MCOM SEM 1
FINANCIAL & MANAGEMENT ACCOUNTING PAPER -3
PROFITS & GAINS OF BUSINESS OR PROFESSION

Q-1 The profit and loss account details of Murlidhar for the year ending 31/03/2026are as follows. From it, determine the taxable income of the business.

Particular	Amt.	Particular	Amt.
Income tax	15,000	Gross profit	245000
Professional tax	2000	Bad debts return	10000
Dividend collection expenses	1000	Income tax refund	3000
Rented house expenses	5000	Professional tax refund	1000
Donation	8000	House rent received	80000
Discount (Dr.)	5000	Dividend	12000
Lawyer fees	3000	Director fees	44000
Employee welfare expenses	27000		
Employee training expenses	5000		
Drawings	12000		
Depreciation (5)	78000		
Travelling expenses (1)	27000		
Interest (2)	5000		
Group insurance premium	2000		
Net profit	200000		
	3,95,000		**3,95,000**

Additional information:

1. Personal expenses of ₹21000 are included in Travelling expenses.
2. Interest on capital ₹3000 and Interest on loan ₹2000 are included in the total interest.
3. Sales tax of ₹5000 is due.
4. Out of bad debts recovery of ₹4000 is in respect of bad debts, not allowed as a deduction in the earlier year.
5. Admissible depreciation is ₹75000.
6. Advertisement expenses of ₹2000 were paid but not recorded in the books.

Q-2 Mr.Dhyan has prepared P&L A/c for the period ended on 31/03/2026. He is in the business of buying and selling chemicals.

Particular	Amt.	Particular	Amt.
Salary	900000	Gross profit	3000000
Bad debts	30000	Discount	120000
Bad debts reserve	60000	Bad debts recovered (In which 50% of the amount is allowed as a deduction in the earlier year)	60000
Sundry expenses	150000	Interest & dividend	300000
Insurance premium	150000	Interest on the post office deposit	120000
Sales tax	30000		
Interest on capital	90000		
Advance payment of income tax	54000		
Advertisement expenses	90000		
Donation	18000		
Motorcar expenses	180000		
Telephone expenses	36000		
Depreciation	72000		
Net profit	1740000		
	3600000		**3600000**

1. The salary includes Rs 180,000 paid to Mr. Dhyan as salary.
2. Sundry expenses include Rs. 60,000, which is for personal purchases.
3. Of the advertising expenditure, Rs. 54,000 is for the new permanent board.
4. Of the motorcar expenses, Rs. 144,000 is for personal use.
5. Of the Insurance premium, Rs. 60000 is for the life insurance premium.
6. Depreciation as per the income tax rule allowable is Rs.90000.
7. Income from a chemical business of Rs. 120,000, not recorded in the books, was found in the passbook.
   Compute the taxable income from business and profession for AY 2026-27.

- **Depreciation [Section 32]**

  Depreciation is the diminution in the value of an asset due to normal wear and tear and due to obsolescence. There are different methods for calculating depreciation under financial accounting.

  The methods commonly used are:

(a) straight line method;
(b) written down value method;
The following conditions must be satisfied to claim depreciation:
(a) the asset must be owned by the assessee, wholly or partly;
(b) the asset must be used for the business or profession;
(c) the asset must be used during the previous year.

If any of the above conditions is not satisfied, depreciation shall not be allowed.

- **What is 'block of assets':**

Block of Assets [Section 2(11)]: "Block of assets" means a group of assets falling within a class of assets comprising-
(a) tangible assets, being buildings, machinery, plant or furniture;
(b) intangible assets, being know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature not being goodwill of a business or profession, in respect of which the same percentage of depreciation is prescribed.

Class of Assets

Assets eligible for depreciation have been classified into four classes, i.e.,
(a) building;
(b) plant and machinery;
(c) furniture;
(d) intangible assets of the type discussed above.

Each class of assets other than intangible assets may have different blocks or groups on which separate rates of depreciation are prescribed, and for each such rate, a separate block will be formed.

