Q. 86. XY & Co. is a partnership firm. It has two partners X (34 years) and Y (36 years) (1:2). The firm is engaged in the business of civil construction including repairs of dams and supply of labour for civil construction. The profit and loss account of the firm for the year ending March 31, 2010 is as follows :

	Rs.		Rs.
Opening stock of raw material	21,700	Receipts from the business of civil construction	38,70,700
Depreciation	2,39,430		
Salary to employees	1,30,000	Rent of a godown	48,000
Purchase of row material	24,10,210	Interest from Government securities	2,60,000
Interest on loan taken to invest in Government securities	13,800	Closing stock of raw material	1,31,600
Interest on loan taken for business purposes	74,400		
Travelling, entertainment and advertisement expenses	57,800		
Other expenses	2,68,000		
Municipal tax and insurance (Rs. 6,000 + Rs. 1,200) of godown	7,200		
Salary to partners as per partnership deed			
X	1,80,000		
Y	1,44,000		
Interest to partners as per partnership deed @ 24 per cent			
X	12,000		
Y	57,00		
Net profit	6,94,760		
	43,10,300		43,10,300

Other informotion **:**

1. **Out of other expenses debited to P & L A/c Rs. 12,700 is not deductible under section 37(1).**
2. **Out of travelling, advertisement and entertainment expenses Rs. 17,500 is not deductible under section 37(1).**
3. **On April I, 2009, the firm owns the following depreciable assets:**

   Block 1 - Plants A, Band C depreciated value: Rs. 3,70,000, rate of depreciation: 15%.

   Block 2 - Plants D and E, depreciated value: Rs. 7,98,000, rate of depreciation: 40%.

   On January 1, 2010, the firm sells Plant D for Rs. 9, 10,000 and purchases Plant F (rote of depreciation 15%) for Rs. 4,86,000.
4. **The firm gives a donation of Rs. 1,70,000 to a notified charitable institute which is included in other expenses.**

5. **The firm wants to set-off the following losses brought forward from earlier years.**

	Assessment years	
	2008-09 ***Rs.***	***2009-10*** ***Rs.***
Business loss	**20,000**	**—**
Capital loss	**2,000**	**1,000**

6. **Income of partners X and Y is as follows :**

X ***Rs.***	***Y*** ***Rs.***
1,28,000	**1,70,000**
10,000	**20,000**

Answer 86.

		Rs.
Computation of business income of the firm		
Income from the business of civil construction [i.e., 8% of Rs. 38,70,700]		3,09,656
Less : Interest on capital to partners @ 12%		34,500
Book profit		2,75,156
Less : Remuneration to partners [i.e., 90% of Rs. 2,75,156]		2,47,640
Income from the business of civil construction		27,516
Computation of Income :		
Property income [i.e., Rs. 48,000 — Rs. 6,000 — 30% of Rs. 42,000]	Rs.	29,400
Business Income	27,516	
Less : Brought forward business loss of the assessment year 2008-09	20,000	
Capital gain on sale of Plant D under section 50 [i.e., Rs. 9,10,000 — Rs. 1,98,000]	7,12,000	
Less : Brought forward capital loss	3,000	7,09,000
Income from other sources (i.e., interest Rs. 2,60,000 – Rs. 13,800)		2,46,200
Gross total income		9,92,116
Less : Deduction under section 80G [i.e., 50% of 10% of 10% of Rs. 9,92,116]		49,606
Net income (rounded off)		9,42,510
Tax		2,82,753
Add : Surcharge (not applicable)		Nil
Tax and surcharge		2,82,753
Add : Education cess (2% of tax)		5,655
Add : Secondary and higher education cess [1% of tax]		2,828
Tax liability (rounded off)		2,91,240

Computation of net income and tax of partners

	X Rs.	Y Rs.
Business income		
Interest from firm @ 12%	6,000	28,500
Salary from firm (Rs. 2,47,640 divided between X and Y in ratio of 180 : 144)	1,37,578	1,10,062
Business income under section 28	1,43,578	1,38,562
Bank interest	1,28,000	1,70,000
Gross total income	2,71,578	3,08,562
Less : Deduction under section 80C	10,000	20,000
Net income (rounded off)	2,61,580	2,88,000
Tax	10,158	12,856
Add : Surcharge (not applicatble)	Nil	Nil
Tax and surcharge	10,158	12,856
Add : Education cess (2% of tax and surcharge)	203	257
Add : Secondary and higher education cess [1% of tax and surcharge]	102	129
Tax liability (rounded off)	10,460	13,240

Q. 87. Profit and loss account of 5 companies are given below —

(Rs. in lakhs)

Debit side						**Credit side**					
	A	**B**	**C**	**D**	**E**		**A**	**B**	**C**	**D**	**E**
Purchase	**37**	**37**	**37**	**37**	**37**	**Sales**	**90**	**90**	**90**	**90**	**90**
Depreciation (normal)	**6**	**6**	**6**	**6**	**6**	**Withdrawal from reserve (1)**	**10**	**10**	**10**	**10**	**10**
Depreciation (because of revaluation)	**4**	**4**	**4**	**4**	**4**	**Withdrawal from reserve (2)**	**9**	**9**	**9**	**9**	**9**
Other expenses	**5**	**5**	**5**	**5**	**5**	**Withdrawal from revaluation reserve**	**0**	**4**	**1**	**11**	**11**
Net profit	**109**	**113**	**110**	**120**	**120**		**109**	**113**	**110**	**120**	**120**

Reserve (1) was initially created on January 3, 1998 by debating profit and loss account. However, reserve (2) was initially created on April 2, 1990 without debiting profit and loss account.

Answer 87.

Computation of book profit :

	Adjustment No.	A	B	C	D	E
Net profit as per P&L account		57	61	58	68	72
Add : Depreciation debited to P&L account (total depreciation, i.e., normal as well as extra because of revaluation) (Rs. 6 lakhs + Rs. 4 lakh)	(7)	10	10	10	10	10
Less : withdrawal from reserve which was initially created by debiting P&L account	(9)	10	10	10	10	10
Less : Depreciation debited to P&L A/c (which is not partaining to revaluation of assets)	(11)	6	6	6	6	6
Less : Withdrawal from revaluation reserve to the extent it does not exceed revaluation depreciation	(12)	0	4	1	4	0
Book profit		51	51	51	58	62

Q. 88. The following case study is given to have a better understanding of the provisions of the minimum alternate tax discussed above.

Answer 88.

