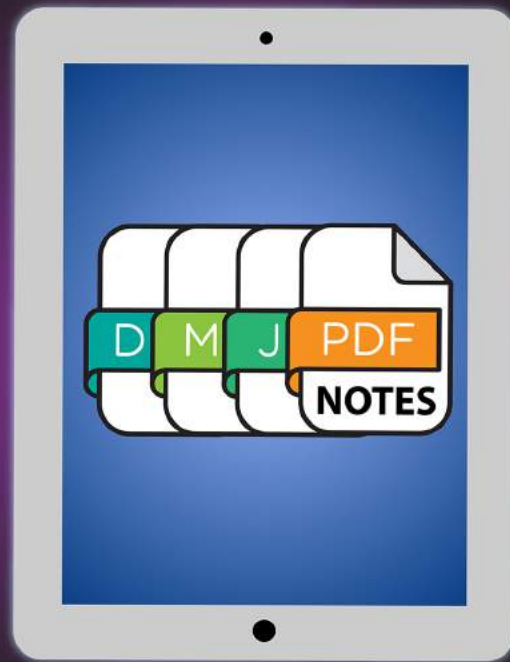




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# **Direct Taxes**



**Paper-4A**

## Profits & Gains of Business or Profession

### Problem 1

Mr. Ravi engaged in manufacturing business furnishes the following particulars: Opening WDV of Plant and Machinery = Rs. 30L

- New Plant and Machinery purchased and put to use on 8th June Rs. 20L
- New Plant and Machinery purchased and put to use on 15th December Rs. 8L
- Computer acquired and installed in the office premises on 2nd January Rs. 3L

Compute the amount of depreciation and additional depreciation as per the Income tax Act, 1961 (Assume that all the accounts were purchased by way of Account payee cheque).

### Problem 2

A newly qualified Chartered Accountant Mr. Neeraj commenced practice and has acquired the following Assets in his office during the financial year.

- At the cost shown against each item, Calculate the amount of depreciation can be claimed from his professional Income (Assume that all the Assets are purchased by way of Account payee cheque).

Particulars	Amount (Rs.)
<b>Computer including Computer software</b> Date of Acquisition: 27th September Date it was put to use: 1st October	35,000
<b>Computer UPS</b> Date of Acquisition: 2nd October Date it was put to use: 8th October	8,500
<b>Computer Printer</b> Date of Acquisition: 1st October Date it was put to use: 1st October	12,500
<b>Books</b> Out of which, Annual Publications= Rs.12K) Date of Acquisition: 1st April Date it was put to use: 1st April	13,000
<b>Office furniture</b> (Acquired from a practicing CA) Date of Acquisition: 1st April Date it was put to use: 1st April	3,00,000
<b>Laptop</b> Date of Acquisition: 26th September Date it was put to use: 8th October	43,000

### Problem 3

ABC Ltd. has a block of Assets carrying 15% rate of depreciation whose Written down value on 1st April was Rs. 40L.

- It purchased another Asset (a second-hand Plant and Machinery) of the same block on 1st November for Rs. 14.4L and put to use on the same day.
- ABC Ltd. was amalgamated with XYZ Ltd. with effect from the 1st January.

- (i) You are required to compute the depreciation allowable to ABC Ltd. and XYZ Ltd. for the previous year assuming the Assets were transferred to XYZ Ltd. at Rs. 60L.
- (ii) Also assume that the Plant and Machinery were purchased by way of Account payee cheque.

### Problem 4

KSK Ltd, engaged in the business of generation of power, furnishes the following particulars pertaining to PY 2021-22.

Compute the depreciation allowable under section 32 for AY 2022-23 while computing its income under the head Profits or Gains of Business or Profession.

The company has opted for depreciation allowance on the basis of Written Down Value (WDV).

Assume that all assets were purchased by way of account payee cheques

S.No	Particulars	Amount (Rs)
1	Opening WDV of P&M (15% block) as on 01.04.2021 (Purchase value Rs 8,00,000)	5,78,000
2	Purchase of secondhand machinery (15% block) on 29.12.2021 for business purposes	2,00,000
3	Machinery Y (15% block) purchased and installed on 12.07.2021 for power generation	8,00,000
4	Acquired and installed for use a new air pollution control equipment on 31.07.2021	2,50,000
5	New air conditioner purchased and installed in office premises on 08.09.2021	3,00,000
6	New machinery Z (15% block) acquired and installed on 23.11.2021 for generation of power	3,25,000
7	Old machinery X sold during the year (Purchase value Rs 4,80,000, WDV as on 01.04.2021 - Rs 3,46,800)	3,10,000

### Problem 5

Matrix Ltd furnishes the following particulars for the P.Y.2021-22.

