Income From Business or Profession:

Business: As per Section 2(13), the term Business includes any trade, commerce or manufacture or any adventure or any concern in the nature of trade, commerce or manufacture. Business means any activity carried on with a profit motive.

Profession: Sec. 2(36): Profession refers to an occupation which requires intellectual skill or manual skill controlled by the intellectual skill of a person engaged in such occupation.
Examples:
1. Doctors
2. Lawyers (Advocates),
3. Engineers (Architects)
4. Auditors (Chartered Accountants) etc.

Professionals: Professionals are those persons who are engaged in the profession.
Examples:
1. Doctors
2. Lawyers or solicitors
3. Chartered Accountants
4. Engineers etc.

Vocation: It is only the way of living or an activity for which one has special features of fitness.
Examples:
1. Music
2. Dancing
3. Brokerage
4. Insurance agency etc.

Methods of Accounting: Sec. 145
1) **Cash System of Accounting:** Under this system of accounting the actual cash received and actual cash paid are to be recorded in the books of accounts. But credit transactions and outstanding items are not being recorded.
2) **Mercantile System of Accounting:** Under this system of accounting the cash as well as credit transactions including all outstanding items are to be recorded in the books of accounts to find out the income or loss from Business or Profession.

Computation of Income from Business (If Profit & Loss A/c is given) :

Particular	Amount	Amount
Net profit as per P&L A/c Add: Expenses Disallowed: 1. All Reserves & Provisions (Reserve for Bad Debts, provision for Income Tax, Provision for Repairs, Provision for Gratuity, Depreciation Fund etc.)	XXX	XXX

2. All taxes (Income Tax, Advance Income Tax, Fringe Benefit Tax, Wealth Tax etc. except Sales Tax, Excise Duty and Local Taxes of premises used for Business.)	XXX	
3. Rent Paid to Staff	XXX	
4. All capital expenditures (Purchase of fixed assets, expenses incurred at the time of purchase of assets) except on Scientific Research.	XXX	
5. All capital losses and loss on sale of assets	XXX	
6. All types of Charities & Donations.	XXX	
7. All Expenses relating to other head of Income (Repairs, Taxes, Fire Insurance on house property)	XXX	
8. All Personal Expenses (Drawings, Salary to Proprietor, Interest on Capital, Medical Expenses etc.)	XXX	
9. Depreciation Debited to P&L A/c (Treated Separately)	XXX	
10. Gifts & Presents given to friends and relatives	XXX	
11. All types of Fine or Penalty	XXX	
12. Any Payment to Partner	XXX	
13. Any Salary or Interest payable outside India unless tax is deducted at source	XXX	
14. Past Losses	XXX	
15. Difference in Trial Balance.	XXX	
16. LIC Premium	XXX	
17. Amount invested in Saving Certificates	XXX	
18. Speculation Losses	XXX	
19. Legal Expenses on Criminal Cases	XXX	
20. Legal Expenses on Acquisition of Assets	XXX	
21. Loss by Theft from Residence	XXX	
22. Expenses on Illegal Business	XXX	
23. Employer's contribution to URPF	XXX	
24. Cost of patent rights, technical Know-How	XXX	
25. Preliminary Expenses & Goodwill Written off	XXX	
26. Any Expenses above Rs. 10,000 paid in cash	XXX	
27. Any Expenditure on Advertisement in the souvenir, pamphlets or Magazines' of political parties	XXX	
28. Over valuation of opening stock	XXX	
29. Under valuation of closing stock	XXX	XXX
Less: Income from other heads & Exempted Incomes:		
a) Income from other heads:		
1) Part time salary	XXX	
2) Interest on securities	XXX	
3) Rent from LOP or House Property	XXX	
4) Capital Gains	XXX	
5) Profit on sale of assets	XXX	
6) Bank Interest, Winning from Lotteries, Race Course etc.	XXX	
	XXX	
b) Exempted Incomes:		
1. Post Office Saving Bank A/c. up to Rs 3,500 single A/c & Rs. 7,000		

for Joint A/c 2. Agricultural Income 3. Gifts from relatives and friends 4. Income Tax Refund 5. Bad Debts Disallowed earlier recovered 6. Amount received from LIC 7. Any Capital Receipts 8. Dividend from Indian Company 9. Under valuation of opening stock 10. Over valuation of closing stock	XXX XXX XXX XXX XXX XXX XXX XXX XXX XXX	 XXX
Less: Allowed Expenses: 1) Depreciation as per Income Tax Rules 2) Preliminary Expenses Written off (Either 1/5th or 1/10th) Before 01-04-1998 = 1/10th After 01-04-1998 = 1/5th 3) Depreciation on Patent Rights @ 25%	 XXX XXX XXX	 XXX
Add: Income from Illegal Business Income from Business	XXX	XXX
Income from Business		XXX

Computation of income from profession (If Receipts and Payments A/c is given)

Particular	Amount	Amount
Professional Receipts or Incomes		XXX
Less: Professional allowable Expenses or Payments		XXX
Income from Profession		XXX

Incomes chargeable under the head income from business or profession: Sec. 28:

1. Profits and gains of business or profession
2. Compensation due or received
3. Income from trade or similar association
4. Profit on sale of license
5. Cash assistance against exports
6. Duty of customs or excise
7. Profit on transfer of duty entitlement
8. Profit on transfer of duty replenishment certificate
9. The value of benefit or perquisites
10. Interest or salary etc., due to or received by a partner
11. Receipt of non-compete fees
12. Receipt on key man insurance policy
13. Any sum received on certain capital asset

Profit or loss on speculation business: Sec. 43 (5): A business, which is dealing in speculative transactions, is known as speculative business. A speculative transaction is a transaction in which a contract for purchase or sale of any commodity including stock and shares is settled otherwise than by actual delivery or transfer of commodity. The accounts of speculative business should be maintained separately to know the profit or loss of that business.

