes ₹ 15,000 paid for medical expenses incurred by the proprietor for himself.
- Depreciation allowable on machinery as per Income Tax Rules is ₹ 1,50,000/-
- ₹ 15,000 included in advertisement has been incurred for advertisement in souvenir published by a political party.
- Entertainment Expenses amounting ₹ 30,000/- was not related to business.
- Telephone expenses ₹ 24,500; Electricity expenses ₹ 32,500 were not recorded.
- Salary of ₹ 14,000 has been paid to Mr. Jagdish & included in salary.

He was also the only working partner in a partnership firm trading in a chemical & drew salary from the firm at ₹ 20,000 p.m Firm reported loss of ₹ 90,000.

Compute his income from business for the assessment year 2016-2017.

- Mr. Sanjiv is the owner of "All Time Hits", a well known departmental store of Thane. His profit as disclosed by the books of accounts is ₹ 53,000 for the previous year ended 31<sup>st</sup> March, 2016. Detailed scrutiny of the accounts revealed the following facts: -
  - ₹ 4,500 received as a contribution towards provident fund from employees. However, such sum has not been paid to the P.F. account even though the due date was over.
  - Advertisement expenses debited to Profit and Loss a/c are ₹ 33,000 the benefit of which will accrue for the period of three years.
  - Depreciation charged to Profit and Loss Account is ₹ 37,000 while depreciation allowable for income tax purpose is ₹ 33,000.
  - Salary paid to son to the extent of ₹ 12,000 is considered unreasonable.
  - ₹ 1,64,500 received from LIC on Keyman Insurance Policy of Mr. Sanjay, the general manager of "All Times Hits" stores was credited to the capital account of Mr. Sanjiv for the assessment year 2016-2017.
  - Guest House Expenses amounting to ₹ 17,500 have been debited to Profit & Loss a/c.

- Following is the Profit and Loss Account for the year ended 31<sup>st</sup> March 2016 of M/s Mohan owned by Mr. Mahesh. Compute his taxable income from business.

	₹		₹
To Opening Stock	2,90,000	By Sales	18,00,000
To Purchases	8,45,000	By Interest on government Securities	20,000
To Salaries	1,45,000	By Closing Stock	1,80,000
To Bonus to Staff	28,000		
To Cont. to Recognised PF	12,000		
To Bad debts written off	23,000		
To Advertisement	30,000		
To Provision for Bad Debts	11,500		
To Personal Drawings	60,000		
To Life Insurance Premium (own)	10,000		
To Insurance (shop)	14,500		
To Entertainment	21,000		

To Diwali Pooja Expenses	2,750		
To Telephone expenses	21,250		
To Interest on			
Capital	24,000		
Loan	<u>12,000</u>	36,000	
To L. I. C. Jeevandhara Premium	4,750		
To Embezzlement of cash	800		
To Net Profit	4,44,450		
	20,00,000		20,00,000

Out of ₹ 12,000 as contribution to Recognized provident fund, ₹855 was paid by cheque after due date.

5. Mr. K runs a liquor shop. His gross receipts from sale of liquor is ₹ 1,50,000. He has incurred following expenses during the year: -

	₹
Expenses for preparation of wine	70,000
Salary to staff	15,000
Donation to school	10,000
Donation to mosque (Renowned throughout the state)	10,000
Life Insurance Premium	8,000
Other incidental expenses	12,000

His contention is that his business has been considered illegal and hence, he is not liable to tax. However, the Income-Tax Officer did not accept this contention. Explain whether he is liable to tax. If yes, compute his taxable income, if not give reason supporting your answer.

6. Given below is the Profit and Loss Account of Mr. Pyarelal for the year ended 31-3-2016.

	₹		₹
Opening Stock	5,00,000	Sales	81,00,000
Purchase of cotton	55,00,000	Rent of staff quarters	37,000
Railway freight	6,00,000	Subsidies and Cash Assistance	
Salaries and wages	14,50,000	from Government	20,000
Audit fees	10,000	Export Award Received from	
Legal expenses	40,000	Government	20,000
Wealth Tax	10,000	Dividend from Indian Cos.	60,000
Repairs to building	14,000	Closing Stock	7,00,000
Repairs to machinery	10,000		
Staff welfare expenses	10,000		
General charges	28,000		
Interest paid on bank O/D	2,00,000		
Commission for loan on staff			
Quarters	10,000		
Reserve for bad debts	5,000		

Bad debts written off	40,000		
Depreciation	10,000		
Interest	27,000		
Contribution to staff welfare fund	16,000		
Office Expenses	1,25,000		
Provision for income tax	50,000		
General reserve	1,00,000		
Net profit	1,82,000		
	<b>89,37,000</b>		<b>89,37,000</b>

You are required to compute income of Mr.Pyarelal from business and income from house property for the assessment year 2016-2017 after taking into account the following information:

