CMA INTER

GROUP – 1

FAST TRACK BOOK

(NEW SYLLABUS)

"WINNERS ARE NOT THOSE WHO NEVER FAIL BUT THOSE WHO NEVER QUIT."

– DR. APJ ABDUL KALAM

TARGET Academy

BOOSTER BOOK

(GROUP – 01)

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CMA INTER

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BUSINESS LAWS AND ETHICS

The Companies Act, 2013

- Short title
- Extent
- Commencement

Applicability of Section:1

1. Companies incorporated under this Act or under any previous company law
2. insurance companies, except in so far as the said provisions are inconsistent with the provisions of the Insurance Act, 1938
3. Banking companies, except in so far as the said provisions are inconsistent with the provisions of the Banking Regulation Act, 1949;
4. Companies engaged in the generation or supply of electricity, except in so far as the said provisions are inconsistent with the provisions of the Electricity Act, 2003;
5. Any other company governed by any special Act for the time being in force, except in so far as the said provisions are inconsistent with the provisions of such special Act; and
6. Such body corporate, incorporated by any Act for the time being in force, as the Central Government may, by notification, specify in this behalf, subject to such exceptions, modifications or adaptation, as may be specified in the notification

Section 2

Section 2 (20) "Company" means a company incorporated under this Act or under any previous company law;

Is Companies Act applies to Foreign Company?

+ Section 2 (42)

"foreign company" means any company or body corporate incorporated outside India which-

a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and

b) conducts any business activity in India in any other manner

Body corporate

Section 2 (11)

"Body corporate" includes a company incorporated outside India, but does not include-

(i) a co-operative society registered under any law relating to co-operative societies; and

(ii) any other body corporate (not being a company as defined in this Act), which the Central Government may, by notification, specify in this behalf

What is Body Corporate

Any entity which has perpetual succession, separate legal entity, right to use common seal,

power to acquire, hold, dispose of property both movable and immovable, tangible and intangible and right to sue and be sued is body corporate

Section 2 (68) "private company"

- means a company having a minimum paid-up share capital as may be prescribed, and which by its articles,-
- (I)restricts the right to transfer its shares;
- (ii)limits the number of its members to 200
- (iii)prohibits any invitation to the public to subscribe for any securities of the company;
- Section 2 (71) "public company

public company" means a company which-

(a) is not a private company;and

(b) has a minimum paid-up share capital as may be prescribed:

Provided that a company which is a subsidiary of a public company shall be deemed to be public company

Section 2 (62) One person Company

"One Person Company" means a company which has only one person as a member;

Section 2 (21) "company limited by guarantee"

means a company having the liability of its members limited upto the amount that they have guaranteed in the memorandum

Section 2 (22) "company limited by shares"

means a company having the liability of its members limited upto the amount which is unpaid on face value of shares held by them

Section 2 (92) "unlimited company

means a company in which members liability is unlimited

(46) "holding company

means a Company having one or more subsidiaries

The term company includes Bodycorporate for this clause

Section 2 (87) "subsidiary company"

means a company in which the holding company-

(i) controls the composition of the Board of Directors; or

(ii) exercises more than 50% of the total voting power either at its own or together with its subsidiary companies:

Proviso: Provided that holding company cannot have layers of subsidiaries more than prescribed

Companies (Restriction on number of layers) Rules 2017 w.e.f 20-09-1017

No Company shall have more than 2 layers of subsidiaries

Existing companies which already have more than 2 layers as on 20-09-2017

Shall submit form CRL 1 within 150 days of commencement of rules (20-09-2017)

Can not increase it's Layers

If reduced layers Voluntarily

Non applicability of these Rules

- Banking companies
- Insurance Companies
- Government Companies
- Systematically important NBFC (Asset size as per latest audited financial statement min 500cr)

Section 2 (6) Associate Company

Associate Company means a company in which the other company (i.e Investing company) has a significant influence and include joint venture

Significant influence means holding 20% or more voting power or upto 50%

Section 2 (85) Small Company

Small Company means other than public company

Paid up share capital 50 lakhs or such higher limit as may be prescribed

Whose turnover doesn't exceed as per P/L of immediately preceding FY does not exceed 2 crore or such higher limit as may be prescribed

Three types of companies not regarded as small company

1. Holding, Subsidiary
2. Section 8 company i.e Charitable Company
3. Company governed by special statute

Section 2(45) Government Company

Government company" means any company in which 51% of the paid-up share capital is held by the CG, or by any SG or or partly by the CGand partly by one or more SG and includes a company which is a subsidiary company of such a Government company

Explanation.- For the purposes of this clause, the "paid-up share capital" shall be construed as "total voting power", where shares with differential voting rights have been issued

Section 455 Dormant Company

Where a company is formed and registered under this Act for a future project or to hold an asset or intellectual property and has no significant accounting transaction, such a company or an inactive company

All transactions are regarded as significant accounting transactions except the following

- Payment of fee to ROC
- Any other statutory fee eg: audit fee
- Maintenance of office & Records
- Share allotment



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THE END

INCORPORATION OF COMPANY

Submit a web based application form SPICE and INC 2 in two parts
Simplified proforma for incorporating companies electronically
Part A of SPICE + INC 32 is for name reservation of company
(Minimum 2 names can be reserved @ fee of 1000)
The reserved name shall be valid for 20 days within which submit Part B + INC 32

- Name reserved
- Application for incorporation of company
- Application for PAN
- Application for TAN
- Application for DIN(Maximum 3 DIN)

Attach E-MOA (INC 33) and E-AOA (INC34)
If company having more than 7 subscribers than MOA and AOA will be prepared physically&Scanned&Attached
Attach INC35:

1. GSTIN
2. 2.Bank account
3. 3.EPFO
4. 4.ESIC

Professional Tax
Attach Diclaration in INC-8 by CA/CMA/CS in practice or Advocate that coy is being incorporated by complying the act and rules
Attach INC 9 which contains declaration by all subscribers and first directors that they are not convicted in any offence realating to promotion, formation and management of company and were not convicted of any fraud in last 5 years
If all documents are submitted properly within 1 working day,CRC(central registration centre)shall issue certificate of incorporation in Form no INC 11
which will contain
Company's name,
CIN number,
Date of incorporation,
PAN,
TAN
Submit INC 22 within 30 days of incorporation to ROC informing the address of the registered office of the company Only if such address was not mentioned or different from address mentioned in SPICE + INC 32

THE END

PROSPECTUS

Section 42

PRIVATE PLACEMENT OF SECURITIES

It means a specific offer of securities made to identified persons to subscribe the securities of company

The person to whom the Private placement shall be made are identified by BOD and approved by SH by passing Special resolution in general meeting

Private placement offer shall be made to identified persons in FORM PAS 4 and details of those identified persons will be maintained in register in form PAS 5

Maximum number of persons to whom such private placement offer can be made in a FY is 50 or such higher number of persons as may be prescribed by rules

Rules have prescribed 200 persons

Not counted in the limit of 200

1. Qualified institutional buyers
2. Employees

SEC 42

NO

Cash Is Allowed In Case of Private Placement. I.E, Proceeds Must Be Received Only Through BankingChannels

Advertisement Of Private Placement Is Allowed

Renounciation Of Private Placement Offer Is Allowed

New Private Placement Is Allowed Unless Private Placement Allotment is Done Or Previous Private Placement Is Abandoned.

SEC 42

Allotment shall be made within 60 days of receipt of application money failing which entire money must be refunded back within next 15 days failing which interest @ 12% p.a I will be charged from the expiry of 60th day of receipt of application money

Company cannot use the proceeds of private placement & shall be kept in a separate scheduled bank A/c (escrow A/c) until & unless allotment is made and return of allotment is submitted to ROC

HOWEVER, NOTHING SHALL PREVENT CO. FROM USING ABOVE MONEY FOR REFUND, OR ADJUSTMENT TOWARDS ALLOTMENT

Co. Shall Submit Return On Allotment In Form PAS-3 Within 15 Days Of Allotment Containing Details Of Allotees, Securities Issues, Amount Received, Etc

PENALTIES FOR NOT SUBMITTING PAS 3-

COMPANY, EVERY PROMOTER & DIRECTOR | LIABLE TO PAY PENALTY 1000/DAY BUT SUBJECT TO MAXIMUM 25 LACS.

FOR CONTRAVENTION

CO, PROMOTERS, DIRECTORS SHALL BE LIABLE TO PENALTY OF AMOUNT RECEIVED BY PRIVATE PLACEMENT OR 2 CR WHICHEVER IS LOWER ,CO. SHALL ALSO BE LIABLE

CRORES,

TO REFUND ENTIRE AMOUNT OF PRIVATE PLACEMENT WITHIN 30 DAYS OF PENALTY'S ORDER TOGETHER WITH INTEREST @ 12% P.A FROM EXPIRY OF 60TH DAY OF RECIEPT OF APPLICATION MONEY

Section 23 Types of Issues

Public issue	Rights and Bonus issue	Private placement

Public issue

Initial public offer

Further public offer

Offer for sale

PROSPECTUS

PROSPECTUS IS A WRITTEN INVITATION TO PUBLIC TO SUBSCRIBE THE SECURITIES OF THE COMPANY

Types of prospectus

- Abridged prospectus
- Shelf prosectus
- Red herring prospectus
- Deemed prospectus

Section 33 Abridged prospectus

It is a condensed prospectus containing sailent features as prescribed by SEBI

It contains all important information but in concise manner

It is compulsory to annex abridged prospectus with application form given to public to subscribe the securities of the coy.and it shall bear the same serial number as in application form

Default in Annexing

Coy and officer in default shall be liable to penalty of Rs.50,000 per default

Section 31 Shelf prospectus

Shelf prospectus means of prospectus containing details of securities to be issued in tranches i.e more than one issue over a period of time without issuing prospectus again

Company shall have to submit Information memorandum i.e. PAS 2 to ROC within 30 days prior to subsequent issue containing details about new charges created and material changes in the financial position of the coy.

Section 32 Red herring prospectus

It is an incomplete prospectus and doesn't contain details of : Quantum of securities to be issued and Issue price

Copy of red herring prospectus must be submitted to ROC at least 3 days prior to opening of securities

Any variation should be highlighted as variation in prospectus otherwise it will treated as fraud u/s 447

Section 25 Deemed prospectus

If company appoints an issuing house to comply all formalities relating to public issue and issuing house (agency) shall issue securities to public on behalf of company and also comply all legal formalities

Even the underwriters will be appointed by issuing house and prospectus will also be issued by deemed prospectus which will be signed by

At least 50% partners if issuing house is a Firm (OR)

At least 2 Directors, if issuing house is a Copy.

MIS STATEMENT IN PROSPECTUS

Means An Untrue Statement In The Form Or Context In Which It Is Included In Prospectus (Or) Omission Of Material Fact Which Misleads The Public.

LIABILITY FOR MIS-STATEMENT IN PROSPECTUS

CRIMINAL LIABILITY Sec 34

Mens Rea. I.E, Guilty Mind Is Essential For Criminal Liability To Attract

FRAUD U/S 447 WILL BE ATTRACTED

ONLY THE PERSONS WHO AITHORISED ISSUE OF SUCH PROSPECTUS SHALL BE LIABLE

LIABILITY FOR MIS-STATEMENT IN PROSPECTUS

CIVIL LIABILITY Sec 35

Mens Rea May Or May Not Be There.

Civil Laibility Arises When Because Of Mis-statement In Prospectus

Any Person/Public Have Suffered Loss.

DAMAGES TO THE EXTENT OF LOSS WILL BE PAID

CO., PROMOTERS & ALL THOSE PERSONS WHO AUTHORISED ISSUE OF PROSPECTUS SHALL BE LIABLE.

EXCEPTIONS TO CRIMINAL LIABILITY

- WHEN MIS-STATEMENT IN PROSPECTUS IS IMMATERIAL
- TILL THE TIME OF ISSUE OF PROSPECTUS IF THE PERSON BELIEVED THAT WHATEVER IS MENTIONED IN PROSPECTUS IS CORRECT OR OMMISSION WAS NECESSARY

EXCEPTIONS TO CIVIL LIABILITY

WHEN DIRECTOR WAS NOT AWARE ABOUT SUCH ISSUE OF PROSPECTUS & WHEN HE BECAME AWARE HE IMMEDIATELY ISSUED A PUBLIC NOTICE THAT HE WAS UNAWARE.

WHEN A PERSON GAVE THE CONSENT TO ACT AS A DIRECTOR BUT WITHDRAW IT BEFORE ISSUE OF PROSPECTUS

RELATED CASE LAW

REX VS LORD KYLSANT

IN IT COMPANY MENTIONED IN ITS PROSPECTUS THAT IT HAS BEEN DISTRIBUTING DIVIDEND FOR PAST FEW YEARS BUT FAIL TO MENTION THAT THEY WERE DISTRIBUTED FROM CAPITAL PROFIT AND ACTUALLY COMPANY WAS HAVING LOSSES.

COURT HELD THAT ITS MISSTATEMENT IN PROSPECTUS AND BOTH CRIMINAL AND CIVIL

LIABILITY ATTRACTED

SECTION 36

Any who fraudulently induces to money in co by making false statements, deception, omission of material facts shall be liable for Fraud u/s 447

SECTION 37

Any person or group of persons who are aggrieved due to mis-statements can take action u/s 34 or 35 or 36

Section 38

Any person who makes an application in fictitious name/names shall be liable for fraud u/s 447.

Section 39

ALLOTMENT OF SECURITIES

Allotment means acceptance of application by a person to subscribe the securities of company.

Following conditions must be satisfied related to allotment failing which it shall be treated as an irregular allotment:-

1. Minimum amount of subscription mentioned in the prospectus (at least 90% of the issue size) must be subscribed by public
2. Min application money cannot be less than 5% of face value or any other sum as specified by SEBI (i.e 25% x issue price in case of listed co has been specified by SEBI)
3. Min subscription must be achieved by co within 30 days of issue of prospectus failing which entire amount received must be refunded back within 15 days of closure of issue failing which co and every other officer in default shall be liable to refund with int @ 15% p.a
4. Co shall submit return of Allotment in Form PAS 3 within 30 days of allotment
5. If any default then co and every other officer in default liable to penalty 1000/day or Rs 1 lac whichever is less

SEC 40 APPLICATION TO STOCK EXCHANGE, ETC

Every Company Shall Make An Application For Listing To A Recognised Stock Exchange Before A Public Issue Of Securities

The Names Of Stock Exchange Listing Application Has Been Made By Company Must Be Mentioned In The Prospectus

Application Money Received Shall Kept In A Separate Schedule Bank Account And Listing Approval And Allotment Is Done . Till Then Such Money Can Be Used Only For Refund Adjustment Towards Allotment

ANY CONTRAVENTION OF ABOVE PROVISIONS-COMPANY

MIN FINE : 5Lacs

MAX FINE: 50 Lacs

OFFICERS IN DEFAULT

MIN FINE : 50k

MAX FINE: 3Lacs

UNDERWRITING COMMISSION SHALL BE PAID BY CO.AS MAY BE PRESCRIBED-

RULE 3 OF COMPANIES (PROSPECTUS AND ALLOTMENT OF SECURITIES) RULES, 2014

UNDERWRITING COMMISSION CAN BE PAID BY CO. TO UNDERWRITERS ONLY IF ARTICLES AUTHORISE SUCH COMMISSION WILL BE PAID OUT OF PROFITS OF COMPANY (OR) ISSUE PROCEEDS

MAXIMUM UNDERWRITING COMMISSION

IN CASE OF SHARES

5%* ISSUE PRICE (OR) ARTICLES, WHICHEVER LOWER

IN CASE OF DEBENTURES

2.5%* ISSUEPRICE (OR) ARTICLES, WHICHEVER IS LOWER

PROSPECTUS ISSUED BY COMPANY SHALL MENTION THE FOLLOWING-

- NAME OF UNDERWRITER
- DETAILS OF UNDERWRITING COMMISSION
- DETAILS OF SECURITIES OFFERED TO PUBLIC WHICH HAVE BEEN UNDERWRITTEN BY COMPANY.

SEC 26-MATTERS TO BE STATED IN PROSPECTUS

1. Prospectus Issued By A Public Company(Private Company Cannot Issue Prospectus) Shall Contain Such Details As May Be Specified By SEBI In Consultation With CG.
   AND IT SHALL ALSO CONTAIN A DECLARATION THAT COMPANY IS MAKING THE PUBLIC ISSUE BY COMPLETING THE REQUIREMENTS OF THIS ACT, SEBI ACT 1992 AND SECURITIES CONTRATCT REGULATION ACT 1996
2. EXCEPTIONS:- NOTHING IN SEC 26(1)SHALL APPLY TO-
   Issue Of Securities Made To Existing Members Or Debenture Holders Or Right Issue Under Section 62 Issue Of Securities Having Uniform Rights With Securities Already Issued And Listed On RSE
3. Prospectus Can Be Issued By Company At The Time Of Its Formation Or Even Subsequently When New Public Issue Is Brought
4. No Prospectus Shall Be Issued To Public Without Filing It Without ROC
5. Expert's Consent If Any Related To Any Matter Can Be Mentioned In Prospectus Provided That He Has Not Withdrawn Such Consent Before Filing Of Prospectus With Ro
6. Prospectus Is Issued To Public And Mention That A Copy Of It Has Been Filed With Roc.
7. Prospectus Must Be Issued To Public Within 90 Days From The Date Of Its Filing With ROC Otherwise It Shall Be Invalid.

ANY CONTRAVENTION OF ABOVE PROVISIONS-COMPANY

MIN FINE : 50K

MAX FINE: 3 Lacs

OFFICERS IN DEFAULT

MIN FINE : 50k

MAX FINE: 3Lacs

SEC 27

VARIATION IN TERMS OR OBJECTS MENTIONED IN PROSPECTUS

PASS SR IN GM PUBLISH ADVERTISEMENT IN FORM PAS 1 IN 2 NEWSPAPERS

GIVE AN EXIT OPPROTUNITY TO THE DISSENTING SHAREHOLDERS BY MAKING PROMOTERS OR SHAREHOLDERS HAVING CONTROL PURCHASE THE SHARES OF DISSENTING SHAREHOLDERS AT FAIR VALUE

SEC 30

WHEREVER, CO. PUBLISHES ADVERTISEMENT OF PROSPECTUS, IT SHALL ALSO MENTION CONTENTS OF ITS MOA LIKE OBJECT, LIABILITY OF MEMBERS, CAPITAL STRUCTURE, DETAILS OF SIGNATORIES & SHARES SUBSCRIBED BY THEM.

