

## **Unit – 1. Income from Business and Profession.**

### **Examination Questions (Theory)**

#### **May/June – 2007**

1. What do you mean by profession? OR What is Profession? (2) **May-10, May-11, May-14, May-15, May-19**
2. What do you mean by expressly admissible expenses? (2)
3. Define Speculative transaction. (2) **May-11, May-12**

#### **May/June – 2008**

4. State whether the following are admissible while computing income from business: (2)  
a) Provision for Income Tax b) Income tax appeal expenses
5. What is a block of Asset? (2) **May-12, May-10, May-15**

#### **June – 2009**

6. Give the meaning of Speculation Business. (2)
7. Bring out any two examples of deemed income. (2)
8. Bring out any two expressly allowable expenses under business (2) **May-11**  
Mention four admissible expenses while computing taxable business income. (2)  
**MAY-2015, May-2017, May-19**

#### **May – 2012**

9. Define the term Vocation (2) / What is Vocation? **May-2016, May-2017**
10. Describe any five exceptions for which no disallowance will be made of the expenditure even if the payment exceeding Rs. 10,000 is made in cash. (5)

#### **May/June – 2013**

11. Define the term Business. (2) **May-2018**
12. Mention the rules for carry forward of speculation business loss. (2) What is the provision relating to carry forward of loss from speculative business. (2) **May-2011**

#### **April/May – 2015**

13. How do you treat expenditure on patents while computing taxable business income? (2)

#### **May – 2016**

14. How do you treat bad debt recovered earlier written off? (2)

#### **May – 2018**

15. Mention any four disallowed expenses, in calculation of profit from business. (2)

## Examination Problems on Business Income:

### May/June – 2007.

#### **Problem – 1. (5 Marks)**

Discuss with reasons, the admissibility of the following expenses while computing profits and gains of business.

- Income tax paid Rs. 30,000.
- Outstanding sales tax of previous years paid during the year Rs. 20,000.
- Interest paid on loan taken for daughter's marriage Rs. 8,000.
- Loss due to Robbery Rs. 50,000.
- Legal expenses Rs. 10,000 to defend the assessee's title to his assets.

### June – 2008.

#### **Problem – 2. (5 Marks)**

Profit and loss account of a trader shows Net Profit Rs. 22,000 after charging the following items:

- Income tax Rs. 8,000.
- Income tax appeal expenses Rs. 5,000.
- Interest on loan taken for business purposes Rs. 3,000.
- Purchase of furniture for office purposes Rs. 4,000.
- Payment to a creditor in cash Rs. 30,000.
- Provision for sales tax Rs. 10,000 (paid on 10-06-2019).
- Donation to National Defence Fund Rs. 5,000.
- Bad debts recovered (disallowed in the past) Rs. 5,000.

Find his income from Business for the Assessment Year 2019-20.

#### **Problem – 3. (15 Marks)**

From the given below profit and loss account and additional information of Mr. David, Compute his taxable business income for the Assessment Year 2019-20.

Dr.		Cr.	
Profit and Loss Account for the year ended 31-03-2019			
Particulars	Rs.	Particulars	Rs.
Opening stock	40,000	Sales	5,00,000
Purchases	2,20,000	Closing stock	50,000
Wages	15,000		
Freight	10,000		
Gross profit	2,65,000		
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	<b>5,50,000</b>		<b>5,50,000</b>

Establishment expenses	15,000	Gross Profit	2,65,000
Salaries	25,000	Dividend on Shares Gross	6,000
Rent and taxes	12,000	Rent from house property	15,000
Income tax	10,000	Refund of income tax	2,000
Household expenses	14,000	Interest on Govt. securities	1,000
Reserve for Bad debts	5,000	Bad debts recovered	5,000
Advertisement	15,000	(allowed earlier)	
Donation	6,000	Profit on sale of Machinery	3,000
Sales tax	20,000	Miscellaneous income	9,000
Provision of income tax	8,000		
Carriage outwards	11,000		
Drawings	4,000		
General expenses	16,000		
Interest on capital	9,000		
Bad debts	7,000		
Repairs	7,500		
Taxes and Insurance	2,500		
Car expenses	11,000		
Audit fees	12,500		
Depreciation	20,500		
Net profit	75,000		
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	<b>3,06,000</b>		<b>3,06,000</b>

**Additional Information:**

- Salaries include Rs. 6,000 paid to a domestic servant.
- Purchases include two payments of Rs. 30,000 and Rs. 10,000 paid in cash to a supplier.
- Opening stock is valued at 10% above the cost.
- Allowable depreciation is Rs. 22,500.
- 60% of car expenses are for business purposes.

