

## TEST 6 PGBP

### Illustration 1

X submits the following particulars:

	Previous years	
	2019 - 2020 Rs.	2020 - 2021 Rs.
Business profits (before depreciation)	4,00,000	9,30,000
Current depreciation	6,00,000	8,90,000
Income from property (computed)	86,000	10,000
Income from salary (after standard deduction)	10,00,000	12,00,000

Determine the net income of X for the assessment years 2020 - 2021 and 2021 - 2022.

### Solution:

Assessment year 2021 - 2022 (previous year 2020 - 2021)

	Rs.	Rs.
Business profits	4,00,000	
Less: Depreciation	6,00,000	
Depreciation not deductible against business profits	2,00,000	
Income from salary		10,00,000
Income from house property	86,000	
Less: Depreciation	86,000	Nil
Net income		10,00,000

Note: Unabsorbed depreciation of Rs.1,14,000 will be carried forward.

Assessment year 2021 - 2022 (previous year 2020 - 2021)

Profits and gains of business or profession:

	Rs.	Rs.
Business profits	9,30,000	
Less: Depreciation (i.e., current depreciation: Rs.8,90,000 + unabsorbed depreciation of the previous year 2020 - 2021 Rs.1,14,000)	9,30,000	Nil
Depreciation not deductible against business income	74,000	
Income from salary		12,00,000
Income from house property	10,000	
Less: Depreciation	10,000	Nil
Net income		12,00,000

**Illustration 2**

X submits the following particulars:

	Previous years	
	2019 - 2020	2020 - 2021
Business profits (before depreciation)	(-) 95,000	2,07,000
Current depreciation	35,000	32,000
Income from other sources	36,000	41,000

Determine the net income of X for the assessment years 2020 - 2021 and 2021 and 2022.

**Solution:**

	Rs.	Rs.
Income from other sources	36,000	
Less: Business loss	36,000	
Net income		Nil
Amount to be carried forward:		
Business loss	59,000	
Unabsorbed depreciation	35,000	
Assessment year 2021 - 2022 (previous year 2020 - 2021)		
Profits and gains of business or profession:		
Business profits	2,07,000	
Less: Current depreciation	32,000	
Profit after depreciation	1,75,000	
Less: Brought forward business loss of the earlier previous year	59,000	Nil
Business income	1,16,000	
Less: Brought forward depreciation	35,000	81,000
Income from other sources:		41,000
Net income		1,22,000

**Illustration 3**

X (age 69 years) furnishes the following information relevant for the assessment year 2020 - 2021:

**Profit and Loss Account for the year ending March 31, 2021**

	Rs.		Rs.
Household expenses	23,000	Gross profit of agency business	32,65,150
Bad debts	1,000	Commission	18,000
Provision for bad debts	400	Sundry receipts	2,000
Fire insurance	6,000	Interest on investment	14,000
Salary to:		Bad debts recovered (earlier allowed)	9,750

		as deduction)	
Staff	9,00,000	Interest on securities (gross)	11,000
X	12,000		
Contribution towards unrecognized provident fund	72,000		
Interest on:			
Overdraft taken for payment of sales tax	8,000		
Capital of X	42,000		
Loan given by X's brother	9,000		
Depreciation on building and furniture	11,500		
Advertisement			
Revenue expenditure	7,000		
Capital expenditure on a sign board	20,000		
General expenses	8,000		
Net profit	22,00,000		
	33,19,900		33,19,900

**Other information:**

- General expenses include medical expenditure of X Rs.500.
- Income of Rs.35,000, accrued during the previous year ending March 31, 2021, is not recorded in the Profit and Loss Account.
- X contributes Rs.1,10,000 towards public provident fund.
- Depreciation on building, furniture and sign board comes to Rs.8,000 according to the tax provision.

Determine the taxable income and tax liability of X for the assessment year 2021 - 2022.

**Solution:**

	Rs.
Net profit as per profit and loss account	22,00,000
Adjustments:	
Add: House hold expenses	23,000
Add: Provision for bad debts	400
Add: Salary to X	12,000
Add: Contribution to unrecognized provident fund	72,000
Add: Interest to X	42,000
Add: Depreciation	11,500

Add: Capital expenditure on signboard	20,000
Less: Interest on investment	(-) 14,000
Less: Interest on securities	(-) 11,000
Add: Medical expenditure (being personal expenditure)	500
Add: Income not recorded in books	35,000
Less: Depreciation under section 32	(-) 8,000
Business income	23,83,400
Income from other sources (Rs.14,000 + Rs.11,000)	25,000
Gross total income	24,08,400
Less: Deduction under section 80C	1,10,000
Net income	22,98,400
Tax on net income	Rs.
Income tax	4,99,520
Add: Health and education cess	19,981
Tax liability (rounded off)	5,19,500

**Illustration 4**

Mrs. X (age 55 years), a resident individual, furnishes the following particulars for the assessment year 2021 - 2022:

**Profit and Loss Account for the year ending March 31, 2021**

	Rs.		Rs.
Office expenses	82,000	Gross profit	26,66,600
Audit fees	11,000	Sundry receipts	20,000
Legal expenses	500	Customs duties recovered from the Government	12,000
Cost of extension to building	40,000	(earlier not allowed as deduction)	
Depreciation on machinery on extension of building	31,000	Bad debts recovered (earlier allowed as deduction)	1,000
Salary to staff	1,81,000	Gift from a friend	60,000
Bonus to staff	45,000		
Contribution to an approved gratuity fund	30,000		
Outstanding liability in respect of interest payable to IDBI	38,000		
General expenses	71,000		
Net profit	22,30,100		
	27,59,600		27,59,600

