

CHAPTER – 6 INCOME FROM BUSINESS & PROFESSION

~: INCOME FROM BUSINESS :~

Given in question

1. Profit & Loss Account
2. Some Adjustments

We have to prepare

1. Statement of Income from Business

| Dr. | Profit & Loss Account | | Cr. |
|-----------------------|-----------------------|----------------------|--------|
| Particular | Amount | Particular | Amount |
| <u>To Expenses</u> | | <u>By Incomes</u> | |
| Business Expenses | XXX | Business Incomes | XXX |
| Non-Business Expenses | XXX | Non-Business Incomes | XXX |
| To net profit | XX | | |
| | XXX | | XXX |

Expenses
Profit & Loss Account Dr. Side

| | |
|--|--|
| <p>Expenses related to Business ✓ ALLOWED</p> | <p>Expenses not related to Business X NOT ALLOWED</p> |
|--|--|

B P₂ A S A D₂ E V I T B L I C etc.

B = Bad Debts.

- ⇒ Actual Bad Debts (ALLOWED)
- ⇒ Personal Bad Debts (NOT ALLOWED)
- ⇒ Reserve for Doubtful Debts (NOT ALLOWED)

P = Penalties

- ⇒ For Breach of Law (NOT ALLOWED)
 - Income tax penalties
 - Sales tax penalties
 - Custom tax penalties
 - Excise Duty penalties
 - Wealth tax penalties

- Service tax penalties

⇒ For Breach of Contract (ALLOWED)

- Wrong delivery
- Late delivery etc.

P = Preliminary Expenses

⇒ 1/5th (ALLOWED)

⇒ 4/5th (NOT ALLOWED)

A = Advertisement

- ⇒ Revenue Expense (ALLOWED)
- ⇒ Capital Expense (NOT ALLOWED)
- ⇒ Deferred Revenue Expense (ALLOWED)
- ⇒ Political Party (NOT ALLOWED)

S = Salary Expense

- ⇒ Salary to Staff (ALLOWED)
- ⇒ Salary to Self (NOT ALLOWED)

A = Animal W/off

- ⇒ Purchase (NOT ALLOWED)
- ⇒ Depreciation (NOT ALLOWED)
- ⇒ Depreciation will be allowed only in the PY in which animal DIES or become USELESS (ALLOWED)

- ⇒ Amount of Depreciation = [Cost – Scrap Value]

D = Depreciation

- ⇒ Written Down Value Method (ALLOWED)
- ⇒ Straight Line Method (NOT ALLOWED)

D = Diwali Pooja Expenses / Mahurat Expenses

- ⇒ If it is in Business Place (ALLOWED)
- ⇒ If it is in Resident (NOT ALLOWED)

E – Entertainment Expenses

- ⇒ For Client / Customer (ALLOWED)
- ⇒ For personal purpose (NOT ALLOWED)

V = Voluntary Retirement Compensation

⇒ 1/5th (ALLOWED)

⇒ 4/5th (NOT ALLOWED)

I = Insurance Premium

- ⇒ For Stock & Asset (ALLOWED)
- ⇒ Personal medical / life insurance (NOT ALLOWED)
- ⇒ Medical Insurance (for Staff) (ALLOWED)
(only if it is paid by CHEQUE)

T = Taxes & Duties Paid

- **Related to Goods and Services (ALLOWED)**
 - Sales Tax
 - Services Tax
 - Custom Duty
 - Excise Duty etc.
- **Not Related to Goods and Services (NOT ALLOWED)**
 - Income Tax
 - Wealth Tax etc.

NOTE:

The rate of interest on tax paid is same as that of Tax Paid

- Interest on Sales Tax (ALLOWED)
- Interest on Services Tax (ALLOWED)
- Interest on Custom Duty (ALLOWED)
- Interest on Excise Duty etc. (ALLOWED)

- Interest on Income Tax (NOT ALLOWED)
- Interest on Wealth Tax (NOT ALLOWED)

B = Bonus & Commission Paid

⇒ (ALLOWED)

L = Leave Salary Paid

⇒ (ALLOWED)

I = Interest on Loan Paid

- ⇒ For Business purpose (ALLOWED)
- ⇒ For personal purpose (NOT ALLOWED)

C = Contribution to Fund is made (PAID)