In the case of **intangible assets, there will be only one block, as only one rate, i.e., 25%, has been prescribed for all such intangible assets.**

- **Admissible rate for depreciation:**

1) Building – (a) For residential purposes 5%
   (b) For business purposes 10%
2) Furniture & Fittings 10%
3) Plant & Machinery = 15%
   - Motorcar for business purposes = 30%
   - Motor cars other than those used in the business of **running them on hire** = 15%
4) Computers = 40%
5) Ships = 20%
6) Intangible assets = 25%
   (Patents, Trademarks, Copyrights, Franchises, Know-how**) Not goodwill of a business or profession.**

- **Calculation of the Cost price of the Asset:**

Purchase price of the asset	***
Less: any subsidy from Govt.	***
	*****
Add: Interest on loan taken for purchase of asset (from the date of loan taken to the date of loan utilization)	***
Add: Expenses related to the purchase of the asset.	***
Add: Installation charge.	***
Cost Price of Asset	******

- **Calculation of depreciable assets:**

WDV value of the previous year	***
Add: purchase of asset.	***
Add: Expenses related to assets sold during the year.	***
	******
Less: Income from asset sold during the previous year	***
Depreciable value	******

- **Depreciation on the asset in the previous year of acquisition if the asset is put to use for less than 180 days during that previous year.**

Where any asset, falling within a block of assets, is acquired by the assessee during the previous year and is put to use for business or profession for less than 180 days in that previous year, depreciation in respect of such asset shall be restricted to 50% of the amount calculated at the percentage prescribed for the block of assets comprising such asset.

Therefore, depreciation will be restricted to 50% of the normal depreciation if the following conditions are satisfied:

(i)The asset is acquired during the previous year, and
(ii) It is put to use during the previous year, and
(iii) It has been used for less than 180 days during the previous year.

Example:

(i) If new machinery eligible for 15% depreciation is purchased on 15/12/2024 and put to use for the business on 28/12/2024, depreciation would be allowable on this machinery @7.5% rather than the rate of 15%.

(ii) If new machinery is purchased on 15.4.2024 and put to use for business purposes only on 28.12.2024, depreciation would be allowable @ 7.5% because, though the asset has been acquired during the previous year for more than 180 days, but put to use for less than 180 days during the previous year.

(iii) If the new machinery is purchased on 20.3.2024 and put to use for the business purpose only on 28.12.2024, depreciation would be allowable @ 15% and not 7.5% because the asset has not been acquired during the previous year 2024-25 but acquired in previous year 2023-24 although it is put to use for less than 180 days in the previous year 2024-25.

(PY2025-26 start from 1-4-2025 to 31/03/2026)

Q-3 Mr. Popatlal furnishes the following information relevant for the AY 2026-27.

Profit and Loss Account for the year ending on 31/03/2026

Particular	Amt.	Particular	Amt.
Office expenses	1,05,750	Gross profit	7,12,000
Sundry expenses	91,000	Sundry receipts	25,850
Entertainment expenses	12,000	Bad debts recovered (earlier allowed 40%)	21,000

Legal expenses	9,000	Gift received from mother	11,000
Depreciation on Machinery	54,000	House Rent	24,000
Motor repair expenses	28,000		
Salary to the staff	1,00,000		
Bonus to the staff	85,000		
Contribution towards employee recognition fund	35,000		
Extension of building	14,000		
Payment to an approved scientific research association for carrying on scientific research	45,000		
Unapproved gratuity fund	9,500		
GST	90,000		
Fire Insurance Premium: For shop	15,000		
For own building	10,000		
Net Profit	90,600		
	7,93,850		**7,93,850**

Other information:

(1) Salary to staff includes a pension payment of Rs. 12,000 to the widow of a former employee.

(2) Out of the bonus of Rs. 60,000 is paid before March 31, 2026; the balance of Rs. 25,000, however, is paid after the income tax return filing date.

(3) Depreciation on machinery as per income tax rules allowable is Rs. 40,000.

(4) GST of Rs. 90,000 includes (a) Rs. 5,000 interest for late payment of GST. (b) Penalty for evading GST Rs. 15,000.

(5) Rs. 6,000 cash given as charity is included in the amount of sundry expenses shown as above.

(6) The opening balance of motor on 1-4-2025 was Rs. 3,00,000 on which 20% depreciation is allowed. The use of the motor for personal use is 2/5.