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THE END

SHARE CAPITAL & DEBENTURES

(SEC43TO72)

RIGHTSISSUE U/S 62

I) Whenever Any Company Comes Out With Further Issue Of Shares It Must Be Offered To

A)Existing Equity Shareholders And Proportion To PUSC As Nearly As Circumstances Admit Subject To

The Following Three Conditions:-

(i) OFFER PERIOD WILL BE OF MINIMUM IS DAYS AND MAXIMUM 30 DAYS. EXEMPTION HAS BEEN GIVEN IN CASE OF PRIVATE COMPANY AND IFSC PUBLIC COMPANY THAT OFFER PERIOD CAN BE LESS THAN IS DAYS IF AGREED BY AT LEAST 90% MEMBERS

(ii) UNLESS THE ARTICLES OTHERWISE PROVIDED RENOUNCIATION IS ALLOWED PARTLY ALSO FULLY ALSO

(iii) REMAINING UNSUBSCRIBE SHARES WILL BE DISPOSED BY BODY TO THE BEST OF INTEREST OF COMPANY

B. To Employees Under Scheme Of ESOP By passing SR In GM. For Private Company And IFSC Public Company Instead Of SR its OR IN GM
C. To Any Other Person By Passing SR IN GM And Valuation Of Share To Be Done By Registered Valuer.
2. Offer Letter Shall Be Dispatched By Speed Post/ Courier/ Registered Post /Email Atleast Three Days BeforeTheOfferPeriodStarts
3. Company Can Convert Its Convertible Debentures Or Loan Into Equity Shares On The Date Of Conversion Provided That Before The Issue of such convertible debenture /loan SR IN GM was passed.
4. Government On The Grounds Of Public Interest Can Direct The Company To Convertible Non-convertible Debentures All Loans Which Were Issued By Company To Government Into Equity SharesProvided That If Company Feels Aggrieved By Government's Order Then Within 60 Days Of Receipt Of Such Order It Con Apply To NCLT And NCLT After Hearing Both The Parties Shall Pass Such Order As It Deems Fit
5. Government While Passing Order Under Subsection (4) Will Give Due Regard To The Financial Position Of The Company
6. The Authorized Share Capital Of Company Is Deemed To Be Increased By The Amount Of Share Capital Issued To Government Under Subsection (4)

BONUS ISSUE U/S 63

ITMEANS EQUITY SHARES ISSUED FREE OF COST TO EQUITY SHAREHOLDERS OF COMPANY

SOURCES

1. FREERESERVES
2. SECURITY PREMIUm
3. CAPITALREDEMPTIONRESERVE

NO BONUS SHARES CAN BE ISSUED FROM A RESERVE CREATED OUT OF REVALUATION OF ASSETS

FORMALITIES

Articles Must Authorise Otherwise Alter The Articles By Passing SR In GM

Bonus Shares Can Be Recommended By BOD BY PASSING BR AT BM

Bonus Share Will Be Approved By Shareholders By Passing OR IN GM

Company Should Not Have Defaulted In Payment Of Fixed Deposit Or Debt Securities

Company Should Not Have Default In Payment Of Statutory Dues Of EES Like Bonus PF.Gratuity

Bonus Share Can Be Given Only On Fully Paid Up Shares

Bonus Share Cannot Be Given In Lieu Of Dividend

Company Must Satisfy Such Other Conditions As May Be Prescribed

Companies (Share Capital And Debentures)Rules Prescribed That Bonus Share Once Recommended Cannot Be Withdraw

BUYBACK U/S 68

BUYBACK MEANS COMPANY BUYING ITS OWN SECURITIES

REASONS FOR BUY BACK

A. To use Ideal cash to improve EPS
B. TO CONCENTRATE THE DILUTED CONTROL
C. TO GIVE CONFIDENCE TO SHAREHOLDERS AT THE TIME OF FALLING PRICES
D. TO INCREASE PROMOTERS SHAREHOLDING TO REDUCE THE CHANCES OF TAKEOVER

PRE BUYBACK FORMALITIES U/S 68 READ WITH THE COMPANIES (SHARE CAPITAL & DEBENTURES) RULES:-

1. ARTICLES WAS AUTHORISED BY BACK OTHERWISE FIRST AND ARTICLES BY PASSING SR IN GM
2. PASS SR IN GM FOR BUYBACK PROVIDED THAT IF BUY BACK IS ONLY UP TO 10% (PUSC + FR) THEN PASS BR AT BM.
3. MAX BUYBACK AMOUNT EXCEED 25% (PUSC + FR)

EXPLANATION

FOR BUYBACK OF EQUITY SHARE THE ABOVE PUSC WILL BE PUES AS PER SEBI GUIDELINES LISTED COMPANY IN CASE OF BUY BACK FROM OPEN MARKET MAXIMUM AMOUNT SHALL BE 15% (PUSC + FR)

4. THE RATIO OF SECURED AND UNSECURED LOAN- PUSC FR CANNOT EXCEED 2:1
   HOWEVER FOR GOVERNMENT COMPANIES WHICH ARE ENGAGED IN NBFC HOUSINGFINANCE ACTIVITIES THE ABOVE RATIO WILL BE 6:1 INSTEAD OF 2:1
5. BUYBACK CAN BE DONE ONLY ON FULLY PAID UP SHARES

DECLARE SOLVENCY TO ROC BY SUBMITTING FORM SH 9 SIGNED BY ATLEAST 2 DIRECTORS OUT OF WHOM ONE SHALL BE MANAGING DIRECTOR IF ANY

POST BUYBACK FORMALITIES U/S 68

- ✓ Maintainer Register Of Buyback Inform SH 10 It Will Contain Details Like Number Of Shares Of Buyback, Date Of Buyback, Price, Mode, Name Of Shareholders Who Share Bought Back

- ✓ Submit Return Of Buyback To Roc In Form Sh-11 Annexed With Sh-15 Which Certifies The Correctness of Sh-11 And Signed By At Least Two Directors One Of Whom Shall Be Managing Director If Any

3. Cancel The Shares Brought Back Within 7 Days Of BuybacK
4. Observe Cooling Period Of Six Months. I.e, Company Cannot Make Fresh Issue Of Shares Except Bonus Issue, Sweat Equity Shares Of Conversion Of Convertible Debenture Or Preference Share
5. No Buyback Is Allowed For Next One Year From The Closure Of A Period Of Last Buyback
6. Complete All The Buyback Formalities Within One Year From The Date Of Passing Of Resolution Authorising The Buyback

SOURCES OF BUYBACK

- FREE RESERVES
- SECURITY PREMIUM
- PROCEEDS OF FRESH ISSUE OF OTHER CLASS OF SHARES

TRANSFER TO CAPITAL REDEMPTION RESERVE U/S 69 WHEN BUYBACK IS MADE OUT OF FREE RESERVES, S/P THEN AN AMOUNT EQUAL TO NOMINAL VALUE OF SHARES BROUGHT BACK SHALL BE TRANSFEREED To CAPITAL REDEMPTION RESERVE

SEC 70 PROHIBITION OF BUYBACK

- No Buyback Is Allowed To Any Subsidiary Company Including His Own Subsidiaries
- No Buyback Is Allowed Through Any Investment Company Or Group Of Investment Companies
- ✓ If Company Has Defaulted In Repayment Of Deposits Or Interest Thereon Or Failed To Redeem Debentures Of Preference Shares Or Their Interest Or Dividend Or Failed To Repay Loan Or Interest Of Bank Of Financial Institution,

Then Buy Back Is Not Allowed Till 3 Years ma The Date When Such Default Has Been Remedied

4. NO BUYBACK IS ALLOWED IF COMPANY HAS DEFAULTED THE PROVISION OF:-

SEC 92 FILING OF ANNUAL RETURN (OR) SEC 129 PREPARATION OF FINANCIAL STATEMEN (OR) SEC 123 DECLARATION OF DIVIDEND (OR) SEC 127 PUNISHMENT OF FAILURE TO PAY DIVIDEND

PUNISHMENT FOR CONTRAVENTION OF BUYBACK PROVISIONS:- Company:

Min Fine : 1 LAC
Max Fine : 3 LAC
Officer in default:
Min Fine : 1 LAC
Max Fine : 3 LAC
Or upto 3 years imprisonment or both

COMPANIES (SHARE CAPITAL & DEBENTURES) RULES RELATED TO BUYBACK DONE THROUGH OPEN OFFER:-

Submit An Offer Letter To Roc In Form Sh 8

Within 20 Days Of Offer Letter Being Submitted To Roc, Dispatch To All The Shareholders Giving Them An Offer Period Of Minimum 15 Days And Maximum 30 Days

Offer Period Can Be Less Than 15 Days Also if Agreed By All The Members

Now Within The Offer Period Interested Shareholders Will Surrender The Shares For Buyback

OFFER PERIOD CLOSES

- IMMEDIATELY DEPOSIT ENTIRE BUYBACK AMOUNT IN A SEPARATE SCHEDULE BANK A/C CALLED ESCROW A/C
- WITHIN 15 DAYS COMPLETE THE VERIFICATION OF SHARE CERTIFICATES
- ONCE VERIFICATION IS COMPLETED. MAKE THE PAYMENT WITHIN 7 DAYS
- WITHIN 21 DAYS RETURN BACK THE SHARE CERTIFICATE OF THOSE SHAREHOLDERS WHOSE BUYBACK HAS BEEN REJECTED

KINDS OF SHARE CAPITAL

EQUITY SHARE CAPITAL

- ❖ ORDINARY SHARES
- ❖ SHARES CARRYING DIFFERENTIAL RIGHTS AS TO DIVIDEND, VOTING i.e DVR

PREFERENCE SHARE CAPITAL

- ✓ IT GETS PRIOTITY OVER EQUITY SHAREHOLDERS
  - ➢ PAYMENT OF DIVIDEND
    AND
  - ➢ REPAYMENT OF CAPITAL AT THE TIME OF WINDING UP

RULE 4 OF THE COMPANIES (SHARE CAPITAL AND DEBENTURES) RULES 2014-

A COMPANY CAN ISSUE DVR SHARES BY COMPLYING ALL 7 CONDITIONS

- ✓ ARTICLES MUST AUTHORISE OTHERWISE AMONG THEM BY PASSING SR IN GM
- ✓ PASS OR IN GM TO ISSUE DVR
- ✓ VOTING RIGHTS ON DVR CANNOT EXCEED 74% OF TOTAL VOTING POWER ON ALL SHARES INCLUDING DVR SHARE
- ✓ Company Has Not Defaulted In Filing Financial Statement And Annual Returns In Immediately Preceding Three Financial Year
- ✓ Company Has Not Been Penalized By Any Court Or Tribunal In Immediately Preceding Three Financial Year For Violation Of Securities Exchange Board Of India Act 1992, Securities Contract Regulation Act 1956, Reserve Bank Of India Act 1934, Foreign Exchange Management Act 1999.

DEFFERED SHARES/FOUNDER SHARES-

These are such type of DVR equity share in which dividend& repayment of capital at the time of winding up is made at very last after ordered equity shares has been paid Generally these types of shares are taken by promotion of company & so it's called founder shares

PHANTOM STOCK

It's A Type Of Share Issued Payment Made To EES/Kmps As Per Which Market Price Of Fixed No Of Shares After Certain No. Of Years Will Be Paid By Company. No Shares Are Issued Here & So It's Called Phantom Stock.

SEC 44 SHARES & DEBENTURES

Shares & debenture held by the members of company are movable property & transferrable in the manner provided in articles of company

SEC 45 NUMBERING OF SHARES

Every share in company having share capital will have a distinctive number/ folio number. Provided that nothing in this section Shall apply if shares are held in Demat with depository.

SEC 46 SHARE CERTIFICATE

1. Is A Title Deed Containing Name Of The Shareholder Number Of Shares Held & F. V Of Shares.
2. Common Seal If Any Will Be Affixed On It.
3. Share Certificate Will Be Signed By Atleast 1 CS &1 Director But If No CS, Then By Atleast 2 Directors.
4. In Case Of OPC, It Shall Be Signed Only By CS or Either 1 CS Or 1 Director. Share certificate is issued in form No SH 1.
5. If original share certificate is destroyed/mutilated / lost then SH can apply for duplicate share
6. certificate by submitting necessary documents along with an indemnity bond if company asks for it & once company receives all these documents, It will issue duplicate share certificate within 3 months (incase of unlisted company) & within 45 days(listed company)
7. (7) Company shall maintain register of duplicate share certificate issued in Form SH 2.

SECTION 47 VOTING RIGHTS

EQUITY SHAREHOLDERS ON ALL MATTERS MAX VOTING POWER TO ANY PARTICULAR MEMBER OF NIDHI CO. CANNOT EXCEED 5% TOTAL VOTING POWER

PREFERENCE SHAREHOLDERS ONLY ON MATTERS WHICH DIRECTLY AFFECTS THEM (WINDING UP, CAPITAL REDUCTION)

PROVIDED THAT IF PSH ARE NOT PAID DIVIDEND FOR 2 YEARS, THEN THEY SHALL GET VOTING RIGHTS ON ALL MATTERS JUST LIKE ESH

SEC 48 VARIATION OF SHAREHOLDER'S RIGHT

- When A Co's Share Capital is Divided Into Different Classes Of Shares & Co. Wants To Very The Rights Attached To Particular Class Of Shares Then It Can Be Done With The Written Consent Of Shareholders Holding Atleast 3/4th Of Issued Shares of That Class By Passing SR In Class Meeting

Also, such variation should be allowed in MOA/AOA of Co. or should not be prohibited by the terms of issue of that class of shares

Provided that if variation of rights of one class of shares affects the rights of another class of shares, then it's also a variation of that another class of shares & consent u/s 48 shall be required from them also.

2. The Share Holders Who Are Against Such Variation &Did Not Give Their Consent Or Voted In Favour May Apply To NCLT If They Hold Atleast 10%x Issued Shares Of That Class, To Get The Variation Cancelled. Such Variation Shall Not Take Effect Unless Confirmed By NCLT. Provided That Such Application Must Be Made To NCLT Within 21 Days Of Obtaining Of Written Consent/SR Passed.
3. Nclt's Order Shall Be Binding On All Shs
4. Co. Shall Submit NCLT Order Copy To ROC Within 30 Days Of Nelt's Order.

SEC 49 CALLS TO BE MADE UNIFORMLY

WHENEVER ANY CO. MAKES ANY CALL ON PARTLY PAID UP SHARES, IT SHALL BE MADE UNIFORMLY ON ALL SHARES OF THAT CLASS

SEC 50 CALLS IN ADVANCE

IF AUTHORISED BY ARTICLES, CO. MAY RECEIVE FROM ANY SHAREHOLDER BY AMOUNT THAT HAS NOT YET BEEN CALLED BY COMPANY. NO VOTING RIGHT SHALL BE GIVEN ON CALLS IN ADVANCE

SEC 51 DIVIDEND

DIVIDEND MAY BE IF SO AUTHORISED BY ARTICLES BE

GIVEN ON PUSC OF CO. CALLED UP SHARE CAPITAL-CALLS IN ARREAR (CALLS IN ADVANCE)

SEC 52 SECURITIES PREMIUM

WHEN THE SHARES OR ANY OTHER SECURITIES ARE ISSUED ABOVE FACE VALUE, THEN THE EXTRA PROCEEDS ABOVE THE FACE VALUE REFERS TO SECURITIES PREMIUM

- To Issue Bonus Shares
- Used In Buyback U/s 68
- To Write Off Preliminary Expenses
- To Write Off Securities Issue Expenses Including Underwriting Commission, Discount In Issue Of Shares & Debentures
- To Write Off POROPS, PORO

3(3)Notwithstanding Anything Mentioned In (1) & (2) Co. Can Comply Accounting Standard As Prescribed U/S 133 Shall Issue S/P Only For

3 Purposes-

To Issue Bonus Shares

For Buyback U/S 68

To Write Off Securities issue Expenses including Underwriting Commission. Discount On issue Of Shar

SEC 53 ISSUE OF SHARES AT DISCOUNT

- No Co. Shall Issue Shares At Discount Except Sweat Equity Shares U/S 54
- Any Share Issued At Discount Shall Be Void

Notwithstanding Anything Contained In (1) And (2), Co. May Issue Share At Discount To Creditors To Convert Debt Into Equity Under A Statutory Resolution Plan Or Debt Restructuring Scheme Of Rbl Act 1934, Or Banking Regulations Act 1949

SEC 63 PENALTY FOR CONTRAVENTION

CO. & OFFICER IN DEFAULT

AMOUNT RAISED BY ISSUE OF SHARES AT DISCOUNT

CO. SHALL ALSO BE LIABLE TO (OR) 5 LACS, WHICHEVER IS LOWER

AND

REFUND SUCH AMOUNT RAISED ALONG WITH INTEREST 12% P.A FROM DATE OF ISSUE TILL DATE OF REFUND

SEC 54 SWEAT EQUITY SHARES AS PER SEC 2(88) SWEAT EQUITY SHARES MEANS SUCH EQUITY SHARES WHICH ARE ISSUED TO EMPLOYEES OR DIRECTORS AT DISCOUNT OR FOR CONSIDERATION

OTHER THAN CASH OR FOR PROVIDING TECHNICAL KNOW HOW OR VALUE ADDITIONS OR MAKING AVAILABLE THE RIGHTS IN THE NATURE OF INTELLECTUAL PROPERTY RIGHTS

CONDITIONS FOR ISSUE OF SWEAT EQUITY SHARES

1. PASS SPECIAL RESOLUTION IN GENERAL MEETING
2. RESOLUTION MUST SPECIFY
   - CLASSES OF DIRECTORS AND EMPLOYEES TO WHOM SWEAT EQUITY SHARES WILL BE ISSUED
   - NO. OF SHARES TO BE ISSUE
   - MARKET PRICE/SHARE
   - CONSIDERATION IF ANY
3. COMPANY

LISTED -FOLLOW SEBI GUIDELINES TO ISSUE SWEAT EQUITY SHARES

UNLISTED -FOLLOW COMPANIES RULES TO

4. THE RIGHTS LIMITATION, RESTRICTIONS AND PROVISIONS ON SWEAT EQUITY SHARE SHALL BE SAME AS OTHER EQUITY SHARE OF CO. AND RANK PARI PASSU (AT PAR SAME STATES) WITH THEM

Companies (Share Capital & Debentures) Rules 2014 Rule 8 Related To Sweat Equity Share:-

1. Employees Will Mean Permanent Employees Whether Working In Or Outside India.
2. Directors Will Mean Both Whole Time & Part Time.
3. Sweat Equity Share Can Be Issued To Eess/Directors Of Company Or It's Holding Or Subsidiary In Or Outside India.
4. Validity of SR Shall Be 12 Months.
5. Lock In Period Of Sweat Equity Share Shall Be 3 Years Which Means Ees/ Directors Cannot Transfer It.
6. Register Of Sweat Equity Share In Form SH 3.
7. Fair Value/Equity Share Shall Be Determined By Registered Valuer.
8. Maximum sweat equity share that can be issued in a year:-15% xPUESC or issue value *5 crore whichever is higher.
9. Overall sweat equity shares cannot exceed 25% PUESC. Provided that in case of start up company it can be 50% PUESC upto 10 years incorporation

SEC-55 ISSUE & REDEMPTION OF PREFERENCE SHARES

1. No Co Can Issue Irredeemable Preference Shares
2. Redeemable Preference Shares Can Be Issued If Articles Authorize.
3. SR In GM Is Required For Issuing Redeemable Preference Shares
4. Preference Shares Tenure Cannot Exceed 20 YearYear
5. For Infrastructure Related Projects It Can Be 30 Yrs With An Option Given To Preference Shareholders To Redeem 10% Annually Starting From 21 St Year.
6. Only Fully Paid Preference Shares Can Be Redeemed.
7. CRR Shall Be Created Out Of Free Reserves By An Amount Equal To Nominal Value Of Preference shares Redeemed.
8. he Only Purpose Of CRR Shall Be To Issue Fully Paid Up Bonus Share Can Be Redeemed.

9) If Co. Is Unable To Redeem Preference Shares On Due Date

- Then New Preference Shares Can Be issued For Amount O/S Including Dividend In Respect Of Unredeemed Preference Shares Them
- NCLT'S APPROVAL ALSO REQUIRED
- Consent Required From Preference Shareholders Holding Atleast 4Th Of Paid Up Shares
- Those Preference Shares Who Did Not Give Consent Shall Have To Redeemed Forthwith [Immediately By Paying Cash)

PROVISIONS RELATED TO TRANSFER/TRANMISSION OF SHARES (SEC-56-59)

TRANSFER

MEANS SALE OF SHARES

IT'S A VOLUNTARY ACT

INVOLVES CONSIDERATION

INVOLVES STAMP DUTY

VALID TRANSFER DEED IS REQUIRED

FOR TRANSFER/TRANSMISSION OF SHARES WHAT FORM HAS TO BE SUBMITTED.

FORM SH-4 SIGNED BY TRANSFEROR & TRANSFEREE BOTH HAS TO BE SUBMITTED WITHIN 60 DAYS OF SIGNING TO CO. AT ITS REGISTERED OFFICE ALONG WITH OLD SHARE CERTIFICATE

WHAT IF SHARE TRANSFER SH-4 SIGNED BUT LOST BY TRANSFERRE?

CO. MAY ISSUE NEW SHARE CERTIFICATE TO TRANSFERRE BY MAKING HIM SIGN AN INDEMNITY BOND

SEC 57 PUNISHMENT FOR IMPERSONATION OF SHARE CERTIFICATE ETC-

IF ANY PERSON WRONGFULLY OBTAIN OR ATTEMPT TO OBTAIN OTHER SHAREHOLDER'S CERTIFICATE OR DIVIDEND COUPONS OR RECEIVES WRONGFULLY MONEY ON THEIR BEHALF THEN PUNISHMENT SHALL BE – IMPRISONMENT : MIN 1 YEAR MAX 3 YEARS

AND

FINE : MIN 1 LAKH MAX 5 LAKH

SEC 58 REFUSAL OF REGISTRATION OF TRANSFER/TRANSMISSION & APPEAL SH 4 SHARE TRANSFER FORM SUBMITTED TO COMPANY WITHIN 60 DAYS OF SIGNING-

COMPANY

ALLOW THE TRANSFER

CO. SHALL ISSUE NEW SHARE CERTIFICATE TO TRANSFERRE WITHIN 1 MONTH OF RECEIPT OF SH-4

COMPANY

REFUSE TO TRANSFER

CO. WILL SEND REFUSAL NOTICE TO BOTH TRANSFEROR & TRANSFERRE WITHIN 30 DAYS OF RECEIPT OF SH-4

PRIVATE CO : CO. SENT REFUSAL NOTICE

TRANSFEREE CAN APPEAL TO NCLT WITHIN 30 DAYS OF RECEIPT OF NOTICE

NOT SENT

TRANSFERRE CAN APPEAL TO NCLT WITHIN 60 DAYS OF DELIVERY OF SH-4

PUBLIC CO.CO. SENT REFUSAL NOTICE

TRANSTRANSFEREE CAN APPEAL TO NCLT WITHIN 60 DAYS OF RECEIPT OF REFUSAL NOTICE

NOT SENT

TRANSFEREE CAN APPEAL TO NCLT WITHIN 90 DAYS OF RECEIPT OF REFUSAL NOTICE

NOW NCLT AFTER HEARING CO. & TRANSFEREE SHALL-

1) EITHER DISMISS THE APPEAL OR

2) ORDER THE CO. TO REGISTER SUCH TRASNFER.