- ⇒ Approved Fund (ALLOWED)
 - SPF
 - RPF

⇒ Un-Approved Fund (NOT ALLOWED)

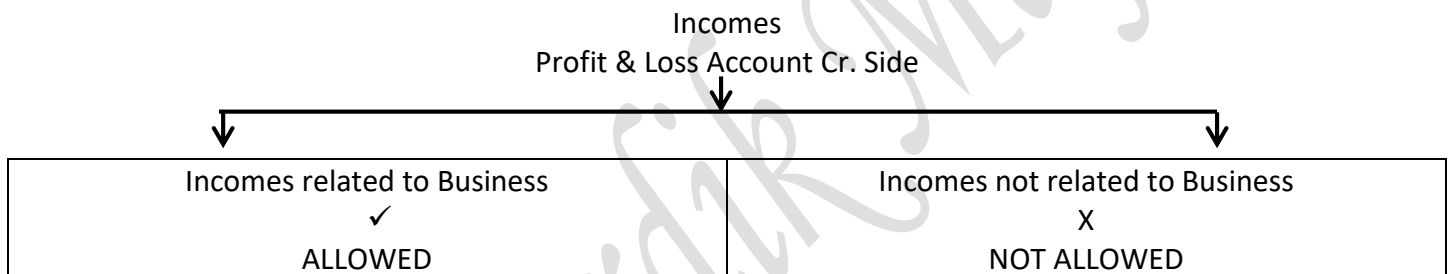
- UPF

NOTE:

Any other expenses which is related to Business, is revenue in nature, no personal, no notional, no capital shall be allowed as Business Expenses.

Eg.

- Rent
 - Legal Expense
 - Travelling expense of sales man
 - Repairs
 - Audit fees
 - Excess of Cash
 - Cash Shortage
 - Miss appropriation of Cash
- Etc. ARE ALLOWED



G G R A F

G = Gross Profit, Discount Received, Commission / Brokerage Received
ALLOWED

G = Gift and Present Received from Client and Customer
ALLOWED

R = Recovery of any expenses allowed in past
For e.g. Bad debts recover,
Sales Tax / Service Tax / Custom Duty / Excise Duty REFUND etc.
IS ALLOWED

A = Any other Business Incomes
For e.g.
Export Incentive Received

Rent From Staff Quarter etc.

IS ALLOWED.

F = fees received from Client and customer

ALLOWED

Important notes:

Any other entry on P&L Cr. Side shall NOT be allowed, it may be income of other heads, exempt incomes or entry which are not an income e.g. rent from house property, winning from lottery, agricultural income from India, dividend from Indian company, gift from relatives, income tax refunds etc.

Net profit is given Rs. 10,000

Net loss is given Rs. 5,000

Statement of Income From Business

| Particulars | Amounts | Amounts |
|---|---------|------------------|
| N.P. As Per P&L A/C / N.L. As Per P&L A/C | | 10,000 / (5,000) |
| (+) Non-Business Expenses [Dr(X)] | | |
| 1 | XX | |
| 2 | XX | |
| 3 | XX | 2,000 |
| (-) Non-Business Incomes [Cr(X)] | | 12,000 / (3,000) |
| 1 | XX | |
| 2 | XX | |
| 3 | XX | (XX) |
| (-) Unrecorded Business Expenses (UBE) (adjustment) (Allow) | | XXX |
| 1 | XX | |
| 2 | XX | (XX) |
| (+) Unrecorded Business Incomes (UBI) (adjustment) (Allow) | | XXX |
| 1 | XX | |
| 2 | XX | XX |
| Taxable Income From Business | | XXX |

SOME IMPORTANT POINTS:

1. P&L Dr. Side :-

If the nature of expenses is not clearly given in question, then it shall be assumed that expenses is incurred for business purpose, & is ALLOWED for e.g. salary, repairs, insurance etc.

2. P&L Dr. Side :-

Any personal & notional expenses shall NOT BE ALLOWED
For e.g. personal insurance premium, salary to self etc.

3. P&L Dr. Side :-

Any capital expenses shall NOT BE ALLOWED
For e.g. plant & machinery purchased, furniture purchased, HOWEVER depreciation shall be allowed as UBE

4. P&L Dr. & Cr. Side :-

Any types of reserves, whether is on Dr. or Cr. Side, shall NOT BE ALLOWED
For e.g. RDD, transfer to GR, transfer to CR etc.

