Advance learning on Disallowance from Business/Profession income (Practical)

Sections 40, 40A and 43B provide the list of expenses which are specifically disallowed while computing income chargeable to tax under the head “Profits and gains of business or profession”. In this advance learning we will learn about various expenses which are specifically disallowed while computing income chargeable under head “Profits and gains of business or profession”. The detailed provisions in this regard are as follows:

Amount not deductible under section 40(a):
Disallowance due to default in deduction of tax at source (TDS) in respect of certain payments made outside India/ in India to a non-resident [Section 40(a)(i)]

Any interest, royalty, fees for technical services or other sum (which is chargeable to tax under the Act) which is payable outside India to any person or in India to a non-resident, is not deductible, if the assessee has not deducted tax at source from such payments, or after deducting tax, he has not deposited such tax with the Government before the end of previous year [or before the due date of deposit specified under section 200(1) in case due date of deposit falls in next year]. However, if tax is deposited in next year(s) after the due date of deposit, then such amount is deductible in the subsequent previous year in which the said tax is deposited by the assessee with Government.

Illustration
Mr. Soham has paid fees for technical services of Rs. 84,000 to Mr. Shan, a non-resident, in India during the previous year 2012-13. However, such fees of Rs. 84,000 are not deductible as business expenditure during the previous year 2012-13 if tax has not been deducted at source from such fees or after deducting such tax, it has not been deposited with the Government before the end of the previous year 2012-13 or before the due date of deposit specified under section 200(1) in case due date of deposit falls in the next year (i.e., in the previous year 2013-14).

Disallowance due to default in deduction of tax at source (TDS) in respect of certain other payments made to a resident [Section 40(a)(ia)]

Any interest (liable to TDS under sections 193 and 194A), payment to contractors/sub-contractors (liable to TDS under section 194C), commission or brokerage (liable to TDS under section 194H), rent (liable to TDS under section 194-I) and fees for technical/professional services or royalty (liable to TDS under section 194J), paid/payable to a resident, is not deductible while computing income chargeable to tax under the head “Profits and gains of business or profession” if:

- Tax is deductible at source but is not deducted.
- With effect from assessment year 2010-11, if tax is deducted during the previous year, and the same has not been paid on or before the due date of filing of return of income specified section 139(1).

In other words, if tax is deducted during the previous year and the same is paid on or before the due date of filing the return as specified in section 139(1), then the concerned expenditure will be allowed as deduction in the previous year in which such expenditure is incurred.

source : www.trpscheme.com (As amended by Finance Act, 2013)
However, if in respect of any such sum, tax has been deducted in any subsequent year, or has been deducted during the previous year but has been paid after the due date specified in section 139(1), such expenditure shall be allowed as a deduction in computing the income of previous year in which such tax (TDS) has been paid to Government.

Illustration

Mr. Raja is running a garment factory (turnover during the preceding year was Rs. 2,52,00,000). In December, 2012, he paid commission of Rs. 84,000. The entire commission was liable to TDS. Consider the following situations:

(1) He deducted tax (TDS) on commission in December, 2012 and deposited the TDS with the Government on 31-3-2013. In this situation, such commission is deductible during the previous year 2012-13.

(2) He deducted tax (TDS) on commission in December, 2012 and deposited the TDS with the Government on 1-10-2013. In this situation, such commission is deductible during the previous year 2013-14 (since TDS is deducted during the previous year 2012-13, but paid after the due date of filing the return of previous year 2012-13).

Disallowance of certain taxes

By virtue of section 40(a)(ib)/(ic)/(ii)/(iia) following are not deductible:

- Fringe benefit tax (however FBT has been abolished from assessment year 2010-11).
- Income-tax (including interest, fine, penalty, etc.) whether payable in India or outside India Wealth tax levied under the Wealth-tax Act, 1957 or similar tax chargeable under any law outside India.

Up to assessment year 2008-09, securities transaction tax (STT) was not allowed as deduction (however, relief under section 88E was available). From assessment year 2009-10, STT is allowed as deduction under section 36(1)(xv) (thus, relief under section 88E is no more available).

Illustration

Mr. Sipahi has paid income-tax of Rs. 84,252 for the previous year 2012-13, on 15-7-2013. In this situation, he cannot deduct the income-tax paid as business expenditure while computing business income for the previous year 2012-13 or in any subsequent year.

Disallowance due to default in deduction/payment of tax at source (TDS) on salary payable outside India/in India to a non-resident [Section 40(a)(iii)]

Any payment which is chargeable to tax under the head “Salaries” and which is payable outside India to any person or in India to a non-resident is not deductible, if tax on such salary has not been paid to the Government nor has been deducted at source.

Illustration

Mr. Soham has paid salary of Rs. 84,000 to Mr. Shan, a non-resident, in India. However, from such salary neither the tax is deducted at source nor the tax is deposited with the Government by Mr. Soham. Hence, he cannot deduct such salary of Rs. 84,000 paid as business expenditure while computing the business income.

Disallowance due to default in deduction of tax at source (TDS) on payments from provident fund, etc. [Section 40(a)(iv)]
Any payment to a provident fund or other fund established for the benefit of the employees of the assessee is not deductible, if the assessee has not made effective arrangement for securing deduction of tax (TDS) from any payment made from the fund which is chargeable to tax under the head "Salaries".

**Illustration**

Essem Ltd. made contribution of Rs. 1,84,252 to the recognized provident fund. However, it cannot deduct such contribution of Rs. 1,84,252 while computing the business income if it has not deducted tax at source from any payment made from such provident fund which is chargeable to tax under the head “Salaries”.

**Disallowance of tax on non-monetary perquisites [Section 40(a)(v)]**

By virtue of section 40(a)(v), tax on non-monetary perquisites [referred to in section 10(10CC)], paid by the employer is not deductible.

**Illustration**

Essem Ltd. pays Rs. 40,000 per month as salary to Mr. Kapoor and also provides him a rent-free unfurnished house (lease rent being Rs. 10,000 per month). The tax on such perquisite of Rs. 5,428 is paid by Essem Ltd. Such tax of Rs. 5,428 is not chargeable to tax in the hands of Mr. Kapoor. Hence, while computing business income of Essem Ltd., the tax of Rs. 5,428 paid by it on such non-monetary perquisite, is not deductible by virtue of section 40(a)(v).

**Amount not deductible under section 40A:**

**Disallowance in case of payment made to relatives [Section 40A(2)]**

Payment in respect of any expenditure made to any of the following persons will be disallowed till such payment is in excess (or unreasonable) of the fair market value of such expenditure.

The persons referred to in this section include following:

(i) In case of an individual, any relative of such individual;

(ii) In case of a company, firm, association of persons or Hindu Undivided Family, any director of the company, partner of the firm, or member of the association or family, or any relative of such director, partner or member;

(iii) Any individual who has a substantial interest in the business or profession of the assessee, or any relative of such an individual;

(iv) A company, firm, association of persons or Hindu Undivided Family having a substantial interest in the business or profession of the assessee or any director, partner or member of such company, firm, association or family, or any relative of such director, partner or member;

(v) A company, firm, association of persons or Hindu Undivided Family of which a director, partner or member, as the case may be, has a substantial interest in the business or profession of the assessee, or any relative of such director, partner or member;

(vi) Any person in whose business the assessee, or his relative has a substantial interest; or

(vii) Any person in whose business the assessee, being a company, firm, association of persons or Hindu Undivided Family, or any director of such company, partner of such firm or member of the association or family, or any relative of such director, partner or member, has a substantial interest.

source : www.trpscheme.com  
(As amended by Finance Act, 2013)
**SUBSTANTIAL INTEREST**: Substantial interest holder refers to any person beneficially holding 20% or more of the equity capital (in case of a company) and 20% or more of share in profit (in any other case), at any time during the previous year.

**Illustration**

SM Ltd. purchased goods worth Rs. 2,52,000 from one of its directors; however, the market value of such goods is Rs. 2,00,000. In this situation, Rs. 52,000 (being unreasonable) will be disallowed under section 40A(2).

**Disallowance in case of payment made by cash, etc. [Section 40A(3)]**

Any expenditure exceeding Rs. 20,000, which is otherwise deductible under any provision of the Act, is disallowed (in full), if the payment of such expenditure is made otherwise than by an account-payee cheque or an account-payee demand draft (i.e., by cash or bearer cheque or crossed cheque or bearer demand draft).

However, with effect from 1-10-2009, the aforesaid limit of Rs. 20,000 has been enhanced to Rs. 35,000 in case of payment made for plying, hiring or leasing of goods carriages.

Rule 6DD provides exception to above provision. In other words, in the circumstances specified in rule 6DD nothing will be disallowed even if the payment exceeds aforesaid limit. These exceptions are:

(a) Payment made to the Reserve Bank of India or any banking company or the State Bank of India or any subsidiary bank or any co-operative bank or land mortgage bank or any primary agricultural credit society or any primary credit society; the Life Insurance Corporation of India or to the Government, under the rules framed by it where such payment is required to be made in legal tender;

(b) Payment made by any letter of credit arrangements through a bank or a mail or telegraphic transfer through a bank or a book adjustment in any account in a bank to any other account in that or any other bank or a bill of exchange made payable only to a bank or the use of electronic clearing system through a bank account, credit card and a debit card.

(c) Payment made by way of adjustment against the amount of any liability incurred by the payee for any goods supplied or services rendered by the assessee to such payee;

(d) Payment made for the purchase of agricultural or forest produce or the produce of animal husbandry (including livestock, meat, hides and skins) or dairy or poultry farming or fish or fish products or the products of horticulture or apiculture, to the cultivator, grower or producer of such articles or products;

(e) Payment made for the purchase of the products manufactured or processed, without the aid of power in a cottage industry to the producer of such products;

(f) Payment made in a village or town, which on the date of such payment is not served by any bank, to any person who ordinarily resides, or is carrying on any business, profession or vocation in any such village or town (payment made to aforesaid person at a village having bank is not covered by this exception (for details see Press Note, dated 8-5-1969);

(g) Payment made to an employee or the heirs of such employee, towards terminal benefit and the aggregate of such payment does not exceed Rs. 50,000;

(h) Payment made to employee after deducting the required income-tax (TDS) from such salary, when such employee is temporarily posted for a continuous period of fifteen days or
more in a place other than his normal place of duty or on a ship and does not maintain any account in any bank at such place or ship.

(i) Where the payment was required to be made on a day on which the banks were closed either on account of holiday or strike;

(j) Payment made by any person to his agent who is required to make payment in cash for goods or services on behalf of such person;

(k) Payment made by an authorised dealer or a money changer against purchase of foreign currency or travellers cheques in the normal course of his business (i.e., a person authorised as an authorised dealer or a money changer to deal in foreign currency or in foreign exchange under any law for the time being in force).

Following additional provisions should be kept in mind in this regard:

- If any expenditure is covered by section 40A(2) as well as section 40A(3), then disallowance under section 40A(3) will be of the excess amount, i.e., the balance amount of expenditure remaining after giving effect to disallowance under section 40A(2).