CO. SHALL REGISTER THE TRANSFER WITHIN 10 DAYS OF ORDER OF NCLT FAILING WHICH

FINE-MIN 1 LAKH, MAX 5 LAKH

AND

IMPRISONMENT- MIN 1 YEAR, MAX-3 YEARS

Sec 59 Rectification Of Register Of Members

If Member's Name Has Been Removed From Registration Of Members Or Delay In Entering A Persons Name In Registration Of Members Without Any Sufficient Cause Then Such Member Or Person Can Apply To NCLT Who After Hearing The Parties:-

(1) Either Dismiss The Application, Or

(2) (2) Order Company To Rectify It's Register Of Members

Company Shall Comply NCLT's Order Within 10 Days Of Order Failing Which

Fine Minimum 1 Lakh Maximum 5 Lakh And

Imprisonment Minimum 1 Year And Maximum 3 Years

SEC 61 ALTERATION OF SHARE CAPITAL

SEC 61

- INCREASE THE AUTHORISED SHARE CAPITAL
- CONSOLIDATION OF SHARES E.G- 10 SHARE OF RS. 10 EACH CONSOLIDATED INTO 1 SHARE RS.100 EACH,
- SUB DIVISION OF SHARES LG-1 SHARE OF RS.100 INTO 10 SHARES PF RS.10 EACH
- CONVERTING SHARES INTO STOCK
- DIMINUTION OF SHARE CAPITAL

CANCELLING THE UNSUBSCRUBED SHARES.

E.G. CO. ISSUED 10,000 SHARES PUBLIC SUBSCRIBED (9600) UNSUBSCRIBED 400 SHARE

CO. IF CANCELS 400 SHARES, ITS CALLED DIMINUTUON /ALTERATION OF SHARE APITAL

FORMALITIES/CONDITIONS FOR ALTERATION OF SHARE CAPITAL

- ARTICLES MUST AUTHORISE OTHERWISE AMEND THEM BY PASSING SR IN GM
- PASS OR IN GM FOR ALTERATION SHARE CAPITAL (SEC 61)
- SUBMIT FORM SH-7 TO ROC WITHIN 30 DAYS OF ALTERATION OF SHARE CAPITAL

SEC 66 REDUCTION OF SHARE CAPITAL

FORMALITIES / CONDITIONS

❖ PASS SR IN GM FOR REDUCTION OF SHARE CAPITAL

- NCLT'S APPROVAL REQUIRED
- FORM NO. RSC 1 TO RSC 7 REQUIRED
- THE WORDS "AND REDUCED" HAVE TO BE ADDED AFTER THE NAME OF CO. FOR 5 YEARS FROM DATE OF REDUCTION OF SHARE CAPITAL

SEC 71 DEBENTURES

1. A CO. MAY ISSUE CONVERTIBLE DEBENTURES WHICH ARE EITHER FULLY OR PARTLY CONVERTIBLE. PROVIDED THAT BEFORE ISSUE OF SUCH CONVERTIBLE DEBENTURES, CO. SHALL PASS SR IN GM
2. NO CO. SHALL ISSUE DEBENTURES CARRYING VOTING RIGHTS
3. 3.CO. MAY ISSUE SECURED DEBENTURES HAVING TENURE MAXIMUM 10 YEARS BUT

IN CASE OF PROJECTS, OR INFRASTRUCTURE FINANCE,INFRASTRUCTURE DEBT COMPANIES, OR AFTER APPROVAL OF MCA OR GOVERNMENT

MAXIMUM TENURE CAN BE 30 YEARS

2. Creation Of Debenture Redemption Reserve

Is Created For The Purpose Of Redemption Of Debenture In The Manner Specified By The Companies (Share Capital & Debenture) Rules, 2014 Only Be Companies Prescribed In These Rules

DRR Is Created Out Of Profits Available For Distribution Of Dividend. I.e P/L & Free Reserves.

P/L/FR A/C...dr

To DRR A/C

THE AMOUNT CREDITED IN DRR CANNOT BE USED FOR ANY OTHER PURPOSE EXCEPT FOR REDEMPTION OF DEBENTUR

5. No company shall issue a prospectus or make an offer or invitation to the public or to its members exceeding five hundred for the subscription of its debentures, unless the company has, before such issue or offer, appointed one or more debenture trustees and the conditions governing the appointment of such trustees shall be such as may be prescribed.
6. Debenture Trustee Shall Protect The Interest Of Debenture Holders & Redress Their Grievances entre Ho
7. Debenture Trustee Shall Be Liable To Conduct Its Duty Will Skill And Care. Any Exemption From Liability Of Debenture Trustee Can Be Given Only By Majority Of Debenture Holders Holding At Least ¾ In Value Of Debentures
8. A Co Shall Pay Interest & Redeem Debentures On Due Date Have Become Insufficient Or Are Likely To Become Insufficient To Redeem The Debentures Where After They Become Due & NCLT After Hearing
9. Co & Other Interested Parties May Restrain Co. For Incurring Further Liability.
10. If On The Due Date Co. Fails To Redeem The Debentures Or Interest Then On Application Filed By All Or Any Debenture Holders Or Debenture Trustee, NCLT May Order Co To Redeem Debentures Forthwith.
12. Co Will Specifically Perform Contract Entered With Debenture Holders.
13. CG May Prescribe Rules Related To Debentures.

DISQUALIFICATIONS OF DEBENTURE TRUSTEE

1. Shareholder Who Is Beneficiary.
2. Creditor
3. Guarantor
4. Any Person Who Is Indebted To Co, Holding,Subsidiary, Associate, Fellow Subsidiary
5. Any Person Who Is Promotor/Director/Kmp/Officer/Ees Of Co, Holding, Subsidiary, Associate

6. Relatives Of Promotor/Director/Kmp Of Co
7. Any Person Having Pecuniary (business) Relationship Amounting To-(2% of T/O Or 50 Lac) Whichever Is Lower

SEC 67 RESTRICTIONS ON GIVING LOANS FOR PURCHASING SHARES OF COMPANY

NO CO. SHALL GIVE LOANS & ADVANCES OR PROVIDE GUARANTEE OR SECURITY RELATED TO LOAN TO ANY PERSON FOR PURCHASING SHARES OF THE COMPANY.

SEC 67 SHALL NOT APPLY IN FOLLOWING CASES-

(i) PRIVATE CO. SATISFYING ALL 3 CONDITIONS

- NO BODY CORPORATE IS THE SHAREHOLDE
- LOAN O/S FROM BANK OR FIANNCIAL INSTITUTION OR BODY CORPORATE SHOULD BE LESS THAN 2* PUSC OR 50 CRORE, WHICHEVER IS LOWER
- NO DEFAULT IN SUCH LOANS.

(ii) IFSC PUBLIC CO. SATISFYING ALL 3 CONDITIONS- (SAME AS ABOVE)

(iii) LENDING OF MONEY BY BANKING CO. IN THE ORDINARY COURSE OF BUSINESS

(iv) LOAN GIVEN TO EMPLOYEES AN AMOUNT EQUIVALENT TO 6 MONTHS SALARY OF THAT EMPLOYEE. HERE, EMPLOYEES WILL NOT INCLUDE DIRECTOR & KMP

(v) BY PASSING SR IN GM, LOAN GIVEN TO TRUST CREATED FOR EE'S WELFARE.

(vi) NIDHI CO.. SES

FINE FOR CONTRAVENTION

COMPANY

MIN 1 LAC MAX 25 LAC

MIN 1 LAC MAX 25 LAC

OFFICER IN DEFAULT

MIN 1 LAC MAX 25 LAC

MIN 1 LAC MAX 25 LAC

AND

IMPRISONMEMTUPTO 3 YEARs

THE END

ACCEPTANCE OF DEPOSITS BY COMPANIES

SEC 73
AS PER SECTION 73(1)
NO COMPANY CAN ACCEPT DEPOSITS FROM PUBLIC EXCEPT ELIGIBLE PUBLIC CO. U/S 76
ELIGIBLE PUBLIC CO. HAS BEEN DEFINED U/S 76 TO MEAN A PUBLIC CO. WHICH HAS
NET WORTH MIN 100 CRORE
OR
TURNOVER TURNOVER MIN 500 CRORE
ELIGIBLE PUBLIC CO. CAN ACCEP DEPOSITS FROM PUBLIC (OUTSIDERS) U/S 76 BY SR IN GM HOWEVER, IF
PRESENT BORROWING + PROPOSED BORROWING <= PUSC+FR+SP
THEN INSTEAD OF SR IN GM, PASS OR IN GM
·OBTAIN CREDIT RATING FROM A CREDIT RATING AGENCY
SEC 73(1) SHALL NOT APPLY ON
BANKING CO.
NBFC
HOUSING FINANCE CO.
SUCH OTHER CLASS OF COMPANIES PRESCRIBED
AS PER SEC 73(2) ANY CO. CAN ACCEPT DEPSOITS FROM ITS MEMBERS BY COMPLYING CLAUSES (A) TO (F)

a) CO. SHALL CIRCULATE TO ITS MEMBERS A CIRCULAR OF DEPOSIT IN FORM DPT-1 CONTAINING DETAILS OF LATEST FINANCIAL POSITION OF CO., TOTAL NO. OF DEPOSITS AND AMOUNT OF DEPOSITS OUTSTANDING
b) CO. SHALL FIRST SUBMIT DPT 1 TO ROC & THEN WITHIN 30 DAYS, CIRCULATE TO ITS MEMBERS
c) DEPOSIT BY 30TH APRIL EVERY YEAR MIN 20% OF TOTAL DEPOSITS MATURING IN THE NEXT FINANCIAL YEAR IN A SEPARATE SCHEDULE BANK A/C CALLED DEPOSIT REPAYMENT RESERVE
d) OMITTED
e) NO DEFAULT IN REPAYMENT OF DEPOSITS OR ITS INTERESTS OR IF CO. HAD DEFAULTED PERIOD OF 5 YEARS HAVE ELAPSED FROM THE DATE WHEN SUCH DEFAULT WAS REMEDIED
f) DEPOSITS SHOULD BE FULLY SECURED & IF NOT THEN CO. SHOULD MENTION IT EVERYWHERE THAT DEPOSITS ARE UNSECURED

EXEMPTION GIVEN TO ALL PRIVATE COMPANIES, IFSC PUBLIC CO. & STARTUP THAT THEY CAN ACCEPT FROM MEMBERS WITHOUT COMPLYING SEC 73(2)(A) TO € WHICH MEANS THEY HAVE TO COMPLY ONLY SEC 73 (2) (F)

PVT CO. SATISFYING ALL 3 CONDITIONS:-

ITS NEITHER A SUBSIDIARY NOR AN ASSOCIATE CO.

LOAN O/S FROM BANK, FINANCIAL INSTITUTIONS, BODY CORPORATE

IS LESS THAN 2 TIMES OF PUSC OR 50 CRORE, WHICHEVER IS LESS

NO DEFAULT IN SUCH LOAN

SEC 73(3)

CO. SHALL PAY INTEREST ON DEPOSITS TIMELY & REPAY THE DEPOSITS ON ITS MATURITY

SEC 73(4)

PAY INTEREST TIME IF CO. FAILS TO PAY INTEREST TIMELY OR REPAY DEPOSITS ON MATURITY

THEN ANY DEPOSIT HOLDER CAN APPLY TO NCLT FOR NECESSARY ORDERS.

SEC 73(5)

RESERVE AM DEPOSIT REPAYMENT RESERVE AMOUNT CANNOT BE USED FOR ANY OTHER

PURPOSE EXCEPT REPAYMENT OF DEPOSIT

SEC 76 A

IF A COMPANY CONTRAVENES PROVISIONS SEC 73 OR SEC 76 OR ITS RULES THEN

COMPANY :

MIN FINE: 1 CRORE OR 2 TIMES OF DEPOSITS WHICHEVER IS LOWER

MAX FINE : 10 CRORE

OFFICER IN DEFAULT

MIN FINE : 25 LAKH

MAX FINE : 2 CRORE

AND

UPTO 7 YEARS IMPRISONMENT

IF CONTRAVENTION WAS INTENTIONAL OR TO DEFRAUD CO. OR CREDITORS OR SHAREHOLDES OR TAX AUTHORITIESES THEN EVERY OFFICER IN DEFAULT SHALL BE LIABLE FOR FRAUD U/S 447

SEC 74

COMPANIES WHICH ACCEPTED DEPOSITS BEFORE THE COMMENCEMENT OF THIS ACT & IS STILL O/S:-

AS PER SEC 74(1) THEY SHALL SUBMIT FORM DPT-4 TO ROC WITHIN 3 MONTHS OF 1.4.14 INFORMING DETAILS OF O/S DEPOSITS AND SHALL REPAY THE AMOUNT WITHIN 3 YEARS FROM 1.4.14 OR DUE DATE OF DEPOSITS, WHICHEVER IS EARLIER

AS PER SEC 74(2) IF IT IS UNABLE TO REPAY DEPOSITS WITHIN TIME ALLOWED U/S 74(1) THEN IT CAN APPLY FOR EXTENTION TO NCLT

AS PER SEC 74(4) IF CO. FAILS TO REPAY DEPOSITS WITHIN TIME ALLOWED UNDER SEC 74(1) OR EXTENDED TIME UNDER 74(2) IF ANY THEN

COMPANY : FINE : MIN-1 CRORE MAX-10 CRORE

OFFICER IN DEFAULT :FINE : MIN-25 LAC MAX-2 CRORE

OR

7 YEARS IMPRISONMENT

OR BOTH

IF CONTRAVENTION OF SECTION 75 IS INTENTIONAL, KNOWINGLY TO DEFARUD CO. OR CREDITORS OR SHAREHOLDES OR TAX AUTHORITIES THEN EVERY OFFICER IN DEFAULT SHALL BE LIABLE TO FRAUD U/S 447

AS PER SEC 2(31)

DEPOSITS INCLUDES ANY AMOUNT OF MONEY RECEIVED BY WAY OF DEPOSITS OR LOAN OR ANY OTHER FORM BUT NOT INCLUDE FOLLOWING CATEGORIES PRESCRIBED BY CG IN CONSULTATION WITH RBI-

AMOUNT RECEIVED FROM CG,SG, LOCAL AUTHORITY OR STATUTORY CORPORATION OR FROM ANY OTHER SOURCE BUT GUARANTEED BY GOVERNMENT

AMOUNT RECEIVED FROM FOREIGN GOVERNMENT, INTERNATIONAL AGENCY, FOREIGN BODY CORPORATE, FOREIGN CITIZENS

LOAN FROM BANKING CO.
LOAN FROM PFI
LOAN FROM OTHER CO.
AMOUNT RECEIVED BY ISSUE OF COMMERCIAL PAPER
LOAN BY PUBLIC CO. FROM ITS DIRECTOR, LOAN BY PRIVATE CO. FROM ITS DIRECTOR OR RELATIVE OF DIRECTOR. PROVIDED THAT IN ALL THE ABOVE CASES DIRECTOR/ RELATIVE OF DIRECTOR SHALL GIVE LOAN BY THEM IS OUT OF SELF GENERATE FUNDS & NOT BORROWED FUNDS.
AMOUNT RECEIVED BY ISSUE OF SECURITIES PROVIDED THAT ALLOTMENT IS MADE WITHIN 60 DAYS OF RECEIPT OF MONEY & IF ALLOTMENT COULD NOT BE MADE THEN REFUND WITHIN 15 DAYS FROM EXPIRY OF 60 DAYS
AMOUNT RECEIVED BY ISSUE OF SECURED DEBENTURES
AMOUNT RECEIVED BY ISSUE OF CONVERTIBLE DEBENTURES OF 10 YEARS
AMOUNT RECEIVED BY ISSUE OF UNSECURED NON-CONVERTIBLE DEBENTURES BUT LISTED ON REGULATED STOCK EXCHAN
AMOUNT RECEIVED IN ORDINARY COURSE OF BUSINESS AS ADVANCE FOR
GOODS : SUPPLY SHOULD BE MADE WITHIN 365 DAYS
SERVICES : SHOULD BE PROVIDED WITHIN 5 YEARS OF AS PER CUSTOM OF INDUSTRY WHICHEVER IS LESS
AMOUNT RECEIVED BY NIDHI CO. FROM MEMBERS
AMOUNT RECEIVED BY STARTUP CO. BY ISSUE OF CONVERTIBLE NOTES OF 25 LAKHS OR MORE & WILL BE CONVERTED INTO EQUITY SHARES WITHIN 10 YEARS
AMOUNT RECEIVED BY CHIT FUND CO.
AMOUNT RECEIVED FROM EES AS SECURITY DEPOSIT BUT NOT EXCEEDING HIS ANNUAL SALARY & IT SHOULD BE NON-INTEREST BEARING SECURITY DEPOSIT AMOUNT RECEIVED AS A TRUSTEE AMOUNT RECEIVED FROM CIS AMOUNT RECEIVED FROM ALTERNATIVE INVESTMENT SCHEME
WHAT IS THE MINIMUM & MAXIMUM TENURE OF DEPOSITS
AS PER RULE 3 OF THE COMPANIES (ACCEPTANCE OF DEPOSITS) RULES 2014, MIN TENURE OF DEPOSITS SHALL BE 6 MONTHS & MAX TENURE 36 MONTHS
A CO. CAN ACCEPT DEPOSITS FOR LESS THAN 6 MONTHS BUT NOT LESS THAN 3 MONTHS AN AMOUNT OF MAXIMUM 10% (PUSC +FR+SP)

THE END

REGISTRATION OF CHARGES

CHARGE MEANS RIGHT OF A CREDITOR ON THE ASSET OF COMPANY.

SEC 77 REGISTRATION OF CHARGE WITH ROC

CHARGE ONCE CREATED ON ANY PROPERTY OR ASSET OR UNDERTAKING WHETHER IN OR OUTSIDE INDIA, OF THE COMPANY MUST BE REGISTERED WITH ROC BY SUBMITTING-

FORM CHG 1 (FOR OTHER THAN DEBENTURE)

FORM CHG 9 (FOR DEBENTURE)

ALONG WITH INSTRUMENT (CONTRACT) CREATING THE CHARGE WITHIN THE FOLLOWING TIME LIMITS:-

CHARGE CREATED ON OR ORCHARGE CREAT AFTER 2.11.18 (COMMENCEMENT OF THE COMPANIES AMENDMENT ACT 2019)

30 DAYS REGISTER WITH NORMAL FEES

NEXT 30 DAYS REGISTER WITH ADDITIONAL FEES

NEXT 60 DAYS REGISTER WITH ADVALOREM FEES

CHARGE CREATED BEFORE 2.11.18

30 DAYS REGISTER WITH NORMAL FEES

300 DAYS (FROM CREATION) REGISTER WITH ADDITIONAL FEES

6 MONTHS FROM 2.11.18

WHICHEVER IS LATER

SEC 78

-CHARGEHOLDER'S APPLICATION TO ROC FOR REGISTRATION OF CHARGE

IF COMPANY FAILS TO REGISTER THE CHARGE WITHIN 30 DAYS OF CREATION OF CHARGE,THEN CHARGEHOLDER ALSO GETS AN OPTION TO REGISTER SUCH CHARGE WITH ROC BY SUBMITTING CHG-1/9 AS THE CASE MAYBE ALONG WITH INSTRUMENT CREATING THE CHARGE ON PAYMENT OF ADDITIONAL FEES OR ADVALOREM FEES.

Such Fees Paid By Charge holder Can Be Recovered By Him From Company.

Co. On Application Made By Charge holder Before Registering Such Charge Will Issue A Show Cause Notice To Company Giving 14 Days Time To Reply Why The Charge Should Not Be Registered.

If No Reply/No Satisfactory Reply Is Received

Roc Shall Register The Charge

SEC 79-MODIFICATION OF CHARGE

WHENEVER ANY TERMS & CONDITIONS OF LOAN BETWEEN COMPANY & CHARGEHOLDER GETS CHANGED, ITS CALLED MODIFICATION OF CHARGE. EXAMPLES:-

- CHANGE IN INTEREST RATE

(OTHER THAN BANK OR LOAN INTEREST RATE)

- CHANGE IN REPAYMENT SCHEDULE OF LOAN
- CHANGE IN TENURE OF LOAN
- PARTIAL REPAYMENT OFLOAN

MODIFICATION OF CHARGE SHALL BE REGISTERED WITH ROC IN SAME MANNER JUST LIKE CREATION OF CHAR S25 WAS REGISTERED U/S 77

ROC SHALL ISSUE

CREATION OF CHARGE : FORM CHG 2

MODIFICATION OF CHARGE : FORM CHG 3

SEC 86- CONSEQUENCES OF NON REGISTRATION OF CHARGE

- CONTRACT OF CHARGE BECOMES VOID
- THE CHARGEHOLDER BECOMES UNSECURED
- CONTRACT OF LOAN IS HOWEVER STILL VALID

PENALTY ON CO IS RS. 5 LAKHS ON OFFICER IN DEFAULT RS.50,000

HOWEVER IF KNOWINGLY THE CHARGE WAS NOT REGISTERED, THEN EVERY OFFICER IN DEFAULT SHALL BE LIABLE FOR FRAUD U/S 447 OF THE COMPANIES ACT 2013.