5. P&L Cr. Side :-

Recover of any expenses, which was not allowed in past, shall not allowed in current year also
For e.g. income tax refund, personal bad debts recover etc.

6. P&L Dr. Side :-

Charities and Donations are not business expense
So it is NOT ALLOWED

7. Trading Dr. & Cr. Side :-

Any item of Trading Account, whether it is on Dr. or Cr. Side, shall be ALLOWED as business expenses and incomes
For e.g. opening stock, purchases, sales, wages closing stock etc.

8. P&L Dr. & Cr. Side :-

Any loss or profit on sale of capital asset shall NOT BE ALLOWED
For e.g. profit on sale of car, loss on sale of furniture etc.

9. P&L Dr. Side :-

Expenses relating to other heads of incomes, shall NOT BE ALLOWED
For e.g. municipal tax for HP, purchase of race tickets etc.

10. P&L Dr. Side :-

Difference in trial balance is an error, not an expenses
Hence it is NOT ALLOWED

11. P&L Dr. Side :-

Depreciation as per P&L as per book, therefore NOT ALLOWED, however depreciation as per Income Tax shall ALWAYS BE ALLOWED as UBE

12. P&L Dr. Side :-

Payment to relatives –

- ⇒ Reasonable Amount (ALLOWED)
- ⇒ Excess Amount (NOT ALLOWED)

13. P&L Dr. Side :-

Business Expenses

- ⇒ Amount paid up to Rs. 20,000
- ⇒ Amount paid more than Rs. 20,000
 - Paid by A/C payee crossed cheque & A/C payee bank draft = ALLOWED
 - Paid by any other mode like cash, bearer cheque etc. = NOT ALLOWED

14. P&L Dr. Side :-

In case any payment is done in outside of India or paid in India to NRI without deducting TDS, than the amount paid shall NOT BE ALLOWED as business expenses
For e.g. salary, rent, interest etc.

15. P&L Dr. Side :-

In case a payment is made to resident in India & TDS is not deducted than 30% of the amount paid shall NOT BE ALLOWED

16. P&L Dr. Side :-

Business Expenses

- ⇒ T B L I C (ALLOWED) only if is actually paid up to 31st July 2020 (i.e. due date of filling income tax return / statement)
- ⇒ Any other business expenses (ALLOWED) whether it is paid or out-standing.

17. P&L Dr. Side :-

Income tax appeal expense, case expense, return filling expense, fees paid to CA all are business expenses, it shall be ALLOWED

18. P&L Dr. Side :-

- ⇒ Banking Cash Transaction Tax (ALLOWED)
- ⇒ Security Transaction Tax (NOT ALLOWED)

19. P&L Cr. Side :-

By export incentives.

- ⇒ By duty drawback (excise or custom refund) is ALLOWED
- ⇒ By cash subsidy from Government is ALLOWED
- ⇒ By profit on sale of Import Licence is ALLOWED

20. P&L Cr. Side :-

By interest income

- ⇒ Interest from Debtors (ALLOWED)
- ⇒ Interest from Creditors (ALLOWED)
- ⇒ Interest on capital from partnership firm (ALLOWED)
- ⇒ Other interest (NOT ALLOWED)

21. P&L Cr. Side :-

- ⇒ By salary from partnership firm (ALLOWED)
- ⇒ By interest on capital of partnership firm (ALLOWED)
- ⇒ By commission from partnership firm (ALLOWED)
- ⇒ By share of profit received by partner from partnership firm (NOT ALLOWED)

22.

Subscription & Membership fees, professional Tax are all allowed as expense of business & profession.

~: SUMS :~

Illustration : 1

Following is the profit & loss account of Mr. Yogendra for the year ended 31st march 2020.

| Dr. | | Cr. | |
|--|----------|---|----------|
| Profit & Loss Account for the year ended 31 st march 2020 | | | |
| Particular | Amount | Particular | Amount |
| To Office Exp. (A) | 36,000 | By Gross Profit (A) | 1,54,000 |
| To Advertisement(2000 NA) (A 8000) | 10,000 | By Winning From Lottery (NA) | 9,000 |
| To Selling Exp. (22000 NA) (A 6000) | 28,000 | By Dividend From UTI (NA) | 3,000 |
| To General Exp. (NA) | 5,000 | By Int. On Tax Free RBI Bonds (NA) | 8,500 |
| To Depreciation (NA) | 18,000 | By IT Refund (Including Int. 2000) (NA) | 4,500 |
| To Sales Tax Penalties (NA) | 2,000 | By Interest Of Bank FD (NA) | 14,000 |
| To Donation (NA) | 10,000 | | |
| To Provision For Gratuity (NA) | 15,000 | | |
| To Income Tax (NA) | 15,000 | | |
| To Salary To Yogendra (NA) | 6,000 | | |
| To Net Profit | 48,000 | | |
| | 1,93,000 | | 1,93,000 |

