

PGBP Most Important Points

By CA Neeraj Arora



Hi Students

PGBP is a very interesting chapter to study. Its approximate weightage in CA IPCC Exams is 15 Marks (Out of which 8 marks compulsory Question).

There are some common mistakes committed by students while studying PGBP and doing its practical questions.

I have summarized some important points which a student must understand before doing practical question of this chapter.

I hope you will find it helpful in your exams.

You may also suggest other points that can be added in this write up.

Thank You! & Enjoy Reading

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PGBP Important Points

1. Interest paid to bank no TDS is required to be deducted. – Chapter of TDS.
2. If the assessee was not subject to Audit in the previous year he is not required to deduct TDS. – Chapter of TDS
3. Employers contribution towards PF 43B is applicable.
4. Employee Contribution given to employer it will be considered as income of the employer and if employer is unable to deposit the amount on or before the due date given in relevant act then employee contribution shall be treated as income of the assessee (employer)
 - a. Example - Amount recovered from employees towards provident fund contribution ₹. 12,00,000 of which amount remitted upto the end of the year was ₹. 7,00,000 and the balance was remitted before the 'due date' for filing the return prescribed in Section 139(1).

As per section 2(24)(x), the amount of provident fund contribution recovered from employees i.e. Rs. 12 lakhs would be taxable as income of Raghav Industries Ltd. However, the company can claim deduction under section 36(1)(va) of amount credited to the account of the employee in the provident fund before the due date under the relevant Act.

If Rs. 7 lakhs has been remitted before the said due date, the same is allowable as deduction. If it has not been so remitted, then the same is not allowable as deduction. The deduction would be restricted to the amount remitted before the due date.

The balance Rs. 5 lakhs remitted after the due date under the said Act but before the due date of filing the return is not allowable as deduction.

5. Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C and would be taxable @ 30% under section 115BBE - no deduction allowable in respect of such expenditure) – Therefore it will be added back as the income of the assessee.
6. Any amount unrecorded in the books shall be considered to be the income of the assessee.
7. If the value of opening stock was omitted in books of account then it shall be deducted from the net profit while calculating the income under the head PGBP and if value of closing stock is omitted it shall be added back in the net profit to compute the Profit for PGBP.
8. Example
 - a. Opening Stock given in question – 90,000
 - b. Closing Stock given in question – 186100
 - c. Additional information
 - i. It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

1. Opening stock	Rs. 9,000
2. Closing stock	Rs. 18,000
 - d. In this case 9000 shall be reduced and 18000 shall be added back in the net profit while computing PGBP profit.
9. Please keep this point in mind that Donation of any kind except for scientific research (Section 35) and donation for eligible project (35AC) and donation for development program (35CCA) shall not be allowed as deduction from the income under the head PGBP.
10. Donation to charitable trust etc. are allowed as deduction under chapter VI-A for PGBP purpose it shall be added back in the income of the assessee if debited to P&L Account.

11. Section 43B is really very important section. Study it 5 times.
12. Section 43B is also applicable on payment of interest to banks.
13. Section 35DD any expense on demerger or amalgamation shall be allowed as deduction in 5 equal instalments.
14. Tax on non-monetary perquisite given to employee paid by employer is not allowed as deduction to the employer.
15. If nothing is mentioned about the association to whom the donation is given for scientific research then such association shall be assumed to be approved.
16. If nothing is mentioned about the programme for which the donation is given then such programme shall be assumed to be unapproved. (Deduction shall be allowed 175%. If prog is approved then 200% and remember if association is not approved no deduction shall be allowed.)
17. As per section 43A, the gain, arising at the time of making payment in respect of an imported machinery, due to change in rate of exchange of foreign currency, has to be reduced from the actual cost of machinery, and depreciation would be computed on such reduced cost. In case of loss such loss shall be added in the cost of the machinery.
18. Important points
 - a. Penalty for breach of law is not allowed as deduction
 - b. Refund of income tax is not taxable. Interest on refund is taxable under head other sources
 - c. Interest in FD, Company Deposit etc is taxable under the head other sources.
19. Scientific Research
 - a. Company engaged in bio – technology is allowed 200% deduction.
20. Deduction for family planning expenditure whether revenue or capital will be allowed as deduction only to company, if individual has incurred such expenditure then such expenditure shall be added back to the net profit as per P&L.

21. Status of assessee is very important due importance shall be given to the status of the assessee. It makes a lot of difference that whether such assessee is company or individual or others. This will clear impact on certain points. Due date of filing of return of income will also depend the status of the assessee.
22. Salary paid to NR 40(a)(ia) is not attracted. Rather 40(a)(iii) will be attracted.
- a. Example. Salary payment of Rs. 2,00,000 outside India by a company without deduction of tax. Disallowance under section 40(a)(iii) is attracted in respect of salary payment of Rs. 2,00,000 outside India by a company without deduction of tax at source.
23. 35 ABB Telecom license - No depreciation will be given on telecom license only deduction under section 35ABB will be allowed.
24. Amount received from insurance company after destruction of asset shall be reduced from the value of block (In simple terms treat it as sale of depreciable asset).

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