SEC 80:-

ONCE CHARGE IS REGISTERED WIT ROC, IT'S A DEEMED NOTICE TO PUBLIC

SEC 81

ROC SHALL MAINTAIN A REGISTER OF CHARGES FOR ALL COMPANIES ON MCA'S WEBSITE

SEC 82 SATISFACTION OF CHARGE

Once Co. Repays The Loan Amount Of Charge holder In Full, The Charge Gets Satisfied & Co. Will Apply To Roc For Registration of charge Within 30 DAYS OF SATISFACTION IN FULL IN

FORM CHG 4

(FOR IFSC COMPANIES ITS 300 DAYS INSTEAD OF 30 DAYS)

IF CO. FAILS TO APPLY WITHIN ABOVE 30 DAYS THEN IT CAN APPLY WITHIN 300 DAYS FROM SATISFACTION FOR ITS REGISTRATION TO ROC BY SUBMITTING FORM NO. CHG 10.I.E, REASON OF DEALY & CHG-4 FOR REGISTRATION OF SATISFACTION

IF CO. FAILS TO APPLY WITHIN ABOVE 300 DAYS, THEN IT CAN APPLY TO CG(RD) FOR ITS CONDONATION OF DELAY IN FORM CHG-8.

IF CG CONDONES THE DELAY THEN CO. SHALL SUBMIT INC-28 ALONG WITH CHG-4 TO ROC FOR REGISTRATION OF SATISFACTION OF CHARGE.

FURTHER AS PER SEC 82 ROC ON RECEIVING APPLICATION FROM CO. FOR SATISFACTION OF CHARGE,

SHALL CROSS CHECK FROM THE CHARGEHOLDER ISSUING HIM 14 DAYS NOTICE TO SHOW THE CAUSE WHY SATISFACTION SHOULD NOT BE REGSITERED.

IF PROPER CAUSE IS SHOWN THEN ROC WILL RECORD SUCH REASONS & NOT REGISTER SATISFACTION OF CHARGE

IF NO PROPER CAUSE IS SHOWN THEN ROC WILL REGISTER THE SATISFACTION & ISSUE A CERTIFICATE OF SATISFACTION OF CHARGE IN FORM NO. CHG 5 TO COMPANY.

SEC 83

ROC ON ITS OWN MOTION CAN REGISTER THE SATISFACTION OF CHARGE IF IT HAS RECEIVED EVIDENCE FROM ANYWHERE THAT THE ASSET IS NOW FREE FROM CHARGE.

ROC SHALL ALSO INFORM THE AFFECTED PARTIES WITHIN 30 DAYS OF SUCH REGISTRATION OF SATISFACTION OF CHARGE

SEC 84

WHENEVER ANY RECEIVER/MANAGER IS APPOINTED TO MANAGE THE ASSETS ON WHICH CHARGE EXISTS OR WHENEVER THEY ARE REMOVED,

SUBMIT CHG-6 TO ROC TO INFORM ABOUT SUH APPOINTMENT OR REMOVAL

SEC 85 REGISTER OF CHARGES

CO. SHALL MAINTAIN REGISTER OF CHARGES AT IS REGISTERED OFFICE IN FORM NO.CHG-7.

ENTRY INTO SUCH REGSITER SHALL BE MADE FORTHWITH (IMMEDIATELY) WHENEVER CHARGE IS CREATED, MODIFIED, SATISFIED OR ANY ASSET IS ACQUIRED BY THE CHARGEHOLDER ON DEFAULT.

PRESERVATION OF INSTRUMENT CREATING CHARGE

REGISTRATION OF CHARGES. PERMANENTLY

INSTRUMENT CREATING CHARGE : 8 YEARS FROM THE DATE OF SATISFACTION

MEMBERS AND CREDITORS CAN INSPECT REGISTER OF CHARGES & FREE OF COST

TARGET Academy

THE END

MANAGEMENT AND ADMINISTRATION

QUORUM (SEC-103)

VALID MEETING 3 CONDITIONS

- ✓ PROPERLY CONVENED TO CALL
- ✓ PROPERLY CONSTITUTED PROPER QUORUM,PROPER CHAIRPERSON (MIN ATTENDANCE)
- ✓ PROPERLY CONDUCTED TO FOLLOW COMPANIES ACT

QUORUM REFERS TO MINIMUM NUMBER OF MEMBERS WHO ARE REQUIRED TO ATTEND THE MEETING, SO THAT IT IS PROPERLY CONSTITUTED.

TYPES OF COMPANY	MINIMUM NO. OF MEMBERS
PRIVATE COMPANY	2 OR ARTICLES, WHICHEVER IS HIGHER
PUBLIC COMPANY	5,15,30 OR ARTICLES, WHICHEVER IS HIGHER
QUORUM	NO. OF MEMBERS IN PUBLIC COMPANY ON THE DAY OF MEETING
5	Upto 1000
15	>1000 <= 5000
30	>5000

OR ARTICLES WHICHEVER IS HIGHER

QUORUM MUST ALWAYS BE PERSONALLY PRESENT.

IF AT THE ADJOURNED MEETING ALSO QUORUM IS NOT PRESENT, THE MEETING SHALL BE CONDUCTED.

NOTICE (SEC-101)

SECTION 101-FOR A MEETING TO BE PROPERLY CONVENED, PROPER NOTICE TO PROPER PERSON IN PROPER TIME BY PROPER AUTHORITY

PROPER PERSON

- MEMBERS OR LEGAL REPRESENTATIVE OF DECEASED MEMBER OR INSOLVENT MEMBERS'S ASSIGNEE
- DIRECTORS
- AUTHORITY

PROPER NOTICE

PROPER NOTICE SHOULD CONTAIN DAY, DATE, TIME AND PLACE

PROPER NOTICE CONTAINS AGENDA- LIST OF BUSINESS MATTERS TO BE TRANSACTED. E.G CHAIRMAN HAS POWER TO CHANGE ORDER

NOTE CHAIRMAN IS THE CO-ORDINATORHE CAN DISCUSS POINTS BY ANY ORDER IN THE MEETING

CHAIMAN CANNOT DISCUSS NEW ITEM OF THE MEETING

COMPANY → MEMBER NOTICE

ACCIDENTAL OMMISSION = MEETING VALID

DELIBERATE OMMISSION MEETING INVALID

NOTICE TO BE SERVED TO 1 NAME JOINT HOLDER

WHAT IF SHAREHOLDER HAS NOT BEEN GIVEN NOTICE

ACCIDENTAL OMMISSION: MEETING WILL BE VALID

DELIBERATE : INVALID

NOTICE SEND THROUGH REGISTERED POST

(MEMBER REQUESTING TO SERVE THE NOTICE IN A PARTICULAR MODE, COMPANY IS NOT BOUND TO SERVE IN THAT MANNER UNLESS THE MEMBER HAS DEPOSITED COST OF SERVICE.)

PROPER TIME

ATLEAST 21 CLEAR DAYS BEFORE THE MEETING.

WHILE COMPUTING 21 CLEAR DAYS THE DATE OF SERVICE OF NOTICE & DATE OF MEETING BOTH ARE EXCLUDED

NOTICE IF SENT BY ADVERTISEMENT/EMAIL GETS SERVED ON THE SAME DAY.

SHORTER NOTICE

MEETING CAN BE CALLED AT A SHORTER NOTICE IF BEFORE SENDING SUCH A SHORTER CONSENT IS OBTAINED.

CONSENT REQUIRED TO CALLA MEETING BY GIVING SHORTER NOTICE

AGM:

ATLEAST 95% OF TOTAL MEMBERS ENTITLED TO VOTE

ANY OTHER GM:

COMPANY HAVING SHARE CAPITAL

MAJORITY OF MEMBERS HOLDING ATLEAST 95% OF PAID UP SHARE CAPITAL (PUSC)

COMPANY NOT HAVING SHARE CAPITAL MEMBERS HOLDING ATLEAST 95% OF VOTING POWER

SEC 102-EXPLANATORY STATEMENT

IT IS REQUIRED TO BE ANNEXED WITH NOTICE FOR EVERY SPECIAL BUSINESS.

For the purposes of this section

In the case of an annual general meeting, all business to be transacted thereat shall be deemed special, other than-

(i) the consideration of financial statements and the reports of the Board of Directors and auditors;

(ii) the declaration of any dividend;

(iii) the appointment of directors in place of those retiring;

(iv) the appointment of, and the fixing of the remuneration of, the auditors; and

In in the case of any other meeting, all business shall be deemed to be special:

EXPLANATORY STATEMENT WILL CONTAIN

- MEANING, SCOPE, IMPLICATION OF THAT SPECIAL BUSINESS.
- WILL CONTAIN DISCLOSURE OF INTEREST WHETHER FINANCIAL OR NON-FINANCIAL IN THE SPECIAL BUSINESS OF EVERY DIRECTOR, MANAGER EVERY KMP (KEY MANAGERIAL PERSONNEL) RELATIVES OF ABOVE

KMP 2(5)

CEO/MD/MANAGER

WHOLE TIME DIRECTOR

CS

CFO

(THIS MEANS PART TIME DIRECTOR IS NOT A KMP. STILL HIS INTEREST IF ANY WILL BE DISCLOSED BECAUSE HE IS A DIRECTOR)

IS EXPLANATORY STATEMENT REQUIRED FOR APPOINTMENT?

APPOINTMENT OF DIRECTOR

1. IN PLACE OF RETIRING DIRECTOR : ORDINARY BUSINESS
   FOR WHICH EXPLANATORY STATEMENT NOT REQUIRED
2. FRESH APPOINTMENT (NOT IN PLACE OF RETIRING) : SPECIAL BUSINESS
   EXPLANTORY STATEMENT REQUIRED

IMPORTANT NOTES-

1. IN CASE OF SEC 8 COMPANY THEY HAVE BEEN EXEMPTED THAT INSTEAD OF SENDING ATLEAST 21 CLEAR DAYS NOTICE THEY CAN SEND ATLEAST 14 CLEAR DAYS NOTICE.
2. PRIVATE CO. HAVE BEEN EXEMPTED FROM SEC 101 TO 107,109 OF THE COMPANIES ACT 2013, IF THEY MAKE THEIR OWN PROVISIONS IN ARTICLES
3. IFSC (INTERNATIONAL FINANCIAL SERVICE CENTRE) COMPANIES HAVE ALSO BEEN EXEMPTED FROM SEC 101 TO 107, 109 IF THEY MAKE THEIR OWN PROVISIONS IN ARTICLES.

SEC 104- CHAIRMAN

CM OF BM SHALL THE CM OF GM

IF CM OF BM IS NOT PRESENT IN GM WITHIN 15 MINUTES OR IF PRESENT BUT DOES NOT WANT TO BECOME CM OF GM THEN

DIRECTOR,AMONGST THEMSELVES SHALL APPOINT ANY DIRECTOR TO BE CM OF GM

BUT IF NO DIRECTOR IS PRESENT WITHIN 15 MINUTES OR PRESENT BUT DO NOT WANT TO BECOME CM THEN

CM WILL BE APPOINTED AS PER ARTICLES OF CO. BUT IF ARTICLES ARE SILENT THEN MEMBERS PRESENT SHALL ELECT ONE AMONGST THEMSELVES AS CM BY SHOW OFF HANDS

DEMAND POLL THEN CM WILL BE ELECTED BY VOTE BY POLL

BUT IF MEMBER(S) HOLDING ATLEAST 1/10TH OF PUSC OR VOTING POWER OR PAID UP SHARES OF RS.500000

DEMAND POLL THEN CM WILL BE ELECTED BY VOTE BY POLL

SEC 105- PROXY

AS PER SECTION 105 OF THE CO. ACT 2013, ANY MEMBER WHO IS ENTITTLED TO ATTEND & VOTE AT THE MEETING OF COMPANY SHALL ALSO HAVE A RIGHT TO APPOINT PERSON AS HIS PROXY TO ATTEND & VOTE ON HIS BEHALF. IL PROXY CANNOT SPEAK AT THE MEETING & CANNOT VOTE EXCEPT BY POLL. THIS MEANS PROXY CAN VOTE BY POLL & NOT BY SHOW OFF HANDS.

iii) VOTE BY POLL

** VOTING RIGHT IS GIVEN ON THE BASIS OF NO. OF SHARES HELD BY THAT MEMBER

** 1 SHARE = 1 VOTE

**PROXY CAN ALSO VOTE

**POLLING PAPER IS GIVEN IN FORM NO. MGT 2

VOTE BY SHOW OFF HANDS

ALL MEMBERS ARE GIVEN EQUAL VOTING POWER. I.e. ONE VOTE EACH **1 MEMBER = 1 VOTE

**PROXY CANNOT VOTE

**NO SUCH FORMS

(iv) TO APPOINT A VALID PROXY FORM MGT 11 HAS TO BE DEPOSITED AT COMPANIES REGISTERED OFFICE ATLEAST 48 HOURS BEFORE THE MEETING.

(v) ORIGINAL SHAREHOLDERS CAN HIMSELF ATTEND & VOTE BEFORE HIS PROXY HAS VOTED.

(vi) A PERSON CAN BECOME PROXY FOR MAX 50 MEMBERS PROVIDED THAT THE SHAREHOLDING SHOULD NOT EXCEED 10% OF PUSC.

HOWEVER IF A SINGLE MEMBER IS HOLDING 10% OR MORE PUSC THEN HIS APPOINTED PROXY CANNOT BECOME PROXY FOR ANYONE ELSE

IN CASE OF SECTION 8 COMPANY PROXY CAN'T BE AN OUTSIDER i.e, HE HAS TO BE A MEMBER

SECTION 107- VOTING BY SHOW OFF HANDS

VOTING WILL TAKE PLACE BY SHOW OFF HANDS UNLESS POLL IS DEMANDED U/S 109 OR VOTING IS CARRIED OUT ELECTRONICALLY U/S 108.

SECTION 109- VOTE BY POLL

VOTE BY POLL CAN BE DEMANDED BY CHAIRMAN ON ITS OWN MOTION

MEMBER(S) HOLDING ATLEAST 1/10TH OF PUSC OR HOLDING SHARES OF PAID UP VALUE MIN RS. 50000

**POLL CAN BE DEMANDED EVEN AFTER SHOW OFF HANDS

SECTION 108 E-VOTING

APPLICABILITY OF SEC 108

EVERY COMPANY WHOSE EQUITY SHARES ARE LISTED IN RSE

AND

EVERY COMPANY HAVING MIN 1000 MEMBERS

THE ENTIRE PROCEDURE OF E-VOTING IS MENTIONED IN RULE 20 OF THE COMPANIES(MANAGEMENT & ADMINISTRATION) RULES 2014

RULE 20:

1) NOTICE WILL BE SENT TO

MEMBERS DIRECTORS AUDITOR

BY

SPEED POST/ REGISTERED POST COURIER EMAIL

2) NOTICE TO BE POSTED ON WEBSITE IF ANY OF COMPANY.

3)NOTICE SHALL CONTAIN

- STATEMENT THAT REMOTE E-VOTING FACILITY IS PROVIDED
- MEMBERS WHO DON'T CAST THEIR VOTE BY REMOTE E-VOTING CAN VOTE AT THE MEETING
- MEMBERS WHO CAST THEIR VOTE BY REMOTE E-VOTING CAN ATTEND THE MEETING BUT

NOT VOTING.

4)NOTICE SHALL ALSO CONTAIN

- PROCESS OF REMOTE E-VOTING.
- STEPS TO GENERATE PASSWORD
- TIME SCHEDULE REMOTE E-VOTIN
- LOGIN ID

5) NOTICE WILL BE PUBLISHED IN 2 NEWSPAPER

- ENGLISH LANGUAGE ENGLISH NEWSPAPER.
- VERNACULAR LANGUAGE IN VERNACULAR NEWSPAPER.

BOTH HAVING WIDE CIRCULATION IN THE DISTRICT WHERE COMPANY'S REGISTERED OFFICE IS SITUATED

- STATEMENT THAT REMOTE E-VOTING IS PROVIDED
- MEMBERS WHO DON'T CAST THEIR VOTE BY REMOTE E-VOTING CAN VOTE AT THE MEETING
- MEMBERS WHO CAST THEIR VOTE BY REMOTE E-VOTING CAN ATTEND THE MEETING BUT NOT VOTING CLASSES
- STEPS TO RECEIVE LOGIN ID
- STEPS TO RECEIVE PASSWORD
- TIME SCHEDULE
- DETAILS OF PERSON WHOM'S SHAREHOLDER CAN CONTACT

6) TIME: REMOTE EVOTING VOTING IS OPEN FOR MINIMUM THREE DAYS AND CLOSED EXACTLY AT 5 P.M. IMMEDIATELY BEFORE THE DAY OF MEETING.

7) MEMBERS: WHO DID NOT VOTE BY REMOTE E-VOTING CAN ATTEND AND VOTE AT THE MEETING AND WHO VOTED BY THE REMOTE E-VOTING CAN ATTEND BUT NOT VOTE AGAIN.

8) BLOCK: E-VOTING TO BE BLOCKED EXACTLY AT 5 PM IMMEDIATELY BEFORE THE DAY OF MEETING.

9) APPOINTMENT: BOD SHALL APPOINT CA/ CS /CMA IN PRACTICE /ADVOCATE AS A SCRUTINIZER TO COUNT THE VOTE. SCRUTINIZER MAY TAKE ASSISTANCE OF ONE PERSON WHO IS NOT IN EMPLOYMENT OF COMPANY

10) FUNCTION OF SCRUTINIZER: HE SHOULD BE WILLING TO ACT AS A SCRUTINIZER TO COUNT THE VOTE.

11) ROLE OF CHAIRMAN: IT'S HIS DUTY TO ALLOW THE MEMBERS TO VOTE AT THE MEETING WHO DID NOT CAST THEIR VOTE BY REMOTE E – VOTING

12) COUNTING OF VOTES: SCRUTINIZER WILL FIRST COUNT THE VOTES CAST IN MEETING AND THEN REMOTE E-VOTING VOTES.

13) ACCESS OF VOTES ONLY TO SCRUTINIZER

14) MAINTENANCE OF REGISTER: SCRUTINIZER WILL MAINTAIN REGISTER WILL MAIN RECORDING THAT WHICH MEMBER VOTED IN FAVOUR AND WHICH AGAINST.

15) SUBMISSION OF REPORT AND REGISTER: BY SCRUTINIZER TO CM WITHIN 3DAYS OF MEETING IN FORM MGT 13.

16) DECLARATION OF RESULT: WILL BE DONE BY CM AND DATE OF PASSING RESOLUTION WILL BE THE DATE OF MEETING

17) E-VOTING RESOLUTION ONCE PROPOSED CANNOT BE WITHDRAW

ANNUAL GENERAL MEETING-SECTION:96

TIME LIMIT OF AGM:

15 MONTHS FROM LAST AGM.

6 MONTHSFROM END OF END OF FINANCIAL YEAR. WHICHEVER IS EARLIER.

E.G-COMPUTE AGM DUE DATE OF FY 21-22 IF ITS LAST AGM WAS HELD ON 1.5.21

COMPANY MAY APPLY TO ROC FOR EXTENTION OF DUE DATE OF AGM (OTHER THAN FIRST AGM) IN FORM GNL 1 ON THE GROUNDS OF SPECIAL REASON(REASONS BEYOND HUMAN CONTROL) & ROC CAN GRANT MAX 3 MONTHS EXTENSION.

TIME LIMIT OF FIRST AGM 9 MONTHS FROM THE END OF A FINANCIAL YEAR. COMPANY GOT INCORPORATED ON 15 NOV 2022 THEN ITS FY WILL END ON 31ST MARCH 2023.

DAYTIME & PLACE OF AGM:

- DAY= ANY DAY EXCEPT NATIONAL HOLIDAY

PUBLIC HOLIDAY

TIME=BUSINESS HOURS (9AM TO 6 PM)

PLACE=AT REGISTERED OFFICE OR WITHIN SAME CITY/TOWN/VILLAGE IN WHICH REGISTERED OFFICE IS SITUATED.

EXEMPTIONS GIVEN TO:

UNLISTED COMPANY: Can conduct its AGM any place in India after written consent of 100% members

SEC.8 COMPANY: Can conduct its AGM on any day/ time, place as its members may decide.

GOVT COMPANY: Can conduct its AGM at any place as decided by CG.

SEC 97:

IF COMPANY DEFAULTS IN CALLING AGM U/S 96 THEN ANY MEMBER MAY APPLY TO TRIBUNAL/NCLT & MAY EITHER CALL AGM OR DIRECT THE COMPANY TO CALL AGM & GIVE DIRECTIONS THAT EVEN 1 MEMBER PRESENT PERSONALLY OR PROXY WILL CONSTITUTE A VALID AGM

SEC 100: EGM

1. BOD MAY WHENEVER DEEMS FIT CALL ON EGM.

2. MEMBER(S) HOLDING ATLEAST 1/10TH PUSC OR VOTING POWER CAN MAKE A WRITTEN REQUEST TO CALL EGM AT CO'S REGISTERED OFFICE.

WITHIN 21 DAYS BOD SHALL TAKE STEPS TO CALL MEETING. SO THAT MEETING IS CONDUCTED WITHIN 45 DAYS FAILING WHICH

REQUISITIONIST CAN THEMSELVES CALL WITHIN 3 MONTHS.

All the above time limits of 21 days, 45 days, 3 months are counted from the date of receipt of written request.

SEC 98: NCLT POWER TO CALL THE EGM

EXAMPLE:

2 DIRECTORS AGREE BUT
2 DIRECTORS DISAGREE I.E, DEADLOACK BETWEEN DIRECTORS)
THEN NCLT ON APPLICATION OF ANY MEMBER OR ANY DIRECTOR OR SUO MOTU (OWN MOTION)MAY EITHER CALL OR DIRECT THE COMPANY TO CALL EGM & MAY ORDER THAT EVEN A SINGLE MEMBER PRESENT IN PERSON OR BY PROXY WILL BE CONSTITUTE A VALID EGM

WHAT IF BOD REFUSE TO CALL EGM?