Additional information:

- Advertisement includes Rs.2,000 paid to local political party as advertisement charges in their annual souvenir. .
- Selling Expenses includes a Single Payment of Commission by bearer cheque amounting to Rs.22,000
- General Expenses pertain to expenditure incurred for tuition fees of Mr. Yogendra's son, pursuing MBA at I.I.M., Indore.
- Office expense includes Rs. 2,000 paid as Diwali Bonus to Employees
- Depreciation as per income tax is Rs. 15,000. (UBE)

Compute Taxable Business Income of Mr. Yogendra for Assessment Year 2020-21

Solution:

Statement of Income From Business

| Particulars | Amounts | Amounts |
|-----------------------------------|---------|----------|
| N.P. As Per P&L A/C | | 48,000 |
| (+) Non-Business Expenses [Dr(X)] | | |
| Advertisement | 2,000 | |
| Selling Exp. | 22,000 | |
| General Exp. | 5,000 | |
| Depreciation | 18,000 | |
| Sales Tax Penalties | 2,000 | |
| Donation | 10,000 | |
| Provision For Gratuity | 15,000 | |
| Income Tax | 15,000 | |
| Salary To Yogendra | 6,000 | 95,000 |
| | | 1,43,000 |
| (-) Non-Business Incomes [Cr(X)] | | |
| Winning From Lottery | 9,000 | |
| Dividend From UTI | 3,000 | |

| | | |
|---|--------|----------|
| Int. On Tax Free RBI Bonds | 8,500 | |
| IT Refund (Including Int. 2000) | 4,500 | |
| Interest Of Bank FD | 14,000 | (39,000) |
| | | 1,04,000 |
| (-) Unrecorded Business Expenses (UBE) (adjustment) Depreciation As Per Income Tax | | (15,000) |
| (+) Unrecorded Business Incomes (UBI) (adjustment) ----- | | 89,000 |
| Taxable Income From Business | | 89,000 |

Illustration : 2

Mr. Roshan is proprietor of business. Following was the P&L A/C of his business for the year ended 31st march 2020. You are required to compute his business income.

Dr. Profit & Loss Account for the year ended 31st march 2020 Cr.

| Particular | Amount | Particular | Amount |
|---|-----------|----------------------------------|-----------|
| To Opening Stock (A) | 2,34,000 | By Sales (A) | 12,40,000 |
| To Purchase (4L NA) (6L A) | 10,00,000 | By Closing Stock (A) | 2,05,000 |
| To Office Salary (A) | 57,000 | By IT Refund (Int. 2,000) (NA) | 15,000 |
| To Proprietor's Salary (NA) | 30,000 | By Dividend From UTI (NA) | 20,000 |
| To Bad Debts (A) | 25,000 | By Dividend From Bajaj Ltd. (NA) | 25,000 |
| To Advertisement (A) | 10,500 | By Int. On PPF (NA) | 5,000 |
| To Fire Insurance Premium (A) | 4,500 | By Lottery Price Received (NA) | 10,000 |
| To Conveyance Exp. (A) | 6,000 | | |
| To Int. On Proprietor's Capital (NA) | 25,000 | | |
| To Medical Exp. (NA) | 20,000 | | |
| To General Exp. (10500 NA)(A 24500) | 35,000 | | |
| To Income Tax Paid (NA) | 5,000 | | |
| To Residential Telephone Exp. (7000 NA) (A 7000) | 14,000 | | |
| To Sales Tax Penalties (NA) | 4,000 | | |
| To Depreciation (NA) | 30,000 | | |
| To Net Profit | 20,000 | | |
| | 15,20,000 | | 15,20,000 |

Additional information:

- The residential telephone is used half the time for office work.
- Purchases include Rs. 4,00,000 paid for cash purchases.
- General expenses include advance Income tax of Rs. 10,000 paid during the year and Rs. 500 for purchase of Lottery tickets.
- Depreciation allowable as per Income Tax Rules Rs. 25,000 (UBE)

Solution:

Statement of Income From Business

| Particulars | Amounts | Amounts |
|---|----------|----------|
| N.P. As Per P&L A/C | | 20,000 |
| (+) Non-Business Expenses [Dr(X)] | | |
| Purchase | 4,00,000 | |
| Proprietor's Salary | 30,000 | |
| Int. On Proprietor's Capital | 25,000 | |
| Medical Exp. | 20,000 | |
| General Exp. | 10,500 | |
| Income Tax Paid | 5,000 | |
| Residential Telephone Exp. | 7,000 | |
| Sales Tax Penalties | 4,000 | |
| Depreciation | 30,000 | 5,31,500 |
| (-) Non-Business Incomes [Cr(X)] | | 5,51,500 |
| Income Tax Refund (Int. 2,000) | 15,000 | |
| Dividend From UTI | 20,000 | |
| Dividend From Bajaj Ltd. | 25,000 | |
| Int. On PPF | 5,000 | |
| Lottery Price Received | 10,000 | (75,000) |
| (-) Unrecorded Business Expenses (UBE) (adjustment) | | 4,76,500 |
| Depreciation | | (25,000) |
| (+) Unrecorded Business Incomes (UBI) (adjustment) | | 4,51,500 |
| ----- | | ----- |
| Taxable Income From Business | | 4,51,500 |

Illustration : 3

Following is the profit & loss account of M/S Fashion Garment owned by Mr. Desai for the year ended 31st March 2020

| Particular | Amount | Particular | Amount |
|---|----------|---|----------|
| To opening stock (A) | 40,000 | By sales (A) | 4,40,000 |
| To purchase (A) | 3,37,500 | By closing stock (A) | 38,100 |
| To salary and wages (8000 NA)(A) | 42,500 | By dividend received from Indian Company (NA) | 4,900 |
| To donation to BMC for charity Purpose (NA) | 5,000 | By recovery of BD (A) | 15,000 |
| To rent (A) | 12,000 | By interest on Kamdhenu deposit with co-operative bank (NA) | 4,000 |
| To household expenses (NA) | 35,000 | | |
| To printing and stationery (A) | 2,250 | | |
| To telephone expenses (A) | 1,750 | | |
| To advertisement expenses (NA) | 500 | | |
| To motor car expenses (2750 NA)(A) | 5,500 | | |
| To factory insurance chg. (A) | 5,000 | | |
| To int. on loan from Mrs. desai (A) | 5,000 | | |
| To embezzlement of cash (A) | 7,500 | | |

| | | | |
|-------------------------|----------|--|----------|
| To professional tax (A) | 250 | | |
| To net profit | 2,250 | | |
| | 5,02,000 | | 5,02,000 |

On detailed scrutiny of profit and loss account, it was revealed that,
Salary includes Rs.8,000 paid towards Income-tax.
Half of the motor car expenses are attributable for personal purposes
Advertisement expenses are incurred for souvenir published by a political party.
Recovery of bad debts was earlier allowed as deduction.
Compute the income from profits and gains of business of Mr. Desai for A.Y. 2020-2021.

Solution:

Statement of Income From Business

| Particulars | Amounts | Amounts |
|---|---------|---------|
| N.P. As Per P&L A/C | | 2,250 |
| (+) Non-Business Expenses [Dr(X)] | | |
| Salary include IT | 8,000 | |
| Donation | 5,000 | |
| Household expenses | 35,000 | |
| Advertisement expenses | 500 | |
| Motor car expenses | 2,750 | |
| | | 51,250 |
| (-) Non-Business Incomes [Cr(X)] | | 53,500 |
| Dividend from Indian company | 4,900 | |
| Interest on deposit | 4,000 | |
| | | (8,900) |
| (-) Unrecorded Business Expenses (UBE) (adjustment) | | 44,600 |
| ----- | | ----- |
| (+) Unrecorded Business Incomes (UBI) (adjustment) | | 44,600 |
| ----- | | ----- |
| Taxable Income From Business | | 44,600 |