- Compute the deduction allowable under section 35 for A.Y.2022-23, while



computing its income under the head “Profits and gains of business or profession”

	Particulars	Rs.
1.	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research program	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.5,00,000) on scientific research	7,50,000

### Problem 6

Mr. Amruth commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2021.

- He incurred capital expenditure of Rs. 80 lakhs, Rs. 60 lakhs and Rs. 50 lakhs, respectively, on purchase of land and building during the period January 2021 to March 2021 exclusively for the above businesses and capitalized the same in its books of account as on 1st April 2021.
- The cost of land included in the above figures is Rs. 50 lakhs, Rs. 40 lakhs and Rs. 30 lakhs, respectively
- Further, during the P.Y.2021-22, he incurred capital expenditure of Rs. 20 lakhs, Rs. 15 lakhs & Rs. 10 lakhs, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses.
- The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under Section-35AD and Section-32) for the A.Y. 2022-23 is Rs. 16 lakhs, Rs. 14 lakhs and Rs. 31 lakhs, respectively.
  - (i) Compute the income under the head “Profits and gains of business or profession” for the A.Y.2022-23 and the loss to be carried forward, assuming that Mr. Amruth has fulfilled all the conditions specified for claim of deduction under Section-35AD and has not claimed any deduction under Chapter VI-A under the heading “C - Deductions in respect of certain incomes”.
  - (ii) Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

### Problem 7

Atluri Ltd is a company having two units -

- (i) Unit A-carries on specified business of setting up and operating a warehousing facility for storage of sugar
- (ii) Unit B-carries on non- specified business of operating a warehousing facility for storage of edible oil.
  - Unit A commenced operations on 1.4.2020 and it claimed deduction of Rs. 100 lacs incurred on purchase of two buildings for Rs. 50 lacs each (for operating a warehousing facility for storage of sugar) under Section-35AD for A.Y.2021-22.
  - However, in February 2022, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Atluri Ltd.

### Problem 8

Sri Shakthi 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.
- (i) Compute the amount of deduction allowable under Section-36(1)(iva), if the basic salary of the employees aggregate to Rs. 10 lakhs.
- (ii) Would disallowance under Section-40A(9) be attracted, and if so, to what extent.

### Problem 9

Dafcore Ltd. credited the following amounts to the account of resident payees in the month of March 2022 without deduction of tax at source.

- What would be the consequence of non-deduction of tax at source by Dafcore Ltd. on these amounts during the financial year 2021-22, 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 Dafcore Ltd.?

	Particulars	Amount (Rs.)
(1)	Salary to its employees	12,00,000
(2)	Director's remuneration	28,000

### Problem 10

Hari Surya, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc.

- He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

	Particulars	Amount(Rs)
1.	Andhra Pradesh State Financial Corporation (P.Y. 2020-21 & 2021-22)	15,00,000
2.	Indian Bank (P.Y. 2021-22)	30,00,000
	<b>TOTAL</b>	<b>45,00,000</b>

- Both APSFC and Indian Bank, while restructuring the loan facilities of Hari Surya during the year 2021-22, converted the above interest payable by Hari Surya to them as a loan repayable in 60 equal instalments.
- During the year ended 31.3.2022, Hari paid 5 instalments to APSFC and 3 instalments 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.

### Problem 11

Vikas is a person carrying on profession as film artist. His gross receipts from profession are as under:

Financial year	Amount (Rs.)
2017-18	1,15,000
2018-19	1,80,000
2019-20	2,10,000

What is his obligation regarding maintenance of books of accounts for assessment year under **Section-44AA** of Income-tax Act, 1961?

### Problem 12

Mr. Prakash engaged in retail trade, reports a turnover of Rs. 1,98,50,000 for the financial year 2021-22.

- His income from the said business as per books of account is Rs. 13,20,000 computed as per the provisions of Chapter IV-D “Profits and gains from business or Profession” of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Prakash.
- A.Y. 2021-22 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation under **Section-44AD**.
  1. Is Mr. Prakash eligible to opt for presumptive taxation scheme in respect of his income from retail trade for the assessment year?
  2. If so, determine his income from retail trade as per the applicable presumptive provision assuming that whole of the turnover represents cash receipts.
  3. In case Mr. Prakash does not opt for presumptive taxation of income from retail



- trade, what are his obligations under the Income-tax Act, 1961?
4. What is the due date for filing his return of income under both the options?