- With effect from 1-4-2008, if any expense has been allowed as deduction in any earlier year(s) and payment of such expense is made (in excess of Rs. 20,000) in previous year 2008-09 or any subsequent year, otherwise than by an account-payee cheque or account-payee bank draft, then such expenses will be disallowed in full.

Illustration

Essem Ltd. purchased goods on credit from A Ltd. on June 20, 2012 for Rs. 19,000 and on June 25, 2012 for Rs. 12,000. The total payment of Rs. 31,000 was made by crossed cheque on August 12, 2012. In this case, though the total amount of payment exceeds Rs. 20,000, nothing shall be disallowed since the individual amount of bill does not exceed Rs. 20,000. To attract disallowance, the amount of bill as well as the amount of payment should be more than Rs. 20,000.

Disallowance in case of certain unpaid liabilities [Section 43B]

Following expenses claimed by the assessee are deductible, only if they are actually paid by the assessee on or before the due date of furnishing the return of income (irrespective of method of accounting followed by the assessee):

(a) Any tax, duty, cess or fee, by whatever name called, under any law.

(b) Any sum payable by the assessee as an employer by way of contribution to any fund for the welfare of employees.

(c) Any sum referred to in section 36(1)(ii) (i.e., bonus or commission to employees).

(d) Any sum payable by the assessee as interest on any loan or borrowing from any public financial institution or a State financial corporation or a State industrial investment corporation.

(e) Any sum payable by the assessee as interest on any loan or advance from a scheduled bank (including a co-operative bank).

(f) Any sum payable by the assessee as an employer in lieu of any leave at the credit of his employee (i.e., leave salary).
Any payment which is disallowed under this section is deductible in the year of payment. In other words, if any of the above sum is paid after the due date of furnishing the return of the previous year, then such expenditure is allowed as deduction for the year in which such sum is paid.

Illustration
Outstanding sales tax liability of the previous year 2012-13 is deductible in previous year 2012-13, if it is paid on or before the due date of furnishing the return of income of previous year. However, if the said amount is paid after the due date of furnishing the return of income, then such sum will be deducted in the previous year in which it is paid.

Exceptions: If the following conditions are satisfied then the above expenses are deductible on accrual basis:

- Payment in respect of the aforesaid expenses is actually made on or before the due date of submission of return of income.
- The evidence of such payment is submitted along with the return of income.

If the above two conditions are satisfied and if the assessee maintains books of account on mercantile basis, then the expenditure is deductible on accrual basis in the year in which the liability is incurred.
FAQs

1. What are the provisions relating to disallowance under section 40(a)?

Following is the list of disallowances under section 40(a):

**Disallowance due to default in deduction of tax at source (TDS) in respect of certain payments made outside India/ in India to a non-resident [Section 40(a)(i)]**

Any interest, royalty, fees for technical services or other sum (which is chargeable to tax under the Act) which is payable outside India to any person or in India to a non-resident, is not deductible, if the assessee has not deducted tax at source from such payments, or after deducting tax, he has not deposited such tax with the Government before the end of previous year [or before the due date of deposit specified under section 200(1) in case due date of deposit falls in next year]. However, if tax is deposited in next year(s) after the due date of deposit, then such amount is deductible in the subsequent previous year in which the said tax is deposited by the assessee with Government.

**Illustration**

Mr. Soham has paid fees for technical services of Rs. 84,000 to Mr. Shan, a non-resident, in India during the previous year 2012-13. However, such fees of Rs. 84,000 are not deductible as business expenditure during the previous year 2012-13 if tax is not deducted at source from such fees or after deducting such tax, it is not deposited with the Government before the end of the previous year 2012-13 or before the due date of deposit specified under section 200(1) in case due date of deposit falls in the next year (i.e., in the previous year 2013-14).

**Disallowance due to default in deduction of tax at source (TDS) in respect of certain other payments made to a resident [Section 40(a)(ia)]**

Any interest (liable to TDS under sections 193 and 194A), payment to contractors/sub-contractors (liable to TDS under section 194C), commission or brokerage (liable to TDS under section 194H), rent (liable to TDS under section 194-I) and fees for technical/professional services or royalty (liable to TDS under section 194J), paid/payable to a resident, is not deductible while computing income chargeable to tax under the head “Profits and gains of business or profession” if:

- Tax is deductible at source but is not deducted;
- With effect from the assessment year 2010-11, if tax is deducted during the previous year, and the same is not paid on or before the due date of filing of return of income specified section 139(1).

In other words, if tax is deducted during the previous year and the same is paid on or before the due date of filing the return as specified in section 139(1), then the expenditure will be allowed as deduction in the previous year in which such expenditure is incurred.

However, if in respect of any such sum tax has been deducted in any subsequent year, or has been deducted during the previous year but has been paid after the due date specified in section 139(1), then such expenditure shall be allowed as a deduction in computing the income of previous year in which such tax (TDS) has been paid to Government.

**Illustration**

*(As amended by Finance Act, 2013)*

source: www.trpscheme.com
Mr. Raja is running a garment factory (turnover during the preceding year was Rs. 2,52,00,000). In December, 2012, he paid commission of Rs. 84,000. The entire commission was liable to TDS. Consider the following situations:

1. He deducted tax (TDS) on commission in December, 2012 and deposited the TDS with the Government on 31-3-2013. In this situation such commission is deductible during the previous year 2012-13.

2. He deducted tax (TDS) on commission in December, 2012 and deposited the TDS with the Government on 1-10-2013. In this situation commission is deductible during the previous year 2013-14 (since TDS has been deducted during the previous year 2012-13, but has been paid after the due date of filing the return of previous year 2012-13).

2. What taxes are disallowed while computing income chargeable to tax under the head “Profits and gains of business or profession”?

Following taxes are disallowed while computing income chargeable to tax under the head “Profits and gains of business or profession”

By virtue of section 40(a)(ib)/(ic)/(ii)/(iia) following are not deductible:

- Fringe benefit tax (however, FBT is abolished from assessment year 2010-11).
- Income-tax (including interest, fine, penalty, etc.) whether payable in India or outside India
- Wealth tax levied under Wealth-tax Act, 1957 or similar tax chargeable under any law outside India.

Up to assessment year 2008-09, securities transaction tax (STT) was not allowed as deduction (however, relief under section 88E was available). From assessment year 2009-10, STT is allowed as deduction under section 36(1)(xv) (thus, relief under section 88E is no more available).

Illustration

Mr. Sipahi has paid income-tax of Rs. 84,252 payable for the previous year 2012-13, on 15-7-2013. In this situation, he cannot deduct the income-tax paid as business expenditure while computing business income for the previous year 2012-13 or in any subsequent year.

3. What are the provisions relating to disallowance due to default in deduction/payment of tax at source (TDS) on salary payable outside India/in India to a non-resident?

Following are the provisions relating to disallowance due to default in deduction/payment of tax at source (TDS) on salary payable outside India/in India to a non-resident:

Any payment which is chargeable to tax under the head “Salaries” which is payable outside India to any person or in India to a non-resident is not deductible, if tax on such salary has not been paid to the Government nor deducted at source.

Illustration

Mr. Soham has paid salary of Rs. 84,000 to Mr. Shan, a non-resident, in India. However, from such salary neither the tax is deducted at source nor is the tax deposited with the Government by Mr. Soham. Hence, he cannot deduct such salary of Rs. 84,000 paid as business expenditure while computing the business income.
4. What are the provisions relating to disallowance due to default in deduction of tax at source (TDS) on payments from provident fund?

Following are the provisions relating to disallowance due to default in deduction of tax at source (TDS) on payments from provident fund:

Any payment to a provident fund or other fund established for the benefit of the employees of the assessee is not deductible, if the assessee has not made effective arrangement for securing deduction of tax (TDS) from any payment made from the fund which is chargeable to tax under the head "Salaries".

Illustration

Essem Ltd. made contribution of Rs. 1,84,252 to the recognized provident fund. However, it cannot deduct such contribution of Rs. 1,84,252 while computing the business income if it has not deducted tax at source from any payment made from such provident fund which is chargeable to tax under the head “Salaries”.

5. What are the provisions relating to disallowance of tax on non-monetary perquisites?

Following are the provisions relating to disallowance of tax on non-monetary perquisites:

By virtue of section 40(a)(v), tax on non-monetary perquisites [referred to in section 10(10CC)], paid by the employer is not deductible.

Illustration

Essem Ltd. pays Rs. 40,000 per month as salary to Mr. Kapoor and also provides him a rent-free unfurnished house (lease rent being Rs. 10,000 per month). The tax on such perquisite of Rs. 5,428 is paid by Essem Ltd. Such tax of Rs. 5,428 is not chargeable to tax in the hands of Mr. Kapoor. Hence, while computing business income of Essem Ltd., the tax of Rs. 5,428 paid by it on such non-monetary perquisite is not deductible by virtue of section 40(a)(v).

6. What are the provisions relating to disallowance under section 40A?

Following are the provisions relating to disallowance under section 40A:

Payment in respect of any expenditure made to any of the following persons will be disallowed till the extent such payment is in excess (or unreasonable) of the fair market value of such expenditure.

The persons referred to in this section include following:

(i) In case of an individual, any relative of such an individual;

(ii) In case of a company, firm, association of persons or Hindu Undivided Family, any director of the company, partner of the firm, or member of the association or family, or any relative of such director, partner or member;

(iii) Any individual who has a substantial interest in the business or profession of the assessee, or any relative of such an individual;

(iv) A company, firm, association of persons or Hindu Undivided Family having a substantial interest in the business or profession of the assessee or any director, partner or member of such company, firm, association or family, or any relative of such director, partner or member;

source: www.trpscheme.com

(As amended by Finance Act, 2013)
(v) A company, firm, association of persons or Hindu Undivided Family of which a director, partner or member, as the case may be, has a substantial interest in the business or profession of the assessee or any relative of such director, partner or member;

(vi) Any person in whose business the assessee or his relative has a substantial interest; or

(vii) Any person in whose business the assessee, being a company, firm, association of persons or Hindu Undivided Family, or any director of such company, partner of such firm or member of the association or family, or any relative of such director, partner or member, has a substantial interest.

**SUBSTANTIAL INTEREST:** Substantial interest holder refers to any person beneficially holding 20% or more of the equity capital (in case of a company) and 20% or more of share in profit (in any other case), at any time during the previous year.

**Illustration**

SM Ltd. purchased goods worth Rs. 2,52,000 from one of its directors. However, the market value of such goods is Rs. 2,00,000. In this situation, Rs. 52,000 (being unreasonable) will be disallowed under section 40A(2).

7. What are the provisions relating to disallowance in case of payment made by cash, etc.?

Following are the provisions relating to disallowance in case of payment made by cash, etc.:

Any expenditure exceeding Rs. 20,000, which is otherwise deductible under any provision of the Act, is disallowed (in full), if the payment of such an expenditure is made otherwise than by an account-payee cheque or an account-payee demand draft (i.e., by cash or bearer cheque or crossed cheque or bearer demand draft).

However, with effect from 1-10-2009, the aforesaid limit of Rs. 20,000 has been enhanced to Rs. 35,000 in case of payment made for plying, hiring or leasing of goods carriages.