(7) As shown in the profit and loss account, Rs. 45,000 is paid to Scientific Research Association for carrying on approved scientific research in natural science, not related to the business of Mr. Popatlal. Besides, Mr. Popatlal purchases a plant for Rs. 40,000 to carry on scientific research related to his business. Neither the cost of the plant nor depreciation thereon is debited to the profit and loss account.

You have to find out the taxable income from business/profession for the AY 2026-27.**(DEC. 2022)**

Q-4 Sona is the owner of a manufacturing company named Babu-Sona Pvt.Ltd. The profit & loss accounts of the year ended 31 March,2026 are given below:

Particular	Amt.	Particular	Amt.
Salary to staff	450000	Gross profit	1500000
Bonus to staff	28125	Income tax refund (Including interest Rs. 3750)	25000
Rent	75000	LIC (amount received under keyman insurance)	600000
Commission to Dealers	125000		
Reserve for bad debts	100000		
Depreciation on plant & Machinery	156250		
Entertainment Exp.	218750		
Advertisement Exp.	184375		
Legal Charges	75000		
Expenses for approved Scientific Programme: IIT 125000 Land 25000 Building 62500 Salary 18750 Material 6250 Other exp. 12500	250000		
LIC Premium on: Own life 37500 Staff accident 37500	75000		
Vehicle running expenses	87500		
Net Profit	300000		
	2125000		**2125000**

Additional Information:

1) Commission to dealers includes Rs 18750 paid for medical expenses incurred by the proprietor for himself.
2) The following information is given for plant and machinery.
   (a) Written down value of plant and machinery as on 1st April, 2025, was Rs. 10,00,000
   (b) Additions to new plant and machinery during the previous year 2025-26 were Rs. 1,25,000
   (c) One machine was destroyed in an accident, for which compensation was received from the insurance company of Rs. 50,000
   (d) During the year, sold some machinery at Rs. 6,25,000.
   (e) Rate of depreciation in respect of all the plant and machinery is 30%.
3) Advertisement includes:
   (a) Rs. 18,750 included in the advertisement has been incurred for advertisement in a souvenir published by a political party.
   (b) Rs. 75,000 paid in cash to the advertising agency of his brother for advertisement, the market value of which is Rs. 65.000.
4) Entertainment expenses amounting to Rs. 37,500 were not related to business.
5) Telephone expenses of Rs. 30,625 and electricity expenses of Rs. 40,625 were not recorded. Compute the income from business for the A.Y. 2026-27.

Q-5 **Mr. Anand has prepared P&L a/c for the period ended on 31/03/2026.**

Particular	Amt.	Particular	Amt.
Opening stock	242000	Closing stock	315000
Purchases	1000000	House Rent	14000
Salary to staff	198000	Sales	1702555
Depreciation on machinery	25000	Bad debts recovered	20000
Interest on Capital	20000		
Bad debts reserve	19000		
Income tax	18000		
Advertisement Exp.	26000		
Donation	16000		
Net profit	487555		
	2051555		**2051555**

Additional Information:

(1) Opening stock is valued at 10% more than the cost price and closing stock is valued at 5% more than the cost.
(2) The approved depreciation on machinery is Rs. 4,000
(3) The advertisement expense shown in the above P & L Account includes Rs. 17,000 as advertisement given in the newspaper of a political party.
(4) The opening balance of motor on 1/4/2026 was Rs. 90.000 on which 20% depreciation is allowable. The use of the motor for business is 2/3.
(5) Goods of market price of Rs. 19,000 were purchased at Rs. 14,000 and taken for household consumption, and were included in the sales at Rs 25,000.
(6) Mr. Anand, who is an author of a book, has received Rs. 10.000 as royalty.
(7) The amount of donation shown above does not include Rs. 10,000 given to Veer Narmad South Gujarat University.

Based on the above information, calculate the taxable income from the business-profession of Mr. Anand for AY-2026-27.

Q-6 The Trading and profit and loss account of Mr. Hasmukh Bhai’s business for the year ending 31-3-2025 is as follows.