Apply to NCLT U/S 98.
REQUISITIONIST CAN THEMSELVES CALL EGM WITHIN 3MONTHS OF REQUEST & REASONABLE EXPENSES INCURRED BY THEM IN CALLING SUCHMEETING WILL BE REIMBURSED BY CO. & WILL RECOVER FROM DEFAULTING DIRECTORS BY DEDUCTING THEIR FEES.

SEC 99:

FINE ON CO. & OFFICER IN DEFAULT FOR VIOLATION OF SEC 96 OR 97 OR 98 IS RS. 1 LAKH (+) 5000/DAY TILL THE DEFAULT CONTINUES

SEC 112

COMPANY
CG SHAREHOLDER : PRESIDENT
SG SHAREHOLDER : GOVERNOR OF THAT STATE



WILL SEND RM TO ATTEND GM (REPRESENTATIVE MEMBER)
REPRESENTATIVE MEMBER (RM) APPOINTED BY PRESIDENT/GOVERNOR SHALL HAVE ALL THE RIGHTS OF A MEMBER.

SEC 106 RESTRICTION ON VOTING RIGHT OF SHAREHOLDER

A CO. CAN RESTRICT SHAREHOLDERS'S VOTING RIGHT BY MENTIONING IN ITS ARTICLES.
RESTRICTION:-

1. CALLS IN ARREAR
2. ANY OTHER SUM SHARES. DUE ON
3. COMPANY HAS EXERCISED RIGHT OF LIEN ON SHARES

POSTAL BALLOT

10MATTERSCOMPULSORYFOR EVERYCOMPANYEXCEPTOPC, COMPANYHAVINGUPTO200 MEMBERS
RESTMATTERSOPTIONALFOR EVERYCOMP EXCEPT2MATTERS WHICHCAN'TBEDISCUSSEDBY POTALBALLOT

- ORDINARY BUSINESS I.E. ADDA
- MATTERSINWHICH AUDITOR,DIRECTORHAVE RIGHTTOBEHEARD ANYTODISCUSSBY POSTALBALLOT

E-VOTING

SEC 108 READ WITH RULE 20
GM WILL TAKE PLACE
APPLICABLE ON COMPANY WHOSE EQUITY SHARE LISTED ON RSE COMPANY HAVING MIN 1000 MEMBERS

POSTAL BALLOT

SEC 110 READ WITH RULE 22

GM WILL NOT TAKE PLACE

10 MATTERS PRESCRIBED BY CG APPLICABLE ON ALL COMPANIES EXCEPT OPC AND COMPANY HAVING UPTO 200 MEMBERS

SEC 118 MINUTES

IT REFERS TO THE DECISIONS & PROCEEDINGS THAT TOOK PLACE IN MEETING

BASIS	GENERAL MEETING	BOARD MEETING
1. TIME LIMIT OF PREPARATION	WITHIN 30 DAYS OF CONCLUSION OF MEETING	WITHIN 30 DAYS OF CONCLUSION OF MEETING
2 .TIME LIMIT OF SIGNING	WITHIN 30 DAYS OF CONCLUSION OF MEETING	NO TIME LIMIT
3. SIGNING AUTHORITY	CM OF THAT MEETING OR IN CASE OF HIS INCAPACITY BY DIRECTOR AUTHORIZED BY BOD	CM OF THAT MEETING OR IN CASE OF HIS INCAPACITY CM OF NEXT BM
4. WHO WILL KEEP THE SAFE CUSTODY	CS OR ANY DIRECTOR AUTHORUIZED BY BOD	CS OR ANY DIRECTOR AUTHORUIZED BY BOD
5. TIME LIMIT OF PRESERVATION	PERMANENTLY	PERMANENTLY
6. PLACE OF PRESERVATION	RO OR SAME C/T/V IN WHICH RO IS SITUATED	ANY PLACE IN INDIA

4 MINUTES BOOKS ARE THERE

- ✓ GENERAL MEETING
- ✓ BOARD MEETING
- ✓ CREDITOR'S MEETING : WILL BE PREPARED JUST LIKE MINUTES OF GM
- ✓ COMMITTEE MEETING : JUST LIKE MINUTES OF BM

SEC 118 IS APPLICABLE ON ALL CO EXCEPT SEC 8 .I.E, CHARITABLE COMPANIES HOWEVER IF ARTICLES OF SEC 8 CO. MENTION THAT MINUTES WILL BE CIRCULATED TO ALL THE MEBERS THEN THEY WILLL HAVE TO PREPARE THE MINUTES

CM AT HIS ABSOLUTE DISCRETION CAN EXCLUDE 3 TYPES OF MATTERS FROM MINUTES-

- WHICH IS DETRIMENTAL TO CO'S INTEREST
- WHICH IS DEFAMATORY
- WHICH IS IRRELEVANT OR IMMATERIAL

CONTRAVENTION OF SECTION 118

TAMPERING OF MINUTES : 2 YEARS IMPRISONMENT AND FINE-MIN 25,000, MAX 1,00,000

OTHER VIOLATION : PENALTY ON COMPANY-25000

PENALTY ON OFFICER IN DEAFULT-5000

SEC 119

INSPECTION OF MINUTES OF GM IS ALLOWED TO MEMBERS FREE OF COST DURING BUSINESS HOURS

COMPANY CAN PUT RESTRICTION ON SUCH INSPECTION BY MENTIONING IN ARTICLES

OR

BY PASSING A RESOLUTION IN GM BUT ATLEAST 2 BUSINESS HOURS HAVE TO BE ALLOWED FOR SUCH INSPECTION

IF ANY MEMBER WANTS COPY OF THE MINUTES THEN HE WILL GET IT WITHIN 7 DAYS OF WRITTEN REQUEST ON PAYMENT OF SUCH SUM AS MENTION IN ARTICLES BUT NOT EXCEEDING RS.10/PAGE OR PART OF THE PAGE

IF MEMBER WANTS, HE CAN TAKE SOFT COPY OF MINUTES OF IMMEDIATELY 3 FYS FREE OF COST

PENALTY OF CONTRAVENTION-

COMPANY-25000

OFFICER IN DEFAULT-5000

SEC 120:

MAINTENANCE OF REGISTERS, RECORDS ETC IN ELECTRONIC FORM

LISTED COMPANY, ANY COMPANY HAVING ATLEAST 1000 MEMBERS OR DEBENTURE HOLDERS OR SECURITY HOLDER MAY MAINTAIN THE RECORDS, REGISTERS IN ELECTRONIC FORM.

SEC 121:

REPORT ON AGM

THIS SECTION APPLIES ONLY ON LISTED PUBLIC COMPANY. EVERY LISTED PUBLIC COMPANY SHALL SUBMIT A REPORT ON AGM IN FORM MGT 15 TO ROC WITHIN 30 DAYS OF AGM MENTIONING THAT AGM WAS PROPERLY CONVENED, AT AGM PROPER HELD & CONDUCTED.

SIGNING OF MGT 15

CHAIRPERSON BUT IN CASE OF HIS INCAPACITY THEN BY ATLEAST- 2 DIRECTORS OUT OF WHICH 1 CLASSES SHALL BE MD IF ANY AND CS

PENALTY FOR CONTRAVENTION

COMPANY

1 LAKH + 500/DAY SUBJECT TO MAX 5 LAKH

OFFICER IN DEFAULT: 25000 + 500/DAY SUBJECT TO MAX 1 LAKH

SEC 88: REGISTER OF MEMBERS, DEBENTURE HOLDERS & SECURITY HOLDERS REGISTER OF MEMBERS (ROM)

COMPANY HAVING SHARE CAPITAL : FORM NO. MGT 1

COMPANY HAVING NO SHARE CAPITAL : NO SUCH FORM

COMPANY HAVING NO SHARE CAPITAL NO SUCH FORM

BUT WILL PREPARE FORM CONTAINING DETAILS-

(i) NAME OF MEMBER
(ii) ADDRESS OF MEMBERS.
(iii) PAN
(iv) CIN IN CASE OF BODY CORPORATE.
(v) FATHER/MOTHER/SPOUSE NAME.
(vi) GUARDIAN'S NAME IN CASE OF MINOR. Vii. DATE OF BECOMING MEMBER.

(vii) DATE OF CESSATION OF MEMBERS.

(viii) AMOUNT OF GUARANTEE IF ANY

TIME LIMIT OF ENTRY IN THE REGISTER OF MEMBERS

WITHIN 7 DAYS FROM THE DATE OF APPROVAL OF SHARE TRANSFER OR ALLOTMENT GIVEN BY BOD OR ITS COMMITTEE.

PLACE WHERE REGISTER OF MEMBERS ETC.WILL BE KEPT AT RO BUT BY PASSING SR IN GM IT CAN BE KEPT AT C/T/V IN WHICH RO IS SITUATED

ANY PLACE IN INDIA WHERE > 1/10th OF TOTAL MEMBERS RESIDE.

*INDEX IS REQUIRED IN REGISTER OF MEMBERS- HOWEVER IF COMPANY HAS LESS THAN 50 MEMBERS, THEN IS OPTIONAL.

SEC 114(1) Ordinary Resolution

Ordinary resolution means a resolution in which the votes cast in favour of resolution exceeds the votes cast against it. The resolution affirmed by more than half members, present in person or proxy at the General Meeting. It should be passed by votes cast, by any of the following modes, i.e. show of hands, polling or electronically, in favour of the resolution.

The notice convening the meeting shall be duly given to the members. In addition to this, the members who don't participate in voting are not taken into consideration. In general, the ordinary resolution must be passed to transact the ordinary business at AGM (Annual General Meeting)

SEC 114(2) Special Resolution

Special Resolution (SR) is a resolution in which the votes cast in favour of the resolution must be three times higher than the votes cast against it. There are certain things, which can be done by the company only if a special resolution is affirmed at the duly constituted general meeting. The notice of the general meeting should be duly given to the members, and the notice should contain the intention to purpose the resolution as SR to be mentioned specifically.

The resolution is required to be passed by any methods, such as voting on a show of hands or polling or electronically by the members present in person or proxy or postal ballot.

FOREIGN REGISTER

CAN BE KEPT BY THE COMPANY IF AUTHORISED BY THE ARTICLES OF COMPANY. (B) COMPANY HAVING ITS MEMBERS IN THAT COUNTRY ALSO.

MGT 3 SHALL BE SUBMITTED BY CO TO ROC WITHIN 30 DAYS OF

- OPENING OF FOREIGN REGISTER
- CHANGE OF ADDRESS FOREIGN REGISTER
- DISCONTINUING OF FOREIGN REGISTER

WITHIN 15 DAYS OF ANY CHANGES MADE IN FOREIGN REGISTER COMPANY SHALL IN FORM AT HIS RO.

PENALTY FOR CONTRAVENTION

COMPANY : 3 LAKH

OFFICER IN DEFAULT : 50,000

SEC 92: ANNUAL RETURN

MGT 7

EVERY COMPANY SHALL SUBMIT ITS ANNUAL RETURN TO ROC WITHIN 60 DAYS OF AGM & IF AGM IS NOT HELD WITHIN THE DUE DATE THEN WITHIN 60 DAYS OF DUE DATE OF AGM ALONG WITH THE REASON WHY AGM ALONG WITH THE REASON WHY AGM WAS NOT HELD. WHY AGIM WAS NOT HELD

FORM NO. OF ANNUAL RETURN= MGT 7

(BUT IN CASE OF OPC) SMALL CO. ITS MGT 7

CONTENT OF ANNUAL RETURN:-10 MATTERS

1. ITS RO,PRINCIPAL BUSINESS ACTIVITITY, HOLDING, SUBSIDIARY & ASSOCIATE.
2. ITS SHARES,DEBENTURES & OTHER SECURITIES ISSUED.
3. LIST OF MEMBERS, DEBENTURE HOLDERS ALONG WITH CHANGES SINCE CLOSE OF PREVIOUS FY.
4. LIST OF PROMOTERS, DIRECTORS, KMP ALONG WITH CHANGES SINCE CLOSE OF PREVIOUS F.Y
5. DETAILS OF GM & BM.
6. REMUNERATION OF DIRECTOR, KMP.
7. PENALTY OR FINE IMPOSED ON COMPANY, OFFICER IN DEFAULT.
8. CERTIFICATION OF COMPLIANCES.
9. SHARES HELD BY FII (FOREIGN INSTITUTIONAL INVESTORS)
10. ANY OTHER MATTERS AS MAY BE PRESCRIBED

Signing of Annual Return

NORMAL COMPANY : 1 DIRECTOR & 1 CS BUT IF NO CS THEN BY CS IN PRACTICE.

OPC, SMALL COMPANY, DORMANT COMPANY : 1 CS BUT IF NO CS THEN BY 1 DIRECTOR.

LISTED COMPANY

OR

COMPANY WHOSE PUSC IS MIN 10 CR AND TOTAL TURNOVER IS MIN 50

CR

SAME AS NORMAL COMPANY

+

COMPLAINCE FORM MGT 8 BY CS PRACTICE MENTIONING THE CONTENT OF ANNUAL RETURN IN MGT 7 IS CORRECT

PENALTY FOR CONTRAVENTION

COMPANY : 10000 + 100/ DAY (SUBJECT TO MAXIMUM 2 LAKH)

OID : 1000+ 100/DAY2 LAKH (SUBJECT TO MAXIMUM 50000)

CS IN PRACTICE : 2 LAKH

TYPE	PERIOD OF PRESENTATION
1. REGISTRATION OF MEMBERS	PERMANENTELY
2. REGISTRATION OF DEBENTURE SHAREHOLDER	8 YEARS FROM REDEMPTION.
3. ANNUAL RETURN, OTHER DOCUMENTS & RETURNS SUBMITTED TO ROC	8 YEARS FROM FILING
4. FOREIGN REG OF MEMBERS	PERMANENTLY
5. FOREIGN REG OF DEBENTURE HOLDERS	8 YEARS FROM RED.

1) COMPANY CAN CLOSE ITS REGISTERS FOR MAXIMUM 45 DAYS IN A FINANCIAL YEAR BUT. NOT EXCEEDING 30 DAYS AT A TIME.
2) ATLEAST 7 DAYS NOTICE MUST BE GIVEN BY THE COMPANY TO ALL BEFORE SUCH CLOSURE
3) LISTED COMPANY SHALL ALSO PUBLISH SUCH NOTICE IN 2 NEWSPAPER.

PENALTY FOR CONTRAVENTION

COMPANY : 5000/DAY SUBJECT TO MAXIMUM 1 LAKH

OFFICER IN DEFAULT : 5000/DAY SUBJECT TO MAXIMUM 1 LAKH

TARGET Academy

THE END

DECLARATION AND PAYMENT OF DIVIDEND

AS PER SECTION 2(35) DIVIDEND INCLUDES INTERIM DIVIDEND

DIVIDEND IS RECOMMENDED BY BOD BY PASSING BR AT BM (SEC 123)

DECLARED BY SHAREHOLDERS IN AGM EITHER AT SAME/LOWER RATE BY PASSING ORDINARY RESOLUTION

WITHIN 5 DAYS OF DECLARATION DIVIDEND MUST BE DEPOSITED IN A SEPARATE SCHEDULE BANK A/C (ESCROW A/C)

WITHIN 30 DAYS OF DECLARATION ENTIRE DIVIDEND MUST BE PAID FAILING WHICH (SEC 127)

DIRECTOR

IMPRISONMENT UPTO 2 YEARS

AND

FINE 1000/DAY TILL THE DEFAULT CONTINUES

COMPANY

SIMPLE INTEREST @ 18% p.a WILL HAVE TO BE PAID

SEC 127

NO OFFENCE WILL BE DEEMED IN 5 EXCEPTIONAL CASES EVEN IF DIVIDEND COULD NOT BE PAID WITHIN 30 DAYS OF DECLARATION

1) WHEN DIVIDEND COULD NOT BE PAID BECAUSE OF OPERATION OF LAW
2) WHEN SHAREHOLDERS GAVE SOME INSTRUCTIONS TO FOLLOW BUT COULD NOT BE FOLLOWED BY CO. & IT WAS COMMUNICATED TO THAT SHAREHOLDER
3) WHEN THERE IS A DISPUTE REGARDING TO TITLE OF SHARES
4) WHEN CO. ADJUSTED DIVIDEND LAWFULLY AGAINST SHAREHOLDER'S DUES
5) ANY OTHER REASON WHERE CO. CAN PROVE THAT DIVIDEND COULD NOT BE PAID BECAUSE OF REASONS OTHER THAN COMPANY'S FAULT

SEC 124

WITHIN 7 DAYS ON EXPIRY OF 30 DAYS OF

DECLARATION OF DIVIDEND, WHATEVER AMOUNT OF UNCLAIMED DIVIDEND IS LEFT, IT SHALL BE TRANSFERRED TO A SEPARATE BANK A/C CALLED UNPAID DIVIDEND A/C FAILING WHICH IS @ 12% p.a WILL BE ATTRACTED FOR THE DELAYED PERIOD.

WITHIN 90 DAYS OF TRANSFER OF UNPAID DIVIDEND A/S FOLLOWING SHALL BE UPDATED ON COMPANY'S WEBSITE & CG'S WEBISTE

- SHAREHOLDER'S NAME
- SHAREHOLDER'S LAST KNOWN ADDRESS & COMMUNICATION DETAILS
- DIVIDEND AMOUNT
- SHARES HELD

AFTER 7 YEARS OF ABOVE TRANSFER ANY UNPAID DIVIDEND AMOUNT SHALL BE TRANSFERRED TO CG'S IEPF (INVESTOR EDUCATION & PROTECTION FUND) & COMPANY SHALL SUBMIT FORM IEPF 1 TO GIVE DETAILS OF SUCH TRANSFER

CAN DIVIDEND ONCE APPLIED BE REVOKED?

DIVIDEND ONCE DECLARED ACQUIRES THE CHARACTER OF A DEBT AND SO IT CANNOT BE REVOKED HOWEVER IN EXCEPTIONAL CIRCUMSTANCES LIKE

A. OUTBREAK OF WAR

B. KILLING TAX BURDEN DIVIDEND

CAN BE REVOKED AFTER PRIOR APPROVAL OF SHAREHOLDER

Declaration And Payment Of Dividend Out Of Past Accumulated Profits

In Case Of Loss Or Inadequate Profits In The Current Financial Year Dividend Can Be Paid From Past Accumulated Profits By Satisfying All The Following Conditions-

1. Dividend Rate Cannot Exceed Average Rate Of Dividend In Immediately Preceding Three Financial Year However The Condition Will Not Be Checked If Company Has Not Declared Any Dividend In All The Three Preceding Financial Years
2. Maximum Amount That Can Be Withdrawn Cannot Exceed 1/10th Of (PUSC + Fr)
3. The Amount That Will Be Withdrawn From Accumulated Profits Will Be First Used To Set Off Current Year's Losses If Any
4. Balance In Fr Should Not Fall Below 15% Of PUS

RAKESH LTD SUFFERED A LOSS PF 2 LAC IN FY 21-22. IT WANTS TO DECLARE DIVIDEND OUT OF PAST PROFITS. ITS LAST 4 YEARS DIVIDEND

FINANCIAL YEAR.	DIVIDEND RATE
17-18.	6%
18-19	10%
19-20.	12%
20-21.	17%

CO.'S PUSC = 60 LAKHS, FR = 40 LAKHS COMPUTE MAXIMUM DIVIDEND IT CAN PAY?

INTERIM DIVIDEND

ENTIRE CONCEPT IS SAME AS FINAL DIVIDEND EXCEPT THE FOLLOWING

- IT IS RECOMMENDED & DELCARED BY BOD AT BM ABMASSES
- SOURCES OF INTERIM DIVIDEND

SOURCES OF INTERIM DIVIDEND

INTERIM DIVIDEND DECLARED DURING CURRENT FY

- TOTAL P/L
- PROFIT EARNED FROM BEGINNING OF CURRENT FY TILL THE END OF QUARTER IMMEDIATELY PRECEEDING THE QUARTER IN WHICH INTERIM DIVIDEND IS DECLARED

INTERIM DIVIDEND DECLARED AFTER CURRENT FY BUT BEFORE AGM

- TOTAL P/L

CURRENT FY'S PROFIT

FINAL DIVIDEND DECLARED IN AGM

TOTAL FREE RESERVES

CURRENT FY'S PROFIT

IF THERE IS LOSS IN CURRENT FY THEN INTERIM DIVIDEND CAN BE GIVEN FROM TOTAL P/L BUT NOT EXCEEDING AVERAGE DIV RATE OF IMMEDIATELY PRECEDING 3 Fys.