Rule 6DD provides exception to above provision. In other words, in the circumstances specified in rule 6DD, nothing will be disallowed even if the payment exceeds aforesaid limit. These exceptions are as follows:

(a) Payment made to the Reserve Bank of India or any banking company or the State Bank of India or any subsidiary bank or any co-operative bank or land mortgage bank or any primary agricultural credit society or any primary credit society; the Life Insurance Corporation of India or to the Government under the rules framed by it, where such payment is required to be made in legal tender;

(b) Payment made by any letter of credit arrangements through a bank or a mail or telegraphic transfer through a bank or a book adjustment from any account in a bank to any other account in that or any other bank or a bill of exchange made payable only to a bank or the use of electronic clearing system through a bank account, credit card and a debit card.

(c) Payment made by way of adjustment against the amount of any liability incurred by the payee for any goods supplied or services rendered by the assessee to such payee;

(d) Payment made for the purchase of agricultural or forest produce or the produce of animal husbandry (including livestock, meat, hides and skins) or dairy or poultry farming or fish or fish products or the products of horticulture or apiculture to the cultivator, grower or producer of such articles or products;

source: www.trpscheme.com

(As amended by Finance Act, 2013)
(e) Payment made for the purchase of the products manufactured or processed, without the aid of power in a cottage industry, to the producer of such products;

(f) Payment made in a village or town, which on the date of such payment is not served by any bank, to any person who ordinarily resides or is carrying on any business, profession or vocation, in any such village or town (payment made to aforesaid person at a village having bank is not covered by this exception (for details see Press Note, dated 8-5-1969);

(g) Payment made to an employee or the heirs of such employee towards terminal benefit and the aggregate of such payment does not exceed Rs. 50,000;

(h) Payment made to employee after deducting income-tax (TDS) from such salary, when such employee is temporarily posted for a continuous period of fifteen days or more in a place other than his normal place of duty or on a ship and does not maintain any account in any bank at such place or ship.

(i) Where the payment was required to be made on a day on which the banks were closed either on account of holiday or strike;

(j) Payment made by any person to his agent who is required to make payment in cash for goods or services on behalf of such person;

(k) Payment made by an authorised dealer or a money changer against purchase of foreign currency or travellers cheques in the normal course of his business (i.e., a person authorised as an authorised dealer or a money changer to deal in foreign currency or foreign exchange under any law for the time being in force).

Following additional provisions should be kept in mind in this regard:

- If any expenditure is covered by section 40A(2) as well as section 40A(3), then disallowance under section 40A(3) will be of the excess amount, i.e., the balance amount of expenditure remaining after giving effect to disallowance under section 40A(2).
- With effect from 1-4-2008, if any expense has been allowed as deduction in any earlier year(s) and payment of such expense is made (in excess of Rs. 20,000) in previous year 2008-09 or any subsequent year, otherwise than by an account-payee cheque or account-payee bank draft, then such expenses will be disallowed in full.

Illustration

Essem Ltd. purchased goods on credit from A Ltd. on June 20, 2012 for Rs. 19,000 and on June 25, 2012 for Rs. 12,000. The total payment of Rs. 31,000 is made by crossed cheque on August 12, 2012. In this case, though the total amount of payment exceeds Rs. 20,000, yet nothing shall be disallowed since the individual amount of bill does not exceed Rs. 20,000. To attract disallowance the amount of bill as well as the amount of payment should be more than Rs. 20,000.

8. What are the provisions relating to disallowance in case of certain unpaid liabilities?

Following are the provisions relating to disallowance in case of certain unpaid liabilities:

Following expenses claimed by the assessee are deductible, only if they are actually paid by the assessee on or before the due date of furnishing the return of income (irrespective of method of accounting followed by the assessee):

(a) Any tax, duty, cess or fee, by whatever name called, under any law.
(b) Any sum payable by the assessee as an employer by way of contribution to any fund for the welfare of employees.

(c) Any sum referred to in section 36(1)(ii) (i.e., bonus or commission to employees).

(d) Any sum payable by the assessee as interest on any loan or borrowing from any public financial institution or a State financial corporation or a State industrial investment corporation.

(e) Any sum payable by the assessee as interest on any loan or advances from a scheduled bank (including a co-operative bank).

(f) Any sum payable by the assessee as an employer in lieu of any leave at the credit of his employee (i.e., leave salary).

Any payment which is disallowed under this section is deductible in the year of payment. In other words, if any of the above sums is paid after the due date of furnishing the return of the previous year, then such expenditure is allowed as deduction for the year in which such sum is paid.

**Illustration**

Outstanding sales tax liability of the previous year 2012-13 is deductible in previous year 2012-13, if it is paid on or before the due date of furnishing the return of income of previous year. However, if the said amount is paid after the due date of furnishing the return of income, then such sum will be deducted in the previous year in which it is paid.

**Exceptions:** If the following conditions are satisfied then the above expenses are deductible on accrual basis:

- Payment in respect of the aforesaid expenses is actually made on or before the due date of submission of return of income;
- The evidence of such payment is submitted along with the return of income.

If the above two conditions are satisfied and if the assessee maintains books of account on mercantile basis then the expenditure is deductible on accrual basis in the year in which the liability is incurred.
MCQ

Q1. The provisions relating to disallowance of interest, royalty, fees for technical services or any other sum payable outside India to any person or in India to non-residents, due to default in compliance of TDS provisions are given in section_______.

(a) 40(a)(i)  (b) 40(a)(ia)
(c) 40(a)(ii)  (d) 40(a)(iia)

Correct answer: (a)

Justification of correct answer
The provisions relating to disallowance of interest, royalty, fees for technical services or any other sum payable outside India to any person or in India to non-residents, due to default in compliance of TDS provisions are given in section 40(a)(i).
Thus, option (a) is the correct option.

Comment on incorrect answer: Option (a) is the correct option since it gives the correct section. The other options, viz., options (b), (c) and (d) giving the incorrect sections are not correct.

Q2. The provisions relating to disallowance of various expenses paid to residents due to defaults in compliance of TDS provisions are given in section___________.

(a) 40(a)(ii)  (b) 40(a)(iia)
(c) 40(a)(ia)  (d) 40A(2)

Correct answer: (c)

Justification of correct answer
The provisions relating to disallowance of various expenses paid to residents due to defaults in compliance of TDS provisions are given in section 40(a)(ia).
Thus, option (c) is the correct option.

Comment on incorrect answer: Option (c) is the correct option since it gives the correct section. The other options, viz., options (a), (b) and (d) giving the incorrect sections are not correct.

Q3. On 8-4-2012 Essem Ltd. paid commission of Rs. 84,252 to Mr. Kumar. It deducted tax (TDS) on such payment on 8-12-2012 and deposited the TDS with Government on 31-3-2013. In this case, in which year it will be entitled to claim deduction on commission of Rs. 84,252?

(a) Previous Year 2011-12  (b) Previous Year 2012-13
(c) Previous Year 2013-14  (d) Any year as per its choice

Correct answer: (b)

Justification of correct answer
Any interest (liable to TDS under sections 193 and 194A), payment to contractors/sub-contractors (liable to TDS under section 194C), commission or brokerage (liable to TDS under section 194H), rent (liable to TDS under section 194-I) and fees for technical/professional

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services or royalty (liable to TDS under section 194J), paid/payable to a resident, is not deductible while computing income chargeable to tax under the head “Profits and gains of business or profession”, if:

- Tax is deductible at source but has not been deducted;
- With effect from the assessment year 2010-11, if tax is deducted during the previous year and the same is not paid on or before the due date of filing of return of income specified under section 139(1), In other words, if tax is deducted during the previous year and the same is paid on or before the due date of filing the return as specified in section 139(1), then the concerned expenditure will be deductible in the previous year in which such expenditure is incurred.

In this case Essem Ltd. deducted TDS on 8-12-2012 and deposited the TDS with the Government on 31-3-2013. Hence, it is deductible during the previous year 2012-13.

Thus, option (b) is the correct option.

Comment on incorrect answer: Option (b) is the correct option since it gives the correct year in which the commission is deductible. The other options, viz., options (a), (c) and (d) giving the incorrect year are not correct.

Q4. On 8-4-2012, Essem Ltd. paid commission of Rs. 84,252 to Mr. Kumar. It deducted tax (TDS) on such payment on 8-12-2012 and deposited the TDS with Government on 1-7-2013. In which year it will be entitled to claim deduction on account of commission of Rs. 84,252?

(a) Previous Year 2011-12    (b) Previous Year 2012-13
(c) Previous Year 2013-14    (d) Any year as per its choice

Correct answer: (b)

Justification of correct answer

Any interest (liable to TDS under sections 193 and 194A), payment to contractors/sub-contractors (liable to TDS under section 194C), commission or brokerage (liable to TDS under section 194H), rent (liable to TDS under section 194-I) and fees for technical/professional services or royalty (liable to TDS under section 194J), paid/payable to a resident, is not deductible while computing income chargeable to tax under the head “Profits and gains of business or profession” if:

- Tax is deductible at source but is not deducted;
- With effect from the assessment year 2010-11, if tax is deducted during the previous year and the same is not paid on or before the due date of filing of return of income specified under section 139(1), In other words, if tax is deducted during the previous year and the same is paid on or before the due date of filing the return as specified in section 139(1), then the concerned expenditure will be deductible in the previous year in which such expenditure is incurred.

In this case Essem Ltd. deducted TDS on 8-12-2012 and deposited the TDS with the Government on 1-7-2013. Thus, it is deductible during the previous year 2012-13 since TDS is deducted during the year 2012-13 and paid before the due date of filing the return of previous year 2012-13.

Thus, option (b) is the correct option.
Comment on incorrect answer: Option (b) is the correct option since it gives the correct year of deduction. The other options, viz., options (a), (c) and (d) giving the incorrect year of deduction are not correct.

Q5. On 8-4-2012 Essem Ltd. paid commission of Rs. 84,252 to Mr. Kumar. It deducted tax (TDS) on such payment on 8-12-2012 and deposited the TDS with Government on 1-10-2013. In this case it will be entitled to claim deduction on account of commission of Rs. 84,252 during the previous year 2012-13.

(a) True    (b) False
Correct answer: (b)

Justification of correct answer

Any interest (liable to TDS under sections 193 and 194A), payment to contractors/sub-contractors (liable to TDS under section 194C), commission or brokerage (liable to TDS under section 194H), rent (liable to TDS under section 194-I) and fees for technical/professional services or royalty (liable to TDS under section194J), paid/payable to a resident, is not deductible while computing income chargeable to tax under the head “Profits and gains of business or profession” if:

- Tax is deductible at source but is not deducted.
- With effect from the assessment year 2010-11, if tax is deducted during the previous year and the same is not paid on or before the due date of filing of return of income specified under section 139(1). In other words, if tax is deducted during the previous year and the same is paid on or before the due date of filing the return as specified in section 139(1), then the concerned expenditure will be deductible in the previous year in which such expenditure is incurred.

