

CHAPTER 1

PROFITS AND GAINS FROM BUSINESS AND PROFESSION

FORMAT FOR COMPUTATION OF INCOME FROM PROFESSION

IN CASE OF DOCTOR OR MEDICAL PRACTITIONER

PARTICULARS	AMOUNT	AMOUNT
PROFESSIONAL RECEIPTS:		
1. Fees for conducting operations	XX	
2. Consultation fees	XX	
3. Visiting fees	XX	
4. Sale of medicines	XX	
5. Gifts received from patients	XX	
6. Examiners fees	XX	
7. Any other professional receipts	XX	
TOTAL PROFESSIONAL RECEIPTS		XX
LESS: PROFESSIONAL EXPENSES		
1. Rent, light, water charges, salary to staff, telephone expenses of clinic	XX	
2. Cost of medicines	XX	
3. Depreciation on surgical equipments and X-ray	XX	
4. Depreciation of books at prescribed rates	XX	
5. Motor car expenses	XX	
6. Depreciation on motor car	XX	
7. Expenditure incurred to increase professional knowledge	XX	
8. Hospital or clinic expenses	XX	
9. Any other expenditure pertaining to profession	XX	XX
TOTAL PROFESSIONAL EXPENSES		XX
INCOME FROM PROFESSION		XX

IN CASE OF CHARTERED ACCOUNTANT

PARTICULARS	AMOUNT	AMOUNT
PROFESSIONAL RECEIPTS:		
1. Audit fees	XX	
2. Consultation fees	XX	
3. Gain from accounting work	XX	
4. Institute fees	XX	
5. Gifts received from clients	XX	
6. Examiners fees	XX	
7. Any other professional receipts	XX	XX
TOTAL PROFESSIONAL RECEIPTS		XX
LESS: PROFESSIONAL EXPENSES		

1. Audit office expenditure	XX	
2. Institute fees	XX	
3. Depreciation of books at prescribed rates	XX	
4. Motor car expenses	XX	
5. Depreciation on motor car	XX	
6. Membership fees	XX	
7. Hospital or clinic expenses	XX	
8. Stipend to trainees	XX	
9. Subscriptions	XX	
10. Depreciation on office equipments, office furniture	XX	
11. Any other expenditure pertaining to profession	XX	XX
TOTAL PROFESSIONAL EXPENSES		XX
INCOME FROM PROFESSION		XX

IN CASE OF LAWYER OR ADVOCATE

PARTICULARS	AMOUNT	AMOUNT
PROFESSIONAL RECEIPTS:		
1. Practicing fee	XX	
2. Legal fees	XX	
3. Special Commission	XX	
4. Gifts received from clients	XX	
5. Examiners fees	XX	
6. Any other professional receipts	XX	
TOTAL PROFESSIONAL RECEIPTS		XX
LESS: PROFESSIONAL EXPENSES		
1. Office expenses	XX	
2. Salary to staff	XX	
3. Depreciation of books at prescribed rates	XX	
4. Depreciation on office equipments, office furniture	XX	
5. Expenses incurred to increase professional knowledge	XX	
6. Subscriptions	XX	
7. Purchase of stamp paper and court fees	XX	
8. Any other expenditure pertaining to profession	XX	
TOTAL PROFESSIONAL EXPENSES		XX
INCOME FROM PROFESSION		XX

INCOME FROM BUSINESS

FORMAT FOR COMPUTATION OF TAXABLE INCOME FROM BUSINESS

Assessee:

Previous year:

Assessment year:

PARTICULARS	AMOUNT	AMOUNT
Net Profit as per profit and loss account		XX
ADD: Inadmissible expenses debited to P/L a/c	XX	
Business Income not credited to P/L a/c	XX	
Overvaluation of opening stock	XX	
Undervaluation of closing stock	XX	
Notional Loss	XX	XX
		XX
LESS: Admissible expenses not debited to P/L a/c	XX	
Tax –free incomes credited to P/L a/c	XX	
Non-business Incomes credited to P/L a/c	XX	
Undervaluation of opening stock	XX	
Overvaluation of closing stock	XX	
Notional Profit	XX	XX
TAXABLE INCOME FROM BUSINESS		XX

2 MARKS THEORY QUESTIONS

1. What do you mean by business?

The term business means any trade, commerce or any adventure of concern in the nature of trade, commerce or manufacture.

2. What do you mean by vocation?

Vocation means activities, which are performed in order to earn livelihood. Example: music, dancing.

3. What are deemed business profits?

Deemed business profits are not incomes, but as per the IT act, they are regarded as incomes and included in the taxable income from business/profession.

4. Mention any two examples of deemed incomes.

Cash credit, unexplained money, unexplained investment and unexplained expenditure.

5. How do you allow expenditure on patents in the case of a sole trader?

Any capital expenditure incurred in acquiring patent rights on or after 1/4/98, the taxpayer can claim depreciation u/s 32 at the rate of 25%.

6. What is depreciation u/s (1) of the act?

The act specifies: 1. Assets eligible for depreciation are a building, machinery or plant or furniture.

2. Asset should be owned whether partly or wholly by the assessee.
3. Asset should be used in assessee's business/profession during the previous year.
4. Depreciation is allowed on block of assets.

7. What do you mean by profession?

Profession refers to any occupation where intellectual skill and technical expertise in a specified field is acquired for earning a livelihood.

8. List the expenditure on building, which are allowed as deduction u/s 30.

- Rent paid as a tenant
- Current repair expenses towards the premises
- Land revenue or local rates or municipal taxes
- Insurance premium paid in respect of damage or destruction of the building

9. What is speculative business or transaction?

Speculative transaction is one where profit is earned by fluctuations in prices of securities or commodities.

10. What is cash system of accounting?

Cash system of accounting is an accounting in which payment receipts are recorded during the period they are received, and expenses are recorded in the period in which they are actually paid.

If accounts are kept by an assessee on the basis of cash system of accounting, income received during the previous year is taxable whether it relates to the previous year or a year preceding or following the previous year.

Cash system of accounting, a record is kept of actual receipts and actual payments of a particular year.

11. What is mercantile system of accounting?

Mercantile system of accounting, all the income and expenses are recorded on accrual basis.

12. Name any two intangible assets on which depreciation is allowable under the income tax, 1961?

Patents, copy rights, Technical know how, trade mark, licenses, franchise