Assessment years (Rs. in thousand)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1. Book profit	670	750	1200.97	171.55	925.95	296.82	771.63
2. Taxable income (ignoring section 115JB)	120	150	420.46	(-) 40	453.73	186.28	648.16
3. Tax on (1) @ 7.5% 1/10% 2/15% 3/18% 4/(+SC+EC+SHEC)	56.38	84.15	123.70	17.67	143.06	55.03	143.06
4. Tax on (2) @ 30% (+SE+EC+SHEC)	40.39	50.49	129.93	Nil	134.64	57.56	200.28
5. Whether tax credit is available (up to which year)	Yes (2016-17)	Yes (2017-18)	No	Yes (2019-20)	Yes	No	No
6. Amount of credit which is available [i.e., (3)—(4)]	15.99	33.66	Nil	17.67	8.42	NA	NA
7. Cumulative credit for being set off	15.99	49.65	49.65	61.09	69.51	69.51	66.98
8. Whether brought forward tax credit can be set off during the current year [only if (4) is more than (3)]	NA	NA	Yes	NA	NA	Yes	Yes
9. Maximum amount which can be set off during the current year [i.e., the excess of (4) over (3), subject to maximum of (7)]	NA	NA	6.23	NA	NA	2.53	57.22
10. Credit which is lapsed	NA	NA	Nil	NA	NA	Nil	Nil
11. How much can be carried forward [i.e., (7)—(9)—(10)]	15.99	49.65	43.42	61.09	69.51	66.98	9.76
12. Tax payable for the current year	56.38	84.15	123.7	17.67	143.06	55.03	143.06

Q. 89. X Ltd. is engaged in the business of manufacture of garments.

	Rs.
Sale proceeds of goods (domestic sale)	**22,23,900**
Sale proceeds of goods (export sale)	**5,76,100**
Amount withdrawn from general reserve (reserve was created in 1996-97 by debating P&L A/c)	**2,00,000**
Amount withdrawn from revaluation reserve	**1,50,000**
Total	**31,50,000**
***Less* : Expenses**	
Depreciation (normal)	**6,16,000**
Depreciation (extra depreciation because of revaluation)	**2,70,000**
Salary and wages	**2,10,000**
Wealth tax	**10,000**
Income-tax	**3,50,000**
Outstanding customs duty (not paid as yet)	**17,500**
Proposed dividend	**60,000**
Consultation fees paid to a tax expert	**21,000**
Other expenses	**1,39,000**
Net profit	**14,56,500**
For tax purpose the company wants to claim the following :	
– Deduction under section 80-IB (30 per cent of Rs. 14,56,500)	
– Depreciation under section 32 (Rs. 5,36,000)	

The company wants to set off the following losses/allowances :

	For tax purposes Rs.	For accouting purposes Rs.
Brought forward loss of 2001-02	**14,80,000**	**4,00,000**
Unabsorbed depreciation	**—**	**70,000**

Compute the net income and tax liability of X Ltd. for the assessment year 2010-11 assuming that X Ltd. has a (deemed) long-term capital gain of Rs. 60,000 under proviso (i) to section 54D(2) which is not credited in profit and loss account.

Answer 89.

	Rs.
Net profit as per P&L a/c	14,56,500
Add : Excess depreciation [i.e., Rs. 6,16,000 + Rs. 2,70,000 — Rs. 5,36,000]	3,50,000
Wealth tax	10,000
Income-tax	3,50,000
Customs duty which is not paid	17,500
Proposed dividend	60,000

Total	22,44,000
Less : Amount withdrawn from reserve (i.e., Rs. 2,00,000 + Rs. 1,50,000)	3,50,000
Business income	18,94,000
Less : Unabsorbed loss	14,80,000
Business income	4,14,000
Long-term capital gain	60,000
Gross total income	4,74,000
Less : Deduction under section 80-IB [30% of Rs. 4,14,00]	1,24,200
Net income (rounded off)	3,49,800
Tax liability (under normal provisions) [20% of Rs. 60,000 + 30% of Rs. 2,89,800, plus 3% of tax as ces]	1,01,910

Computation of Book Profit as per P & L A/c

Net profit	14,56,500
Add : Depreciation [i.e., Rs. 6,16,000 + Rs. 2,70,000]	8,86,000
Wealth tax	Nil
Income tax	3,50,000
Proposed dividend	60,000
Less : Amount withdrawn from general reserve	(–) 2,00,000
Unabsorbed depreciation	(–) 70,000
Depreciation (normal)	(–) 6,16,000
Amount withdrawn from revaluation reserve to the extent it does not exceed extra depreciation because of revaluation	(–) 1,50,000
Book profit	17,16,500
Tax liability (15.45% of book profit)	2,65,200

X Ltd. will pay Rs. 2,65,200 as tax for the assessment year 2010-11 as per section 115JB. Tax credit is however, available in respect excess tax (i.e., Rs. 1,63,920) under section 115JB.

Q. 90. Sections 80-1A and 80-IB, Deduction — The projected profit and loss accounts of X Ltd. and Y Ltd. (which are under the same management) for the previous year 2009-10 are given below :

X Ltd.

	Rs.		Rs.
Cost of goods sold	**45,00,000**	**Sale**	**65,00,000**
Depreciation @ 15.3% on Rs. 10,00,000	**1,53,000**		
Other expenses	**2,00,000**		
Net profit	**16,46,700**		
	65,00,000		**65,00,000**

The company has set up an industrial undertaking in a notified industrial park and qualified for 100 per cent deduction under section 80-IA. Written down value of plant and machinery for income-tax purpose is Rs. 12,50,000.

Y Ltd.

	Rs.		Rs.
Cost of goods sold	**61,00,000**	**Sale**	**86,00,000**
Decprciation @ 13.91% of Rs. 14,30,000	**1,98,913**	**Profit on sale of a plot of land (long-term capital gain determined under section 48)**	
Net profit	**24,21,087**		
	87,20,000		**87,20,000**

Y Ltd. is not entitled to any deduction under section 80-IA. Written down value of assets for income-tax purpose is Rs. 18,76,670.

Answer 90.

	X Ltd.	*Y Ltd.*
	Rs.	*Rs.*
Net profit	16,46,700	24,21,087
Add : Depreciation	1,53,000	1,98,913
Less : Depreciation under section 32	(–) 1,87,500	(–) 2,81,500
Less : Long-term capital gain	—	(–) 1,20,000
Business income	16,12,200	22,18,500
Long-term capital gain	—	1,20,000
Dividends	—	—
Gross total income	16,12,200	23,38,500
Less : Deduction under section 80-IA	16,12,200	—
Net income	Nil	23,38,500
Book profit	16,46,700	24,21,087
Computation of tax under normal provisions		
Tax on net income (30% of Rs. 22,18,500 + 20% of Rs. 1,20,000)	Nil	6,89,550
Add : Surcharge	–	–
Tax and surcharge	Nil	6,89,550
Add : Education cess (2% of tax and surcharge)	Nil	13,791
Add : Secondary and higher education cess [1% of tax and surcharge]	—	6,896
Tax (a) (rounded off)	Nil	7,10,240
Computatin of tax under sect 115JB		
15% of book profit	2,47,005	3,63,163
Add : Surcharge	–	–
Tax and surcharge	2,47,005	3,63,163
Add : Education ces (2% of tax and surcharge)	4,940	7,263
Add : Secondary and higher education cess [1% of tax and surcharge]	2,470	3,632
Tax (b)	2,54,420	3,74,058
Tax liability [(a) or (b) whichever is more] (rounded off)	2,54,420	7,10,240

Tax planning hints — If the following steps are taken, tax liability can be reduced —

1. X Ltd. should take over the business of Y Ltd.
2. As per Circular No. 2/89, dated March 7, 1989, a company is permitted to charge depreciation at rates higher than the rates contained in Schedule XIV to the Companies Act, if it is "on the basis of a bonafied technological evaluation". X Ltd., after take over of Y Ltd., should provide depreciation in books at the rate of 20 per cent.