In this case Essem Ltd. deducted TDS on 8-12-2012 and deposited the TDS with the Government on 1-10-2013. Thus, it is deductible during the previous year 2013-14, since TDS is deducted during the year 2012-13. However, it is paid after the due date of filing the return of previous year 2012-13.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q6. On 8-4-2012, Essem Ltd. paid commission of Rs. 84,252 to Mr. Kumar. It deducted tax (TDS) on such payment on 8-4-2013 and deposited the TDS with Government on 1-7-2013. In this case it will be entitled to claim deduction on account of commission of Rs. 84,252 during the previous year 2013-14.

(a) True    (b) False
Correct answer: (a)

Justification of correct answer

Any interest (liable to TDS under sections 193 and 194A), payment to contractors/sub-contractors (liable to TDS under section 194C), commission or brokerage (liable to TDS under section 194H), rent (liable to TDS under section 194-I) and fees for technical/professional services or royalty (liable to TDS under section194J), paid/payable to a resident, is not deductible while computing income chargeable to tax under the head “Profits and gains of business or profession”, if:
• Tax is deductible at source but is not deducted.

• With effect from the assessment year 2010-11, if tax is deducted during the previous year and the same is not paid on or before the due date of filing of return of income specified under section 139(1). In other words, if tax is deducted during the previous year and the same is paid on or before the due date of filing the return as specified in section 139(1), then the concerned expenditure will be deductible in the previous year in which such expenditure is incurred.

In this case Essem Ltd. deducted TDS on 8-4-2013 and deposited the TDS with the Government on 1-7-2013. Thus, it is deductible during the previous year 2013-14, since TDS is deducted during the year 2013-14.

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true. Hence, option (b) is not the correct option.

Q7. On 8-4-2012, Mr. Raja (proprietor of Raja Trading Co.) paid interest of Rs. 3,400 on business loan taken from one of his friends. Turnover of his firm during the preceding year was Rs. 1,84,00,000. He did not deduct tax on the interest paid by him. In this case will he be eligible to claim deduction on account of interest of Rs. 3,400 paid by him?
(a) Yes (b) No

Correct answer: (a)

Justification of correct answer

Any interest (liable to TDS under sections 193 and 194A), payment to contractors/sub-contractors (liable to TDS under section 194C), commission or brokerage (liable to TDS under section 194H), rent (liable to TDS under section 194-I) and fees for technical/professional services or royalty (liable to TDS under section 194J), paid/payable to a resident, is not deductible while computing income chargeable to tax under the head “Profits and gains of business or profession” if:

• Tax is deductible at source but is not deducted.

• With effect from the assessment year 2010-11, if tax is deducted during the previous year and the same is not paid on or before the due date of filing of return of income specified under section 139(1), in other words, if tax is deducted during the previous year and the same is paid on or before the due date of filing the return as specified in section 139(1), then the concerned expenditure will be deductible in the previous year in which such expenditure is incurred.

However, in case of interest tax is to be deducted if the amount of interest exceeds Rs. 5,000. In this case the amount of interest is Rs. 3,400 and, hence, there is no requirement of deducting tax. In this case interest of Rs. 3,400 can be claimed as deduction.

Thus, option (a) is the correct option.

Comment on incorrect answer: Option (a) is the correct option since it gives the correct provisions. The other option, viz., option (b) giving the incorrect provisions is not correct.

Q8. On 8-4-2012, Mr. Raja (proprietor of Raja Trading Co.) paid brokerage of Rs. 8,400 to his broker for purchasing goods on his behalf. Turnover of his firm during the preceding year was Rs. 2,52,00,000. He deducted tax on the amount of brokerage in the month of April, 2012 but failed to pay the TDS on brokerage by 7th May, 2012. He ultimately paid
the TDS to the credit of the Government in the month of February, 2013. In which year he will be entitled to claim deduction on account of brokerage of Rs. 8,400?

(a) Previous Year 2012-13 (b) Previous Year 2013-14
(c) (a) or (b) at the choice of Mr. Raja. (d) He cannot claim deduction at all.

Correct answer: (a)

Justification of correct answer

Any interest (liable to TDS under sections 193 and 194A), payment to contractors/subcontractors (liable to TDS under section 194C), commission or brokerage (liable to TDS under section 194H), rent (liable to TDS under section 194-I) and fees for technical/professional services or royalty (liable to TDS under section 194J), paid/payable to a resident, is not deductible while computing income chargeable to tax under the head “Profits and gains of business or profession”, if:

- Tax is deductible at source but is not deducted.
- With effect from the assessment year 2010-11, if tax is deducted during the previous year and the same is not paid on or before the due date of filing of return of income specified under section 139(1). In other words, if tax is deducted during the previous year and the same is paid on or before the due date of filing the return as specified in section 139(1), then the concerned expenditure will be deductible in the previous year in which such expenditure is incurred.

Considering the above provisions, deduction on account of brokerage of Rs. 8,400 can be claimed in the previous year 2012-13 only.

Thus, option (a) is the correct option.

Comment on incorrect answer: Option (a) is the correct option since it gives the correct year of deduction, all the other options, viz., options (b), (c) and (d) giving incorrect year of deduction are not correct.

Q9. On 21-3-2013 Mr. Raja (proprietor of Raja Trading Co.) paid rent of Rs. 2,52,000 to his landlord towards rent of his office premises. Turnover of his firm during the preceding year was Rs. 2,84,00,000. He deducted tax on the amount of rent in the month of March, 2013 and has paid the TDS to the credit of the Government on 5-4-2013. In which year he will be entitled to claim deduction on account of rent of Rs. 2,52,000?

(a) Previous Year 2013-14 (b) Previous Year 2012-13
(c) (a) or (b) at the choice of Assessing Officer (d) (a) or (b) at the choice of Mr. Raja

Correct answer: (b)

Justification of correct answer

Any interest (liable to TDS under sections 193 and 194A), payment to contractors/subcontractors (liable to TDS under section 194C), commission or brokerage (liable to TDS under section 194H), rent (liable to TDS under section 194-I) and fees for technical/professional services or royalty (liable to TDS under section 194J), paid/payable to a resident, is not deductible while computing income chargeable to tax under the head “Profits and gains of business or profession”, if:

- Tax is deductible at source but is not deducted.
With effect from the assessment year 2010-11, if tax is deducted during the previous year and the same is not paid on or before the due date of filing of return of income specified under section 139(1), in other words, if tax is deducted during the previous year and the same is paid on or before the due date of filing the return as specified in section 139(1), then the concerned expenditure will be deductible in the previous year in which such expenditure is incurred.

In this case tax is deducted during the year 2012-13 and paid in next year before the due date of filing of the return of income for the year 2012-13, hence, considering the above provisions, deduction on account of rent of Rs. 2,52,000 can be claimed in the previous year 2012-13 only.

Thus, option (b) is the correct option.

Comment on incorrect answer: Option (b) is the correct option since it gives the correct year of deduction. All the other options, viz., options (a), (c) and (d) giving incorrect year of deduction are not correct.

Q10. On 30-3-2013, Mr. Raja (proprietor of Raja Trading Co.) paid interest of Rs. 2,52,000 to his friend for a business loan taken by him. Turnover of his firm during the preceding year was Rs. 2,84,00,000. He deducted tax on the amount of interest in the month of March, 2013 and paid the TDS to the credit of the Government on 8-4-2013. In which year he will be entitled to claim deduction on account of interest of Rs. 2,52,000?

(a) Previous Year 2013-14
(b) In the year in which his friend declares interest as his income
(c) Previous Year 2012-13
(d) He is not entitled to claim the deduction

Correct answer: (c)

Justification of correct answer

Any interest (liable to TDS under sections 193 and 194A), payment to contractors/sub-contractors (liable to TDS under section 194C), commission or brokerage (liable to TDS under section 194H), rent (liable to TDS under section 194-I) and fees for technical/professional services or royalty (liable to TDS under section194J), paid/payable to a resident, is not deductible while computing income chargeable to tax under the head “Profits and gains of business or profession”, if:

- Tax is deductible at source but is not deducted.
- With effect from the assessment year 2010-11, if tax is deducted during the previous year, and the same is not paid on or before the due date of filing of return of income specified under section 139(1), in other words, if tax is deducted during the previous year and the same is paid on or before the due date of filing the return as specified in section 139(1), then the expenditure will be deductible in the previous year in which such expenditure is incurred.

In this case, tax is deducted during the year 2012-13 and paid in next year before the due date of filing of the return of income of the year 2012-13. Hence, considering the above deduction on account of interest of Rs. 2,52,000 can be claimed in the previous year 2012-13 only.

Thus, option (c) is the correct option.

Comment on incorrect answer: Option (c) is the correct option since it gives the correct year of deduction. All the other options, viz., options (a), (b) and (d) giving incorrect year of deduction are not correct.
Q11. On 31-3-2013, Mr. Raja (proprietor of Raja Trading Co.) paid interest of Rs. 1,84,000 to his bank on OD facility taken by him. Turnover of his firm during the preceding year was Rs. 2,84,00,000. He did not deduct tax on the amount of interest paid to bank. In this case, can he claim the deduction on account of interest of Rs. 1,84,000 paid to bank?

(a) Yes  
(b) No

Correct answer: (a)

Justification of correct answer

There is no requirement of deduction of tax on interest paid to bank. Hence, Mr. Raja can claim deduction of interest of Rs. 1,84,000 paid to bank.

Thus, option (a) is the correct option.

Comment on incorrect answer: Option (a) is the correct option since it allows for the deduction of interest. The other option, viz., option (b) denying for the deduction is not correct.

Q12. On 31-3-2013, Mr. Raja (proprietor of Raja Trading Co.) paid Rs. 4,84,000 to his landlord towards rent of his factory. Turnover of his firm during the preceding year was Rs. 2,52,00,000. He deducted the tax on the amount of rent in the month of March 2013 and paid the TDS to the credit of Government on 31-12-2013. In this case, he can claim the deduction on account of rent of Rs. 4,84,000 during the previous year 2012-13.

(a) True  
(b) False

Correct answer: (b)

Justification of correct answer

In this case tax is deducted in the month of March, 2013 but paid after the due date of filing the return of income of the previous year 2012-13. Hence, deduction cannot be claimed in the previous year 2012-13.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q13. The assessee can deduct any sum paid on account of income-tax during the previous year as business expenditure while computing business income.

(a) True  
(b) False

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(ii), payment of income-tax is not a deductible expenditure while computing business income.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q14. The assessee cannot claim as deduction any sum paid on account of income-tax during the previous year. However, he can claim as deduction any sum paid on account of interest, penalty or fine under the Income-tax Act as business expenditure.

(a) True  
(b) False
Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(ii), the assessee cannot claim as deduction any sum paid on account of income-tax during the previous year. Further, he also cannot claim any sum paid on account of interest, penalty or fine under the Income-tax Act as business expenditure. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q15. Miss Khushali is running a boutique. The profit as per the profit and loss account from this boutique after debiting income-tax of Rs. 1,10,180 is Rs. 8,84,848 during the previous year 2012-13. Is the profit shown by the profit and loss account of Miss Khushali the correct profit that can be chargeable to tax?

(a) Yes  (b) No

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(ii), the assessee cannot claim as deduction any sum paid on account of income-tax during the previous year. Hence, the profit of Rs. 8,84,848 shown by the profit and loss account of Miss Khushali is not correct taxable profit. It should be Rs. 9,95,028. (It is assumed that there are no any other disallowances).

