

VIVEKANANDA COLLEGE
THAKURPUKUR
KOLKATA-700063
NAAC ACCREDITED 'A' GRADE



Topic: Profit and Gains from Business and Profession

Course Title: CC 4.1 Ch

Paper: taxation-1

Unit: 03(A)

Semester: IV

Name of the teacher: DR. SARBAPRIYA RAY

Name of the department: COMMERCE

Profit and Gains from Business and Profession

DR SARBAPRIYA RAY

Practical Problem:

The following is the Profit and loss account of Mr Vivek Agarwal for the year ended on 31.3.2020

Particulars	Rs	Particulars	Rs
To Opening Stock	90000	By sales	535000
" Purchase	385500	" Closing stock	144000
" Wages	34050	" Bad debt	2000
" Rent	12000	recovered(disallowed in earlier	
" General expenses	16500	year)	8500
" Donation to National	2500	" Bank Interest	3500
Defence Fund	64600	" Dividend from UTI	1050
" Salaries	3000	" Interest on NSC	<u>4000</u>
" Bad Debt	6200	" Profit on sale of machinery	
" Provision for doubtful debt	10500		
" Depreciation	3900		
" Income tax	6200		
" Legal expenses	8000		
" Interest on capital	<u>55100</u>		
" Net profit	<u>698050</u>		<u>698050</u>

CU B.Com(Hons)-2019-Adapted

Other information:

- (a) Both opening and closing stock were valued at 10% below cost
- (b) Legal expenses include Rs3000 paid as penalty for infringement of customs regulations.
- (c) Purchase include Rs15000 paid in cash
- (d) Depreciation as per IT rules Rs 12000.

Compute income from business of Mr. Agarwal for the assessment year 2020-21.

Computation of income from Business of Mr Vivek Agarwal for the assessment year 2020-21 relating to previous year 2019-20

Particulars	Rs	Rs
Net profit as per profit and loss a/c		55,100
Add: Expenses disallowed:		
Donation to National Defence Fund	2,500	
Provision for doubtful debt	6,200	
Depreciation (Treated separately)	10,500	
Income tax	3,900	
Interest on capital	8,000	
Legal expenses for infringement of customs regulation	3,000	
Purchase made in cash	<u>15,000</u>	(+)49,000
Less: Income not chargeable under this head:		
Bad debt recovered(disallowed in earlier year)	2,000	
Bank Interest	8,500	
Dividend from UTI	3,500	
Interest on NSC	1,050	
Profit on sale of machinery	<u>4,000</u>	(-)19,050
Less: Expenses allowed:		
Depreciation as per IT law		(-)12,000
Add: Decrease in profit due to undervaluation of opening and closing stock $[144000-90000] \times \frac{1}{9}$		<u>(+)6,000</u>
Income from Business		<u>79,150.</u>

Explanation:

Donation to National Defence Fund is not item of P/L A/C , rather it is a subject to deduction u/s 80G

Provision for doubtful debt being a provision is disallowed, so added back.

‘Depreciation (Treated separately)’ means lum sum depreciation given in the problem will be added back first, then IT authority will decide actual amount of

depreciation that will be deducted from accounting net profit to arrive at actual profit as per income tax act.

Income tax, being personal tax has been added back to arrive at true profit from perspective income tax act.

Legal expenses for infringement of customs regulation is disallowed u/s 37(1), so added back.

‘Bad debt recovered(disallowed in earlier year) ‘ is not actually an income because this bad debt in earlier year has been disallowed, so deducted to arrive at actual net profit.

Bank Interest ,Dividend from UTI,Interest on NSC are not business income , rather these are personal income of the assessee.

Profit on sale of machinery is capital income , therefore excluded from net profit.

DATE:23/4/2020

TIME 11-45 AM