**June – 2009.**

**Problem – 4. (5 Marks)**

How would you treat the following while computing the taxable income from Business of Mr. A for the previous year 2018-19.

- Cost of Patent Rights Rs. 2,00,000 acquired on 01-12-18.
- Advertisement bill paid in cash Rs. 40,000.
- Expenses on Scientific Research related to his business Rs. 2,50,000 of which Rs. 1,00,000 is capital expenditure.

**Problem – 5. (15 Marks)**

Mr. Pasad has prepared the following profit and loss a/c for the year ending 31-03-2019.

Particulars	Rs.	Particulars	Rs.
To Salary	8,000	By Gross Profit	1,37,300
Advertisement	4,000	Rent from House property	16,500
Sundry expenses	4,500	Dividends from Indian Co.	4,000
Interest on capital	2,000	Lottery winning	15,000
Fire insurance premium (Rs.1,000 related to HP)	3,000	Interest on securities (Non-trade)	92,000
Income tax	7,000		
House hold expenses	2,500		
Bad debts	1,000		
Provision for Bad debts	500		
Repairs of HP	3,600		
Life insurance premium	6,000		
Donation to congress party	2,000		
Depreciation (allowable)	3,700		
Net Profit	2,16,000		
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	<b>2,64,800</b>		<b>2,64,800</b>

Mr. Prasad owns a house property which is used as follows:-

- 25% of carpet area for his own business.
- 25% of carpet area for his own residence.
- 50% of carpet area is let out.

Compute his taxable income from business for the Assessment Year 2019-20.

**May/June – 2010.**

**Problem – 6. (5 Marks)**

Discuss with reason the admissibility of the following expenses while computing profits and gains of business:

1. Income tax paid Rs. 20,000.
2. Sales tax paid during the year Rs. 30,000.
3. Interest on loan taken for daughter's marriage Rs. 10,000.
4. Loss due to Robbery Rs. 80,000.
5. Legal expenses Rs. 5,000 to defend the assessee title to his personal assets.

**Problem – 7. (5 Marks)**

State whether the following are Capital or Revenue nature:

1. Cost of acquisition and installation of fixed asset.
2. Expenditure incurred in raising loan.
3. Expenditure incurred for the purpose of increasing the earning capacity.
4. A reward given to the employee in consideration of his good service.
5. Loss sustained on account of embezzlement done by an employee.

**Problem – 8. (15 Marks)**

From the profit and loss A/c of Mr. Ramesh for the year ended 31-03-2019, Compute the Income from business for the Assessment Year 2019-20.

Particulars	Rs.	Particulars	Rs.
Office expenses	40,000	Gross profit b/d	6,40,000
General expenses	16,000	Interest on Govt. securities	11,200
Interest on Bank loan	4,000	Discount received	16,000
Audit fees	4,000	Bad debts recovered	800
Interest on Capital	12,000	(not written off earlier year)	
Rent	20,000	Sundry receipts	16,000
Income tax	16,000	Dividend	16,000
Charity	8,000		
Legal expenses	4,000		
Compensation to retrenched Employees	20,000		
Extension of Building	36,000		
Sales tax	8,000		
Net profit	5,12,000		
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	<b>7,00,000</b>		<b>7,00,000</b>

**Other Information:**

1. General charges included Rs. 8,000 towards purchase of computer.
2. Legal expenses include Rs. 1,600 penalty by customs authority.
3. Rent includes Rs. 8,000 paid as rent of the house in which the assessee lives.
4. Depreciation allowed Rs. 12,000 as per Income tax rules (excluding depreciation on computer purchased).

**May – 2011.**

**Problem – 9. (5 Marks)**

Discuss with reason the admissibility of the following expenses while computing the profits and gains of business:

1. Sales tax paid during the year Rs. 15,000.
2. Interest on capital Rs. 5,000.
3. Donation to political party Rs. 10,000.
4. Loss due to theft Rs. 20,000.
5. Life insurance premium Rs. 3,000.

**Problem – 10. (15 Marks)**

Following is the profit and loss account of Mr. Shivakumar a merchant for the year ending 31-03-2019. Compute Income from business for the Assessment Year 2019-20.