### Problem 13

Mr. Reddy commenced the business of operating goods vehicles on 1.4.2021.

- He purchased the following vehicles during the P.Y.2021-22. Compute his income under **Section-44AE** for A.Y.2020-21.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2021
(2)	6,500	1	15.03.2022
(3)	10,000	3	16.07.2021
(4)	11,000	1	02.01.2022
(5)	15,000	2	29.08.2021
(6)	15,000	1	23.02.2022
	Total	10	

### Problem 14

Compute the quantum of depreciation available under section 32 of the Income-tax Act, 1961 in respect of the following items of Plant and Machinery purchased by PQR Textile Ltd., by paying through account payee cheque, which is engaged in the manufacture of textile fabrics, for the year ended 31-3-2022:

	(Rs. In crores)
New machinery installed on 1 <sup>st</sup> May	84
New Windmill purchased and installed on 18 <sup>th</sup> June	22
<b>Items purchased after 30th November (Others)</b>	
Lorries for transporting goods to sales depots	3
Fork-lift-trucks, used inside factory	4
Computers installed in office premises	1
Computers installed in factory	2
New imported machinery	12

- The new imported machinery arrived at Chennai port on 30-03-2021 and was installed on 3-4-2022.
- All other items were installed during the year ended 31-3-2021.
- The company was newly started during the year.

Also, compute the WDV of the various blocks of assets as on 1.4.2022.

### Problem 15

The following is the Profit and Loss Account of Rahul for the year ended 31.3.2022. Compute his taxable income from business for that year:

Opening stock	15,00,000	Sales	1,07,00,000
Purchases	75,20,000	Closing stock	20,00,000
Wages	20,00,000	Gif from father	1,00,000
Rent	60,000	Sale of car	1,70,000
Repairs of car	30,000	Income-tax refund	30,000
Wealth-tax paid	20,000		
Medical expenses	30,000		
General expenses	1,10,000		
Depreciation of car	30,000		
Advance income-tax paid	1,00,000		
Profit for the year	16,00,000		
	<b>1,30,00,000</b>		<b>1,30,00,000</b>

Following further information is given:

- Rahul carries on his business from rented premises half of which is used as his residence
- Rahul bought a car during the year for 2,00,000. He charged 15% depreciation on the value of car. The car was sold during year for 1,70,000. The use of the car was  $\frac{3}{4}$ <sup>th</sup> for the business and  $\frac{1}{4}$ <sup>th</sup> for personal purposes.
- Medical expenses were incurred during sickness of Rahul for his treatment
- Wages include 60,000 on account of Rahul's driver.

### Problem 16

R is Chartered Accountant and has prepared the following income and expenditure account for the year ending 31.3.2022

Expenses	Amount (Rs.)	Income	Amount (Rs.)
Office expenses	1,00,000	Audit fees	7,05,000
Employee's salary	50,000	Gift from Father-in-Law	50,500
Tax Magazines	6,000	Dividend	80,000
Personal expenses	1,70,000	Profit on sale of investment	
Donation to N.D.F. Interest on Professional	5,000	Tax consultancy fees	64,500
			15,00,000

Loan	7,000		
Car expenses	1,33,000		
Telephone expenses	20,000		
Net surplus	19,09,000		
	<b>24,00,000</b>		<b>24,00,000</b>

You are required to compute his professional income for the assessment year 2022-23 considering the following points ---

- (a) Rs.10,000 domestic servant's salary is included in employee's salary.
- (b) R is the owner of a building.
  - Its written down value is Rs.8,00,000 on 1.4.2021.
  - The building is used for office.

Besides this, furniture costing Rs.3,00,000, whose WDV on 1.4.2021 is Rs.2,50,000 is used for profession.

### Problem 17

Rahul, who is carrying on a business whose accounts have been subject to tax audit regularly, submits his profit & loss account for the year ending 31.3.2022.