- General charges include (a) ₹ 7,000 being emergency insurance risk premium (b) ₹1,000 being donation to flood relief fund, (c) ₹ 2,000 being family planning expenditure amongst employees (d) ₹ 4,000 municipal Tax on staff quarters.
- Staff welfare expenses include ₹ 1,500 being cost of uniform provided to the workers once in two years.
- Legal expenses include ₹ 10,500 paid to a chartered accountant for conducting income tax appeal and ₹ 2,000 in connection with prosecution of an employee for smuggling goods from Pakistan. Profit of ₹ 20,000 was made on these smuggled goods which wasn't brought to business of Pyarelal.
- Repairs to building include ₹ 10,000 being cost of repairs of staff quarters.
- Depreciated value of plant and machinery on April 1, 2015 is. ₹ 1,20,000 (rate of depreciation 25%). On December 1, 2015 the company acquired a plant, which is eligible for depreciation @ 25%, for ₹ 10,000. On January 1, 2015 the company sold a plant for ₹ 28,000 (depreciated value of the plant on April, 1,2015 ₹ 13,750)
- The "annual value" of the staff quarters is ₹ 40,000.
- Out of the total purchases of cotton ₹ 75,000 was paid in cash on one occasion to a supplier.
- Contribution to staff welfare fund were not paid by due date.
- Interest includes ₹ 5,000 on borrowed funds for construction of staff quarters.
- Office expenses include ₹ 40,000 paid to National Laboratory for approved Scientific Research Programme.

7. Mr. Vikas is having different agencies. His Receipts and Payments Account is given as under:

Receipts	₹	Payments	₹
To Balance b/d	5,000	By Salaries	
To Commission from L.I.C.	1,45,000	Staff	24,000
To Commission from Post Office	7,500	Own	<u>60,000</u>
To Commission from U.T.I.	22,500	By Conveyance & Travelling	13,350
To Gift from father	10,000	By Advertising	12,000
To Winning from lotteries	5,000	By Rent of Office	12,000
		By Household Expenses	19,000

To Winning from horse races	5,000	By Entertainment Expenses	12,000
To LIC – on maturity of policy on own life	30,000	By Purchase of Furniture for office	10,500
		By Telephone Expenses	12,500
		By L.I.P. for self	4,000
		By Medical Treatment of self	11,500
		By Newspapers, Journals etc.	2,000
		By House Rent	6,000
		By Advance Tax & TDS	24,650
		By Balance c/d	6,500
	2,30,000		2,30,000

Following further information has been provided:-

(a) Depreciation allowable as per Income-tax Act on furniture is ₹ 3,500.

(b) Purchase of old typewriter for ₹ 6,500 has been wrongly included in household expenses. Provide depreciation @ 10%

Further Mr. Vikas is a partner in firm M/s Archana Enterprises. During the year 2015-2016 he did not receive any interest or remuneration from the firm. However, his capital account was credited with the sum of ₹ 56,789/- being his share in the total income of the firm. Compute his gross total income for the assessment year 2016-2017.

8. Dr. Suresh is a renowned medical practitioner who maintains books of account on cash basis, furnishes his Receipts and Payments Account for the financial year 2015-2016.

	₹		₹
To Balance b/d	14,000	By Rent of Clinic:	
To Consultation fees:		2013-14	600
2013-14	3,000	2014-15	4,800
2014-15	15,000	2015-16	600
2015-16	2,000	By Electricity & Water Bills	2,000
To Visiting Fees	30,000	By Fees & Subscription	4,000
To Loan from Bank	25,000	By Household Expenses	7,800
To Sale of Medicines	60,000	By Collection charges on	
To Gift and Presents	5,000	Dividend Income	100
To Remuneration from Articles Published in Professional Journals	6,000	By Motor Car Purchased	30,000
To Dividend from Indian Co.	10,000	By Surgical Equipments	4,800
To Interest on Post Office Saving Bank a/c	7,000	By Income-tax	10,000
		By Salary to Staff	15,000
		By Life Ins. Premium	15,000
		By Gift to Wife	5,000
		By Interest on Loan	2,000
		By Car Expenses	15,000
		By Purchase of medicines	40,000
		By Balance c/d	20,000
	1,77,000		1,77,000

Compute his taxable Professional Income for the assessment year 2016-17 after taking into account the following additional information:

- (a) 1/3 of the use of car relates to his personal use.
- (b) Depreciation on Motor Car Allowable is 20% and surgical equipment is 25%,
- (c) Gifts and presents include ₹ 3,000 from patients in appreciation of his medical service and ₹ 2,000 received a Birthday Gifts.
- (d) Closing stock of medicines amounted to ₹ 5,500.



M.Com. Notes-Income Tax-CA Vidyadhar Joshi