



7/10 Computation of Income From Business

Computation of income from business of Mr. – an individual and resident in India, for the assessment year 2020–2021 relating to previous year 2019–2020.

Particulars	Rs.	Rs.
Net profit as per P and L A/c	***	
Add: <u>Disallowed Expenses</u>		
(1) Personal expenses of proprietor	***	
(2) Provision for bad debt	***	
(3) Bad debt written off (treated separately)	***	
(4) Depreciation (treated separately)	***	
(5) Life insurance premium (personal expenses)	***	

(Continued)

Particulars	Rs.	Rs.

(6) Income tax (personal expenses)	***	
(7) Loss on sale of asset (capital in nature)	***	
(8) Proprietor's salary	***	
(9) Interest on capital	***	
(10) Donation (treated separately)	***	
(11) Capital expenditure	***	
(12) Exp. for acquiring capital asset	***	
(13) Illegal expenses	***	
(14) Legal expenses for infringement of law	***	
(15) Penalty	***	
(16) Contribution to Staff Welfare Fund	***	
(17) Fine paid to excise dept., custom dept. etc.	***	
(18) Cultivation expenses	***	
(19) Difference in trial balance	***	
(20) Unexplained expenditure	***	
(21) Rent of business building owned by proprietor	***	
(22) Expenditure of shifting of office	***	
(23) Expenditure in cash excess of Rs. 10,000 (entire)	***	
(24) Payment to relatives and associates [excess amount paid as per Section 40A(2)]	***	
(25) Certain payments not paid within the specified period u/s 43(B) (such as GST, bonus or commission to employee, interest on loan from any public financial institution, employer's contribution to provident fund)	***	***
(26) Any expenses paid outside India without deducting tax at source	***	***
Less: <u>Disallowed Income</u>		
(1) Dividend received (income from other sources)	***	
(2) Interest received (income from other sources)	***	
(3) Profit on sales of assets (being capital gain)	***	
(4) Refund of income tax (as payment of tax is not allowable)	***	
(5) Interest from Govt. securities (income from other sources)	***	
(6) Share of profit from partnership firm exempted u/s 10(2A)	***	
(7) Bad debt recovery (If previously not allowed by ITO as bad debt)	***	
(8) Sales of agricultural product (being agricultural income)	***	
(9) Revenue from fisheries (income from other sources)	***	
(10) Rent from agricultural land (agriculture income)	***	

(Continued)

Profits and Gains of Business or Profession ❖ 7.33

Particulars	Rs.	Rs.
(11) Rent from house property (income from house property)	***	
(12) Gift received from others (except business gift)	***	
(13) Winning from horse race (income from other sources)	***	
(14) Interest from post office cash certificate	***	***

<u>Less:</u> <u>Exp. Not debited to Profit and Loss A/c</u>		
Cap. expenditure on scientific research	***	
Preliminary expenses	***	
Any other expenses allowed by ITO	***	

<u>Add:</u> <u>Income to be credited</u>		
Amount received not credited in P/L A/c	***	
Goods taken over by proprietor not recorded in P/L A/c or recorded as below cost	***	
Undervaluation of closing stock	***	
Overvaluation of opening stock	***	

Income from Business		***

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Computation of income from profession of Mr. – an individual and resident in India. for the assessment year 2020–2021 relating to previous year 2019–2020.

Particulars	Rs.	Rs.
Professional Receipts		
A. Chartered Accountant and Lawyer with Teaching		
Fees from Client	***	
Consultation Charges	***	
Income from accounting work	***	
Fees received for conducting IT appeals	***	

(Continued)

7.34 ❖ Taxation-I

Particulars	Rs.	Rs.

Gift from client relating to profession	***	
OR		
B. For Medical Practitioner	***	
Consultation fees	***	
Operation charges	***	
Visiting fees	***	
Sales of medicine	***	
Gift received from patient for profession	***	***
Commission in respect of profession	***	***
<u>Less: Professional Payment</u>		
A. For Lawyer and Chartered Accountant		
Remuneration to article clerk	***	
Institute expenses	***	
Staff Salary	***	
Membership and Certificate fees	***	
Rent	***	
Electric charges	***	
Postage and stationery	***	
Telephone Expenses	***	
Car expenses and conveyance	***	
Depreciation on car	***	
OR	***	
B. For Medical Practitioner		
Purchase of medicine	***	
Staff Salary	***	
Clinic rent	***	
Rent, rates and taxes	***	
Entertainment Expenses	***	
Audit fees or accounting charges	***	
Purchase of Periodicals and Journals	***	
Membership fees	***	
Printing and Stationery	***	
Telephone expenses	***	

(Continued)

Profits and Gains of Business or Profession ❖ 7.35

Particulars	Rs.	Rs.
Electricity expenses	***	
Salary to compounder and assistants	***	
Consulting room expenses	***	
Depreciation on Surgical equipment	***	
Depreciation on book (40%)	***	
Depreciation on car	***	
Proportionate car expenses	***	

Professional Income		<u>***</u>

Points to Be Remembered for Computation of Income From Business or Profession

General Points:

1. Whether it is an item related to the nature of the business, 'if not disallow it' (i.e., personal expenditure is disallow).
2. Whether it is an item relating to the accounting year of business, 'if not disallow it'.
3. All future provisions, reserves and capital expenditure are disallowed except depreciation.
4. It must be lawful and not have been incurred for any purpose, which is an offence or prohibited, under any law.

Special Points:

1. DONATIONS given to the Govt. school, college and institutions for charitable purpose are disallowed as they are not related to the nature of the business but DONATIONS given to own trade association is allowable business expenditure.
2. INTEREST paid for a business loan is allowable business expenditure. Commission, brokerage etc. paid for getting a business loan in an allowable expenditure as per India cement Ltd. vs. CIT
3. IT is disallowed expenditure as it is a personal expenses but GST is an allowable business expense.
4. Since IT is disallowed as personal expense, IT Refund will also be disallowed income.
5. Since AGRICULTURAL INCOME is exempt from tax u/s 10 AGRICULTURAL EXPENSE will also be disallowed.
6. FIRE INSURANCE PREMIUM for business house, business Machinery is allowable expenditure.
7. L.I.P on own life or upon the life of the family members are disallowed as personal expense but insurance premium paid upon the life of the employee is an allowable business expense (must be paid by cheque).
8. REPAIRS to business plant, machinery, building, etc. of revenue in nature are allowable business expenditure but any addition, acquisition or Improvement of any business assets in disallowed as it is a capital expenditure.

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(in small)