After taking these steps, profit and loss account of X Ltd. will be as under :

	Rs.		**Rs.**
Cost of goods sold	1,06,00,000	Sale	1,51,00,000
Depreciation		Long-term capital gain	1,20,000
– 20% of Rs. 10,00,000	2,00,000		
– 20% of Rs. 14,30,000	2,86,000		
Other expenses	2,00,300		
Net profit	39,33,700		
	1,52,20,000		1,52,20,000

Computation of Tax Liability as per P & L A/c

	Rs.
Net profit	39,33,700
Less : Long-term capital gain	(–) 1,20,000
Add : Depreciation	4,86,000
Less : Depreciation under section 32	(–) 4,69,000
Business income	38,30,700
Long-term capital gain	1,20,000
Gross total income	39,50,700
Less : Deduction under section 80-IA	16,12,200
Net income	23,38,500
Book profit	39,33,700
Computation of tax ignoring provisions of section 115JB	
Tax on net income (30% of Rs. 22,18,500 + 20% of Rs. 1,20,000)	6,89,550
Add : Surcharge	Nil
Tax and surcharge	6,89,550
Add : Education ess (2% of tax and surcharge)	13,791
Add : Secondary and higher education cess [1% of tax and surcharge]	6,896
Tax liability (rounded off)	7,10,240
Computation of tax under section 115JB	
15% of book profit of Rs. 39,33,700	5,90,055
Add : Surcharge @ 10%	–
Tax and surcharge	5,90,055
Add : Education cess (2% of tax and surcharge)	11,801
Add : Secondary and higher education cess [1% of tax and surcharge]	5,901
Tax liability (rounded off)	6,07,760

Tax liability :

	If section 115JB is not applicable Rs.	If section 115JB is applicable Rs.
Tax liability X Ltd.	Nil	2,54,420
Tax liability Y Ltd.	7,10,240	7,10,240
Total	7,10,240	9,64,660
Tax liability of X Ltd. after it takes over Y Ltd.	7,10,240	7,10,240
Tax savings	Nil	2,54,420

Q. 91. The profit and loss account of XYZ Ltd., Indian public company engaged in the manufacture of cement and refractories (not listed in the Eleventh Schedule), for the year ending March 31, 2010, showed profit of Rs. 81,50,000. The company has an authorised capital of Rs. 5 crore, of which capital worth Rs. 2 crore has been issued and subscribed for and paid-up. In addition, the company has borrowed Rs. 7 crore from IFCI payable on the expiry of 3 years after the company goes into production. The company was registered in April 7988 and its factory is set up in the District of Gulbarga in the Kamataka State, which is a "backward area". The machinery was newly acquired and installed between April 7989 and January 1998 and after some test runs the company commenced regular commercial production on March 30, 1998.

The shores of the company are quoted on the Bombay and Madras Stock Exchanges.

A scrutiny of the profit and loss account and balance sheet and other statements elicited the following further information :

1. The normal depreciation (without considering multiple shift working) is Rs. 13,72,500.

This is mode up as under :

	Cost/WDV Rs.	*Rate of depreciation (Percentage)*	*Amount of depreciation Rs.*
Building (newly constructed)			
Factory - 2nd closs	**25,00,000**	**10**	**2,50,000**
Office - 2nd closs	**10,00,000**	**10**	**1,00,000**
Stoff quarters - 2nd closs	**4,50,000**	**5**	**22,500**
Machinery in factory	**50,00,000**	**15**	**7,50,000**
Furniture & equipment in office	**5,00,000**	**10**	**50,000**
Air-conditioners, typewriters, accounting machines & other office machines	**5,00,000**	**15**	**75,000**
Motor cars and jeeps	**3,33,333**	**15**	**50,000**
Motor trucks	**5,00,000**	**15**	**75,000**
Total			**13,72,500**

The factory worked double shift on 180 days during the year.

2. Expenditure incurred prior to March 30, 1998 amounting to Rs. 70,50,000, appears as on asset in the balance sheet. This amount is mode up as under :

	Rs.
Preparation of project report	**5,00,000**
Conducting market survey	**2,50,000**
Legal charges for drafting the memorandum and articles of association, printing the some, fees for registering the company under the Companies Act and underwriting commission and brokerage for public issue of shares	**3,00,000**
Total	**10,50,000**

3. The company acquired the potent rights over the process used by it for manufacture of refractories from another company (which hod obtained the potent in March 1990 and used it for four years) by paying Rs. 3,50,000 in March 1994. This amount is shown as on asset in the balance sheet.

4. The managing director of the company was paid a remuneration of Rs. 96,000. In addition, the company hod spent Rs.) 5,000 in providing rent-free residential accommodation (unfurnished) to him and Rs. 6,000 in providing a motor cor exclusively for his personal use.

5. The company hod given a donation of Rs. 20,000 to the Gulbarga Municipality to be used for any charitable purpose and this amount is debited in the P & L account.

You are required to advise the company as to its tax liability and prepare its return of income for the assessment year 2010-11, indicating briefly the reasons for the additions, exclusions and deductions to be mode in computation of the gross total income and total income. You are also required to indicate whether any amount will be carried forward to future assessment years for being allowed in computing the total income of those years and specify the amount or amounts and the number of years for which these will be so carried forward.

Answer 91.

Computation of Total Income

	Rs.	**Rs.**
Profits as per P & L account		81,50,000
Add: Inadmissible expenses		
Depreciation (taken separotely)	13,72,500	
Donation to the Gulbarga Municipal Corporation	20,000	13,92,500
		95,42,500
Less: Deductible expenses		
Depreciation [see Note 1]	13,72,500	
Patents under section 35A [see Note 2]	Nil	
Preliminary expenses under section 35D [see Note 3]	Nil	13,72,500
Gross total income		81,70,000
Less : Deductions under sections 80C to 80U		
Under section 80G in respect of donation (i.e., 50% of Rs. 20,000)	10,000	
Under section 80-IB in respect of tax holiday (not available alter 10 years)	Nil	10,000
Net income (rounded off)		81,60,000

Notes :

1. Amount of depreciation is computed as under :

Block of assets

	Building	Building machinery	Plant and	Furniture
Rate of depreciation	10% Rs.	5% Rs.	15% Rs.	10% Rs.
Depreciated value	35,00,000	4,50,000	63,33,333	5,00,000
Depreciation	3,50,000	22,500	9,50,000	50,000
Total depreciation				13,72,500

2. As the patent becomes effective 4 years prior to the commencement of production by the company, expenditure of Rs. 3,50,000 will be written off in 10 years (14-4 years) under section 35A. However, the 10- year period has already expired. No deduction is, therefore, available for the current assessment year.
3. Provisions regarding amortisation of preliminary expenses are laid down by section 35D [see para 121]. The maximum amount of expenditure which can be amortised is 2.5 per cent of cost of project or capital employed, whichever is higher. Since the information on cost of project is not available, one has to make calculation on the bosis of capital employed which is Rs. 3 crore. Maximum qualifying amount, iilerefore, works out to Rs 7,50,000 (being 2.5% of Rs. 3 crore). The amount to be written off is Rs. 75,000 (i.e., Rs. 7,50,000 ÷ 10). However, the 10-year period expires with the assessment year 2008-09. No deduction is, therefore, available for the current year.

