AUDITING AND TAXATION

INCOME FROM BUSINESS AND PROFESSION

MULTIPLE CHOICE QUESTIONS

1. -------------- expenses are expressly allowed as deductions against profit and gains of a business or profession.
   
   a) Rent, rates, taxes, repairs and insurance on buildings
   
   b) Repairs and insurance on plant machinery furniture
   
   c) Both a and b

   Answer: c) All the above expenses are expressly allowed as deductions under Sec 31 and 32 of Income Tax Act.

2. If the asset is owned by the business and used for business purpose during the relevant previous year, depreciation can be charged on------------ basis as per the provisions of Income tax.

   a) Written down value method
   
   b) Any method desired by the Assesssee
   
   c) Straight line method

   Answer: c) Written down value method needs to be adopted for each block of asset. If the value is zero then no depreciation can be charged with a few exceptions.

3. As per Income Tax rules, depreciation is chargeable to block of assets which may be-----

   a) Tangible Assets
   
   b) Intangible Assets
   
   c) Both a and b

   Answer: c) Both a and b – Depreciation can be deducted from the profits and gains of business on both tangible and intangible assets under 13 different blocks of assets.
4. As per Income Tax rules, depreciation chargeable to Intangible block of assets like; know – how, patents, copyrights, trademarks, license etc can be charged at ---------------- percentage.

   a) 20%
   b) 25%
   c) 15%

   Answer: b) 25% - Intangible assets acquired by the firm after 31st March 1998 are eligible for 25% rate of depreciation.

5. The deduction of depreciation on an asset, in the block of asset is restricted to fifty percent of the percentage prescribed by the provisions of income tax if------------------.

   a) It is acquired in the previous year and put to use for less than 180 days
   b) It is acquired in the previous year, but put to use for more than 182 days
   c) It is acquired in the previous year and put to use for less than 182 days

   Answer: a) It is acquired in the previous year and put to use for less than 180 days- The above deduction is only for the asset in that block which has been put to use for less than 180 days and has been acquired in the current previous year. For all other assets in the block of asset, 100% of the prescribed depreciation needs to be charged.

6. The following expenditure cannot be claimed under the head Income from business and profession

   a) Illegal expenses
   b) Personal expenses of the owner
   c) Both a and b

   Answer: c) Both illegal expenses and personal expenses of owner cannot be shown as business expenses. Both the expenses are inadmissible under the head Income from Business and profession
7. While computing income from business and profession, inadmissible expenses need to be------------------------ to the net profits.

   a) Added back to the net profit
   b) Deducted from the net profit
   c) None of the above

   Answer: c) Added back to the net profits.

8. XYZ company paid Rs500000/- as salary to the foreign staff, without deducting TDS. The entire amount was shown as expenditure in the profit and loss account. Comment how much is admissible?

   a) Entire amount is not admissible
   b) Entire amount is admissible
   c) Rs350000/- is admissible

   Answer: a) Entire amount is inadmissible because the company has not deducted tax at source. Even if the company has deducted the tax at source but not remitted to income tax department within the stipulated period of time it is inadmissible.

9. XYZ Company purchased goods from a relative and paid Rs80000/- as the purchase price. It had paid Rs. 9000/- in excess to the fair market value. The total purchase account included the actual (full) payment made to the relative. How much is admissible expense under the head Income from business.

   a) Entire amount is inadmissible
   b) Entire amount is admissible
   c) Rs71000/- is admissible

   Answer: c) Rs71000/- will be treated as admissible expense for the computation of Income from business. Any amount which is in excess to the fair market value, paid to relatives is inadmissible. Rs9000/- should be disallowed from the net profit.
10. XYZ Company purchased goods from a relative and paid Rs 80,000/- as the purchase price through a bearer cheque. It paid Rs 30,000/- repair charges to the repairing company in cash. How much is admissible expense.

   a) **Entire amount is inadmissible Rs 110,000/-**
   b) **Nil -. Entire amount paid will be disallowed**
   c) **Rs 30,000/- paid in cash is inadmissible**

   **Answer:** a) Both the expenses are inadmissible – Any expenditure in excess of Rs 20,000/- need to be paid by an account payee or crossed cheque or draft or bank transfer (NEFT). Expenses in excess of Rs. 20,000/- to a party are disallowed if the payment is made by cash or bearer cheque.

11. XYZ Company sells goods worth Rs. 50,000/- to Mr. Rakesh on credit basis in the month April 2015. Mr. Rakesh pays only Rs. 35,000/- and the balance is claimed as bad debts by XYZ company in the PY15-16. Mr. Rakesh pays Rs. 5,000/- in the month Feb 2019. Rs. 5,000/- will be treated as-

   a) **Rs. 5,000/- will chargeable as taxable business income**
   b) **Rs. 5,000/- will be shown as income from other sources.**
   c) **Rs5,000/- will be shown under the head capital gains.**

   **Answer:** a) Rs.5,000/- has to be shown as business income. Any recovery of bad debt, which has been allowed as deduction under sec36 (1)(vii) and the amount subsequently recovered on such debt shall be treated as the business income in the year of recovery.

12. Mr. Mahesh owns a building having three floors. He has rented the first floor and receives Rs 480,000/- annual rent from the part of house property. He uses the top floor for his own residence. He uses the ground floor for carrying on his own business. The entire income he earns from conducting the business he needs to show it as taxable income under the head

   a) **Income from House Property**
   b) **Income from business and profession**
c) None of the above

Answer: a) Income from business and profession. – Any benefits from the use of own building will be shown as business income. All expenses like the municipal taxes, repairs and maintenance expenses, etc proportionately, which are pertaining to the part of building in which the business is conducted will also be admissible expenses under business income.

13. Mr. Yogesh runs a business dealing in old cars. He has shown Rs 600000/- as Net income from business, which include, Rs 25000/- dividends received from investment in Indian companies, Rs 12000/- Interest, earned on bank deposits. How much should the inadmissible income and what treatment to be done in the computation of income from business?

a) Rs. 37000/- inadmissible income will be deducted from net profits
b) Rs. 25000/- inadmissible income will be added back to the net profits
c) Rs. 37000/- inadmissible income will be added back to the net profits.

Answer: a) Rs. 37000/- inadmissible income will be deducted from net profits – both have to be shown under the head income from other sources.

14. Mr. Ratan runs a business dealing in scrap material. He paid Rs25000/- as Income tax, Rs 22000/- as the wealth Tax ; Rs .26000/- as GST., and Rs. 20000/- as municipal tax for his residential house property. All the above were shown as expenses while computing the income from business. How much expenses are inadmissible?

a) Rs. 67000/- inadmissible expenses will be added back to net profits
b) Rs. 25000/- inadmissible expenses will be added back to the net profits
c) Rs. 20000/- inadmissible expenses will be added back to the net profits.

Answer: a) Rs. 67000/- inadmissible expenses will be added back to the net profits – Wealth Tax, Income Tax are personal expenses and not business expenses. Only the part of residential property used for own business purpose, incidental expenses can be deducted under income form business.