

More questions on 'Partnership firm:

1. M/s XYZ Co., a partnership firm, in which X, Y and Z are partners, furnishes the following P & L A/c for the year ended 31.03.2019:

	Rs.		Rs.
Interest	9,200	Gross profit transferred from Tr. A/c	7,21,500
Depreciation	15,500		
Salary to Staff	53,500		
Long term capital loss	5,000	Scrap Sales	19,000
Salary to partners X -1,44,000 Y-1,08,000 Z- 90,000	3,42,000	Short Term capital gain	7,000
Interest on capital @ 12% X -9,900 Y-6,600 Z-6,600	21,000	Interest from Bank	17,500
Business expenses	25,800		
Donation to charitable trust	50,000		
Net Profit: X- 1,21,500 Y - 81,000 Z - 40,500	2,43,000		
	7,65,000		7,65,000

Additional Information:

- Profit will be shared among the partners in the ratio 3:2:1;
- X, Y & Z will receive Rs.12,000, Rs.9,000 & Rs.7,500 p.m. as salary.
- Allowable depreciation as per IT Rules works out to Rs.18,000.

Particulars of the partners are as given below:

	X	Y	Z
Interest on Bank F.D.	Rs.3,05,000	Rs.3,25,000	Rs.1,75,000
Investment in PPF	Rs.60,000	45,000	90,000

Compute the taxable income of the firm for the relevant Assessment Year and that of the partners of the firm.

Solution: Name of the assessee: M/s XYZ Co.
Status: Partnership Firm
Assessment Year: 2019-20.

Computation of Book Profit:

Net Profit as per P & L A/c	+	2,43,000
Add: Remuneration to partners	+	3,42,000
Add: Interest on capital to partners in excess of 12%		---
Add: Long Term Capital Loss	+	5,000
Add: Donation	+	50,000
Less: Short Term Capital Gain	-	7,000
Less: Interest from Bank	-	17,500
Less: Depreciation to be allowed (18,000 - 15,500)	-	2,500
Book Profit		6,13,000

Remuneration allowable u/s 40(b):

90% of 3,00,000 = 2,70,000 +
60% of 3,13,000 = 1,87,800 Rs.4,57,800.

As they have claimed less, the same can be allowed.

Income of firm:

Business income			
Book Profit		6,13,000	
Less: Remuneration allowable	X -1,44,000 Y-1,08,000 Z- 90,000	<u>3,42,000</u>	
Business income			2,71,000
Capital Gain : Short Term Capital Gain			7,000
Other Sources: Bank Interest			17,500
Gross total income			2,95,500
Less: Deduction under Chapter VIA			
Deduction u/s 80 G Qualifying amount = 10% of GTI	10% of 2,95,500	29,550	
Donation; 50% of above	50% of 29,550		14775
Total income of firm			2,80,725

Income of partners:

	X	Y	Z
Share of profit from FIRM	Exempt	Exempt	Exempt
Remuneration from FIRM	1,44,000	1,08,000	90,000
Interest on capital from FIRM	9,900	6,600	6,600
Business Income	1,53,900	1,14,600	96,600
Income from other sources: Interest on Bank F.D.	3,05,000	3,25,000	1,75,000
Gross total income	4,58,900	4,39,600	2,71,600
Less: Deduction under Chapter VI A Deduction u/s 80C: Investment in PPF	60,000	45,000	90,000
Total income	3,98,900	3,94,600	1,81,600

2. The P & L A/c of M/s. PQR associates for the Y.E. 31.03.2019 is given below:

Particulars	Rs.	Particulars	Rs.
Purchases	2,95,000	Sales	5,10,000
Property tax from 15-16 to 18-19	7,200	Rental Income	1,80,000
Business expenses	75,400		
Commission to P	96,000		
Remuneration to partners	R - 96,000 Q - 96,000		
Interest on @ 15%	P - 30,000 Q - 25,000 R - 25,000	Net Loss	P: 20850 Q: 17375 R: 17375
	7,45,600		7,45,600

Additional Information:

1. Opening Stock: Rs.55,000 and Closing Stock: Rs.90,000 are not included in the above Profit & Loss A/c.
2. Expenses include donation of Rs. 30,000 to a charitable trust paid by cash.
3. P is not a working partner.

Compute the total taxable income of the firm and that of the partners.

Solution:

Name of the assessee: M/s PQR associates.

Status: Partnership Firm

Assessment Year: 2019-20.