Q. 92. XYZ Ltd proposes to construct a hospital for its workers. The alternatives open to it are :

1. **To purchase building worth Rs 40 lakh, the purchase price being payable in two annual equal instalments.**
2. **To purchase the aforesaid building bl'/ instead of paying the price in instalments, an agreement would be entered into with the vendor of the building to pay him 10 per cent of the net profits of the company for an indefinite period of time.**
3. **To contribute Rs. 30 lakh to the UP Government, which will construct a building on land owned by it and allow the company to use it as a hospital for its workers though the ownership of the building will vest with the Government.**

Consider each proposal in detail and advise the company to enable it to make the right choice.

Answer 92.

Under situation (1), the company can claim normal depreciation on Rs. 40 lakh. Under situation (2), the company has to pay 10% of profits to the vendor of the building. The amount on this account is allowoble deduction as per ruling given by the Supreme Couli in CIT v. Travancore Sugar & Chemicals Ltd. [1973] 88 ITR 1.

If the ownership of the building is transferred to the assessee, it can also claim normal depreciation. Under situation (3), the assessee has to pay Rs. 30 lakh to the UP Government for construction of building. The ownership of the building will, however, remain with the Government. Even if the title of the building will remain with the Government, the assessee can claim deduction of Rs. 30 lakh. It cannot, however, claim depreciation.

Q. 93. On April 1, 2009, X and Mrs. X purchased all the shares of a private limited company. The company had the unabsorbed allowances/losses :

	Rs.
Accumulated loss	**3,00,000**
Unabsorbed depreciation	**8,00,000**

State the effect to change of shareholders on the right of the company to carry forward the above items.

Answer 93.

Section 79 provides that where a change in thshareholdings of a closely-held company has taken place during the previous year, no loss can be carried forward under section 70 to 80 unless on the last day of the previous year the shares of the company carrying not less than 51 per cent voting rights are being beneficially held by persons who similarly held shares carrying 51 per cen voting rights on the last day of the previous year(s) in which the loss was incurred.

In the given problem, since the entire shareholding is changed, the aforesaid condition is not satisfied. The loss of Rs. 3,00,000 cannot be carried forward. Unabsorbed depreciation can, however, be carried forward under section 32(2) and hence the abovesaid restriction contained in section 79 has no application—*CIT* v. *Concored Industries* [1979] 119 ITR 458, *CIT* v. *Kalpaka Enterprises (P) Ltd*. [1986] 157 ITR 659 (Ker.).

Q. 94. X (P.) Ltd. is engaged in the manufacture of engineering goods. The profit and loss account the company for the year ending March 31, 2010 shows a net profit of Rs. 30 lakh (before tax). The company gives you the following information :

1. **Surplus on sale of building Rs. 2 lakh has been credited to profit and loss account. This building was purchaed on July 1, 2007 for Rs. 4 lakh and was sold on September 30, 2009 for Rs. 6 lakh. No depreciation was provided in the books of the company although the same was claimed and allowed in earlier years in the income-tax assessments of the company @ 5 per cent. The building was let out to employees of the company for their residence.**
2. **The managing director has spent Rs. 36,000 during his visit to UK and USA. This visit was for studying the market for engineering goods in foreign countries but no orders could be booked during his visit.**
3. **The company has given donation of Rs. 2 lakh to scientific research association approved under section 35(1)(ii) and Rs. 1,00,000 to an approved charitable trust.**
4. **The company has a guest house at its factory at Nasik. Expenditure on maintenance of guest house: Rs. 5,000 and on messing of customers visiting the factory: Rs. 5,000 have been included in miscellaneous expenses.**
5. **Miscellaneous income includes dividend of Rs. 29,750 from a foreign company. The shares in the foreign company were allotted in consideration of supply of technical know-how under a collaboration agreement approved by the Central Government. Dividend distributed for the financial year 2009-10 is Rs. 40,000.**
6. **The profit and loss account has been debited with Rs. 2,00,000 for depreciation which has been worked out on straight line basis. The figures of written down value of assets as per income-tax records and rotes of depreciation are given below :**

Assets	WDV April 1, 2009 (Rs. in lakh)	Rate of depreciation (in percentage)
Building (excluding the building let out to employees and sold during the year)	8	5
Machinery	10	25
Motor cars	1	25
Furniture	1	10

The factory worked for 300 days in first shift and for 200 days in second shift.

7. The company has set up a new industrial undertaking at Nasik for production of engineering goods. Thisumtslorlld production on July 1, 2005 and worked on single shift basis. For this purpose, fresh capital of Rs. 10 lakh was called from members and their relatives. The company has spent Rs. 10,000 for the purpose of setting up this new unit (the expenditure was incurred before April 1, 2005). This expenditure has not been debited to profit and loss accauntbi/ appears in the balance sheet under the head "Preliminary expenses". Other particulars about this unit are as under :

   Cost of new building constructed during 2005 : Rs. 2 lakh.

   Cost of new machinery installed during 2005 . Rs. 10 lakh.

   Capital employed in the unit after adjustment af liabilities: Rs. 12 lakh.

   Profit of the unit during 2009-10: Rs. 2,00,000. This is included in the figure of net profit as per profit and loss account. No separate books are maintained for this unit. Deduction under section 80-18 is available.

8. The company earns a short-term capital gain of Rs. 4,40,000.
9. The company has suffered losses in earlier years. The figures of losses and unabsorbed depreciation of earlier years as per income-tax assessment are as under :

	Assessment years			
	2006-07 (Rs. lakh)	*2007-08 (Rs. lakh)*	*2008-09 (Rs lakh)*	*2009-10 (Rs lakh)*
Long-term capital loss on sale of land	0.81	–	1.665	–
Short-term copital loss	–	3.00	–	–
Business loss	2.00	1.00	300	4.00
Unabsorbed depreciatian (for tax purposes)	3.50	7.50	–	–
Unobsarbed depreciation (for accounting purposes)	0.70	0.30	0.05	0.10

You are required to :

a. compute the total income of the company,

b. state whether any part of the above dividend will be exempt in the hands of the shareholders and, if so, what part, e. give your reasons, in brief, for any adiustments that you may make in your computations.