Thus, option (b) is the correct option.

Comment on incorrect answer: The option (b) is the correct option since it gives the correct provisions. The other option, viz., option (a) giving the incorrect provisions is not correct.

Q16. Miss Khushali is running a boutique. The profit as per the profit and loss account from this boutique, after debiting interest for late filing of income-tax return of Rs. 84,252, is Rs. 8,84,848 during the previous year 2012-13. Is the profit shown by the profit and loss account of Miss Khushali the correct profit that can be chargeable to tax?

(a) Yes  (b) No

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(ii), the assessee cannot claim as deduction any sum paid on account of income-tax during the previous year. Further, the assessee also cannot claim as deduction any sum paid on account of interest, penalty or fine under the Income-tax Act. Hence, the profit of Rs. 8,84,848 shown by the profit and loss account of Miss Khushali is not the correct taxable profit. It should be Rs. 9,69,100. (It is assumed that there are no any other disallowances).

Thus, option (b) is the correct option.

Comment on incorrect answer: The option (b) is the correct option since it gives the correct provisions. The other option, viz., option (a) giving the incorrect provisions is not correct.
Q17. The assessee can claim as deduction any sum paid on account of wealth tax under the Wealth-tax Act, 1957 while computing income chargeable under the head “Profits and Gains of business or profession”.

(a) True    (b) False

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(iia), any sum paid on account of wealth-tax under the Wealth-tax Act, 1957 or tax of similar nature chargeable under any law outside India is not deductible.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q18. Is any sum paid on account of tax which is of nature of wealth-tax chargeable under any law outside India deductible while computing income chargeable under the head “Profits and Gains of business or profession”?

(a) Yes    (b) No

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(iia), any sum paid on account of wealth-tax under the Wealth-tax Act, 1957 or tax of similar nature chargeable under any law outside India is not deductible.

Thus, option (b) is the correct option.

Comment on incorrect answer: The option (b) is the correct option since it gives the correct provisions. The other option, viz., option (a) giving the incorrect provisions is not correct.

Q19. Mr. Raja is running a proprietary business under the name of Raja Trading Co. His turnover during the previous year 2012-13 was Rs. 25,84,252 and his net profit from this business as per profit and loss account was Rs. 10,25,848. He further wants to deduct the sum of Rs. 84,252 paid on account of wealth-tax from such net profit. Is the contention of Mr. Raja correct?

(a) Yes    (b) No

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(iia), any sum paid on account of wealth-tax under the Wealth-tax Act, 1957 or tax of similar nature chargeable under any law outside India is not deductible while computing business income.

Thus, option (b) is the correct option.

Comment on incorrect answer: The option (b) is the correct option since it gives the correct provisions. The other option, viz., option (a) giving the incorrect provisions is not correct.

Q20. Mr. Raja is running a proprietary business under the name of Raja Trading Co. His turnover during the previous year 2012-13 was Rs. 25,84,252 and his net profit from this
business as per profit and loss account was Rs. 10,25,848 after deducting the sum of Rs. 84,252 paid as tax outside India chargeable under English law from the net profit. Is the net profit shown by Mr. Raja correct?

(a) Yes     (b) No

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(iiia), any sum paid on account of wealth-tax under the Wealth-tax Act, 1957 or tax of similar nature chargeable under any law outside India is not deductible while computing business income. Hence, the net profit shown by Mr. Raja is not correct. It should be Rs. 11,10,100. (It is assumed that there are no any other disallowances).

Thus, option (b) is the correct option.

Comment on incorrect answer: The option (b) is the correct option since it gives the correct provisions. The other option, viz., option (a) giving the incorrect provisions is not correct.

Q21. The assessee can claim deduction of any sum paid outside India to any person whether resident or non-resident or in India to a non-resident as salary which is chargeable to tax in the hands of the recipient under the head “Salaries” from which neither a tax has been deducted nor it has been deposited with the Government as business expenditure while computing business income.

(a) True    (b) False

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(iii), any sum paid outside India to any person whether resident or non-resident or in India to a non-resident as salary which is chargeable to tax in the hands of the recipient under the head “Salaries” from which neither a tax has been deducted nor it has been deposited with the Government is not allowed as deduction while computing the business income.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q22. Mr. Raja is running a proprietary business under the name of Raja Trading Co. His turnover during the previous year 2012-13 was Rs. 25,84,252 and his net profit from this business as per profit and loss account was Rs. 10,25,848. He further wants to deduct the salary of Rs. 84,252 paid to Mr. Shan, a non-resident, in India as business expense. He has not deducted tax from the salary paid to Mr. Shan. Can Mr. Raja do so? (Salary is taxable in the hands of Mr. Shan under the head “Salaries” in India).

(a) Yes     (b) No

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(iii), any sum paid outside India to any person whether resident or non-resident or in India to a non-resident as salary which is chargeable to tax in the hands of the recipient under the head “Salaries” from which neither a tax has been deducted nor
it has been deposited with the Government is not allowed as deduction while computing the business income.

Thus, option (b) is the correct option.

Comment on incorrect answer: The option (b) is the correct option since it gives the correct provisions. The other option, *viz.*, option (a) giving the incorrect provisions is not correct.

**Q23.** Any contribution made to a provident fund (or other fund established for the benefit of employees of the assessee) is deductible, even though the assessee has not made effective arrangements to secure that tax shall be deducted at source from any payments made from the fund which are chargeable to tax under the head “Salaries” while computing the business income.

(a) True    (b) False

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(iv), any contribution made to a provident fund (or other fund established for the benefit of employees of the assessee) is not deductible if the assessee has not made effective arrangements to secure that tax shall be deducted at source from any payments made from the fund which are chargeable to tax under the head “Salaries” while computing the business income.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

**Q24.** Essem Ltd. made contribution of Rs. 10,84,252 to the provident fund established for the benefit of employees during the previous year 2012-13. However, it has not made effective arrangements for deduction of tax at source at the time of making the payments from the provident fund which are chargeable under the head “Salaries”. Can it deduct the contribution of Rs. 10,84,252 made to the provident fund while computing business income for the previous year 2012-13?

(a) Yes     (b) No

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(iv), any contribution made to a provident fund (or other fund established for the benefit of employees of the assessee) is not deductible if the assessee has not made effective arrangements to secure that tax shall be deducted at source from any payments made from the fund which are chargeable to tax under the head “Salaries” while computing the business income.

Thus, option (b) is the correct option.

Comment on incorrect answer: The option (b) is the correct option since it gives the correct provisions. The other option, *viz.*, option (a) giving the incorrect provisions is not correct.

**Q25.** If an employer provides any non-monetary perquisites to employees and tax on those perquisites is also paid by the employer, can employer deduct the tax on such non-monetary perquisites while computing business income? [The tax so paid by the employer is not taxable in the hands of employees by virtue of section 10(10CC)].

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(As amended by Finance Act, 2013)
Q26. Essem Ltd. provided a rent free furnished accommodation to its employees during the previous year 2012-13 and paid the tax on the same of Rs. 1,84,252. Such tax is not chargeable to tax in the hands of employees by virtue of section 10(10CC). The company can claim deduction on account of tax of Rs. 1,84,252 paid on such non-monetary perquisites while computing income under the head “Profits and Gains of business or profession”.

(a) True    (b) False

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40(a)(v), if an employer provides any non-monetary perquisites to employees, the tax on such non-monetary perquisites is also paid by the employer and the tax so paid is not taxable in the hands of employees by virtue of section 10(10CC), then while computing business income of the employer, the tax paid by him on non-monetary perquisites is not deductible.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q27. The provisions relating to disallowance of payment made to relatives if the conditions are satisfied are given under section ___________.

(a) 40(a)    (b) 40A(1)
(c) 40A(2)    (d) 40A(3)

Correct answer: (c)

Justification of correct answer

The provisions relating to disallowance of payment made to relatives if the conditions are satisfied are given under section 40A(2).

Thus, option (c) is the correct option.

Comment on incorrect answer: The option (c) is the correct option since it gives the correct section. The other options, viz., the options (a), (b) and (d) giving the incorrect sections are not correct.
Q28. Any expenditure incurred by an assessee in respect of which payment has been made to the specified persons is liable to be disallowed under section 40A(2) while computing income under the head “Profits and Gains of business or profession”, even though such payment is equal to the fair market value of goods or services or facilities, etc.

(a) True
(b) False

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40A(2), an assessee who has incurred any expenditure in respect of payment made to the specified persons in computing business profit disallowance is to the extent such expenditure is considered to be excessive or unreasonable, having regard to the fair market value of goods or services or facilities, etc. Hence, if the payment made is equal to the fair market value of goods or services or facilities then nothing will be disallowed under section 40A(2).

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q29. The assessee, an individual, incurred expenditure of Rs. 84,000 in respect of service received from the specified person (i.e., his relative). The fair market value of such service is Rs. 90,252. Is such payment liable to be disallowed under section 40A(2) while computing income under the head “Profits and Gains of business or profession”?

(a) Yes
(b) No

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40A(2), if an assessee has incurred any expenditure in respect of payment made to the specified persons it is disallowed in computing business profit to the extent such expenditure is considered to be excessive or unreasonable, having regard to the fair market value of goods or services or facilities, etc. Hence, in this case nothing will be disallowed under section 40A(2), since the actual payment made is less than the fair market value of the service the assessee has received.

Thus, option (b) is the correct option.

Comment on incorrect answer: The option (b) is the correct option since it gives the correct provisions. The other option, viz., option (a) giving incorrect provisions is not correct.

Q30. Any expenditure incurred by an assessee in respect of which payment has been made to the specified persons is liable to be disallowed under section 40A(2) while computing income under the head “Profits and Gains of business or profession” if such payment is__________ the fair market value of goods or services or facilities, etc.

(a) Equal to
(b) Less than
(c) Unreasonable or in excess of
(d) Equal to or in excess of

Correct answer: (c)

Justification of correct answer
As per the provisions of section 40A(2), if an assessee incurred any expenditure in respect of payment made to the specified persons it is disallowed in computing business profit to the extent such expenditure is considered to be excessive or unreasonable, having regard to the fair market value of goods or services or facilities, etc.

Thus, option (c) is the correct option.

Comment on incorrect answer: The option (c) is the correct option since it gives the correct provisions. The other options, viz., options (a), (b) and (d) giving the incorrect provisions are not correct.

Q31. On 8-4-2012, Mr. Raja purchased goods worth Rs. 84,000 from his relative. The fair market value of these goods is Rs. 80,000. In this case he is entitled to claim deduction of __________ on account of purchase of goods from his relative.

(a) Rs. 84,000
(b) Rs. 80,000
(c) Rs. 84,000 but after approval of Assessing Officer.
(d) Rs. 80,000 but after approval of Assessing Officer.

Correct answer: (b)

Justification of correct answer

As per section 40A(2), payment in respect of any expenditure made to any specified person will be disallowed to the extent such payment is in excess of the fair market value of such expenditure. In this case the fair market value of the goods purchased from relative is Rs. 80,000 and the goods are purchased for Rs. 84,000, hence, Rs. 4,000 being in excess of the fair market value will be disallowed under section 40A(2) and Rs. 80,000 will qualify for deduction.