Particulars	Rs.	Particulars	Rs.
Rent	60,000	Gross profit	5,23,000
Rates	6,000	Interest from Investments	28,000
Salary to staff	54,000	Rent from property	24,000
Diwali pooja expenses	2,000	Sundry income	16,000
Interest on loan	1,25,000	Commission	37,000
Sundry expenses	55,000		
Bad debts	6,000		
Charity	1,000		
Reserve for Bad Debts	2,000		
Entertainment	8,500		
Loss by theft	14,000		
Net profit	2,94,500		
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	<b>6,28,000</b>		<b>6,28,000</b>

**Additional Information:**

- 1) Salary to staff includes salary of Rs. 24,000 of a son who is B.Com student who casually helps in business.
- 2) Rent includes Rs. 12,000 of a shop belonging to the assessee himself.
- 3) A loan of Rs. 60,000 @ 15% per annum is taken from his wife out of funds advanced by him and interest is included in interest on loan.
- 4) Sundry expenses include Rs. 9,000 incurred on pilgrimage to Haridwar.
- 5) Entertainment expenses include Rs. 1,500 spent on tea to guests of local MLA.
- 6) He earned Rs. 40,000 in gold smuggling and not shown in books.
- 7) Rates include Rs. 4,000 for the property let out.

**May – 2012.**

**Problem – 11. (5 Marks)**

The profit and loss account for the year ending 31<sup>st</sup> March 2019 is as follows:

Particulars	Rs.	Particulars	Rs.
Cost of goods sold	7,50,000	Sale proceeds of goods	23,00,000
Salary to employees	9,90,000		
Other expenses	1,00,000		
Net profit	4,60,000		
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	<b>23,00,000</b>		<b>23,00,000</b>

The salary of Rs. 9,90,000 comprises Rs. 90,000 as employee's contribution towards RPF. Out of Rs. 90,000 Rs. 60,000 is credited in the employees provident fund within due date and the balance is credited after due date.

Compute the Income from Business of Mr. Nadoja for the Assessment Year 2019-20.

**Problem – 12. (15 Marks)**

Dr.Kuvempu has prepared the following profit and loss a/c for the year ending 31-03-19.

Particulars	Rs.	Particulars	Rs.
To Salary	48,000	By Gross Profit	2,37,300
Advertisement	24,000	Rental Income	1,65,000
Sundry expenses	54,500	Dividends from an Indian Co.	24,000
Interest on capital	12,000	Winnings from lottery (gross)	1,15,000
Fire insurance premium (Rs.10,000 relates to HP)	30,000	Interest on Non-Government Securities	1,92,000
Income tax and Wealth tax	27,000		
House hold expenses	42,500		
Bad debts	11,000		
Provision for Bad debts	10,500		
Repairs to HP	10,000		
Municipal taxes of HP	36,000		
Insurance premium on own life	6,000		
Donation to political party	12,000		
Depreciation (allowable)	23,800		
Net Profit	3,86,000		
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	<b>7,33,300</b>		<b>7,33,300</b>

Dr. Kuvempu owns a house property having 3 units, out of which Unit – 1 having 25% carpet area is used for own business purpose.

Determine the Income under the head 'Profits and gains of business and profession' of Dr. Kuvempu for the Assessment Year 2019-20.

**May/June – 2013.**

**Problem – 13. (5 Marks)**

Shri Ganesh (age 46 years) a businessman from Bangalore wants your advise regarding the admissibility or otherwise of the following expenses and losses under the provisions of the Income Tax Act 1961.

- i. Penalty paid to customs authorities for importing prohibited goods from Australia Rs. 1,80,000.
- ii. Loss of Rs. 1,20,000 snatched away from the cashier's possession while going to bank to deposit the amount.
- iii. Brokerage paid for raising a loan Rs. 10,00,000.
- iv. Commission of Rs. 50,000 paid to secure a business order.
- v. Compensation of Rs. 2,00,000 paid to an employee for premature termination of his services.



**Problem – 14. (5 Marks)**

Smt. Chamundeshwari (age 51 years), a resident of Mysore runs a cloth business. Her profit and loss account for the year ending 31<sup>st</sup> March 2019 was as follows –

Particulars	Rs.	Particulars	Rs.
Salary to Staff	10,00,000	Gross Profit	30,00,000
Rent, Rates and Taxes	6,00,000	Interest on post office savings bank account	40,000
General expenses	8,00,000		
Net Profit	6,40,000		
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	<b>30,40,000</b>		<b>30,40,000</b>

Salary includes proprietor's salary Rs. 1,20,000 and General expenses includes Rs.2,00,000 spent for daughter's wedding.

Compute taxable income from Business for the Assessment Year 2019-20.

**Problem – 15. (15 Marks)**

Shri Govinda (age 55 years), a resident of Mumbai submits the following profit and loss account for the year ending 31<sup>st</sup> March 2019.