Income from illegal business: For income tax purpose both legal and illegal business are treated as one and same. It means both are taxable. While computing income from illegal business the expenses incurred incidental to that business are allowed as deduction except penalties. The accounts of illegal business should be maintained separately to know the profit or loss of that business.

Deemed Profit: Sec. 41: If any deduction was allowed in respect of loss, expenditure or trading liability for any year and subsequently realized or recovered, the amount so recovered shall be deemed to be business income. This income is called deemed profit and it is fully taxable. Recovery of any loss or expenditure previously disallowed as deduction is not taxable.

Depreciation: Sec 32: Depreciation means gradual reduction in the value of fixed assets. Depreciation means decrease in the value of asset due to wear and tear, efflux of time (passage of time), obsolescence or permanent fall in the market value of assets.

Distinction between Income Tax concept and Financial Accounting concept regarding Depreciation.

Point of Distinction	Income Tax concept	Financial Accounting concept
1) Calculation of Depreciation	On block of assets.	On individual assets.
2) Rate of Depreciation	As per Income Tax Rules.	Cost price-scrap value/estimated life of asset.
3) Method of Depreciation	WDV Method except power generating assets.	Different methods of Depreciation are followed.
4) Depreciation on sale of assets	No Depreciation on assets sold.	Depreciation is to be calculated upto the date of sale.
5) Calculation of Depreciation	If the asset is used for 180 days or more than 180 days then full Depreciation. If the asset is used less than 180 days then half Depreciation is to be calculated.	Depreciation is to be calculated for actual period of the use of asset.

Features of Depreciation:

1) **Block Of Assets:** A particular class of assets having same or similar characteristics is called block of assets. Block of assets means a group of assets falling within a class of assets comprising of tangible assets being Building, Furniture, Plant & Machinery etc. and

intangible assets being Know how, patents, copyright, Trademark, Franchise, License or any other commercial rights.

2) Assets should be owned by the assessee.
3) Assets must be used for the purpose of Business or Profession.
4) Assets must be used during the previous year.
5) WDV method: Charging fixed percentage of depreciation on reducing balance or diminishing balance of asset is called WDV method. Method of Depreciation generally WDV Method of Depreciation is used. But in case of an undertaking engaged in generation and distribution of power the depreciation should be on Straight Line Method.
6) If the asset is used for 180 days or more, then the full depreciation is to be calculated. If the asset is used less than 180 days then half depreciation is to be calculated.
7) Actual Cost: Sec 43(1): Actual cost of an asset means the total cost of the asset less subsidies received and add expenses incurred.
8) No Depreciation is allowed on assets sold, destroyed, demolished, compulsory acquisition of assets etc.
9) Additional Depreciation on Plant & Machinery: The assessee can claim additional 20% Depreciation on plant & machinery subject to the following conditions:
   a) The assessee must be engaged in manufacture or production of any articles.
   b) Plant & machinery has been purchased and installed after 31-03-2005 is only eligible.
   c) No additional Depreciation of 20% is allowed in case of second hand plant & machinery purchased during the previous year. It means additional 20% Depreciation is allowed only to new plant & machinery.
   d) If a new plant and machinery is setting up in a notified backward area installed after 1st April 2015, additional depreciation of 35% of the actual cost of new plant and machinery.
   Note: No additional depreciation in case of Alternative Tax Regime
10) Unabsorbed Depreciation: The amount of Depreciation which is not adjusted during the assessment year is called Unabsorbed Depreciation.
11) If there is only one asset in the block of asset and if it is sold, then the difference between WDV and sale value is called Short Term Capital Gain or Loss. However, no depreciation is to be calculated on assets sold.
12) Terminal Depreciation: When an asset is depreciated according to Straight Line Method and if it is sold in the previous year, then the difference between WDV and Sale value is called Terminal Depreciation. Excess of WDV over the sale value is called terminal depreciation.
13) Balance Charge: When the asset is depreciated according to Straight Line Method and if it is sold, then the difference between sale value and Written Down Value is Balance Charge. Excess of sale value over the WDV is called the balance of charge

Calculation of Depreciation and WDV as on 31-03-2021

Particulars	Rs.	Rs.
Written Down Value as on 01-04-2020	-	XXX
Add: Purchase or Additions during the year.	XXX	

Add: Expenses incurred at the time of purchase	XXX	
Less: Subsidy or Grant Received	XXX	XXX
		XXX
Less: Sale Value		
Claim or compensation received	XXX	
from insurance company	XXX	
Destroyed, damaged or demolish, accident	XXX	XXX
WDV for 2020-21		XXX
Less: Depreciation		XXX
WDV as on 31/3/2021		XXX

Note: No depreciation is to be calculated on assets sold, destroyed, damaged etc.

1) Conditions for charging depreciation: Assessee must be the owner of the asset
2) The assets must be used by the owner
3) The assets must be used during the previous year only