Expenses	Rs.	Income	Rs.
Office expenses	25,600	Gross profit	4,03,600
Audit fees	32,000	Sundry receipt	11,000
Legal expenses	18,000	Customs duties recovered	
Depreciation on Machinery	24,000	from the government (Earlier not allowed as deduction)	22,000
Salary to staff Bonus to staff	84,000 45,000	Bad debts recovered	6,000
Contribution to an approved Gratuity fund	24,000	(Earlier allowed as deduction)	
Outstanding liability in respect of excise duty	24,000	Gift from son	30,000
General expenses	36,000		
Net Profit	1,60,000		
	<b>4,72,600</b>		<b>4,72,600</b>

Other relevant particulars:

1. Bonus payable to employees according to the payment of Bonus Act, 1965, comes to Rs.40,000.
2. Depreciation on machinery shown in the Profit and Loss Account is calculated according to the income-tax provisions.
3. General expenses include payment of Rs.12,000 to an approved and notified education institute for the purpose of carrying on research in social sciences. The research is, however, not related to the business of the assessee.
4. During the previous year, R also makes a capital expenditure of Rs.25,000 expenditure is, however, not recorded in the Profit and Loss Account.
5. Outstanding liability in respect of excise duty is paid as follows: Rs.5,000 on 11.4.2021; Rs.3,000 on 5.5.2021; Rs.6,000 on 30.6.2021 and the balance on 10.11.2021.
6. Audit fee of Rs.32,000 was credited on 31.3.2021. No tax has been deducted at source.

Compute his income from business for the assessment year 2022-23. Assume the due date of filing return of income is 30th October.

### Problem 18

From the following Profit & Loss Account of Mr. Vinay Jain ascertain his income from business and Gross Total Income for the assessment year 2022-23.

Particulars	Rs.	Particulars	Rs.
To Salary (including proprietor's salary)	45,000	By Gross profit	1,22,000
To General expenses	5,000	By bad debt recovered	2,000
To Advertisements	3,000	(Not allowed earlier	
To Interest on proprietor's capital	2,000	by Assessing Officer	
To Interest on bank loan	4,500	Due to lack of evidence)	
To Provision for bad debts	2,000	By Rent received	3,000
To Fire Insurance Premium (on house)	100	By Interest on fixed deposit in a bank	1,000
To Depreciation	4,000		
To Reserve for VAT	10,000		
To Advance income-tax	2,000		
To Donation to Central Library	1,000		
To Corporation - tax on house property	500		
To Motor car expenses	1,000		
To Wealth - tax paid	3,500		
To Income-tax	4,000		
To Stationery	1,900		

To Net profit	38,500		
	<b>1,28,000</b>		<b>1,28,000</b>

#### Other information

- General expenses include Rs.300 given to a poor student to enable him to pursue his studies.
- Depreciation is in excess by Rs.1,500.
- Motor car expenses include Rs.300 for personal purposes.
- Central library is an approved institution.
- The proprietor draws Rs.500 p.m. by way of salary.

#### Problem 19

Dr. J.L. Gupta is a renowned medical practitioner who maintains books of account on cash basis.

The following is the “Receipts and Payments A/c” for the financial year 2020-21:

Receipts	Amount	Payments	Amount
Balance b/d	44,000	Rent of clinic	
Consultation fees		2019-20	24,800
2019-20	5,000	2020-21	1,200
2020-21	1,35,000	Water & Electricity Bills	2,000
Visiting fees	30,000	Purchase of professional books	40,000
Loan from bank	1,25,000	Household expenses	47,800
Sale of medicines	60,000	Collection charges for dividend income	100
Gifts and presents	5,000	Motor car purchased	1,30,000
Royalties for articles published in journal	6,000	Surgical equipment purchased	24,800
Dividend	10,000	Income-tax	7,000
Interest on Government securities	7,000	Office Expenses	3,000
		Salary to staff	15,000
		Life Insurance Premium	15,000
		Gift to son	5,000
		Interest on loan	11,000
		Car expenses	15,000
		Purchase of medicines	40,000

		Balance c/d	45,300
	4,27,000		4,27,000

Compute his income from profession for the assessment year 2021-22 after taking into account the following information:

- (a) Books worth Rs. 25,000 were purchased on 15.5.2020, which were annual publications and the balance on 5.2.2021 which were books other than annual publication.
- (b) Car was purchased on 1.1.2021 and the surgical equipment on 4.9.2020.
- (c) It is estimated that 1/3 of the use of car is for his personal use.
- (d) Gifts and presents include Rs.2,000 from patients in appreciation of his medical service and Rs.3,000 received as birthday gifts.
- (e) Opening and closing stock of medicines amounted to Rs.10,000 and Rs.6,000 respectively.