Thus, option (b) is the correct option.

Comment on incorrect answer: Option (b) is the correct option since it gives the correct amount of deduction. All the other options, viz., options (a), (c) and (d) giving incorrect amount of deduction are not correct.

Q32. As per section 40A(2), the term specified persons in respect of an assessee being an individual means relatives of such individual as defined under section 2(41).

(a) True  (b) False

Correct answer: (a)

Justification of correct answer

As per the provisions of section 40A(2), the term specified persons in respect of an assessee, being an individual, means relatives of such individual as defined under section 2(41).

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true. Hence, option (b) is not the correct option.

Q33. As per section 2(41), the term relative in relation to the assessee being an individual means __________.

(a) Husband  (b) Wife
(c) Brother  (d) All of the above

(As amended by Finance Act, 2013)
Correct answer: (d)

Justification of correct answer

As per section 2(41), the term relative in relation to the assessee being an individual means husband, wife, brother, sister or any lineal ascendant or descendant of that individual.

Thus, option (d) is the correct option.

Comment on incorrect answer: The option (d) is the correct option since it covers all the categories of relatives. The other options, viz., options (a), (b) and (c) giving the individual category of relatives is not correct.

Q34. As per section 2(41), the term relative in relation to the assessee being an individual means husband, wife, brother or sister of that individual. But it does not include any lineal ascendant or descendant of that individual.

(a) True                              (b) False

Correct answer: (b)

Justification of correct answer

As per section 2(41), the term relative in relation to the assessee being an individual means husband, wife, brother, sister or any lineal ascendant or descendant of that individual.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q35. Payment made in respect of any expenditure to any specified person will be disallowed to the extent of such payment is in excess of the fair market value of such expenditure. However, nothing will be disallowed if the payment is made towards purchase of agricultural items or where the payment is made on a bank holiday.

(a) True                              (b) False

Correct answer : (b)

Justification of correct answer

As per section 40A(2), payment in respect of any expenditure made to any specified person will be disallowed to the extent such payment is in excess of the fair market value of such expenditure. There is no exception to above provision in respect of payment made for agricultural items or payment made on a bank holiday.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false, hence, option (a) is not the correct option.

Q36. On 8-4-2012, Mr. Raja purchased goods worth Rs. 25,848 from his brother. However, the fair market value of the goods was only Rs. 18,484. In this case, can the brother of Mr. Raja be termed as a relative of Mr. Raja as per the definition of relative?

(a) Yes                              (b) No

Correct answer: (a)

Justification of correct answer

(As amended by Finance Act, 2013)
As per section 2(41), the term relative in relation to the assessee being an individual means husband, wife, brother, sister or any lineal ascendant or descendant of that individual.

Thus, option (a) is the correct option.

**Comment on incorrect answer:** Option (a) is the correct option since it gives the correct provisions. The other option, viz., option (b) giving the incorrect provisions is not correct.

**Q37.** On 8-4-2012, Mr. Raja paid salary of Rs. 84,000 to his wife which is less than the fair market value of the services received by him from his wife. In this case can the wife of Mr. Raja be termed as a relative of Mr. Raja as per the definition of a relative?

(a) Yes     (b) No

**Correct answer:** (a)

**Justification of correct answer**

As per section 2(41), the term relative in relation to the assessee being an individual means husband, wife, brother, sister or any lineal ascendant or descendant of that individual.

Thus, option (a) is the correct option.

**Comment on incorrect answer:** Option (a) is the correct option since it gives the correct provisions. The other option, viz., option (b) giving the incorrect provisions is not correct.

**Q38.** In case of an assessee being a Hindu Undivided Family, all the members of the family can be termed as related persons of the said HUF.

(a) True     (b) False

**Correct answer:** (a)

**Justification of correct answer**

As per the provisions of section 40A(2), in case of an assessee, being a HUF, all the members of the family as well as any relative of such members are termed as related persons of the said HUF.

Thus, statement given in the question is true and, hence, option (a) is the correct option.

**Comment on incorrect answer:** The statement given in the question is true. Hence, option (b) is not the correct option.

**Q39.** In case of an assessee, being a Hindu Undivided Family, all the members of the family can be termed as related persons of the said HUF. However, any relative of such members cannot be included in the definition of related persons of the said HUF.

(a) True     (b) False

**Correct answer:** (b)

**Justification of correct answer**

As per the provisions of section 40A(2), in case of an assessee, being an HUF, all the members of the family as well as any relative of such members are termed as related persons of the said HUF.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

**Comment on incorrect answer:** The statement given in the question is false. Hence, option (a) is not the correct option.
Q40. As per the provisions of section 40A(2), substantial interest holder refers to any person beneficially holding ____ or more of the equity capital (in case of company) and _____ or more of share in profit (in any other case) at any time during the previous year.

(a) 10%, 10%  
(b) 10%, 20%  
(c) 20%, 10%  
(d) 20%, 20%

Correct answer: (d)

Justification of correct answer

As per the provisions of section 40A(2), substantial interest holder refers to any person beneficially holding 20% or more of the equity capital (in case of company) and 20% or more of share in profit (in any other case) at any time during the previous year.

Thus, option (d) is the correct option.

Comment on incorrect answer: The option (d) is the correct option since it gives the correct percentage of holding. The other options, viz., options (a), (b) and (c) giving the incorrect percentage of holding are not correct.

Q41. The assessee, Mr. Vajir being an individual, is a partner in Essem Corporation holding 25% share in the firm. Can Mr. Vajir be termed as a related person of the Firm as per the provisions of section 40A(2)?

(a) Yes  
(b) No

Correct answer: (a)

Justification of correct answer

As per the provisions of section 40A(2)(b)(ii), partner of a firm is related person of the firm regardless of quantum of partner’s share in the firm. In this case Mr. Vajir is related person of the firm.

Thus, option (a) is the correct option.

Comment on incorrect answer: The option (a) is the correct option since it gives the correct provisions. The other option, viz., option (b) giving the incorrect provisions is not correct.

Q42. The assessee, Mr. Vajir being an individual, is holding 18% equity share capital in Essem Ltd. Can Essem Ltd. be termed as related person of Mr. Vajir as per the provisions of section 40A(2)?

(a) Yes  
(b) No

Correct answer: (b)

Justification of correct answer

As per the provisions of section 40A(2)(vi), any person in whose business the assessee or his relative has a substantial interest (i.e., 20% or more of share in equity share capital) can be termed as a related person. In this case Mr. Vajir is holding only 18% equity share capital of Essem Ltd. and, hence, Essem Ltd. cannot be termed as a related person of Mr. Vajir.

Thus, option (b) is the correct option.

Comment on incorrect answer: The option (b) is the correct option since it gives the correct provisions. The other option, viz., option (a) giving the incorrect provision is not correct.
Q43. During the year 2012-13, Mr. Raja purchased goods worth Rs. 1,84,000 from an unrelated dealer. The fair market value of these goods is Rs. 1,20,000. In this case what will be the amount of disallowance from Rs. 1,84,000?

(a) Rs. 1,84,000  
(b) Rs. 1,20,000  
(c) Rs. 64,000  
(d) Nil

Correct answer: (d)

Justification of correct answer
As per the provisions of section 40A(2), payment in respect of any expenditure made to any specified person will be disallowed to the extent such payment is in excess of the fair market value of such expenditure. In this case, goods are purchased from a person who is not related to Mr. Raja. Hence, the provisions of section 40A(2) will not apply and nothing will be disallowed from Rs. 1,84,000.

Thus, option (d) is the correct option.

Comment on incorrect answer: Option (d) is the correct option since there will be no disallowance under section 40A(2). All the other options, viz., options (a), (b) and (c) giving incorrect amount of disallowance are not correct.

Q44. During the year 2012-13, Mr. Kumar paid rent of Rs. 1,84,000 to his relative on account of rent of his office. The market rent of the property is Rs. 1,50,000. In this case what will be the amount of disallowance in respect of rent?

(a) Rs. 1,84,000    (b) Rs. 1,50,000  
(c) Rs. 34,000     (d) Nil

Correct answer: (c)

Justification of correct answer
As per the provisions of section 40A(2), payment in respect of any expenditure made to any specified person will be disallowed to the extent such payment is in excess of the fair market value of such expenditure. In this case the market rent of the property is Rs. 1,50,000 and the rent paid is Rs. 1,84,000. Hence, Rs. 34,000 being in excess of the market rent will be disallowed under section 40A(2).

Thus, option (c) is the correct option.

Comment on incorrect answer: Option (c) is the correct option since it gives the correct amount of disallowance. All the other options, viz., options (a), (b) and (d) giving incorrect amount of disallowance are not correct.

Q45. As per section _____, any expenditure exceeding Rs. 20,000 (Rs. 35,000 in case of payment made for plying, hiring or leasing goods carriages from 1-10-2009) which is otherwise deductible under any provision of the Act, is disallowed (in full), if the payment of such an expenditure is made otherwise than by an account-payee cheque or an account-payee demand draft.

(a) 40A(3)    (b) 40A(2)  
(c) 40(a)     (d) 40A(2) as well as 40A(3)

source: www.trpscheme.com (As amended by Finance Act, 2013)
Correct answer: (a)

Justification of correct answer

As per the provisions of section 40A(3), any expenditure exceeding Rs. 20,000 (Rs. 35,000 in case of payment made for plying, hiring or leasing goods carriages from 1-10-2009) which is otherwise deductible under any provision of the Act, is disallowed (in full), if the payment of such an expenditure is made otherwise than by an account-payee cheque or an account-payee demand draft (i.e., disallowed if paid by cash or bearer cheque or crossed cheque or crossed demand draft).

Thus, option (a) is the correct option.

Comment on incorrect answer: Option (a) is the correct option since it gives the correct section. All other options, viz., options (b), (c) and (d) giving incorrect section are not correct.

Q46. Payment (other than freight) made in excess of Rs.______ otherwise than by an account-payee cheque or an account-payee demand draft is disallowed (in full) under section 40A(3).

(a) Rs. 20,000   (b) Rs. 35,000
(c) Rs. 50,000   (d) Rs. 75,000

Correct answer : (a)

Justification of correct answer

Payment (other than freight) made in excess of Rs.20,000 otherwise than by an account-payee cheque or an account-payee demand draft is disallowed (in full) under section 40A(3).

Thus, option (a) is the correct option.

Comment on incorrect answer : Option (a) is the correct option since it gives the correct amount of disallowance. All other options, viz., options (b), (c) and (d) giving incorrect amount of disallowance are not correct.

Q47. Payment of freight made in excess of ______ otherwise than by an account-payee cheque or an account-payee demand draft is disallowed (in full) under section 40A(3).

(a) Rs. 20,000   (b) Rs. 35,000
(c) Rs. 15,000   (d) Rs. 5,000

Correct answer : (b)

Justification of correct answer

Payment of freight made in excess of Rs. 35,000 otherwise than by an account-payee cheque or an account-payee demand draft is disallowed (in full) under section 40A(3).

Thus, option (b) is the correct option.