Particulars	Rs.	Particulars	Rs.
Opening stock	1,10,000	Sales	36,00,000
Purchases	14,00,000	Closing stock	2,20,000
Wages	3,00,000		
Gross profit	20,10,000		
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	<b>38,20,000</b>		<b>38,20,000</b>
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Advertisement	2,00,000	Gross profit b/d	20,10,000
Salary to staff	6,60,000	Rent	2,40,000
Govinda's salary	1,20,000	Commission	1,50,000
Audit fees	60,000	Bad debts recovered (earlier disallowed)	70,000
Bad debts	40,000	Dividend on SRM Ltd. Shares (Gross)	30,000
Reserve for bad debts	50,000		
General expenses	2,50,000		
Municipal tax	24,000		
Fire insurance premium on goods	26,000		
Depreciation	78,000		
Patent rights	1,60,000		
Staff welfare fund	40,000		
Employees RPF	50,000		
Sales tax	1,90,000		
Donation to NDF	1,00,000		
Premium on Govinda's life insurance	36,000		
Net profit	4,16,000		
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	<b>25,00,000</b>		<b>25,00,000</b>



**Other Information:**

1. Opening stock and closing stock were overvalued by 10%.
2. Advertisement includes Rs. 1,00,000 being cost of permanent sign board.
3. Business income of Rs.70,000 was not recovered in the profit and loss account.
4. General expenses include Rs. 50,000 paid for securing business orders and Rs.60,000 spent on Govinda's birth day.
5. Depreciation allowable on all assets including permanent sign board but excluding patent rights as per IT rules was Rs. 90,000.
6. Patent rights were acquired on 11-10-2018 on which depreciation allowable at 25%.

Compute taxable income from Business for the Assessment Year 2019-20.

**May/June – 2014.**

**Problem – 16. (15 Marks)**

From the following P&L A/c for the year ending 31-03-2019 of Sri Akil, Compute taxable income from business for the Assessment Year 2019-20.

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
Office salaries	50,000	Gross profit	5,80,000
Proprietors salary	25,000	Interest on Govt. securities	22,500
Interest on capital	10,000	Rent from house property	38,000
General expenses	25,000	Profit on sale of machinery	5,000
Bad debts	10,000	Interest on post office SB A/c	2,500
Advertisement	22,500	Bad debt received	
Fire insurance premium	10,000	(earlier not allowed)	12,000
Income tax	20,000	Sundry income	6,600
R.B.D.D.	12,500		
Motor car expenses	6,000		
Donation	16,000		
Sales tax	50,000		
Repairs	18,750		
Audit fees	21,250		
Other expenses	34,000		
Depreciation	21,000		
Net profit	3,14,600		
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	<b>6,66,600</b>		<b>6,66,600</b>

**Other Information:**

- 1) Advertisement includes the cost of sign board Rs. 2,500.
- 2) Motor car expenses include Rs. 5,500 as motor car expenses of private use.
- 3) Repairs include Rs. 2,750 of residential house.
- 4) Allowable depreciation Rs. 18,000.
- 5) Other expenses include Rs. 2,000 related to house hold expenses.

**April/May – 2015.**

**Problem – 17. (16 Marks)**

Following is the Trading and Profit and Loss A/c of Manjunath Enterprises for the year ended 31<sup>st</sup> March 2019.

	Rs		Rs
Opening Stock	1,24,000	Sales	33,30,000
Purchases	7,28,000	Closing Stock	1,36,000
Carriage	78,800		
Wages	52,000		
Mfg. expenses	63,000		
Gross Profit	24,20,200		
	<b>34,66,000</b>		<b>34,66,000</b>
Salaries	2,28,000	Gross Profit	24,20,200
Interest on capital	1,72,000	Rent from house property	44,000
Drawings	1,10,000	Dividend from Tata	
Rent and taxes	1,54,000	Chemicals	10,600
Donation	25,000	Bad debts recovered	15,000
Repairs	61,000	Int. on debentures of M&M Ltd.	18,000
Depreciation	73,000	Misc. Income	8,000
General expenses	24,000	Gifts from relatives	70,400
Legal charges	6,000		
IT appeal expenses	10,000		
Audit fees	5,000		
LIC premium	46,900		
Fire insurance premium for goods	23,300		
Daughter's college fees	30,000		
Travelling expenses	18,000		
Net profit	16,00,000		
	<b>25,86,200</b>		<b>25,86,200</b>

**Additional Information:**

- 1) Stocks are valued 10% below cost.
- 2) Depreciation allowable as per IT rules Rs.54,000.
- 3) Legal charges are in connection with purchase of land.
- 4) Repairs include Rs.6,000 related to house property.
- 5) Salaries include Rs.4,600 paid to a domestic servant.
- 6) 40% of bad debts recovered were disallowed earlier.

Compute taxable income from business for the Assessment year 2019-20.