Answer 94.

Computation of Total Income

		Rs.	**Rs.**
Profit as per profit and loss account			30,00,000
Add : Inadmissible expenses			
Donotian to charitable trust		1,00,000	
Contribution to scientific research association [taken separately]		2,00,000	
Depreciation (token separately)		2,00,000	5,00,000
			35,00,000
Less : Expenses not already deducted			
Depreciation [see Note 7]		2,03,050	
Contribution to an approved scientific research association [1.25 of Rs. 2 lakh]		2,50,000	
Amortisation of preliminary expenses (i.e., 1/5 of Rs. 10,000)		2,000	4,55,050
			30,44,950
Less : Incomes taxable separately			
Surplus on sale of building		2,00,000	
Dividend from foreign company		29,750	2,29,750
			28,15,200
Less : Brought forward losses			
Business loss of the assessment years 2006-07 to 2009-10		10,00,000	
Unabsorbed depreciation of the assessment years of earlier years		11,00,000	21,00,000
			7,15,200
Business income			
Short-term capital gains		4,40,000	
Less : Brought forward short-term capital loss		3,00,00	
		1,40,000	
Less : Brought forward long-term capital loss (cannot be set off against short-term capital gain)		—	1,40,000
Income from other sources			
Dividend from foreign company			29,750
Gross total income			8,84,950
Less : Deductions under sections 80C to 80U			
Under section 80-IB [i.e., 30% of Rs. 2 lakh]		60,000	
Under section 80G in respect of donation			
Amount of donation	Rs. 1,00,000		
Qualifying donation [i.e., 10% of 8,84,950—Rs. 60,000]	Rs. 82,495		
Amount deductible (i.e., 50% of Rs. 82,495)		41,248	1,01,248
Net income (rounded off)			7,83,700

Notes :

1. Amount of depreciation is computed as under :

Actual cost of building on July 1, 2007	4,00,000
Less : Depreciation of the previous year 2007-08 (i.e., 5% of Rs. 4 lakh)	20,000
WDV on April 1, 2008	3,80,000
Less : Depreciation of the previous year 2008-09 (i.e., 5% of Rs. 3.80 lakh)	19,000
WDV as on April 1, 2009	3,61,000

Computation of depreciation :

Block of assets	Building	Plant and machinery	Furniture
Rate of depreciation	5%	15%	10%
	Rs.	Rs.	Rs.
Depreciated value on April 1, 2009	11,61,000 (Rs. 8,00,000) + Rs. 3,61,000)	11,00,000	1,00,000
Add : Cost of assets acquired during the previous year	Nil	Nil	Nil
	11,61,000	11,00,000	1,00,000
Less : Sale proceeds of assets sold during the year	6,00,000	Nil	Nil
Written down value	5,61,000	11,00,000	1,00,000
Less : Depreciation of 2009-10	28,050	1,65,000	10,000
Depreciated value on April 1, 2010	5,32,950	9,35,000	90,000

Q. 95. X Ltd., an Indian company, discloses a profit of Rs. 40,00,000 for the year 2009-10 and the following further particulars are also made available :

1. The closing stock of the finished goods has uniformly been valued at 10 per under cost every year. The opening and closing stocks for the year were shown in the books at Rs. 56,00,000 and Rs. 83,00,000, respectively.
2. The book depreciation amounts to Rs. 15,00,000. For tax purposes depreciated value of block of assets on April 1, 2009 is Rs. 75,00,000 (rate of depreciation : 15 per cent).
3. The undernoted debits appear in the Profit and Loss Account :

   Loss on sale of fixed assets : Rs. 1,25,000.

   Transfer to investment allowance reserve account : Rs. 3,00,000, new machine was acquired during the year (i.e., during April) at a cost of Rs. 16,00,000 and brought into use within a week (rate of depreciation : 15 per cent).
4. The salaries include gratuity of Rs. 80,00,000 paid to a retired employee in accordance with the rules and payment of Rs. 1,35,000 to the managing director by way of salary and commission as permitted by the Company Law Board. The managing director was provided with a house owned by the company for which depreciation of Rs. 25,000 and repairs expenses of Rs. 20,000 were claimed. The repairs expenses are included in the Profit and Loss Account under the head “Repairs to buildings”. The managing director was also reimbursed the salary of Rs. 2,400 paid for a gardener and of Rs. 3,600 paid for a domestic servant. The expenses are charged to “Miscellaneous expenses”.

5. During the year plant and machinery of book written down value of Rs. 2,00,000 was sold for Rs. 75,000. The written down value for income-tax was Rs. 1,20,000.
6. There is a credit of Rs. 5,00,000 to the Profit and Loss Account as being sale proceeds of import entitlements which the company claims as a capital receipt not chargeable to income-tax.
7. "Interest account" includes a sum of Rs. 35,000 charged by the Provident Fund Commissioner for delay in depositing the members as well as the company's contribution.

Compute the total income of the company on the basis of the abovenoted information giving your reasons wherever necessary.

Answer 95.

Computation of Total Income

	Rs.
Profit as per P and L A/c	40,00,000
Add : Expenses not deductivle and other items of adjustments	
One-ninth of difference between opening and closing stock (to bring them at cost)	3,00,000
Depreciation considered separately	15,00,000
Loss on sale of fixed asset (considered separately)	1,25,000
Transfer to "Investment allowance reserve account"	3,00,000
Gratuity paid to retired employee (fully deductible)	—
Total	62,25,000
Less : Depreciation [see Note 1]	16,73,750
Total income	45,51,250

Notes :

	Rs.
1. Computation of depreciation allowance	
Depreciated value of block of assets on April 1, 2009	75,00,000
Add : Cost of machine acquired during the year	16,00,000
	91,00,000
Less : Sale proceeds of machine sold during the year	75,000
Written down value	90,25,000
Depreciation @ 15% of Rs. 90,25,000	13,53,750
Additional depreciation (20% of Rs. 16 lakh)	3,20,000

2. Sale proceeds of import entitlements arise from the business simultaneously with the export of goods. The sale of the rights gives rise to profits or gains taxable under section 28(iiia). As the amount has already been credited to Profit and Loss Account, no further adjustment is necessary.

3. Interest charged by Provident Fund Commissioner for delay in depositing contribution cannot be equated with penalty payable for infraction of law. It is a kind of damage for deafult in performance of an obligation. Hence it is deductible as business expenditure.

Q. 96. For the previous year 2009-10 (assessment year 2010-11), the Assessing Officer makes the following observations :

The assessee has purchased on June 3, 2009 gold for Rs. 2 lakh for which he is unable to offer any explanation. On his daughter's marriage, the assessee spends Rs. 12 lakh on May 15, 2009 and the assessee fails to explain the source of expenditure.