Particular	Amt.	Particular	Amt.
Opening stock	220000	Sales	3000000
Purchases	800000	Goods burnt by fire	30000
Purchase exp.	50000	Closing stock	135000

Factory Exp.	130000		
Gross profit	1965000		
	3165000		**3165000**
Salary	450000	Gross profit	1965000
Office exp.	260000	Sundry income	35000
Taxes	5000	Bad Debts Recovered	10000
Fire Insurance Premium: Rental house 1500 Stock & Stores 3500	5000	Dividend on a share	6000
Life Insurance Premium	7500	Commission	4000
Loss on sale of investment	10000	House Rent	30000
Depreciation on Machinery	40000		
Motorcar Exp.	15000		
Diwali puja exp.	1000		
Loss by fire	8000		
Donation (to approved institution)	11000		
Drawings	12500		
Net Profit	1225000		
	2050000		**2050000**

Additional Information:

(1) Opening stock is valued at 10% more than the cost price.
(2) Closing stock is valued at 10% less than the cost price.
(3) Purchase includes ₹40,000, the entire amount of which is paid at once by credit card.
(4) Out of bad debts recovery 25% of the amount is in respect og bed debts is allowed as a deduction in the earlier year.
(5) Income tax-approved depreciation on machinery Rs. 30000.
(6) Income tax-approved depreciation on motorcar Rs. 21000.1/3 portion of the motorcar is used for personal use.
(7) Interest on capital Rs 5000 & Approved advertisement exp. Rs. 24410 was not recorded in the books.
(8) The Discount received on the amount paid to the business creditors during the year is Rs. 4000, which is not recorded in the books.
(9) Municipal taxes of rental houses Rs. 1500 are included in the amount of taxes.
(10) Office expenses include a laptop for business worth Rs. 25,000.

From the above information, calculate taxable income from business/profession for AY- 2026-27.

Q-7 Mr. Inder Kumar Vasudeva furnishes the following manufacturing, profit and loss account for the previous year ending 31.3.2026:

Particular	Amt.	Particular	Amt.
To Stock	2,11,000	By Sales	2,62,84,300
To Purchases	2,03,80,000	By Stocks	2,26,600
To Manufacturing wages	3,65,900		
To Factory Rent, Rates and Taxes	2,30,000		
To Depreciation on machinery and building	15,000		
To Gross profit	53,09,000		
	2,65,10,900		**2,65,10,900**
To Office Salaries	46,27,000	By Gross profit B/D	53,09,000
To Establishment Expenses	6,100	By Rent of staff quarters	19,000
To Interest on Capital	3,300	By Refund of income-tax penalty	2,000
To Fire Insurance	200	By sale of machinery	25,000
To Bad Debts	7,000	By Recovery of Bad debts not allowed to be deducted in earlier years	6,000
To Income tax	6,000	By Sundry receipts from business	35,000
To Expenses on GST proceedings	2,000		
To Expenses of income-tax proceedings	13,000		
To Diwali Expenses	4,000		
To Audit Fee	7,000		
To Medical Expenses of the proprietor	3,000		

To Staff Welfare Expenses	12,000		
To Repair of Staff quarters	4,000		
To Bonus payable to Employees	2,20,000		
To Provision for Tax: GST	25,000		
To Municipal taxes for staff quarters	4,000		
To General Reserve	26,000		
To Entertainment expenses	16,000		
To Net profit	4,10,400		
	53,96,000		**53,96,000**

You are required to compute the taxable profits from business after considering the following:

(i) Purchases include a petty purchase of ₹21,000. Its payment was made by a crossed cheque.
(ii) Assessee has always valued the stock at cost price, but on 31.3.2026 he has valued the closing stock at market price, which was in excess of the cost price by 10%.
(iii) Office salaries paid include 210,400 to the proprietor of the business
(iv) Diwali expenses include gifts of ₹1,000 made to the relatives.
(v) The written down value (WDV) of the block consisting of machinery as on 1.4.2025 is rs.59,000. One machine whose WDV as on 1.4.2025 was Rs. 5,000 was sold for ₹25,000 during the year.
(w) The written down value (WDV) of the block consisting of factory buildings as on 1.4.2025 is rs.90,000.
(v) GST amounting to only Rs. 20,000 was paid on or before 25.6.2025.
(vii) Office salary includes rs.4,00,000 on which tax was deducted at source on 5.6.2026, and the same was deposited on 16.7.2026.

Assume he has made payments of expenses of more than 5% in cash and, as such, he has to get his accounts audited by a chartered accountant.
