

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

TAXATION-1

DR SARBAPRIYA RAY

Practical Problem:1 - From The following information ,compute the total income of Mr. S. Ray for the assessment year 2020-21.

Particulars	Amount(Rs)	Particulars	Amount(Rs)
To Opening stock	22,000	By sales	6,00,000
" Purchase	3,00,000	"closing stock	<u>33,000</u>
" wages	28,000		
"Gross profit c/d	<u>2,83,000</u>		
	<u>6,33,000</u>		<u>6,33,000</u>
To office salaries	43,000	By gross profit b/d	2,83,000
" provision for bad debt	3,000	" Refund of income	1,700
" Entertainment expenses	14,000	tax	4,300
" Income tax	5,000	" Dividend from UTI	<u>1,000</u>
" Fines paid to income tax authority	2,000	" Recovery of bad debt	
"Advertisement	2,500	(disallowed earlier)	
"Interest on capital	4,000		
" Life insurance premium	17,000		
" Donation	10,000		
" General expenses	23,000		
" Depreciation	<u>1,60,000</u>		
" Net profit	<u>2,90,000</u>		<u>2,90,000</u>

Other information:

- (i) stock of goods at the opening date as well as closing date have consistently been valued at 10% above cost.

- (ii) Advertisement included cost of gifts sets of Rs 1200 each presented to client.
- (iii) Purchase include a petty purchase of Rs 20,000 paid in cash.
- (iv) Salaries include Rs 3000 being Mr Ray's contribution as employer to the employees recognized provident fund made one month after due date and Rs 5000 drawn by Mr Ray.
- (v) Donation comprise Rs 10000 donated to Janata Dal and Rs 7000 donated to P.M's National Relief Fund.
- (vi) Sales include a sum of Rs 10000 representing the value of goods withdrawn by Mr Ray (cost of goods Rs12000 and market value on the date of withdrawal Rs15000).
- (vii) On 1.4.2018, he had plant and machinery (rate of depreciation 15%) having WDV of Rs 1,50, 000. During the year, he purchased a new plant for Rs50,000(1.6.2019) and sold a machine having written down value of Rs 60,000 for Rs 80,000 .

C.U. B.Com(Hons) – 1998-Adapted

Solution:

Computation of taxable income Mr S.Ray, a resident individual, for the assessment year 2020-21 relating to previous year 2019-20

Particulars	Amount(Rs)	Amount(Rs)	Amount(Rs)
*Profit &Gains from Business & Profession:			
Net profit as per Profit&Loss account		1,60,000	
<u>Add: Expenses disallowed:</u>			
Contribution to employees provident fund one month after due date(see note:1)	Nil		
Salary paid to self	5,000		
Provision for bad debt	3,000		
Income tax ,being personal tax	5,000		
Fines paid to customs authority	2,000		
Interest on capital	2,500		
Life insurance premium	4,000		
Donation(treated separately)	17,000		
Depreciation((treated separately)	<u>23,000</u>	61,500	
<u>Less: Expenses allowed:</u>		2,21,500	
Depreciation as per IT rule [see note-2 below]		<u>18,000</u>	
		2,03,500	
Less Adjustment for overvaluation of Stock			
$[\text{Rs}(33000-22000) \times \frac{10}{110}]$		<u>1,000</u>	
		2,02,500	
Add: Adjustment for goods withdrawn by the proprietor below cost price [see note-3]			
[Rs12,000-Rs10,000]		<u>2,000</u>	

		2,04,500	
Less: Income not taxable:			
Refund of Income tax[not being an income]	1,700		
Recovery of Bad debt(disallowed earlier)	<u>1,000</u>	<u>2,700</u>	
		2,01,800	
Less: Income not taxable under this head:			
Dividend from UTI		<u>4,300</u>	1,97,500
*Income from Other Sources:			
Dividend from UTI[Exempt U/S 10(35)]			<u>Nil</u>
Gross Total Income			1,97,500
Less: Deduction u/s 80C to 80U:			
Deduction U/S 80C in respect of Life Insurance Premium		4,000	
Deduction U/S 80G for donations		7,000	
Deduction U/S 80GGC [NOTE-4]		<u>10,000</u>	
			<u>21,000</u>
Total Income			<u>1,76,500</u>

Note:1:

With effect from A.Y 2004-05, no disallowance shall be made u/s 43B if the payment is made before the due date of filling return u/s139(1).**[read rules of u/s43B from your text book]**

Note:2:

Depreciation as per IT Rule:

W.D.V of plant on 1.4.2019	Rs 1,50,000
add: Purchase made during the year (put to use for more than 180 days during the previous year)	<u>Rs50,000</u>
	Rs2,00,000
Less: sale during the year	<u>Rs 80,000</u>
W.D.V of plant	Rs1,20,000

on 1.4.2019

Depreciation @ 15% on Rs 1,20,000

Rs18,000

Note:3:

An arbitrary valuation of stock regardless of the cost or market price cannot be allowed even if such a method is followed consistently [CIT vs SARANGPUR COTTON MFG. Co.6. ITR 36]. Therefore, adjustments have been made to bring back the values to cost price.

Note-4:

Donation to political parties are deductible u/s 80GGC.

Read the rule given as follows:

Amount of deduction available under **section 80GGC** –

The whole of the amount of contribution / donation is available as a **deduction under section 80GGC**. In other words, a 100% deduction is available to an amount contributed towards a political party or an electoral trust under section 80GGC.

For more clarity of different items of the practical sum, read different provisions from any graded text book like direct taxation-S.K.RAY OR C.H SENGUPTA etc.

DATE 06.05.2020

TIME 9.00AM