1. Can the Assessing Officer levy penalty under section 271(1)(c)?

2. Is it possible for the assessee to argue in the penalty proceedings that the aforesaid investment/ expenditure have been made out of following additions made by the Department in earlier years —

Assessment years	Additions made Rs.	Whether penalty was levied under section 271(1)(c)
2004-05	**20,00,000**	**Yes only on Rs. 1,20,000**
2005-06	**3,00,000**	**Yes only on Rs. 80,000**
2006-07	**Nil**	**—**
2007-08	**7,00,000**	**No**
2008-09	**50,000**	**No**

Answer 96.

1. The Assessing Officer can levy penalty under section 271(1)(c) on unexplained investment/expenditure of Rs. 14,00,000.
2. The assessee can explain that the investment/expenditure is made out of additions made uduring earlier years— *Anantharam Veerasighaiah & Co.* v. *CIT* [1980] 123 ITR 457(SC). However, by adopting such plea, application of Explanation 2 to section 271(1) cannot be avoided. Rs. 14 lakh will be trated as concealed income of the earlier years as follows (however, penalty will be imposed on the amount given in column (4) of the table)—

Assessment years	Additions made	Out of (2) penalty already levied	Amount treated cancealed income of the different assessment years on which section 271(1)(c) penalty shall be leived by virtue of Explanation 2
(1)	**(2) Rs.**	**(3) Rs.**	**(4) Rs.**
2008-09	50,000	—	50,000
2007-08	7,00,000	—	7,00,000
2005-06	3,00,000	80,000	2,20,000
2004-05	3,50,000*	1,20,000	2,30,000

* Rs. 14 lakh — Rs. 50,000 — Rs. 7 lakh — Rs. 3 lakh.

Q. 97. Find out the minimum and maximum penalty which can be imposed under section 271 (1)(c) in the given below for the assessment year 2010-11 :

(Rs in thousand)

Nome of assessee	Income returned	Additions made				Income as per assessment under seelion 143(3) or 144
		Reason (0)	Reason (b)	Reason (c)	Reason (d)	
X Ltd.	(-) 80	4	50	5	20	(–) 1
Y (30 years)	(-) 80	4	50	5	20	(–) 1
Mrs. Z (28 years)	(-) 730	10	30	5	75	(–) 10
A (26 years)	(-) 710	40	200	15	900	1045
B (24 years)	Not sub-mitted	–	–	–	–	996.7
C (22 years)	755	70	90	5	370	1230
D Ltd.	45	8	10	–	30	93
E (HUF)	(-) 170	4	90	5	71	Nil
F (Firm)	(-) 170	4	90	5	71	Nil

Reasons for additions ore as follows :

a. **wrong application of law unknowingly by the assessee (the taxpayer gives an explanation which is not found to bse by the Assessing Officer);**

b. **deliberate attempt to conceal income by applying a provision of law incorrectly (against the advise of a tax consultant, the taxpayer applies the provision of law wrongly; no explanation is offered to the Assessing Officer);**

c. **addition by the Assessing Officer on estimate basis (like disallowance of telephone expenses/car expenses for al use of the assessee); and**

d. **concealment af income by not disclosing it in return of income or debiting bogus expenses to profit and loss account (the taxpayer fails to offer an explanation).**

Answer 97.

In the given problem, additions (a) and (b) are because of wrong application of low, whereas additions (c) and (d) are on question of facts. There is no hard and fast rule that addition on account of question of law cannot result in concealment of income or addition on question of facts always represents concealed income of the assessee given below highlight the nature of additions —

Additions	Is it concealment	Remark
(a)	No	Wrong application of law unknowingly and the explanation offered is not found as false by the Assessing Officer
(b)	Yes	Deliberate attempt to conceal income by applying law incorrectly, even no explanation is offered
(c)	No	Addition on estimate basis does not represent concealed income
(d)	Yes	Non-disclosure of income/bogus expenditure, no explanation is offered

Penalty under section 271 (1)(c) will be determined as under —

				In any other case		
Name of assessee	Concealed income [i.e., (b) + (d)]	Tax sought to be evaded (i.e., tax on concealed income where concealed income is more than assessed income)	Tax sought to be evaded (i.e., tax an assessed incomeis return is not submitted) minus advance tax and tax deducted/ collected at source	Tax on assessed income	Tax on (assessed income minus concealed income	Tax sought to be evaded [(5) - (6)]
(1)	(2) Rs.	(3) Rs.	(4) Rs.	(5) Rs.	(6) Rs.	(7) Rs.
X Ltd.	70,000	21,630	–	–	–	–
Y	70,000	Zero	–	–	–	–
Z	1,05,000	Zero	–	–	–	–
A	11,00,000	2,26,085	–	–	–	–
B	–	–	2,00,000	–	–	–
C	4,00,000	–	–	2,79,130	1,57,590	1,21,540
D Ltd.	40,000	–	–	28,737	16,377	12,360
E (HUF)	1,11,000	1,133				
F (Firm)	1,11,000	49,749				

Minimum penalty : 100% of tax sought to be evaded.

Maximum penalty : 300% of tax sought to be evaded.

Q. 98. (a) During the financial year 2009-10, X (32 years) pays the following instalments of advance tax :

	Rs.
On September 15, 2009	**4,800**
On December 15, 2009	**11,000**
On March 15, 2010	**28,000**
On March 16, 2010	**52,000**

X files return of Rs. 7,01,000. Assessment is also completed on the basis of income returned by X after making addition of Rs. 25,000 (date of assessment order : January 20, 2011). X is entitled to tax credit of Rs. 12,510 on account of tax deducted at source. Compute interest under sections 234B and 234C.

Answer 98. (a)

Interest liability under section 234B

	Rs.
Income	7,26,000
Tax on Rs. 7,26,000	1,25,454
Less : Tax deducted at source	12,510
Assessed tax	1,12,944
90% of assessed tax	1,01,650
Advance tax paid during 2009-10 (i.e., Rs. 4,800+Rs. 11,000+Rs. 28,000+Rs. 52,000)	95,800

Since advance tax during the financial year 2009-10 is less than 90% of assessed tax, X is liable to pay interest under section 234B, i.e., on the shortfall of Rs. 17,100 (being Rs. 1,12,944 — Rs. 95,800, rounded off) for 10 months (Rs. 17,100 × 1/100 × 10) which comes to Rs. 1,710.

Interest liability under section 234C **:**

	Rs.
Income as per return of income	7,01,000
Tax on Rs. 7,01,000 (a)	1,17,730
Less : Tax deducted at source (b)	12,510
Assessed tax (a–b)	1,05,209
30% of assessed tax [30% of (a–b)]	31,566
Tax paid on or before September 15, 2009 (c)	4,800
60% of assessed tax [60% of (a–b)]	63,132
Tax paid on or before December 15, 2009 (i.e., Rs, 4,800 + Rs. 11,000) (d)	15,800
100% of assessed tax (a–b)	1,05,219
Tax paid on or before March 15, 2010 (e)	43,800

	On first instalment of September 15, 2009 **Rs.**	**On second instalment of December 15, 2009** **Rs.**	**On third instalment of March 15, 2010** **Rs.**
Shortfall			
30% of (a–b) – c	26,766	—	—
60% of (a–b) – d	—	47,332	—
100% of (a–b) – e	—	—	61,419
Rounded off amount as per rule 119A	26,700	47,300	61,400
Rate of interest	1 per cent	1 per cent per month	1 per cent per month
Period of default	3 months	3 moths	—
Amount of interest	801	1,419	614

Total interest payable under section 234C will be Rs. 2,834.