IN CASE OF CY'S LOSS CAN DIVIDEND BE PAID & FROM WHERE

INTERIM DIVIDEND : TOTAL P/L CLASSES

1 CONDITION = DIV SHOULD NOT EXCEED AVERAGE DIVIDEND RATE OF IMMEDIATELY PRECEDING 3 FYS

FINAL DIVIDEND : TOTAL FREE RESERVES

4 CONDITIONS

- BEFORE DECLARING ANY DIVIDEND FROM PROFITS MAKE SURE, DEPRECIATION IS CHARGED, UNREALISED & NOTIONAL GAINS IF ANY ARE REMOVED, CY LOSSES IF ANY ARE SET OFF
- AS PER SEC 123(4) DIVIDEND MUST BE DEPOSITED IN A SEPARATE BANK A/C WITHIN 5 DAYS OF DECLARATION.
- HOWEVER IT IS EXEMPTD TO THOSE COMPANIES WHOSE 100% PUSC IS HELD BY CG/SG/BOTH/ONE OR MORE GOVT CO.
- A CO. CANNOT DECLARE & PAY ANY DIVIDEND IF ANY DEFAULT IN DEPOSITS IS SUBSISTING

MODE OF PAYMENT

- CASH
- CHEQUE
- DIVIDEND WARRANT
- DRAFT
- ANYOTHER BANKING CHANNEL

SEC 125 INVESTOR EDUCATION & PROTECTION FUND AUTHORITY

IT'S A GOVERNMENT BODY CONSISTING OF 1 CHAIRPERSON & MAX 7 MEMBERS

IT SHALL ALSO HAVE A CEO

CEO WILL BE CONVENOR OF ALL MEETINGS OF IEPF

SECRETARY OF MCA SHALL BE CHAIRPERSON OF IEPF

WHAT FUNDS ARE CREDITED TO IEPF

- UNCLAIMED DEPOSITS FOR 7 YEARS
- GOVT GRANT
- UNCLAIMED DEBENTURES FOR 7 YEARS
- SHARES UNCLAIMED FOR 7 YEARS
- INTEREST ON ABOVE AMOUNTS
- UNCLAIMED DIV FOR 7 YEARS

HOW CAN INVESTOR CLAIM UNCLAIMED AMOUNT OF DIVIDEND ETC

- HE MUST REGISTER HIMSELF ONLINE IN IEPF PORTAL

- SUBMIT CLAIM FORM IEPF 5
- ATTACH ADDRESS PROOF, ID PROOF AND PROVE THAT HE IS A SHAREHOLDER OF THE COMPANY
- ALSO SUBMIT THE ABOVE DOCUMENTS TO COMPANY
- COMPANY WILL VERIFY WITHIN 30 DAYS
- IEPF AUTHORITY SHALL MAKE THE PAYMENT TO INVESTOR

SEC 126

If Company Have Received Share Transfer Form (SH 4) And Registration Of Such Transfer Of Share Is Pending And Anytime Company Declares Any Dividend, Rights issues, Bonus Issue Then Company Shall Keep Them On Hold Relating To Those Shares For Which Sh-4 Has Been Received Until Completes Registration Of Transfer Unless Transferor In Writing Authorises To Transfer Them To Transferee

TARGET Academy

THE END

THE SALE OF GOODS ACT, 1930

Short Title: The Sale of Goods Act

Extent & Commencement: This act is applicable to whole of India.

This act has come into force w.e.f 01.07.1930. Prior to 01.07.1930, the provisions relating to the sale of goods were contained in The Indian Contract Act, 1872

Objective: The main objective is to determine the rights and obligations between the parties called Seller & Buyer.

The SOG Act applies only to sale of moveable property but not immoveable property.

The SOG Act applies only to Sale but not to Mortgage or Pledge. Mortagage is dealt in Transfer of Property Act and Pledge is dealt in The Indian Contract Act.

This act creates a right called "Jus in Rem" i.e. right against the goods.

Definitions:

Sec 2(13): Seller: The person who sells or agrees to sell the goods is called Seller

Sec 2(1): Buyer: The person who buys or agrees to buy the goods is called Buyer

Sec 2(7): Goods: Goods means and includes every kind of Moveable Property other than actionable claim and money but includes Stocks, Shares, Growing crops, grass, Goodwill, Information, Copy Right, Patent, Trademark, Autograph and any other thing that can be severed from land before its sale.

Money does not include Old/Jubilee Coins and Antiques which means these are goods.

Stocks and Shares are not goods as per English Sale of Goods Act.

Types of Goods:

1. **Existing Goods:** The goods that are available at the time of sale are called Existing Goods. These are classified into three types.
2. **Future Goods – Sec 2(6):** The goods that are yet to be procured or manufactured by the seller in future are called Future Goods.
3. **Contingent Goods:** The goods whose acquisition depends on a contingent event are called Contingent Goods.

Types of Existing Goods:

1. **Ascertained Goods:** The goods that are identified are called Ascertained Goods
2. **Unascertained Goods:** The goods that are not identified are called Unascertained Goods

3. Specific Goods – Sec 2(14): The goods that are identified and agreed upon at the time of sale are called Specific Goods.

Delivery: Sec 2(2): Voluntary transfer of possession from the place of seller to the place of buyer is called Delivery. Possession means physical custody of goods.

Types of Delivery:

1. Actual Delivery: Delivery of goods physically to the buyer is called Actual Delivery
2. Symbolic Delivery: Delivery made by handing over the keys or by handing over the document of title is called Symbolic Delivery.
3. Constructive Delivery: Delivery made by an acknowledgement or attornment is called Constructive Delivery.

Document of Title: Title means ownership. Document of title is a document which gives a right to transfer the ownership to 3rd party.

Ex: Bill of Lading, Airway Bill, Railway Receipt, Multimodal Transport Document, Warehouse keeper's Certificate, Dock Warrant, Wharf Inger's Certificate

Document showing Title: It is a document which does not give any right to transfer the ownership.

Ex: Share Certificate

Mate's Receipt: Mate is the Captain of the ship. It is only an acknowledgement for the goods that are loaded in the ship. It is neither a Document of Title nor a document showing title.

Insolvent: A person who is unable to pay the debts as and when they arise is called an Insolvent

Property: Property means goods or ownership or title.

There are two types of property:

1. General Property: When the ownership and possession is with same person, it is called general property
2. Special Property: When the ownership and possession is with different persons, it is called Special Property.

Note: SOG Act recognises General Property but not special property.

Mercantile Agent: An agent appointed either by seller or buyer to either sell or buy goods on behalf of seller or buyer is called as Mercantile Agent. Ex: Factor, Broker, Auctioneer

Rights of Mercantile Agent:

1. Sell or Consign the goods

2. Raise money on goods
3. Buy the goods

Sec 4(1): Contract of Sale: State of Madras vs Gannon Dunkerly & Co It is an agreement between Seller and Buyer for transferring the property in goods for a price.

Contract of Sale includes Sale and Agreement to Sell.

Sale is executed contract. Agreement to sell is Executory contract.

Contract of Sale is Executed and Executory

Essential Elements of Contract of Sale:

1. There must be at least 2 parties
2. There must be an agreement which may be Express or Implied
3. Such agreement must be for transfer of property(ownership)
4. Subject matter must be goods which may either existing or future
5. Price must be the sole consideration
6. Contract of sale may be conditional

Differences between Sale an Agreement to Sell

Sale	Agreement to Sell
1. It is an executed contract	1 It is an executory contract
2. Ownership is transferred immediately	2. Ownership is transferred at a future date
3. Buyer is the owner	3. Seller will be the owner
4. Buyer bears the risk of loss	4. Seller bears the risk of loss
5. If buyer becomes insolvent before paying the price, seller must deliver the goods to official receiver and claim the proportionate price of the goods.	5. If buyer becomes insolvent before paying the price, seller can claim damages from official receiver.
6. If seller becomes insolvent after buyer paid the price, buyer can claim the goods from official receiver.	6. If seller becomes insolvent after buyer paid the price, buyer can recover the price of the goods from official receiver.

Differences between Sale and Hire Purchase

Sale	Hire Purchase
1.Sale is governed by SOG Act, 1930	1.Hire Purchase is governed by Hire Purchase Act
2.Agreement may express or implied	2. Agreement must always be in writing
3.Ownership is transferred immediately	3.Ownership is transferred on payment of last instalment
4.Buyer is the owner	4.The position of hirer is that of the bailee
5.Risk of loss is borne by buyer	5.Risk of loss is borne by hirer
6.Return of goods is not possible	6.Hirer can return the goods to hire vendor
7.Taxes are levied at the time of sale	7.Taxes are levied when Hire purchase ripens into a sale

Differences between Sale and Bailment

Sale	Bailment
1. There is a transfer of ownership	1. There is no transfer of ownership
2. Return of goods is not possible	2. Bailee must return the goods to bailor
3. Consideration is price	3. Consideration may be gratuitous or non - gratuitous

Sale and Contract for work and Labour

Sale	Contract for Work and Labour
1.There is transfer or ownership	1.There is transfer of possession
2.Return of goods is not possible	2.Goods must be returned to the owner

Sec 5: Formalities of Contract of Sale:

There is no specific formality for delivery of goods and payment of price. These two can happen in any of the five following ways

1. Delivery – Immediate but Payment – Later or
2. Delivery – Later but Payment – Immediate or
3. Delivery and Payment both Immediate or
4. Delivery and Payment both Later or
5. Delivery and Payment in Instalments

Sec 6: Subject Matter of Contract of Sale:

1. Subject matter of COS must always be goods which may be either Existing or Future Goods
2. Where seller purports to effect a Contract of Sale for sale of Future goods, such COS shall be treated as Agreement to Sell but not a Sale.
3. Where there is Contract of Sale of Contingent goods, such contract is valid.

Sec 7: Goods perishing before the Contract of Sale: Where seller and buyer entered into an agreement to buy and sell goods but those goods without the knowledge of Seller and Buyer have already been destroyed, Contract of Sale becomes void – ab – initio only if the goods are specific goods.

Sec 8: Goods perishing after the Contract of Sale: Where seller and buyer entered into contract for sale of specific goods but those goods were destroyed after entering into contract and without the fault of seller, contract becomes void only if risk has not passed to the buyer.

Sec 9&10: Ascertainment of Price:

Sec 2(10): Price: Monetary consideration received for sale of goods.

As per Sec 9, there are three ways of determining the price:

1. Price as determined by the parties in the course of dealings.
2. Price as fixed by contract.
3. Price as fixed by third party.

Note: If price cannot be determined in any of the three ways, buyer is bound to pay reasonable price to the seller.

Sec 10: Fixation of price by third party: When 3rd party is appointed to fix the price, price as fixed by him shall be the price of the goods. If third party refuses to fix the price, contract will be void.

If 3rd party is ready to fix the price but either the seller or the buyer prevents the third party from fixing the price, the party who prevents the third party is called defaulting party and he has to pay damages to party not at fault.

Sec 11: Stipulation as to time: Unless otherwise agreed, time is essential only for delivery of goods but not for payment of price. If there is an agreement between seller and buyer for fixing the time for payment of price, time shall be essential for payment of price also.

2nd Unit: Conditions and Warranties

Sec 12(2): Condition: It is a stipulation which is essential to the main purpose of contract, the breach of which gives a right to repudiate the contract and claim damages.

Case Law: Baldry vs Marshall: "Buggati Car"

Sec 12(3): Warranty: It is stipulation which is collateral to main purpose of contract, the breach of which gives a right only to claim damages.

Ex: Manufacturing defect in the goods

Differences between Condition and Warranty

Condition	Warranty
1. It is stipulation which is essential to the main purpose of contract	1. It is a stipulation which is collateral to the main purpose of contract
2. Breach of condition gives a right to repudiate the contract and claim damages	2. Breach of warranty gives a right ot claim damages only
3. Condition can be treated as warranty	3. Warranty cannot be treated as condition

Cases when a Condition is treated as Warranty:

1. When buyer waives the condition and treats it's as warranty
2. When the condition put by the buyer is fulfilled by the seller
3. When the law expressly provides that condition must be treated as warranty

Note: When a condition is treated as warranty, buyer looses the right of repudiation of contract but retains the right of claiming damages.

Types of Conditions:

1. Express Condition
2. Implied Condition

Types of Implied Conditions:

1. **Sec 14: Condition as to Title:** When a person sells the goods, it is implied that he is the owner of the goods. If it is found that he is not the owner, buyer can repudiate the contract and claim damages.

   Case Law: Rowland vs Divall

2. Sec 15: Condition as to Description: When the goods are sold under a description, it is implied that the bulk goods must correspond with description else buyer can repudiate the contract and claim damages.

   Case Law: Varley vs Whipp:

3. Sec 17: Condition as to Sale by Sample: When the goods are sold by sample, it is implied that the bulk goods must correspond with sample else buyer can repudiate the contract and claim damages.
4. Sec 15: Condition as to Sale by sample as well as description: When the goods are sold by sample as well as description, it is implied that the bulk goods must correspond with sample and description else buyer can repudiate the contract and claim damages.
5. Sec 16(1): Condition as to Quality and Fitness: Sec 2(12): Quality: It means State or Condition of goods. As per law there is no implied condition as to quality and fitness of the goods. It is the buyer who must be aware about the quality and fitness of the goods. This is laid down in "Doctrine of Caveat Emptor" which means "Let the buyer beware".

   However, if the product can be used only for one purpose, buyer need not be aware whether the goods are fit for his purpose or not. In case the goods are not fit for his purpose, buyer can reject the goods and claim damages. Case Law: Priest vs Last – Hot water bottle

   3 Exceptions: In the following cases the buyer cannot return the goods and cannot claim damages.

   a. When the goods are bought under a Brand Name or Trade Name
   b. When the goods can be used for number of purposes, buyer must inform the purpose to the seller else buyer cannot return the goods and claim damages. Case Law: "Jones vs Padget" Cloth Purchase
   c. When there is an abnormality with the buyer, he must inform the same to the seller else buyer cannot return the goods and claim damages. Case Law: "Griffith vs Peterconway Ltd" - Leather Apparel
6. Sec 16(2): Condition as to Merchantability: Merchantable means 100% good quality or non - defective quality. When a seller is dealing in certain goods it is implied that those goods are of good quality. In case they are found to be of defective quality, buyer can reject the goods and claim damages. Defects may be Patent defect or latent defect. Merchantable quality is said to be lost in case of Latent defect.

   Case Law – "R S Thakur vs HGE Corporation" – Radio Set

7. Condition as to Wholesomeness: This is applicable only to eatables or consumables. In case of eatables or consumables the goods must be fit for human consumption else buyer can reject the goods and claim damages. Case Law: "Frost vs Ayles bury dairy company"

Types of Warranties:

1. Express Warranty: Given in writing only.
2. Implied Warranty

Types Implied Warranty:

1. Warranty as to Quiet Possession: When the goods are sold to buyer it is implied that they shall be free from disturbances and buyer has the right to enjoy the possession of goods as against the whole world. If there are disturbances, buyer can claim damages only.
2. Warranty as to free from encumbrances: Encumbrance means having charge or lien over the property. When the goods are sold to the buyer, it is implied that they are free from any encumbrances else the buyer can claim damages.
3. Warranty as to Quality and Fitness: There is no implied warranty as to quality and fitness. However, if the buyer and seller wants to put implied condition or warranty as to quality and fitness, they may annexe it.
4. Disclosure of dangerous nature of goods: When the seller sells the dangerous goods, it is implied that the dangerous nature must be informed by the seller to the buyer.

Case Law: "Clarke vs Army & Navy Society" – Disinfectant powder

Doctrine of Caveat Emptor: "Let the buyer beware". Buyer must be aware about the goods whether they are of good quality and whether they are fit for his purpose or not.

Seller is not responsible to inform the defects in the goods to the buyer.

Seller is not responsible for any bad selection of goods made by the buyer.

3 Exceptions: In the following cases the above rule is not applicable:

1. When the goods are bought under a brand name or trade or patent name.
2. When the goods are sold by sample and description
3. When the buyer informs the seller and relies upon seller's skill and judgement.

Doctrine of Caveat Venditor: "Let the seller beware"

3rd unit: Transfer of Ownership in goods and Delivery of Goods

The provisions relating to transfer of ownership are dealt in Sec 18-24.

There will be transfer of ownership only in case of existing goods.

Types of Existing Goods:

1. Ascertained Goods
2. Unascertained Goods
3. Specific Goods

1. Transfer of ownership in case of Ascertained Goods: In case of Ascertained goods ownership gets transferred only when the parties intend to pass it.
2. Transfer of ownership in case of Unascertained Goods: In case of Unascertained goods ownership gets transferred only when they are ascertained and appropriated.

   Sec 19: Appropriation of goods: Selection of part of the goods from whole lot with an intention of using them in the performance of contract is called Appropriation. For appropriation to take place 3 conditions are to be satisfied:

   a. Goods must be in a deliverable state.
   b. Goods must be unconditionally appropriated.
   c. Appropriation can be done either by seller or by the buyer with the consent of each other.
3. Transfer of Ownership in case of Specific goods: In case of specific goods, ownership gets transferred when the contract is made provided the goods must be in deliverable state and the contract must be unconditional.

   When there is an unconditional contract for sale of specific goods which are not in a deliverable state, ownership gets transferred when the goods are put in a deliverable state and the buyer must be informed that the goods are in a deliverable state.

   When the specific goods are put in a deliverable state and seller wants to do something to the goods like packing, weighing, measuring and if goods are destroyed, risk of loss falls on seller even if he passed on the ownership to the buyer.

   Case Law: Soshimohan vs Nobo Krishto – Log of wood

   When the specific goods are put in a deliverable state and buyer wants to do something to the goods like packing, weighing, measuring and if goods are destroyed, risk of loss falls on buyer even if ownership is not passed on to the buyer.

   Case Law: Simmons vs Swift – Log of wood

Sec 24: Transfer of Ownership in case of sale of goods on return or approval basis:

In case of sale of goods on return or approval basis, ownership gets transferred when the buyer gives his acceptance. Acceptance may be Express or Implied.

Express acceptance means buyer giving the acceptance either in oral or in writing.

Implied acceptance means

a) Buyer rejecting the goods but failing to return the goods within a reasonable time to the seller.
b) Buyer adopting the transaction like reselling the goods or pledging the goods with a third party.

Case Law: Kirkham vs Attenborough – Pledging of Jewellery with 3rd party

Sec 25: Reservation of Right of Disposal: All the conditions put by seller must be fulfilled by the buyer else the seller can dispose the goods to third party.

Mr A ----------→ DOT & BOE ----→ Bank -----→ Mr B

In the above example, Seller Mr A has put a condition on buyer Mr B i.e. to honour the bill of exchange. If buyer fails to honour the bill of exchange, ownership does not get transferred to buyer even if he has DOT in his possession.

Sec 26: Passing of risk: Generally "risk follows ownership" which means the owner of goods has to bear the risk of loss.

2 Exceptions:

1. When the seller or buyer delays the delivery, defaulting party has to bear the risk irrespective of ownership.
2. When there is an agreement between seller and buyer to transfer the risk first and then the ownership, risk gets transferred accordingly.

Sec 27: Transfer of Title: "Nemo Dat Quod Non Habet" means only a true owner can transfer a better title to the buyer. No one can pass a better title than what he has.

8 Exceptions: In the following cases a person even though not a true owner can transfer a better title than what he has.

1. Sale by Mercantile Agent: Generally a mercantile agent cannot transfer a better title to the buyer. However, if the following conditions are satisfied then a MA can transfer a better title:
   a. The agent must be a MA in the ordinary course of business.
   b. He must have goods in his possession.
   c. He must have DOT in his possession

   Case Law: "Eastern distributors Ltd vs God Ring" – Sale of car by MA

2. Sale by Estoppel: If the goods were sold by estoppel, generally buyer does not get a good title. However, if the buyer bought the goods in good faith and has no knowledge that the seller is the estoppel then buyer will get a good title.
3. Sec 28 - Sale by Joint Owner: If the goods are sold by one of the joint owner generally buyer will not get a good title. However, if buyer bought the goods in good faith and has no knowledge that the goods are jointly owned then he will get a good title.
4. Sec 29 – Sale by a person having possession under voidable contract: Generally buyer will not get a good title. However, if buyer bought the goods in good faith and voidable contract is not rescinded.
5. Sec 30(1) - Sale by seller after sale: Generally the second buyer will not get a good title. However, if he bought the goods in good faith and has no knowledge that the goods were already sold to some other buyer, he will get a good title.
6. Sec 30(2) – Sale by buyer having possession of goods: Generally the buyer will not get a good title. However. If he bought the goods in good faith and has no knowledge that some installments are pending, he will get a good title.
7. Sec 54(3): Sale by Unpaid Seller: Generally buyer will not get a good title. However, if buyer bought the goods in good faith and has no knowledge that the seller is Unpaid, he will get a good title.
8. Sale under provisions of other acts:
   a. Sale by a finder of goods is valid in certain circumstances.
   b. Sale by an official receiver or assignee is valid.

Rules regarding Delivery of goods: Sec 33 – 39

1. Buyer to request for delivery: Seller is not bound to deliver the goods unless buyer makes a request.
2. Expenses of delivery: Unless otherwise agreed, it is the seller who has to bear the expenses of delivery.
3. Goods in possession of third party: Third party must deliver the goods only based on an acknowledgement.
4. Time and Place of Delivery: When time is fixed delivery must happen within fixed time. If no time is fixed delivery must happen within reasonable tie. Reasonable time is a question of fact. When place of delivery is fixed, goods must be delivered at the place fixed. In case of sale goods are said to be delivered at the place of entering into contract. In an agreement to sell, goods are said to be delivered at the place of manufacture or production.