**Other relevant particulars:**

1. Bonus is outstanding on March 31, 2021 Rs.40,000 is, however, paid on September 30, 2021 (being the due date of furnishing return of income).
2. Depreciation on machinery and extension of building shown in the Profit and Loss Account is calculated according to the income tax provisions.
3. General expenses include payment of Rs.10,000 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.
4. During the previous year 2020 - 2021, Mrs. X also makes a capital expenditure of Rs.11,000 for the purpose of carrying on a scientific research related to her business. This expenditure is, however, not recorded in the Profit and Loss Account.
5. Outstanding interest payable to IDBI is paid as follows: Rs.600 on April 10, 2021, Rs.4,000 on May 10, 2021, Rs.6,000 on June 30, 2021 and Rs.1,500 on September 10, 2021. The remaining amount is still outstanding.
6. Salary to staff includes Rs.40,000 being compensation paid for termination to an employee. Determine the net income and tax liability of Mrs. X for the assessment year 2021 - 2022, assuming that she annually deposits Rs.1,25,000 in the public provident fund.

**Solution:**

	Rs.
Net profit as per profit and loss account	22,30,100
Adjustments:	
Add: Cost of extension to building (being capital expenditure)	40,000
Less: Custom duty refund (earlier not allowed as deduction)	(-) 12,000
Less: Gift from a friend (taxable under section 56)	(-) 60,000
Add: Bonus outstanding on September 30, 2021	5,000
Less: Weighted deduction in respect of contribution to an approved institute for conducting scientific research (50% of Rs.10,000)	(-) 5,000
Less: Capital expenditure for conducting scientific research (not recorded in profit and loss account)	(-) 11,000
Add: Outstanding interest payable to IDBI (Rs.38,000 - Rs.600 - Rs.4,000 - Rs.6,000 - Rs.1,500)	25,900
Business income	22,13,00
Income from other sources (gift received from a friend, chargeable to tax as it is more than Rs.50,000)	60,000
Gross total income	22,73,000
Less: Deduction under section 80C	1,25,000
Net income	21,48,000
Tax on net income	

Income tax	4,56,900
Add: Health and education cess	18,276
Tax liability (rounded off)	4,75,180

**Illustration 5**

XYZ Ltd., an Indian company, submits the following particulars relevant for the assessment year 2021 - 2022:

**Profit and Loss Account for the year ending March 31, 2021**

	Rs.		Rs.
Salary to staff	16,40,000	Gross profit	63,37,450
Income tax	30,000		
Expenses on issue of shares for setting up a new show room at Delhi	18,000		
Expenses on raising a long term loan for setting up a new show room at Bombay	12,000		
Interest on public deposits	82,000		
Capital expenditure for promotion of family planning among employees	32,000		
Legal expenses for filing income tax appeals before the Delhi High Court	10,000		
Reserve for losses	50,000		
Reserve for payment of fines and penalty	20,000		
Reserve for bad and doubtful debts	10,000		
Maintenance expenses of car	56,000		
Bad debts written off	3,450		
Depreciation of:			
Plant and Machinery	81,000		
Car	25,000		
Office expenses	1,02,000		
Rent and repairs	42,000		
Sundry expenses	86,000		
Net profit	40,38,000		
	63,37,450		63,37,450

**Other information:**

1. Car is partly used for official purposes and partly for personal purposes of a relative of director. In past, 10 per cent of car expenditure is disallowed.

2. Sundry expenses include payment of an advertisement bill to a person who has substantial interest in the company. The payment is excessive to the extent of Rs.20,000.
3. Office expenses include an expenditure of Rs.10,100 which is paid in cash.
4. Sundry expenses include an expenditure of Rs.10,000 which is paid by bearer cheque.
5. Depreciation on machinery as per tax provisions is Rs.86,000.
6. On Marc 10, 2021, the company pays Rs.2,00,000 to a National Laboratory for carrying an approved scientific research programme in natural science. The payment is not recorded in the above P & L A/c.
7. Sundry expenses include royalty payment of Rs.30,000 to a resident on which tax is deducted at source on February 10, 2021 and paid to the Government on December 5, 2021. Determine the taxable income tax and tax liability of the company for the assessment year 2021 - 2022.

**Solution:**

	Rs.
Net profit as per profit and loss account	40,38,000
Adjustments:	
Add: Income tax	30,000
Add: Expenses on issue of shares (amount deductible is 1/5 of Rs.18,000)	14,400
Add: Capital expenditure on family planning (amount deductible is 20% of Rs.32,000)	25,600
Add: Reserve for losses	50,000
Add: Reserve for fines	20,000
Add: Reserve for bad debts (bad debts are deductible but reserve for bad debts is not deductible)	10,000
Add: Car expenses (10% of Rs.56,000)	5,600
Add: Car depreciation (10% of Rs.25,000)	2,500
Add: Excessive payment of advertisement	20,000
Add: Office expenses (the expenditure is above Rs.10,000 and it is paid in cash)	10,100
Less: Depreciation (Rs.86,000 - Rs.81,000)	(-) 5,000
Less: Weighted deducted in respect of contribution to a national lab (150% of Rs.2,00,000)	(-) 3,00,000
Add: Royalty payment (tax is deducted during the current year but not deposited up September 30, 2021; consequently, 30% of royalty is disallowed)	9,000
Business income	39,30,200
Add: Any other income	Nil
Gross total income	39,30,200
Less: Deductions under section 80C to 80U	Nil
Net income	39,30,200

SSSTax on net income	
Income tax	11,79,060
Add: Surcharge (surcharge is applicable only when net income exceeds Rs.1 crore)	Nil
Total	11,79,060
Add: Health and education cess	47,162
Tax liability (rounded off)	12,26,220

Note: If tax is deducted at source from royalty payable to a resident during the current financial year and tax is not deposited with the Government till the due date of submission of return of income, then 30% of such royalty is not deductible.