Illustration : 4

Shree Hitesh furnishes the following revenue statement for the year ended 31st March 2020

| Particular | Amount | Particular | Amount |
|----------------------------------|----------|--------------------------------|----------|
| To opening stock (A) | 10,000 | By sales (A) | 6,20,000 |
| To purchase (30000 NA) (A) | 5,30,000 | By closing stock (A) | 5,000 |
| To rent (A) | 25,000 | By interest on securities (NA) | 23,000 |
| To office expenses (1000 NA) (A) | 12,000 | By net loss | 8,000 |
| To interest on borrowing (NA) | 60,000 | | |
| To interest on capital (NA) | 10,000 | | |
| To donation (NA) | 4,000 | | |
| To income tax (NA) | 5,000 | | |
| | 6,56,000 | | 6,56,000 |

1. You are informed that purchases include cost of mopeds Rs. 15,000, cost of computer Rs. 15,000, assets were put into use during the year and were eligible for depreciation at 25%. **(UBE)**
 2. Office expenses include Rs.1,000 relating to school fees of Hitesh's son. Rent for office premises is paid to the landlord, Mrs. Hitesh.
 3. Interest on borrowing is entirely in respect of money raised to invest in securities.
 4. His capital account shows a credit of Rs.6,000 being amount recovered from Mahesh who was a customer whose balance was written off as bad debt in earlier years and in respect off which allowance was availed of in those years. **(UBI)**
- Compute taxable business income.

Solution:

Statement of Income From Business

| Particulars | Amounts | Amounts |
|---|---------|---------------|
| N.L. As Per P&L A/C | | (8,000) |
| (+) Non-Business Expenses [Dr(X)] | | |
| Purchase | 30,000 | |
| Office expenses | 1,000 | |
| Interest on borrowing | 60,000 | |
| Interest on capital | 10,000 | |
| Donation | 4,000 | |
| Income tax | 5,000 | 1,10,000 |
| | | 1,02,000 |
| (-) Non-Business Incomes [Cr(X)] | | |
| Interest on security | | (23,000) |
| | | 79,000 |
| (-) Unrecorded Business Expenses (UBE) (adjustment) | | |
| Depreciation (25% of Rs. 30,000) | | (7,500) |
| | | 71,500 |
| (+) Unrecorded Business Incomes (UBI) (adjustment) | | |
| BD recover | | 6,000 |
| Taxable Income From Business | | 77,500 |

Illustration : 5

The following is the P&L a/c of Shree Ashok for the year ended 31st march 2020

| Particular | Amount | Particular | Amount |
|------------------------------------|--------|----------------------------|----------|
| To office salary (A) | 12,500 | By gross profit (A) | 1,05,000 |
| To godown rent (A) | 3,000 | By BD recovery (NA) | 1,000 |
| To advertisement (NA) | 4,500 | By misc. income (A) | 9,000 |
| To reserve for BD (NA) | 2,000 | | |
| To printing (A) | 500 | | |
| To insurance (A) | 1,000 | | |
| To interest on capital (NA) | 2,000 | | |
| To professional fees (A) | 1,750 | | |
| To income tax (NA) | 5,000 | | |
| To sales tax (A) | 1,000 | | |

| | | | |
|------------------------------------|----------|--|----------|
| To drawings (NA) | 12,000 | | |
| To car expenses (A) (700 (NA)) | 3,500 | | |
| To general expenses (A) (1000 - A) | 3,500 | | |
| To depreciation car (NA) | 2,000 | | |
| To repairs to building (A) | 1,500 | | |
| To rates & taxes (A) | 300 | | |
| To net profit | 58,950 | | |
| | 1,15,000 | | 1,15,000 |

Other information:

1. The bad debts in respect of which recovery is made, were not allowed in the past as a deduction.
2. General expenses, include Rs. 1000 given to an **approved institution for Scientific research (75%) (UBE) (100%+75%extra = 175%)**
3. Depreciation as per income tax act on car Rs 1000. Motor car use is personal to the extent of 1/5 .**(UBE [1000 – 20% = 1000 – 200 = 800])**
4. Advertisement expenses are incurred for promotion a new product and its benefit will continue for 5 years. (capital exp. NA)

You are required to compute his income from the 'Business or Profession' for A.Y. 2020-2021

Solution:

Statement From of Income Business

| Particulars | Amounts | Amounts |
|---|---------|---------------|
| N.L. As Per P&L A/C | | 58,950 |
| (+) Non-Business Expenses [Dr(X)] | | |
| Advertisement | 4,500 | |
| Reserve for BD | 2,000 | |
| Interest on capital | 2,000 | |
| Income tax | 5,000 | |
| Drawings | 12,000 | |
| Car expense | 700 | |
| Depreciation on car | 2,000 | |
| | | 28,200 |
| (-) Non-Business Incomes [Cr(X)] | | 87,150 |
| BD recovery | | (1,000) |
| | | 86,150 |
| (-) Unrecorded Business Expenses (UBE) (adjustment) | | |
| General expenses | 750 | |
| Depreciation | 800 | |
| | | (1,550) |
| (+) Unrecorded Business Incomes (UBI) (adjustment) | | 84,600 |
| ----- | | ----- |
| Taxable Income From Business | | 84,600 |

Income from profession

Format of statement of income from profession:

| Particulars | Amounts | Amounts |
|--------------------------------------|---------|---------|
| Income From Profession | | |
| 1 | XX | |
| 2 | XX | |
| 3 | XX | |
| Less: Expense from Profession | | XXX |
| 1 | XX | |
| 2 | XX | |
| 3 | XX | (XX) |
| Taxable income from profession | | XXX |

Illustration : 6

Following is the account of receipt and payment of Dr. Doshi of MANAS CLINIC for the year ended 31st march 2020

| Receipt | Amount | Payment | Amount |
|-----------------------------------|----------|---|----------|
| To balance b/d | | By salaries (A) | 44,000 |
| Cash in hand — 1,500 | | By bonus to staff (A) | 4,400 |
| Cash at bank — 3,000 | 4,500 | By printing & stationary (A) | 13,600 |
| To consulting fees (A) | 1,85,000 | By rent of clinic (paid to Wife) (6000 A) | 12,000 |
| To visit fees (A) | 14,500 | By electricity (A) | 11,150 |
| To gift from patient (A) | 6,000 | By car expense (15,000 A) | 30,000 |
| To winning from horse race (NA) | 10,000 | By drawings (NA) | 48,000 |
| To amount received under LIC (NA) | 30,000 | By donation (NA) | 18,000 |
| | | By purchase of equipment (NA) | 12,000 |
| | | By misc. expense (NA) | 12,000 |
| | | By balance c/d | |
| | | Cash in hand — 2,600 | |
| | | Cash at bank — 4,850 | 7,450 |
| | 2,50,000 | | 2,50,000 |

1. Rs. 6,000 considered as a reasonable rent of clinic
2. Misc. expenses are incurred for personal use.
3. Half of the car expenses are for personal use
4. Depreciation allowable according to income tax act on all asset is Rs. 4,000 (**Un-recorded Profession Expenditure**) (UPE)

Compute income from profession of Dr. Doshi for AY 2020-21

Solution:

Statement From of Income Business

| Particulars | Amounts | Amounts |
|-------------|---------|---------|
|-------------|---------|---------|

| Income From Profession | | |
|---------------------------------------|----------|-----------------|
| 1. Consulting fees | 1,85,000 | |
| 2. Visit fees | 14,500 | |
| 3. Gift from patient | 6,000 | |
| | | 2,05,500 |
| Less: Expense from Profession | | |
| 1. Salary | 44,000 | |
| 2. Bonus | 4,400 | |
| 3. Printing & stationary | 13,600 | |
| 4. Rent | 6,000 | |
| 5. Electricity | 11,150 | |
| 6. Car expense | 15,000 | |
| 7. Depreciation | 4,000 | (98,150) |
| Taxable income from profession | | 1,07,350 |

Illustration : 7

Mr. Nayak is a leading CA of Mumbai. He banks all his receipt and makes all payment by cheques. His receipt and payment account for year ended 31st march 2020 are as follow.