Computation of Book Profit:

Net Loss as per P & L A/c	-	55,600
Add: Remuneration to partners	+	2,88,000
Add: Interest on capital to partners in excess of 12%: P: 30,000 * 3/15 = 6,000 Q: 25,000 * 3/15 = 5,000 R: 25,000 * 3/15 = 5,000	+	16,000
Add: Property tax	+	7,200
Less: Rental income	-	1,80,000
Add: Closing stock	+	90,000
Less: Opening stock	-	55,000
Add: Donation	+	50,000
Book Profit		1,60,600

Remuneration allowable u/s 40(b):

90% of 1,60,600 = 1,44,540 or Rs.1,50,000

As they have claimed more amount, Rs.1,50,000 can be allowed.

Income of firm:

Business income			
Book Profit		1,60,600	
Less: Remuneration allowable	R - 75,000 Q - 75,000	<u>1,50,000</u>	
Business income			10,600
Income from house property			
Gross annual value	1,80,000		
Less: Municipal taxes paid	<u>7,200</u>		
Net annual value		1,72,800	
Less: Std. deduction u/s 24(a): 30% of N.A.V	30% of 1,72,800	<u>51,840</u>	
Income from house property			1,20,960
Gross total income			1,31,560
Less: Deduction under Chapter VIA			
As the donation was paid in cash, no deduction u/s 80G			---
Total income of firm			1,31,560

Income of partners:

	P	Q	R
Share of profit from FIRM	Exempt	Exempt	Exempt
Remuneration from FIRM	----	75,000	75,000
Interest on capital from FIRM	24,000	20,000	20,000
Business Income	24,000	95,000	95,000
Gross total income	24,000	95,000	95,000
Total income	24,000	95,000	95,000

Model question on 'Receipts & Payments' type:

Q.1. Mr. Sriram is a practicing Chartered Accountant. He also runs a coaching institute. His accounts for the year ended 31.3.2019 is given below:

Receipts (Rs.)		Payments (Rs.)	
To Balance b/f	15,000	By Office expenses	18,000
To Audit fees	2,40,000	By Municipal tax on property	800
To Income from other professional work	60,000	By Income tax	6,000
To Coaching fees	6,200	By Coaching expenses	800
To Interest on Deposits	2,000	By Personal expenses	14,000
To Examiner's fees	2,000	By Membership fees	500
To Rent from property	12,000	By Life insurance premium	12,000
		By Motor Car purchased	2,00,000
		By Motor Car expenses	9,200
		By Insurance of property	1,600
		By Balance c/d	74,300
Total	3,37,200	Total	3,37,200

Additional Information:

- Motor car was purchased on 1.8.2018.
- 25% of motor car expenses were for personal use.
- He is using part of his house as office for his professional work.

Compute his T.I. for the A.Y. 2019-20 assuming he maintains accounts on cash basis.

Solution:

Computation of total income of Mr. Sriram for the A.Y. 2019-20

Income from House Property			
Gross annual value	12,000		
Less: Municipal taxes paid - 50% for personal use 800/2	<u>400</u>		
Net annual value		11,600	
Less: Standard deduction 30% of N.A.V		<u>3,480</u>	
Income from House Property			8,120
Business / Professional Income			
Audit fees	2,40,000		
Other Professional work	<u>60,000</u>	3,00,000	
Less: Expenses			
Office expenses	18,000		
Membership fees	500		
Depreciation on car - 25% for personal use Depreciation @ 15% on 2,00,000 = 30,000 3/4 th of 30,000 = 22,500	22,500		
Expenses on car - 25% for personal use 3/4 th of 9,200 = 6,900	<u>6,900</u>	<u>47,900</u>	
Business / Professional Income			2,52,100
Income from Other Sources			
Interest on deposits		2,000	
Coaching fees	6,200		
Less: Expenses	<u>800</u>	5,400	
Examiner fees		<u>2,000</u>	
Income from Other Sources			9,400

Gross Total Income			2,69,620
Less: Deduction under Chapter VIA			
Deduction u/s 80 C - LIC premium			12,000
Total Income			2,57,620

Notes:

1. Insurance premium on property is not deductible.
2. As 25% use of motor car is related to personal purpose, (as per Sec. 38) expenditure and depreciation are apportioned.
3. Payment of LIC premium is a personal expense. However, deduction u/s 80C is available.
4. Income tax is not to be allowed.

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