Comment on incorrect answer: Option (b) is the correct option since it gives the correct amount of disallowance. All other options, viz., options (a), (c) and (d) giving incorrect amount of disallowance are not correct.

Q48. Payment (other than freight) made in excess of Rs. 20,000 by an account-payee cheque or an account-payee demand draft is disallowed under section 40A(2).

(a) True   (b) False

Correct answer: (b)
Justification of correct answer
Payment (other than freight) made in excess of Rs. 20,000 otherwise than by an account-payee cheque or an account-payee demand draft is disallowed (in full) under section 40A(3).
Thus, the statement given in the question is false and option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q49. Payment (of freight) made in excess of Rs. 35,000 by a bearer cheque is disallowed (in full) under section 40A(3).
(a) True (b) False
Correct answer: (a)

Justification of correct answer
Payment of freight made in excess of Rs. 35,000 otherwise than by an account-payee cheque or an account-payee demand draft is disallowed (in full) under section 40A(3).
Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true. Hence, option (b) is not the correct option.

Q50. Mr. Kapoor purchased goods worth Rs. 25,848 and made payment of the same by a crossed cheque. In this case nothing will be disallowed under section 40A(3) since the payment of Rs. 25,848 was made through cheque.
(a) True (b) False
Correct answer: (b)

Justification of correct answer
Payment (other than freight) made in excess of Rs. 20,000 otherwise than by an account-payee cheque or an account-payee demand draft is disallowed (in full) under section 40A(3). Hence, payment of Rs. 25,848 made by a crossed cheque will be disallowed under section 40A(3).
Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q51. Mr. Kapoor purchased goods worth Rs. 1,84,252 and also paid freight of Rs. 25,484 to bring the goods to his factory. He made the payment for goods by an account-payee demand draft, however, the freight was paid by him in cash. In this case nothing will be disallowed under section 40A(3).
(a) True (b) False
Correct answer: (a)

Justification of correct answer
Payment (other than freight) made in excess of Rs. 20,000 otherwise than by an account-payee cheque or an account-payee demand draft is disallowed (in full) under section 40A(3). Further, Payment (of freight) made in excess of Rs. 35,000 otherwise than by an account-payee cheque or an account-payee demand draft is disallowed (in full) under section 40A(3). Hence, in this case nothing will be disallowed under section 40A(3) since the payment of Rs. 1,84,252 was made
through an account-payee demand draft and the freight of Rs. 25,484 paid in cash was within the prescribed limit of Rs. 35,000.

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true. Hence, option (b) is not the correct option.

Q52. The exceptions in relation to the provisions of section 40A(3) are given in rule______.
(a) 6D (b) 6B
(c) 6DD (d) 6BB

Correct answer: (c)

Justification of correct answer
The exceptions in relation to the provisions of section 40A(3) are given in rule 6DD. Thus, in the circumstances specified in rule 6DD, nothing will be disallowed even if the payment is made in excess of the limit of Rs. 20,000 (Rs. 35,000 in case of payment made for plying, hiring or leasing goods carriages from 1-10-2009) otherwise than by an account-payee cheque or an account-payee demand draft.

Thus, option (c) is the correct option.

Comment on incorrect answer: The option (c) is the correct option since it gives the correct rule of exception. The other options, viz., options (a), (b) and (d) giving the incorrect rule of exception are not correct.

Q53. Mr. Kapoor made cash payment of Rs. 84,252 for the goods purchased from Mr. Kumar who is residing in a village which is not served by any bank. Is there any disallowance under section 40A(3) in respect of such payment?
(a) Yes (b) No

Correct answer: (b)

Justification of correct answer
As per the exceptions given in rule 6DD, nothing will be disallowed under section 40A(3) in respect of payment made in a village or town, which on the date of such payment is not served by any bank, to any person who ordinarily resides, or is carrying on any business, profession or vocation in any such village or town. However, payment made to aforesaid person at a village or a town having bank is not covered by this exception.

Thus, option (b) is the correct option.

Comment on incorrect answer: The option (b) is the correct option since it gives the correct provisions. The other option, viz., option (a) giving the incorrect provision is not correct.

Q54. Mr. Kapoor made cash payment of Rs. 84,252 for the goods purchased from Mr. Kumar who is residing in a town which is being served by a bank. Hence, such payment will be disallowed under section 40A(3) while computing the business income of Mr. Kumar.
(a) True (b) False

Correct answer: (b)

Justification of correct answer
As per the exceptions given in rule 6DD, nothing will be disallowed under section 40A(3) in respect of payment made in a village or town, which on the date of such payment is not served by any bank to any person who ordinarily resides, or is carrying on any business, profession or vocation in any such village or town. However, payment made to aforesaid person at a village or a town having bank is not covered by this exception.

Thus, such payment will be disallowed under section 40A(3) while computing the business income of Mr. Kapoor and not of Mr. Kumar.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q55. Mr. Kapoor purchased goods worth Rs. 84,252 from Mr. Kumar. Mr. Kumar is in need of money and, hence, Mr. Kapoor made cash payment on the same day since on that day the banks were closed due to strike. In this case would there be any disallowance under section 40A(3) while computing business income of Mr. Kapoor?

(a) Yes     (b) No

Correct answer: (b)

Justification of correct answer
As per the exceptions given in rule 6DD, if the payment was required to be made on a day on which the banks were closed either on account of holiday or strike then nothing will be disallowed under section 40A(3).

Thus, option (b) is the correct option.

Comment on incorrect answer: The option (b) is the correct option since it gives the correct provisions. The other option, viz., option (a) giving the incorrect provision is not correct.

Q56. Mr. Kapoor purchased goods worth Rs. 84,252 from Mr. Kumar. Mr. Kumar is in need of money and, hence Mr. Kapoor made cash payment on the same day since he purchased goods at 7 pm and at that time the bank was closed. Hence, there will be no disallowance under section 40A(3) while computing business income of Mr. Kapoor.

(a) True     (b) False

Correct answer: (b)

Justification of correct answer
As per the exceptions given in rule 6DD, nothing will be disallowed under section 40A(3), if the payment was required to be made on a day on which the banks were closed either on account of holiday or strike. However, in this case there was no holiday or strike on the day on which goods were purchased.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q57. Payment made for the purchase of the products manufactured or processed, without the aid of power in a ___________, to the producer of such products is covered under exceptions provided in rule 6DD.

(a) Small Scale Industry     (b) Industry situated in rural area

source : www.trpscheme.com
Correct answer: (c)

Justification of correct answer:

As per the exceptions given in rule 6DD, nothing will be disallowed under section 40A(3) if payment was made for the purchase of the products manufactured or processed, without the aid of power in a cottage industry, to the producer of such products.

Thus, option (c) is the correct option.

Comment on incorrect answer: option (c) is the correct option since it gives the correct provisions. The other options, viz., options (a), (b) and (d) giving the incorrect provisions are not correct.

Q58. If any expenditure is covered by section 40A(2) as well as section 40A(3), then disallowance under section 40A(3) will be of the ________ .

(a) Full amount
(b) 50% of such amount
(c) Balance amount of expenditure remaining after giving effect to disallowance under section 40A(2)
(d) Any amount as per the choice of Assessing Officer

Correct answer: (c)

Justification of correct answer

As per the provisions of section 40A(3), if any expenditure is covered by section 40A(2) as well as section 40A(3), then disallowance under section 40A(3) will be of the excess amount, i.e., the balance amount of expenditure remaining after giving effect to disallowance under section 40A(2).

Thus, option (c) is the correct option.

Comment on incorrect answer: The option (c) is the correct option since it gives the correct provisions. The other options, viz., options (a), (b) and (d) giving the incorrect provisions are not correct.

Q59. Mr. Kumar is running a provision shop and he paid Rs. 1,84,000 in cash towards goods purchased by him from his brother. The fair market value of the goods is Rs. 1,00,000. In this case under which section disallowance will be attracted?

(a) Section 40(a)   (b) Section 40A(2)
(c) Section 40A(3)   (d) Section 40A(2) and section 40A(3)

Correct answer : (d)

Justification of correct answer

As per section 40A(2), payment made to relatives in respect of any expenditure will be disallowed till the extent such payment is in excess of the fair market value of such an expenditure. Thus, in this case, Rs. 84,000 being in excess over fair market value will be disallowed under section 40A(2). Out of balance of Rs. 1,00,000 entire amount of Rs. 1,00,000 will be disallowed under section 40A(3) being paid in cash. Thus, in this case disallowance will be attracted under section 40A(2) and section 40A(3).

Thus, option (d) is the correct option.
Comment on incorrect answer: Option (d) is the correct option since it gives both the sections. All other options, viz., options (a), (b) and (c) giving individual sections or incorrect sections are not correct.

Q60. Mr. Kumar is running a trading firm and he paid Rs. 25,200 in cash towards goods purchased by him vide Bill No. 84 (Rs. 10,000) and Bill No. 100 (Rs. 15,200). Entire payment of Rs. 25,200 was made in cash on an urgent request from the supplier. In this case what will be the amount of disallowance under section 40A(3)?

(a) Nil
(b) Rs. 5,200
(c) Rs. 25,200 if the Assessing Officer wants to disallow the expenditure.
(d) Nil if Mr. Kumar proves that the person to whom payment was made was not his relative.

Correct answer: (a)

Justification of correct answer

Nothing will be disallowed under section 40A(3) since the payment towards individual bill is below Rs. 20,000.

Thus, option (a) is the correct option.

Comment on incorrect answer: Option (a) is the correct option since nothing will be disallowed under section 40A(3). All other options, viz., options (b), (c) and (d) giving incorrect amount of disallowance are not correct.

Q61. Mr. Raja purchased goods worth Rs. 1,84,000 from his relative. The fair market value of the goods is Rs. 1,90,000. Entire amount of Rs. 1,84,000 is paid in cash. In this case what will be the amount of disallowance under section 40A(2)?

(a) Nil
(b) Rs. 1,80,000
(c) Rs. 1,90,000
(d) Rs. 1,84,000

Correct answer: (a)

Justification of correct answer

Goods are purchased from relative but are purchased for less than the fair market value. Hence, nothing will be disallowed under section 40A(2).

Thus, option (a) is the correct option.

Comment on incorrect answer: Option (a) is the correct option since nothing will be disallowed under section 40A(2). All other options, viz., options (b), (c) and (d) giving incorrect amount of disallowance are not correct.

Q62. Mr. Kumar is running a provision shop and purchased goods worth Rs. 2,52,000 from his dealer. Entire amount of Rs. 2,52,000 was paid in cash. In this case what will be the amount of deduction on account of purchases which can be claimed by him out of Rs. 2,52,000?

(a) Nil
(b) Rs. 2,52,000
(c) Rs. 2,52,000 with the permission of the Assessing Officer.

(source : www.trpscheme.com)
(d) Rs. 2,52,000 can be allowed as deduction, but Mr. Kumar has to prove that the dealer is not his relative.

**Correct answer : (a)**

**Justification of correct answer**

Payment (other than freight) made in excess of Rs. 20,000 otherwise than by an account-payee cheque or an account-payee demand draft is disallowed under section 40A(3). In the above case, entire amount of Rs. 2,52,000 is paid in cash. Hence, entire amount will be disallowed under section 40A(3). Thus, deduction on account of purchase will be nil.