| Receipt | Amount | Payment | Amount |
|--|------------------|--|---------------------|
| To balance b/d | 7,500 | By salaries (A) | 47,500 |
| To profession fees (A) | 2,67,500 | By telephone expenses (A) | 5,800 |
| To salary as a part-time lecturer in College (NA) | 50,000 | By office rent (A) | 4,500 |
| To rent received from rented house (NA) | 22,500 | By subscription (A) | 5,450 |
| To rent from his father's HUF being his share (NA) | 15,140 | By car expense (6000 A) | 9,000 |
| To prize received from lions club for best member of the year (NA) | 5,000 | By office expense (A) | 16,350 |
| | | By purchase of computer (NA) | 30,000 |
| | | By advance tax (NA) | 40,000 |
| | | By donation (NA) | 10,000 |
| | | By personal drawings (NA) | 82,500 |
| | | <u>By expense of rented house (NA)</u> | |
| | | Municipal tax(NA) | 5,000 |
| | | Repairs (NA) | 1,500 |
| | | Insurance of building (NA) | 1,600 |
| | | By collection charges(NA) | 2,200 |
| | | By balance c/d | 1,06,240 |
| | 3,67,640 | | 3,67,640 |

1. Depreciation on computer is allowed at 25% (UPE 7500)
2. It is considered that 1/3rd of the car expenses are for personal use.
3. Shri Nayak stays in his own bungalow. Its gross annual value is Rs.8,000. In respect of his bungalow, he has paid Rs.2,400 municipal taxes, interest Rs.6,000 on money borrowed for its construction. These expenses are included in his drawings.

Determine the business Income of Shri Nayak for A.Y. 2020-21

Solution:

Statement From of Income Business

| Particulars | Amounts | Amounts |
|-------------|---------|---------|
|-------------|---------|---------|

| Income From Profession | | | |
|--------------------------------|--|----------|----------|
| 1. Professional fees | | 2,67,500 | |
| Less: Expense from Profession | | | 2,67,500 |
| 1. Salary | | 47,500 | |
| 2. Telephone expense | | 5,800 | |
| 3. Rent | | 4,500 | |
| 4. Subscription | | 5,450 | |
| 5. Car expense | | 6,000 | |
| 6. Office expense | | 16,350 | |
| 7. Depreciation on car | | 7,500 | (93,100) |
| Taxable income from profession | | | 1,74,400 |

Illustration : 8

Mr. Vilas is having various different agencies. His receipt and payment account is give as under for the year ended 31st march 2020

| Receipt | Amount | Payment | Amount |
|---|----------|-------------------------------------|----------|
| To balance b/d | 5,000 | <u>By salary</u> | |
| To commission from LIC | 1,45,000 | Staff | 24,000 |
| To commission from post office | 7,50 | Own | 60,000 |
| To commission from UTI | 22,500 | By conveyance & travelling | 13,350 |
| To gift from father | 10,000 | By rent of office | 12,000 |
| To winning from lotteries | 5,000 | By household expenses | 19,000 |
| To winning from horse race | 5,000 | By entertainment expenses | 12,000 |
| To LIC- on maturity of policy of own life | 30,000 | By purchase of furniture for office | 10,500 |
| | | By telephone expenses | 12,500 |
| | | By advertisement | 12,000 |
| | | By LIP for self | 4,000 |
| | | By medical treatment for self | 11,500 |
| | | By newspaper, journal 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.

1. Depreciation allowable as per Income-tax Act on furniture is Rs.3,500
2. Purchase of old typewriter for Rs.6,500 has been wrongly included in household expenses. Provide depreciation @10%.

Further, Mr. Vilas is a partner in a firm M/s Archana Enterprises. During the year 2019-20 he did not receive any interest or remuneration from the firm. However, his capital account is credited with a sum of Rs.56,789 being his share in the total income of the firm.

Compute his income from business or profession for the assessment year 2020-21.

Solution:

Statement From of Income Business

| Particulars | Amounts | Amounts |
|-------------|---------|---------|
|-------------|---------|---------|

| | | |
|--------------------------------|----------|----------|
| Income From Profession | | |
| 1. Commission from LIC | 1,45,000 | |
| 2. Commission from post office | 7,500 | |
| 3. Commission from UTI | 22,500 | |
| | | 1,75,000 |
| Less: Expense from Profession | | |
| 1. Salary | 24,000 | |
| 2. Conveyance & travelling | 13,350 | |
| 3. Rent | 12,000 | |
| 4. Entertainment expenses | 12,000 | |
| 5. Telephone expenses | 12,500 | |
| 6. Advertisement | 12,000 | |
| 7. Newspaper | 2,000 | |
| 8. Depreciation | 3,500 | |
| 9. Depreciation | 650 | (92,000) |
| Taxable income from profession | | 83,000 |

Prof. Harsh Majhi