**May – 2016.**

**Problem – 18. (16 Marks)**

Mr. Amar gives you the following P&L Account for the Previous Year 2018-19 and Compute his taxable business income.

	Rs		Rs
Salaries	1,80,000	Gross profit	10,00,000
Rent and rates	1,20,000	Commission	1,00,000
Establishment expenses	2,70,000	Refund of VAT	25,000
Provision for bad debts	5,000	Refund of excise penalty	50,000
Publicity	30,000	Interest	25,000
Patents purchased	1,00,000	Rent from House property	1,20,000
Technical know-how (on 1-1-19)	1,00,000	Profit on sale of shares	30,000
Depreciation	70,000	Share of income from HUF	1,00,000
Excise duty provision	80,000		
Donation to National Laboratory	50,000		
Net profit	4,45,000		
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	<b>14,50,000</b>		<b>14,50,000</b>
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**Other Information:**

- Establishment expenses include Rs.10,000 for repairs to house property.
- Salary includes Rs.30,000 to owners son, and I.T.O points out Rs.5,000 is excessive.
- Establishment expenses also included Rs.5,000 expenditure paid out of India without T.D.S in India.
- 40% of excise duty provision was paid before last date for filing return and the balance still unpaid.
- Depreciation allowable as per IT provision Rs.50,000 (Excluding patent and technical know-how purchased).

**May – 2017.**

**Problem – 19. (14 Marks)**

Following is the Profit and Loss A/c of Ms. Sahana, a resident for the year ended 31- 3 - 2019.

**Trading and P & L A/c**

	Rs.		Rs.
To Opening Stock	40,000	By Sales	6,00,000
To Purchases	4,60,000	By Closing stock	45,000
To Gross profit c/d	1,45,000		
	<b>6,45,000</b>		<b>6,45,000</b>
To Salaries	27,500	By Gross profit b/d	1,45,000
To Rent and taxes	12,500	By Bank Interest	250
To Commission	2,500		
To Legal charges	2,250		
To Bad debts written off	7,250		
To Reserve for Bad debts	5,750		
To Repairs to machinery	750		
To Depreciation on fixed assets	13,250		
To Other expenses	1,000		
To Income tax	10,000		
To Net profit c/d	62,500		
	<b>1,45,250</b>		<b>1,45,250</b>

Compute Income from business for the Assessment Year 2019-20, after taking into consideration the following information:

- 1) Rent includes Rs.1,800 related to the house which was used as part of her own residence.
- 2) Bad-debts written off Rs.3,000 were not settled as irrecoverable.
- 3) Legal charges include Rs.500 paid for the registration of land acquired for the business.
- 4) Depreciation allowable as per Income Tax rules for the year was Rs.15,000.
- 5) Both opening stock and closing stock of the year were undervalued at 20% below cost.

**May – 2018.**

**Problem – 20. (14 Marks)**

The profit and loss account of Mr. Jagadananda for the year ending 31-3-2019 is given below:

	Rs.		Rs.
To General expenses	7,000	By Gross profit	1,40,000
To Fire insurance premium	2,000	By Bad debts recovered	4,000
To Bad debts	1,000	By Interest from Govt. securities	1,000
To Salaries	65,000	By Rent from employees	24,000
To Advertisement in Cash	22,250	By Lottery income	80,000
To Proprietor's salary	12,500	By Interest from debtors for delayed payment	6,000
To Interest on capital	2,000	By Discount received	1,750
To Provision for income tax	1,000	By Profit on sale of plant	8,000
To Depreciation	2,000	By Dividend from foreign company	2,000
To Sales tax due	5,000		
To Advance income tax paid	1,000		
To Donation to approved scientific research association	5,000		
To Donation to university to conduct social research	6,000		
To Motor car expenses	1,000		
To Municipal tax of quarters given to employees	4,000		
To Family planning expenditures	2,000		
To Charities to poor boy to support his education	8,000		
To Net profit	1,20,000		
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<b>Total</b>	<b>2,66,750</b>	<b>Total</b>	<b>2,66,750</b>

**Additional Information:**

- i. Advertisement expenses are incurred to promote the sales.
- ii. Out of bad debts recovered Rs.3,000 were disallowed in earlier previous years.
- iii. General expenses include Rs.2,500 paid as compensation to an old employee whose service was detrimental to interest of the business.
- iv. Depreciation allowable on all assets as per income tax rules was Rs.1,800.
- v. Sales tax was paid on 28-7-2019. Last date for filing the income tax return was 31-7-2019.
- vi. 40% of the car expenses were incurred for personal use.

Calculate taxable profit from business of Mr. Jagadananda for the assessment year 2019-20.