Q. 98. (b) X Ltd., an Indian company, submits the following information for the previous year 2009-10.

	Rs.
Business income	**1,90,000**
Long-term capital gain on sale of debentures on September 20, 2009	**1,00,000**
Winning from lottery on December 20, 2009 (out of which tax deducted is Rs. 15,000)	**50,000**

Ascertain the minimum amount of advance tax payable by way of different instalments to ensure that interest liability under section 234C is not attracted.

Answer 98. (b)

First instalment on June 15, 2009 and second instalment on September 15, 2009 :

	Rs.
Business income	1,90,000
Tax @ 30%	57,000
Add : Surcharge	Nil
Tax and surcharge	57,000
Add : Education cess	1,140
Add : Secondary and higher education ces	570
Tax payable	58,710

At least 12% of Rs. 58,710 (i.e., Rs. 7,050) should be paid on before June 15, 2009 to avoid interest section 234C. Assume the company pays Rs. 7,050 as advance tax on June 15, 2009, then the second instalment shall be determined as follows —

	Rs.
Tax	58,710
36% of tax	21,136
Less : First instalment	7.050
Second instalment (which is paid on September 15, 2009) (rounded off)	14,090
Third instalment on December 15, 2009	
Business income	1,90,000
Long-term capital gain	1,00,000
Net income	2,90,000
Tax (i.e., 30% of Rs. 1,90,000 + 20% of Rs. 1,00,000)	77,000
Add : Surcharge	Nil
Tax and surcharge	77,000
Add : Education cess	1,540
Add : Secondary and higher education cess	770
Tax payable	79,310
Minimum amount of advance tax payment to avoid tax under section 234C [i.e., 75% of Rs. 79310 — Rs. 7,050, being the tax paid on June 15, 2009—Rs. 14,090 (being tax paid on September 15,2009)]	38,340

Assume that the company pays Rs. 38,340 as advance tax on December 15, 2009, then the fourth instalment shall be determined as under —

Fourth instalment on March 15, 2010	**Rs.**
Business income	1,90,000
Long-term capital gain	1,00,000
Lottery winning	50,000
Net Income	3,40,000
Tax [i.e., 30% of Rs. 1,90,000 + 20% of Rs. 1,00,000 + 30% of Rs. 50,000]	92,000
Add : Surcharge	Nil
Tax and surcharge	92,000

	Rs.
Add : Education cess	1,840
Add : Secondary and higher education cess	920
Tax payable	94,760
Less : Tax deducted at source	15,000
Balance	79,760
Fourth instalment on March 15, 2010 [i.e., Rs. 79,760—Rs. 7,050—Rs. 14,090—Rs. 38,340)	20,280

Q. 99. (a) X Ltd., an Indian company, files return of income on December 10, 2010, though the due date is September 30, 2010 for the assessment year 2010-11. On the same day, it deposits Rs. 36,620 (being self-assessment tax) under section 140A computed as follows —

	Rs.
Tax on income of Rs. 2,00,000 declard in the return	**61,800**
***Less* : Advance tax paid during 2009-10**	**20,000**
Tax deducted at source	**10,000**
Balance	**38,800**
***Add* : Interest**	
Under section 234A for late submission of return [@ 1% per month on Rs. 31,800 for 3 months]	**954**
Under section 234B for short deposit of advance tax [on Rs. 31,800 from April 1, 2010 to December 10, 2010 @ 1% per month for 9 months]	**2,862**
Under section 234C [Rs. 1,000 is correctly computed under section 234C]	**1,000**
Total (rounded off)	**36,620**

Assessment is completed under section 143(3) on April 20, 2011 on income of Rs. 2,20,000. Find out the amount of tax payable.

Answer 99. (a)

Interest liability under section 234A

Date of filing of return	December 10, 2010
Due date of return	September 30, 2010
Period of default (a part of month is taken as full month)	3 months

	Rs.
Income	2,20,000
Tax on income	67,980
Less : Advance payment of tax	20,000
Tax deducted at source	10,000
Assessed tax	37,980
Interest on assessed tax @ 1% per month for 3 months	1,137
Interest liability under section 234B	
Asessed tax (i.e., tax minus tax deducted at source, as computed above)	57,980
90% of assessed tax	52,182

Advance tax paid during 2009-10	20,000
It is liable to pay interest under section 234B as advance tax paid is shorter than Rs. 52,182	
Shortfall from April 1, 2010 to December 10, 2010	37,980
Period of default (April 1, 2020 to December 10, 2010)	9 months
Interest @ 1% per month for 9 months on shortfall	3,411
Shortfall from December 10, 2010 to April 20, 2011 [i.e., Rs. 37,980 — Rs 31, 800 being self-assessment tax under section 140A paid on December 10, 2010 — see Note 1]	6,180
Period of default January 1, 2011 to April 20, 2011 (in the shortfall of 9 months period up to December 31, 2010 is included)	4 months
Interest on Rs. 6,100 for 4 months @ 1% per month	244
Interest unde section 234B	3,655

Note :

1. In this example, X Ltd. has paid Rs. 36,620 on December 10,2010 under section 140A. As per calculation given in the problem, Rs. 4, 816 is adjusted towards payment of interest and the balance Rs. 31,800 is adjusted towards tax payable. If tax paid under section 140A (i.e., self-assessment tax) is less than Rs. 36,620, then the amount paid under section 140A, shall be first adjusted towards interest payable and the balance if any, shall be adjusted towards tax payable.

2. Net tax and interest payable is to be computed as under :

	Rs.
Tax on Rs. 2,20,000	67,980
Add : Interest	
Under section 234A	1,137
Under section 234B	3,655
Under section 234C	1,000
Total	73,772
Less : Prepaid tax	
Tax deduction at source	10,000
Advance tax	20,000
Self-assessment tax under section 140A	36,620
Balance payable (rounded off)	7,150

Q. 99.(b) X (28 years) (a businessman whose turnover is Rs. 30 lakhs) pays Rs. 10,000 as advance tax on March 15, 2010 (no instalment of advance tax is paid on September 15, 2009 and December 15, 2009). He further paid advance tax of Rs. 12,000 on March 31, 2010. He files his return of income on November 10, 2010 (income declared : Rs. 5,42,500). On November 10, 2010, he pays Rs. 50,600 (Rs. 48,600 by way of tax and Rs. 2,000 year 2010-11 is completed on March 14, 2011 (income assessed : Rs. 5,57,500). He is also entitled for tax credit of Rs. 5,230 on account of tax deducted at source. Is he liable for interest under sections 234A, 234B and 234C?