Thus, option (a) is the correct option.

**Comment on incorrect answer :** Option (a) is the correct option since nothing will be allowed on account of purchase of goods. All other options, viz., options (b), (c) and (d) giving incorrect amount of allowance are not correct.

Q63. Mr. Kumar is running a provision shop and he paid Rs. 2,84,000 in cash towards goods purchased by him from his father. The fair market value of the goods was Rs. 2,00,000. Entire amount of Rs. 2,84,000 was paid in cash. In this case what will be the amount of disallowance under section 40A(3)?

(a) Nil
(b) Rs. 2,00,000
(c) Rs. 84,000
(d) Rs. 2,84,000

**Correct answer : (b)**

**Justification of correct answer**

As per section 40A(2), payment made to relatives in respect of any expenditure will be disallowed to the extent such payment is in excess of the fair market value of such an expenditure. Thus, in this case Rs. 84,000, being in excess over fair market value, will be disallowed under section 40A(2). Out of balance of Rs. 2,00,000 entire amount of Rs. 2,00,000 will be disallowed under section 40A(3) being paid in cash.

Thus, option (b) is the correct option.

**Comment on incorrect answer :** Option (b) is the correct option since it gives the correct amount of disallowance under section 40A(3). All other options, viz., options (a), (c) and (d) giving incorrect amount of disallowance are not correct.

Q64. Mr. Kumar is running a provision shop and he paid Rs. 2,84,000 towards agricultural products purchased by him from his father who is a farmer. The fair market value of the agricultural products was Rs. 3,00,000. Entire amount of Rs. 2,84,000 was paid in cash. In this case what will be the amount of disallowance under section 40A(2) as well as under section 40A(3)?

(a) Nil, Nil
(b) Rs. 16,000 , Rs. 2,68,000
(c) Rs. 84,000, Rs. 2,00,000
(d) Nil, Rs. 2,84,000

**Correct answer : (a)**

**Justification of correct answer**

As per section 40A(2), payment made to relatives in respect of any expenditure will be disallowed to the extent such payment is in excess of the fair market value of such an expenditure. Thus, in this case nothing will be disallowed under section 40A(2), since the
payment made was less than the fair market value of agricultural products.

Further, as per rule 6DD, payment made for the purchase of agricultural or forest produce or the produce of animal husbandry (including livestock, meat, hides and skins) or dairy or poultry farming or fish or fish products or the products of horticulture or apiculture, to the cultivator, grower or producer of such articles or products is not disallowed under section 40A(3). Hence, nothing will be disallowed under section 40A(3) also, since Mr. Kumar purchased agricultural products from his father who is a farmer.

Thus, option (a) is the correct option.

**Comment on incorrect answer:** Option (a) is the correct option since it gives the correct amount of disallowance under section 40A(2) as well as under section 40A(3). All other options, viz., options (b), (c) and (d) giving incorrect amount of disallowance are not correct.

Q65. As per section ________, certain payments are disallowed, if they are not paid on or before the due date of filing the return of income.

(a) 41  (b) 37(1)
(c) 43B  (d) 30

**Correct answer:** (c)

**Justification of correct answer**

As per section 43B certain payments are disallowed if they are not paid on or before the due date of filing the return of income.

Thus, option (c) is the correct option.

**Comment on incorrect answer:** Option (c) is the correct option since it gives the correct section. All other options, viz., options (a), (b) and (d) giving incorrect sections are not correct.

Q66. Which of the following expenses are covered under section 43B?

(a) Any tax, duty, cess or fee, by whatever name called, under any law.

(b) Any sum payable by the assessee as an employer by way of contribution to any fund for the welfare of employees.

(c) Any sum payable by the assessee as interest on any loan or borrowing from any public financial institution or a State financial corporation or a State industrial investment corporation.

(d) All of the above

**Correct answer:** (d)

**Justification of correct answer**

All the items given in (a) to (c) are covered under section 43B.

Thus, option (d) is the correct option.

**Comment on incorrect answer:** Option (d) is the correct option since it covers all the items given in (a) to (c). All other options, viz., options (a), (b) and (c) giving individual items are not correct.

Q67. Mr. Raja took a business loan from State Bank of India. Interest for the previous year 2012-13 amounting to Rs. 84,000 was paid by him in April, 2014. In this case he can claim deduction on account of interest of Rs. 84,000 during the previous year 2012-13.
(a) True     (b) False

**Correct answer:** (b)

**Justification of correct answer**

As per section 43B, certain expenses are deductible only if they are actually paid by the assessee on or before the due date of furnishing the return of income (irrespective of the method of accounting followed by the assessee). One of the items covered under section 43B is interest on any loan or advances from a scheduled bank (including a co-operative bank). Considering above provisions, interest of Rs. 84,000 will be covered under section 43B and will be disallowed for the previous year 2012-13, since it is not paid up to the due date of filing the return of income of the previous year 2012-13.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

**Comment on incorrect answer:** The statement given in the question is false. Hence, option (a) is not the correct option.

**Q68.** Bonus of Rs. 84,000 payable to employees for the year 2012-13 was paid by the assessee on 31-12-2013. The assessee was following mercantile system of accounting. In this case the bonus of Rs. 84,000 would be deductible as business expense in the previous year 2013-14.

(a) True     (b) False

**Correct answer:** (a)

**Justification of correct answer**

As per section 43B certain expenses are deductible only if they are actually paid by the assessee on or before the due date of furnishing the return of income (irrespective of the method of accounting followed by the assessee). One of the items covered under section 43B is bonus or commission to employees. Thus, bonus of Rs. 84,000 will be covered under section 43B and will be disallowed during the year 2012-13, since it is not paid up to the due date of filing the return of income of the previous year 2012-13. However, the same will be allowed as deduction during the year 2013-14, i.e., in the year of payment.

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

**Comment on incorrect answer:** The statement given in the question is true. Hence, option (b) is not the correct option.

**Q69.** Leave salary of Rs. 1,84,000 payable to employees for the year 2012-13 was paid by the assessee on 31-7-2013. The assessee was following mercantile system of accounting. In this case the leave salary of Rs. 1,84,000 would be deductible as business expense in the previous year 2012-13.

(a) True     (b) False

**Correct answer:** (a)

**Justification of correct answer**

As per section 43B certain expenses are deductible only if they are actually paid by the assessee on or before the due date of furnishing the return of income (irrespective of the method of accounting followed by the assessee). One of the items covered under section 43B is leave salary. Thus, leave salary of Rs. 1,84,000 will be covered under section 43B and will be disallowed during the year 2012-13, since it is not paid up to the due date of filing the return of income, then they will

source : www.trpscheme.com

(As amended by Finance Act, 2013)
be allowed as deductions during the year in which they are incurred. In this case leave salary is paid on 31-7-2013 and, hence, it will be allowed as deduction during the previous year 2012-13 only.

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer: The statement given in the question is true. Hence, option (b) is not the correct option.

Q70. Outstanding income-tax liability of Rs. 84,252 for the previous year 2012-13 was paid by Mr. Vasu on 31-7-2013. The assessee was following mercantile system of accounting. In this case the income-tax of Rs. 84,252 would be deductible as business expense in the previous year 2012-13.

(a) True (b) False

Correct answer: (b)

Justification of correct answer
As per section 40(a)(ii), payment of income-tax is not a deductible expenditure while calculating business income whether it is paid on or before the due date of filing the return of income of the previous year or not.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q71. Interest of Rs. 25,848 payable for late filing of return under the Income-tax Act for the previous year 2012-13 was paid by Mr. Raja on 8-4-2014. The assessee was following mercantile system of accounting. In this case the interest of Rs. 25,848 would be deductible as business expense in the previous year 2014-15.

(a) True (b) False

Correct answer: (b)

Justification of correct answer
As per section 40(a)(ii), payment of income-tax as well as the payment of interest, penalty or fine under the Income-tax Act are not deductible expenditures while computing business income whether they are paid on or before the due date of filing the return of income of the previous year or not.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q72. Every year Essem Ltd. makes contribution to superannuation fund for the welfare of its employees. The contribution of Rs. 1,84,252 payable for the year 2012-13 was paid by it on 31-10-2014. Can the contribution of Rs. 1,84,252 be deducted as business expenditure during the previous year 2014-15 while computing income under the head “Profits and Gains of business or profession”?

(a) Yes (b) No
Correct answer: (a)

Justification of correct answer

As per section 43B, certain expenses are deductible only if they are actually paid by the assessee on or before the due date of furnishing the return of income (irrespective of the method of accounting followed by the assessee). One of the items covered under section 43B is contribution to any fund by the employer for the welfare of his employees. Thus, contribution of Rs. 1,84,252 to superannuation fund will be covered under section 43B. If items covered under section 43B are paid on or before the due date of filing the return of income, then they will be allowed as deductions during the year in which they are incurred. However, if such sums are paid after the due date, then they will be deducted in the subsequent year in which they are paid. In this case contribution of Rs. 1,84,252 to superannuation fund is paid on 31-10-2014 and, hence, it will be allowed as deduction during the previous year 2014-15.

Thus, option (a) is the correct option.

Comment on incorrect answer: The option (a) is the correct option since it gives the correct provisions. The other option, viz., option (b) giving the incorrect provisions is not correct.

Q73. Any sum payable by the assessee as principal amount on any loan or advances taken from a co-operative bank is covered under section 43B.

(a) True     (b) False

Correct answer: (b)

Justification of correct answer

As per section 43B, certain expenses are deductible only if they are actually paid by the assessee on or before the due date of furnishing the return of income (irrespective of the method of accounting followed by the assessee). One of the items covered under section 43B is any sum payable by the assessee as interest on any loan or advances taken from a scheduled bank (including co-operative bank). Thus, only the interest amount payable by the assessee on loan or advances is covered under section 43B and not the principal amount.

Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer: The statement given in the question is false. Hence, option (a) is not the correct option.

Q74. SM Ltd. maintains books of account on mercantile basis. For the previous year 2012-13, interest payable on term loan taken from a scheduled bank was Rs. 84,000. Out of Rs. 84,000, it had not paid Rs. 25,000 till the due date of filing the return for the previous year 2012-13. In which year can it deduct such interest expenditure?

(a) 2012-13     (b) 2013-14

(c) Any year as per the choice of SM Ltd. (d) The year in which it will pay the interest in future

Correct answer: (d)

Justification of correct answer

As per section 43B, certain expenses are deductible only if they are actually paid by the assessee on or before the due date of furnishing the return of income (irrespective of the method of accounting followed by the assessee). One of the items covered under section 43B is any sum payable by the assessee as interest on any loan or advances taken from a scheduled bank (including a co-operative bank). In this case SM Ltd. had not paid interest amount till the due
date of return for the previous year 2012-13. Hence, it will be deducted in the year in which it will make payment in future.

Thus, option (d) is the correct option.

**Comment on incorrect answer:** The option (d) is the correct option since it gives the correct provisions. The other options, *viz.*, options (a), (b) and (c) giving incorrect provisions/year of deduction are not correct.