5. Delivery of goods to a carrier: When the seller gives the goods to the goods carrier person, it is Prima facie deemed that the goods are delivered to the buyer.
6. Delivery by instalments: Unless otherwise agreed, buyer is not bound to accept the delivery in instalments.
7. Buyer's right to examine the goods: When the buyer has not previously examined the goods, he has a right to examine them at the time of delivery. If such right is denied, buyer can avoid the contract.
8. Effect of part delivery: When seller delivers part of the goods and has an intention to deliver the rest part, delivery of first part is treated as Whole delivery. When the seller does not have an intention to deliver the rest part, delivery of first part is treated as part delivery.
9. Delivery of wrong quantity: A ordered 100 bags of Rice.

Options	90 R – Short delivery	110 R – Excess Delivery	90 R & 10 W Mixed Delivery
1	Accept & Pay	Accept & Pay	Accept & Pay
2	Reject and order fresh quantity	Reject and order fresh quantity	Reject and order fresh quantity
3	----------	Accept 100 & reject 10	Accept 90 R & reject 10 W

Note: In case buyer exercises 2nd option, the contract is still subsisting.

Mixing of goods of inferior quality with that of superior quality does not amount to mixed delivery

4th Unit: Unpaid Seller

Sec 45(a): Unpaid Seller: The seller to whom either whole or part of the price is not paid or tendered or a seller in whose behalf a Bill of Exchange or a negotiable instrument is drawn but dishonoured is called as Unpaid seller.

An agent of seller also shall be treated as Unpaid only if he has goods and DOT in his possession.

Rights of Unpaid Seller:

1. Right against the goods
2. Right against the buyer

Right against the goods:

1. Right of Lien: Lien means possessory right which means seller will have the possession of goods but not ownership till the buyer pays the price.

If seller does not transfer the ownership to the buyer, his right over the goods will be called as "Right of Withholding delivery"

Lien amounts to Retaining the possession

Lien can be exercised only when the goods are sold for cash. In case goods are sold on credit, Lien can be exercised only after expiry of the credit period.

Lien can be exercised whether or not buyer is insolvent.

Unpaid Seller loses the right of lien in the following circumstances:

a. When buyer lawfully obtains the possession
b. When seller waives off the right of lien
c. When the law expressly provides that lien must not be exercised.

2. Right of Stoppage in Transit: In order to exercise stoppage in transit 3 conditions are required to be satisfied:

a. Goods must be in transit
b. Seller must be unpaid
c. Buyer must be insolvent

Right of stoppage in transit amounts to regaining the possession.

Differences between Right of Lien and Right of Stoppage in transit

Right of Lien	Right of Stoppage in transit
1.It amounts to retaining the possession	1.It amount to regaining the possession
2.Lien can be exercised whether or not buyer is insolvent	2.Stoppage in transit can be exercised only when buyer is insolvent
3.Lien is the starting point of stoppage in transit	3.Stoppage in transit is the ending point of Lien

3. Right of Resale: If seller resells the goods to third party after giving notice to the buyer, profit on such resale need not be returned to the buyer. In case there is a loss on resale, such loss can be recovered from the buyer.

If seller sells the goods without giving notice to the buyer and if there is a profit on such resale, it must be returned back to the buyer. In case there is a loss, he cannot recover it from the buyer. However, in case of perishable goods seller can resell the goods without any notice to the buyer.

Rights of unpaid seller against the buyer:

1. **Suit for price:** Unpaid seller can file a suit to recover the price of goods only after delivery of such goods to the buyer. If there is an agreement between seller and buyer that the price has to be paid on a certain day irrespective of delivery then seller shall file a suit if the price is not paid on a certain day.
2. **Suit for damages for non - acceptance:** Seller can file a suit for claiming damages if buyer fails or refuses to accept the goods that are delivered by the seller.
3. **Suit for rescission of contract:**
4. **Suit for Interest:** This right is available to unpaid seller apart from the right to suit for price. Interest shall be payable from the date mentioned in the agreement. If the intention to charge the interest is not mentioned in the agreement, seller can charge interest from the date notified by him.

Rights of buyer against seller: These rights are available to buyer only if he has paid the price of the goods.

1. Suit for price:
2. Suit for damages for non – delivery:
3. Suit for rescission of contract:
4. Suit for Interest:

Sec 53: Effect of Sub - sale or Pledge: When the buyer subsequently sells the goods or pledges the goods with a third party without making the payment to the seller, unpaid seller will not loose his right of lien and stoppage in transit.

However there are 2 exceptions in which unpaid seller is said to have lost his right of lien and stoppage in transit:

1. The seller had permitted the buyer to resell the goods with an intention to recover the price.
2. The seller transfers the document of title to the buyer and buyer retransfers it to the third party to recover the price.

Sec 64 – Auction Sale:

Auction is a process of selling the goods by inviting bids from the public.

The person who conducts the auction is called Auctioneer. He is the seller's agent. The relationship between seller and auctioneer is created by law of agency.

The persons who take part in the bidding are called Bidders/ Puffers

The goods shall be sold to highest bidder.

A bidder can withdraw his bid only before completion of auction.

The auction is complete on fall of hammer, 1,2 & 3, Going, going and gone.

Goods shall be sold above a price called Reserve/Base/Upset Price.

If the auctioneer mistakenly knocks the hammer for a price below the reserve price/base price or upset price, he will not be bound by auction.

If sale is in lots, each lot is a separate contract.

If seller wants to take part in bidding process, he must reserve his right to take part. If seller appoints more than one bidder, it is called pretended bidding and such process is Voidable at the option of other bidders.

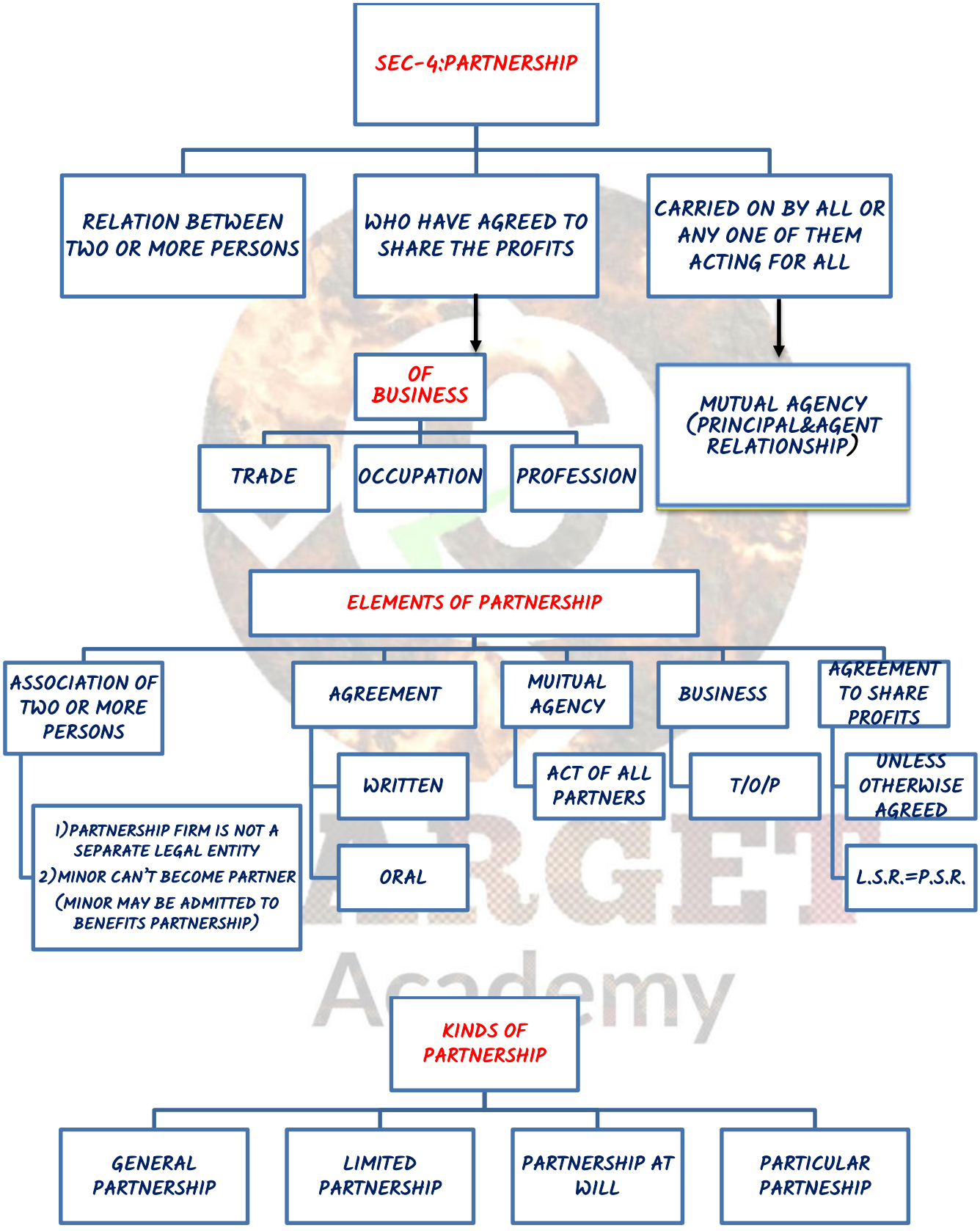
Knock out Agreement: When a group of bidders come together and elect one among them to bid on behalf of all of them, it is called Knock out agreement and such agreements are valid.

Damping: It is a process of pointing out defects in goods or misleading the buyer. It is an illegal process.

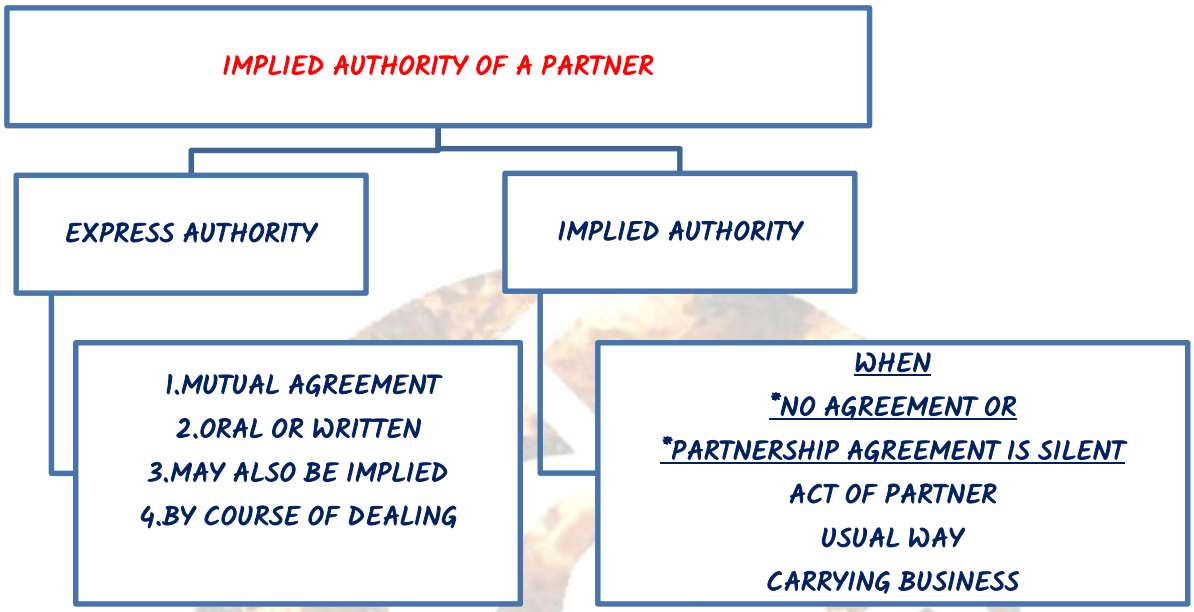
TARGET Academy

THE END

INDIAN PARTNERSHIP ACT, 1932

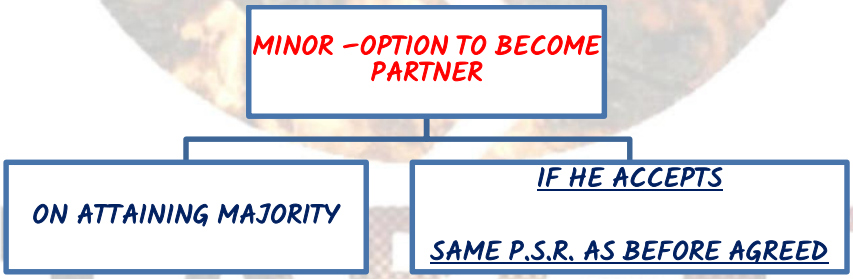


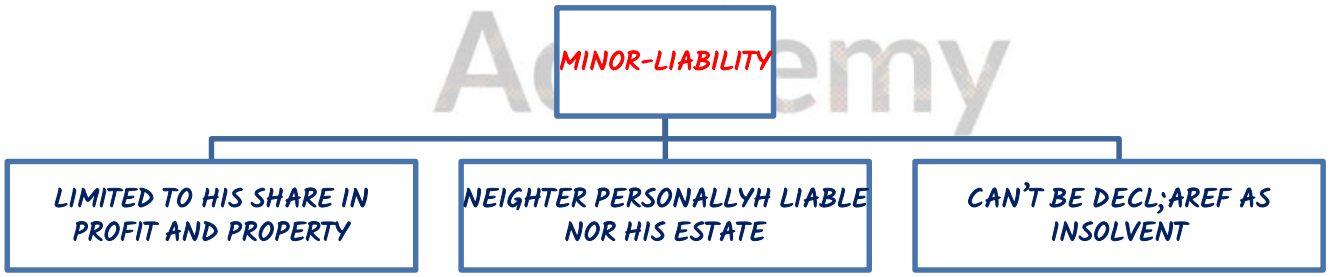
IMPLIED AUTHORITY OF A PARTNER



RIGHTS OF MINOR

a) SHARE OF PROFITS OR PROPERTY
b) INSPECTION ANDCOPYINF OF ACCOUNTS-CAN'T INSPECT CONFIDENTIAL MATTERS





PARTIES ON ATTAINING MAJORITY

1)DECISION

WITH IN 6MONTHS OF HIS MAJORITY

OR

HIS OBTAINING KNOWLEDGE OF BEEN ADMITTED TO BENEFITST

LATER → TO BECOME A PARTNER OR LEAVE THE FIRM.

2)NOTICE:

PUBLIC NOTICE → INTENTION TO BECOME A PARTNER/NOT

3)DEEMED PARTNER:-

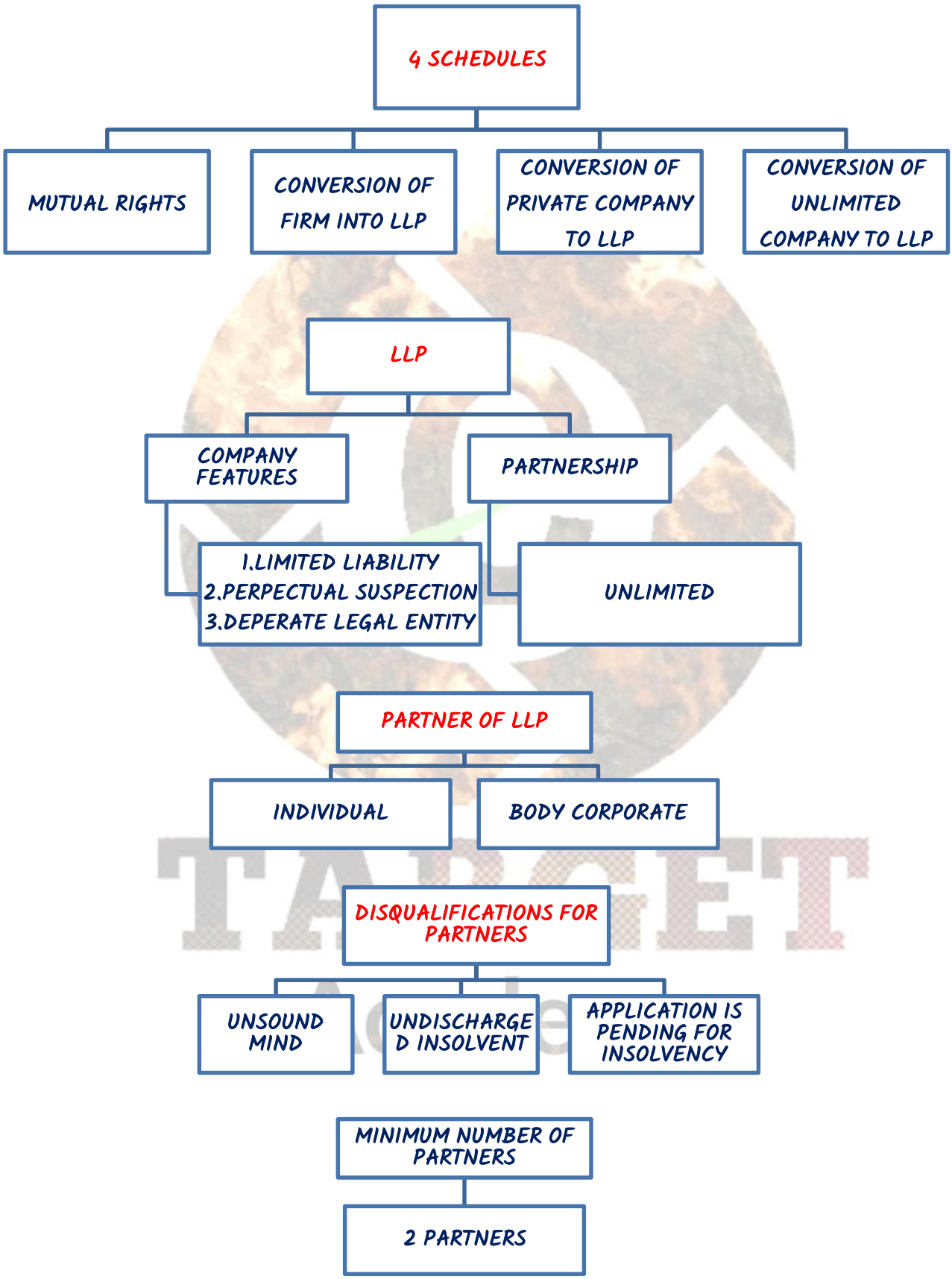
FAILS TO GIVE NOTICE WITH IN 6MONTHS

SECTION 39: DISSOLUTION OF FIRM

DISSOLUTION OF PARTNERSHIP B/W ALL PARTNERS

THE END

LLP ACT, 2013


4 SCHEDULES
MUTUAL RIGHTS
CONVERSION OF FIRM INTO LLP
CONVERSION OF PRIVATE COMPANY TO LLP
CONVERSION OF UNLIMITED COMPANY TO LLP
LLP
COMPANY FEATURES
PARTNERSHIP
1.LIMITED LIABILITY
2.PERPECTUAL SUSPECTION
3.DEPERATE LEGAL ENTITY
UNLIMITED
PARTNER OF LLP
INDIVIDUAL
BODY CORPORATE
DISQUALIFICATIONS FOR PARTNERS
UNSOUND MIND
UNDISCHARGED INSOLVENT
APPLICATION IS PENDING FOR INSOLVENCY
MINIMUM NUMBER OF PARTNERS
2 PARTNERS

Desinged partner

- Every LLP should have two D.P's
- Who are individulas out of which one should be resident

Charecteristics of LLP

1. LLP is body corporate
2. perpectual suspection
3. seperate legal entity
4. mutual agency
5. artificial legal person
6. common seal
7. limited liability
8. management of business
9. minimum = 2, max= UL
10. business for profit only

Advantages of LLP

- Organised on the basis of agreement
- Lesser legal procedual requirement
- Easy to form
- Limited liability
- Easy to dissolve

INCORPORATION OF LLP (SEC – 11)