Answer 99. (b)

Interest liability under section 234A

	As per return of income	**As per assessment order**
Due date of return	July 31, 2010	July 31, 2010
Date of filing of return	November 10, 2010	November 10, 2010
Period of default (a part of month is taken as full month)	4 months	4 months
	Rs.	Rs.
Income	5,42,500	5,57,500
Tax on income	66,750	71,250
Add : Surcharge (not applicable)	—	—
Tax	66,750	71,250
Add : Education cess	1,335	1,425
Add : Secondary and higher education cess [1% of tax]	668	713
Tax payable	68,753	73,388
Less : Advance payment of tax	22,000	22,000
Tax deducted at source	5,230	5,230
Assessed tax	41,523	46,158
Assessed tax (rounded off)	41,500	46,100
Interest on assessed tax @ 1% per month for 4 months	1,660	1,844
Interest liability under section 234B		
Assessed tax (as computed above)	63,523	68,158
90% of assessed tax	—	61,342
Advance tax paid during 2009-10	22,000	22,000
Shortfall from April 1, 2010 to November 10, 2010	41,523	46,158
Shortfall (rounded off)	41,500	46,100
Period of default (April 1, 2010 to November 10, 2010)	8 months	8 months
Interest @ 1% per month for 8 months on shortfall	3,320	3,688
Shortfall from November 10, 2010 to March 14, 2011 [i.e., Rs. 68,158—Rs. 22,000 (advance tax)— Rs. 43,372, self-assessment tax under section 140A paid on November 10, 2010—see Note 1]	—	2,786
Shortfall (rounded off)	—	2,700
Period of default (December 1, 2010 to March 14, 2011, in the shortfall of 8 months period up to November 30, 2010 is included)	—	4 months
Interest on Rs. 2,700 for 4 months @ 1% per month	—	108
Interest under section 234B		3,796

Continued ....

	As per return of income	As per assessment order
Interest liability under section 234C		
Income as per return	5,42,500	
Tax on Rs. 5,42,500 (a)	68,753	
Less : Tax deducted at source (b)	5,230	
Assessed tax (a—b)	63,523	
Advance tax paid on or before September 15, 2009 (c)	Nil	
Advance tax paid on or before December 15, 2009 (d)	Nil	
Advance tax paid on or before March 15, 2010 (e)	10,000	
Interest on 30% (a—b)—(c) [i.e., Rs. 19,057 @ 1% per month for 3 months [Rs. 19,000 × 3 × 1/100)]	570	
Interest on 60% (a—b)—(d) [i.e., Rs. 38,114 @ 1% per month for 3 months [Rs. 38,100 × 3 × 1/100)]	1,143	
Interest on (a—b—e) (i.e., Rs. 53,523) @ 1% (Rs. 53,500 × 1/100)	535	
Total	2,248	

Note :

1. In this example, X has paid Rs. 50,600 on November 10, 2010 under section 140A. Out of Rs. 50,600, Rs. 2,000 is paid towards interest under sections 234A, 234B and 234C. As per calculating given below, interet liability comes to Rs. 7,228. Hence, as per Explanation to section 140A(1), Rs. 7,835 shall be adjusted towards payment of interest and the balance Rs. 43, 372 (i.e., Rs. 50,600 — Rs. 7,228) is to be adjusted towards the tax payable.

	Rs.
Interest under section 234A as per return of income up to November 10, 2010	1,660
Interest under section 234B as per return of income up to November 10, 2010	3,320
Interest under section 234C	2,248
Total interest as per return of income	7,228

2. Net tax and interest payable is to be computed as under :

Tax on Rs. 5,57,5000	73,388
Add : Interest	
• Under section 234A	1,844
• Under section 234B	3,796
• Under section 234C	2,248
Total	81,276
Less : Prepaid tax	
• Tax deduction at source	5,230
• Advance tax	22,000
• Self-assessment tax under section 140A	50,600
Balance payable (rounded off)	3,450

Q.100. The accounts of the X Ltd., an Indian company for the year ending March 31, 2010 prepared in according with the provisions of Parts II and III of Schedule VI to the Companies Act, 1956 reveals the following :

	Rs. in lakh
PAT but prior to depreciation	**200**
***Less* : Depreciation fo the year**	**30**
Net profit after depreciation	**170**
***Less* : Provision for loss of Z Ltd., its subsidiary**	**10**
Balance	**160**

As per its books, the company has unabosorbed business loss of Rs. 30 lakh for the assessment year 2008-09 and Rs. 80 lakh for the assessment year 2009-10. The unabsorbed depreciation as per books are Rs. 20 lakh and Rs. 90 lakh respectively. The carried forward business losses eligible for set off under the Income-tax Act for these two years are Rs. 56 lakh and Rs. 90 lakh respectively.

For the current year, income-tax debited is Rs. 3 lakh and depreciation allowable as per the Income-tax Act is Rs. 40 lakh. The net porofit includes a sum of Rs. 40 lakh from export trunover.

Compute the tax payable by X Ltd. for the assessment year 2010-11.

Answer 100.

Computation of book profit by X Ltd.

	Rs. (in lakh)
Net profit (given)	160
Add :	
Provision for loss of Z Ltd., its subsidiary	(+) 10
Income-tax	(+) 3
Less :	
Brought forward unabsorbed depreciation	(–) 20
Brought forward unabsorbed loss	(–) 80
Book profit	73

Computation of taxable income by X Ltd.

	Rs. (in lakh)
Net profit (given)	160
Add :	
Provision for loss of Z Ltd., its subsidiary	(+) 10
Income-tax	(+) 3
Less :	
Depreciation	(–) 10
Brought forward unabsorbed loss	(–) 146
Brought forward unabsorbed depreciation	–
Taxable income	17

Computation of tax liability under normal provisions

	Rs. (in lakh)
Tax on net income (i.e., 30% of Rs. 17 lakh)	5.1
Add : Surcharge (@ 10% of tax in case net income exceeds Rs. 1 crore)	Nil
Tax and surcharge	5.1
Add : Education cess (2% of 5.1)	0.102
Add : Secondary and higher education cess (1% of income-tax and surcharge)	0.051
Tax liability	5.253

Computation of tax under section 115JB

	Rs. (in lakh)
15% of book profit	10.95
Add : Surcharge (10% of tax in case net income exceeds Rs. 1 crore)	Nil
Tax and surcharge	10.95
Add : Education cess (2% of tax and surcharge)	0.219
Add : Secondary and higher education cess (1% of income-tax and surcharge)	0.1095
Tax liability	11.2785

Tax payable as computed under normal provisions (i.e., ignoring provisions of section 115JB) is less than the amount determined as tax payable under section 115JB. Therefore, section 115JB is applicable.

Note : It is assumed that brought forward unabsorbed loss is before depreciation.