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B.Com Honours | Semester V | Calicut University

INCOME TAX LAW AND ACCOUNTS

Course Code: COM5CJ301 • Module 4 Notes

Module IV: Profit and Gains of Business or Profession (PGBP)

Governs taxation of profits derived from commercial business operations and professional practice under Sections 28 to 44DB, allowed vs disallowed expenses, and Section 32 depreciation rules.

Unit 20: PGBP Chargeability (Sec 28)

Incomes chargeable: Profits of business/profession, compensation for agency termination, export incentives (duty drawback, DEPB), perquisites from business relationships.

Unit 21: Expressly Allowed & Disallowed Expenses (Sec 30 to 40A)

1. Expressly Allowed (Sec 30-37): Rent, rates, taxes of premises (Sec 30), repairs & insurance of machinery (Sec 31), depreciation (Sec 32), scientific research (Sec 35).
2. Expressly Disallowed (Sec 40/40A): Income Tax, Wealth Tax, personal drawings, TDS defaults (Sec 40(a)(ia) 30% disallowance), cash payments exceeding Rs. 10,000 in a day (Sec 40A(3)).

Unit 22: General Deductions (Sec 37(1))

Any expenditure not covered under Sec 30-36, incurred wholly and exclusively for business purposes (excluding capital expenditure and personal expenses).

Unit 23: Solved Calculation of Business Income (P&L Adjustment Method)

Net Profit as per P&L Account + Inadmissible Expenses debited - Non-Business Incomes credited = Taxable PGBP Income.

Unit 24: Solved Calculation of Professional Income (Receipt & Payment Method)

Professional Receipts (Consultation fees, court fees, audit fees) minus Professional Operating Expenses.

Unit 25: Depreciation Provisions & Block of Assets (Sec 32)

Calculated on Written Down Value (WDV) of Block of Assets (e.g., Plant & Machinery @ 15%, Furniture @ 10%, Computers @ 40%). Half-year rule applies if asset acquired and put to use for < 180 days in PY.

Practical Problem 2 (PGBP Net Profit Adjustment Solved Business Computation): A trader reports Net Profit as per P&L Account = Rs. 4,50,000.
P&L Account Inspection Reveals:
1. Income Tax Paid debited = Rs. 40,000 (Disallowed personal tax).

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2. General Reserve Transfer debited = Rs. 20,000 (Disallowed reserve).
3. Cash Salary Payment in a single day = Rs. 25,000 (Disallowed under Sec 40A(3)).
4. Dividend Received credited to P&L = Rs. 15,000 (Non-business Income from Other Sources).
5. Allowable Depreciation as per IT Rules Sec 32 = Rs. 30,000 (Depreciation debited in P&L was Rs. 20,000).
Calculate Net Taxable Profits and Gains from Business.

Statement of Computation of Income from Business:

PGBP Computation Adjustments Particulars	Amount (Rs.)	Total Amount (Rs.)
Net Profit as per Profit & Loss Account		4,50,000
Add: Inadmissible Expenses Debited to P&L:		
- Income Tax Paid (Personal tax disallowance Sec 40(a))	40,000	
- Transfer to General Reserve	20,000	
- Cash Payment in excess of Rs. 10,000 (Sec 40A(3))	25,000	
- Excess Accounting Depreciation over IT Depreciation (20,000 - 30,000)	20,000	1,05,000
SUBTOTAL		**5,55,000**
Less: Incomes Credited to P&L Not Chargeable under PGBP:		
- Dividend Income (Taxable under Other Sources)	(15,000)	
Less: Tax Depreciation Allowable under IT Rules Sec 32:		
- Allowable IT Depreciation	(30,000)	(45,000)
NET TAXABLE PROFIT AND GAINS OF BUSINESS (PGBP)		**5,10,000**

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