INCORPORATION DOCUMENT

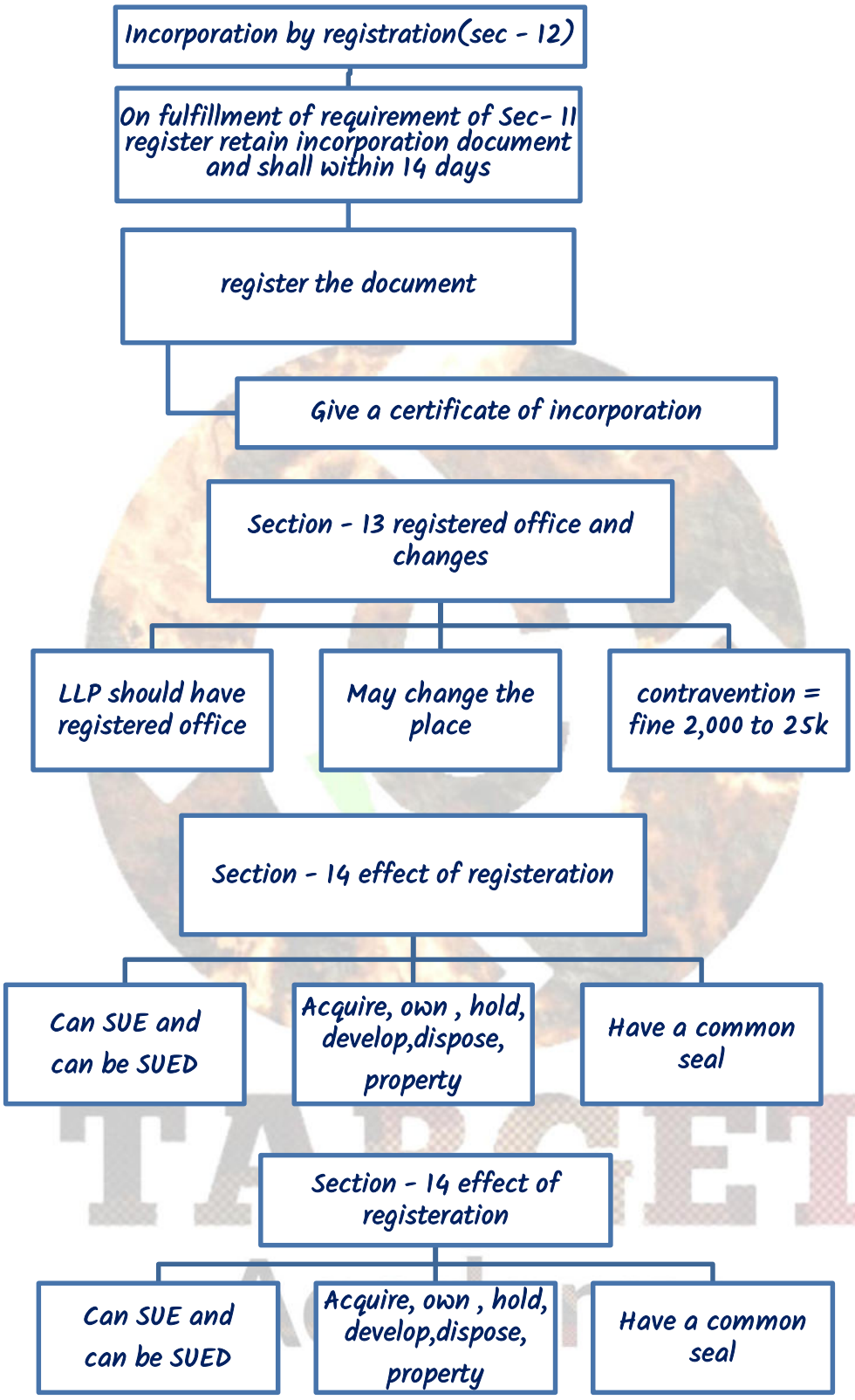
- Name of LLP
- Proposed business
- Address of registered office
- Name and address of partners and D.P's

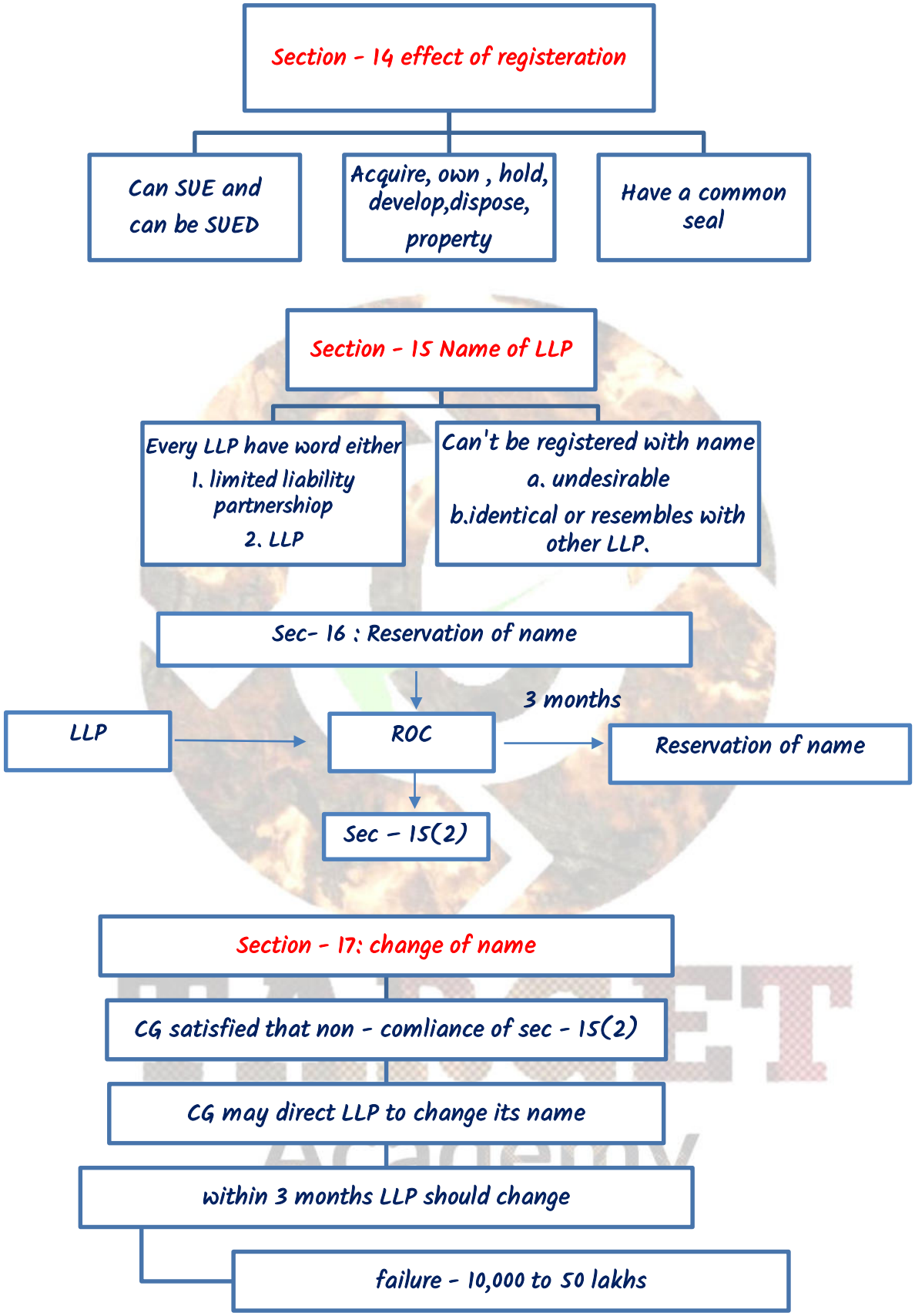
FALSE INFORMATION IN INCORPORATION DOCUMENT

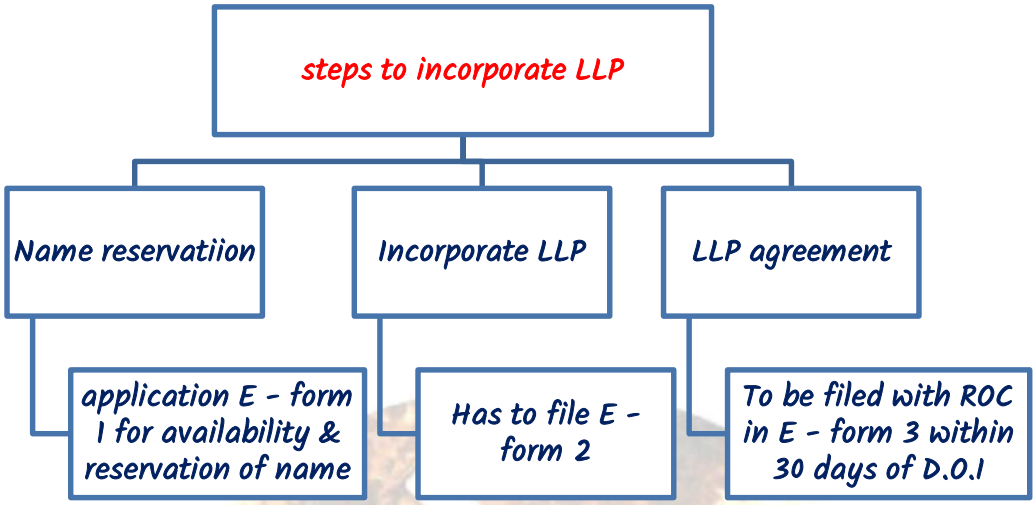
Imprisonment –upto 2 years

And

Fine – shall not less than 10,000 to 5,00,000


Incorporation by registration(sec - 12)
On fulfillment of requirement of Sec- 11 register retain incorporation document and shall within 14 days
register the document
Give a certificate of incorporation
Section - 13 registered office and changes
LLP should have registered office
May change the place
contravention = fine 2,000 to 25k
Section - 14 effect of registeration
Can SUE and can be SUED
Acquire, own , hold, develop,dispose, property
Have a common seal
Section - 14 effect of registeration
Can SUE and can be SUED
Acquire, own , hold, develop,dispose, property
Have a common seal


Section - 14 effect of registeration
Can SUE and can be SUED
Acquire, own , hold, develop,dispose, property
Have a common seal
Section - 15 Name of LLP
Every LLP have word either
1. limited liability partnershiop
2. LLP
Can't be registered with name
a. undesirable
b.identical or resembles with other LLP.
Sec- 16 : Reservation of name
LLP
ROC
3 months
Reservation of name
Sec - 15(2)
Section - 17: change of name
CG satisfied that non - comliance of sec - 15(2)
CG may direct LLP to change its name
within 3 months LLP should change
failure - 10,000 to 50 lakhs



EXTENT AND LIABILITY OF LLP

1. LLP is not bound by act of partner if it
   a. Partner has no authority to act
   b. 3rd person knows that partner has no authority
      Or does not know whether he is dealing with partners
2. Liability of LLP shall met out of property of LLP



THE END

LAW & ETHICS

PART – I

PAYMENT OF GRATUITY ACT, 1972

Exam weightage - 5 to 8 marks

Effective date - 16th September 1972

PURPOSE???

What is gratuity??











Gratuity

- Gratuity is a retirement benefit.
- It is a lumpsum amount.
- No concept of installments.

NO CONTRIBUTION

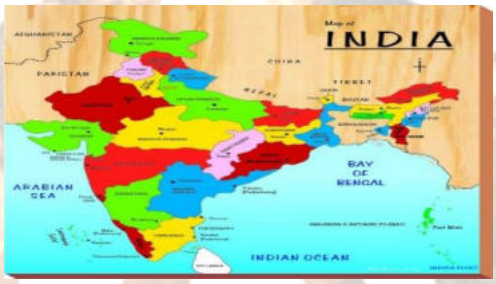
- No concept of contributions unlike PF, pension and insurance scheme

GRATUITY

- Payment made by employer to employee
- Retirement on superannuation
- On resignation
- Termination of service

RETIREMENT VS SUPERANNUATION

- Retirement is termination of service of an employee other than superannuation.
- Superannuation age is fixed in the contract or contract of service as the age on attainment is fixed.



APPLICABILITY

APPLICABLE ESTABLISHMENTS

- Applicability
  - Employees of
    - Factories
    - mines
    - oilfields
    - plantations
    - ports
    - railway companies
    - shops or other establishments
  - employing 10 or more persons (with aid of power)
  - 20 (without aid of power)

APPROPRIATE GOVERNMENT







A.G = CG
- Establishment Belonging/or under control of CG.
- Having branches in more than one state
- Major port, mine, oil field, railway comapny

OTHER CASES = SG

PORT'S



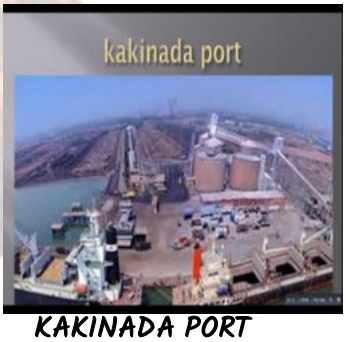
PORT'S
- Major port
- Minor port

MAJOR PORT

Major port
- Any port with 2 or more berths and facilities and equipment
- capable of discharging 1,00,000 tons of cargo per month for ocean-going ships.



VISAKAPATNAM PORT



KAKINADA PORT

MINOR PORT

MINOR PORT
- Other than major port

WHO IS EMPLOYEE??



EMPLOYEE DEF:

- Employee
  - other than an apprentice who is employed for wages
  - whether the terms of such employment are express or implied.
  - in any kind of work
    - manual or otherwise
  - in or in connection with the work of a F/M/O/P/P/R/S

APPRENTICE:

- Employee does not include apprentice.

EMPLOYER:



- belonging to, or under the control of, the CG/SG
  - person or authority appointed by appropriate Government for the supervision or control of employees
  - where no person or authority has been so appointed
    - the head of the Ministry or the Department concerned.
- belonging to or under the control of any local authority
  - person appointed by such authority for supervision and control of employees
  - If no person has been so appointed
    - CEO of the local authority

in any other case → the person, who, or the authority which, has the ultimate control over the affairs → May be a manager, MD or by any other name.

FAMILY:



in case of a male employee:
- Himself
- his wife
- his children → whether married or unmarried
- his dependent parents
- dependent parents of his wife
- widow and children of his predeceased son, if any.

in case of a female employee:
- Herself
- her husband
- her children → whether married or unmarried
- her dependent parents
- dependent parents of her husband
- widower and children of her predeceased son, if any.

WAGES



wages

- all emoluments which are earned by an employee while on duty or on leave in accordance with the terms and conditions
- paid or payable to him in cash and includes dearness allowance.
- Does not include
  - Bonus
  - Commission
  - HRA
  - O.T wages
  - any other allowance.

,

AMOUNT OF GRATUITY PAYABLE

Last drawn salary x 15/26 x completed year of service

Gratuity is calculated on the basis of the continuous service rendered by the employee, for every completed year of service or part in excess of six months at the rate of fifteen days wages last drawn.

MAXIMUM AMOUNT OF GRATUITY UNDER THIS ACT:

Rs.20,00,000 w.e.f 29-03-2018

CONTINUOUS SERVICE

continuous service

- if he has, for that period been in un-interrupted service
- including service which may be interrupted on account of
  - Sickness
  - accident leave
- absence from duty without leave
- lay off
- strike or a lock out or cessation of work
  - not due to any fault of the employee

DEEMED CONTINUOUS SERVICE

Deemed continuous service

for the said period of one year / (6 months)

if the employee during the period of 12 / (6) preceding calendar months has actually worked for not less than

in the case of an employee employed below the ground in mine or in an establishment which works for less than 6 days a week	in any other case
190/(95) days	240/(120) days

DEEMED CONTINUOUS SERVICE

Seasonal establishment

- Not less than 75%, of the number of days on which the establishment was in operation

NUMBER OF DAYS WORKED

includes

- laid off
- on leave with full wages
- Absent due to temporary disablement — caused by accident arising out of and in the course of his employment.
- in the case of a female — she has been on maternity leave. — such maternity leave does not exceed 26 weeks.

DISABLEMENT



disablement → incapacitates an employee for the work → which he was capable of performing before the accident or disease resulting in such disablement.

EXEMPTION FROM THIS ACT

If AG satisfied → That the employees in such establishment are in receipt of gratuity or pensionary benefits not less favorable than the benefits covered under this act. → Appropriate government may give exemption to any establishment from the purview of this act

NOTICE OF OPENINGS (A), CHANGE (B) AND CLOSURE (C) OF THE ESTABLISHMENT

form a,b,c

- Within 30 days of the rules becoming applicable to an establishment → Notice in form A shall be submitted by the employer to the controlling authority of the area.
- Within 30 days of any change in the name, address, employer or nature of business. → Notice in form B shall be submitted by the employer to the controlling authority of the area
- Where An Employer Intends To Close Down The Business → He shall submit a notice in form C to the controlling authority of the area at least 60 days before the intended closure.

DISPLAY OF NOTICE



DISPLAY OF NOTICE

- Employer shall display conspicuously a notice at or near the main entrance of the establishment
- In bold letters in english and in a language understood by the majority of the employees
- Specifying the name of officer with designation authorized by the employer.

SEC-4:PAYMENT OF GRATUITY

GRATUITY SHALL BE PAYABLE TO AN EMPLOYEE

On the termination of his employment after he has rendered continuous service for not less than five years

- On his superannuation, or
- On his retirement; or
- Resignation, or
- On his death or disablement due to accident or disease;

NOTE :

- completion of continuous service of five years shall not be necessary where the termination of the employment of any employee is due to death or disablement.
- In the case of death of the employee, gratuity payable to him shall be paid to his nominee or, if no nomination has been made, to the heirs.

MAXIMUM GRATUITY - INR.20,00,000

ALWAYS BENEFIT OF EMPLOYEE:

NOTHING IN THIS SECTION SHALL AFFECT

The right of an employee

To receive better terms of gratuity under any award or agreement or contract with the employer.

FORFEITURE OF GRATUITY



Whose services have been terminated for any act, willful omission or negligence causing any damage or loss to, or destruction of, property belonging to the employer

Shall be forfeited to the extent of the damage or loss so caused

WHOLLY OR PARTIAL FORFEITURE

WHOLLY OR PARTIAL FORFEITURE

If the services of such employee have been terminated

- For his riotous or disorderly conduct or any other act of violence on his part.
- Or
- For any act which constitutes an offence involving moral turpitude, provided that such offence is committed by him in the course of his employment.

NOTICE TO EMPLOYEE IN CASE OF FORFEITURE

Employer shall issue a show cause notice to the employee

- indicating the grounds for forfeiture of gratuity and
- he shall be given a ROBH.

NOMINATION FORM





Each employee, who has completed one year of service — shall make nomination in Form – F

DISTRIBUTION TO > INOMINEE





He may distribute the amount of gratuity payable to him under this Act amongst more than one nominee

OTHER THAN FAMILY MEMBER







If nominee = non family member → shall be void

- decease = expiry or death

- **OTHER THAN FAMILY MEMBER**

Nominee predeceases the employee

the interest of the nominee shall revert to the employee who shall make a fresh nomination, in the prescribed form, in respect of such interest

NOTICE TO EMPLOYER

- Every nomination, fresh nomination or alteration of nomination, as the case may be, shall be sent by the employee to his employer, who shall keep the same in his safe custody. (in duplicate)

TIME PERIOD FOR SUBMISSION TO EMPLOYER





TIME PERIOD

- In case of existing employee
  - within ninety (90) days from such date
- in the case of an employee who completes one year of service
  - within thirty (30)days of the completion of one year of service.

LATE SUBMISSION



Nomination in Form 'F' shall be accepted by the employer after the specified period, if filed with reasonable grounds for delay.

No nomination so accepted shall be invalid merely because it was filed after the specified period.

I HAVE SOME QUESTIONS TO ASK YOU.

SHALL I ??

QUESTIONS:

1. Effective date???
2. Purpose of this act.
3. Is payment of gratuity compulsory or optional??
4. who has to pay??
5. to whom?
6. Why??
7. When??
8. Applicable establishments??
9. Retirement Vs superannuation.
10. Who is employer in case of local authority establishment.

- Within 30 days of the receipt of form 'f', the employer shall get the service particulars of the employee, as mentioned in the form of nomination, verified with reference to the records of the establishment .and
- Return to the employee, after obtaining a receipt thereof, the duplicate copy of the nomination in form 'F' duly attested either by the employer or an officer authorized in this behalf by him, as a token of recording of the nomination by the employer and the other copy of the nomination shall be recorded.

SUBSEQUENT ACQUISITION OF FAMILY



Subsequent acquisition of family

Employee who has no family at the time of making a nomination shall

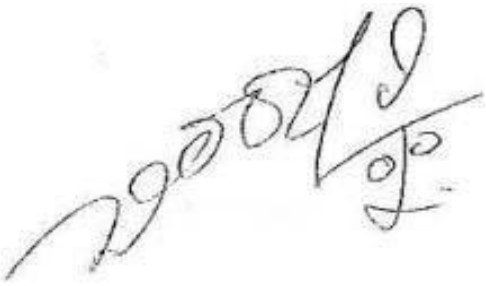
within 90 days of acquiring a family submit a fresh nomination, duplicate in Form 'G' to the employer .

MODIFICATION/ PREDECEASES NOMINEE

Modification of a nomination or nominee predeceases

an employee, shall be submitted in duplicate in Form 'H' to the employer.

SIGN OR THUMB IMPRESSION OF EMPLOYEE





Nomination or a fresh nomination or a notice of modification of nomination

- shall be signed by the employee
- if illiterate
  - shall bear his thumb impression, in the presence of two witnesses, who shall also sign a declaration to that effect.

SECTION 7 :DETERMINATION OF THE AMOUNT OF GRATUITY



Determination of the amount of gratuity

- ASAP
- the employer shall, whether the employee has made application or not
  - determine the amount of gratuity.
  - He is to give notice to the person to whom the gratuity is payable and also to the Controlling Authority, specifying the amount of gratuity so determined. The notice shall be in Form L.

SECTION 7 :DETERMINATION OF THE AMOUNT OF GRATUITY

Employer shall arrange to pay the amount of gratuity

- within 30 days from the date of its becoming payable to the person to whom it is payable.

INTEREST ON GRATUITY

If it is not paid within the stipulated period

- the employer is liable to pay interest at the rate of 10% per annum.
- If the delay is due to the fault of the employee and the employer took permission from the controlling authority → No interest is payable.

CLAIM FOR GRATUITY IS NOT FOUND ADMISSIBLE

If the claim for gratuity is not found admissible → issue a notice in Form 'M' to the applicant employee, nominee or legal heir

- specifying the reasons why the claim for gratuity is not considered admissible.
- In either case a copy of the notice shall be endorsed to the controlling authority.

DISPUTE



If there is a dispute as to the amount of gratuity payable to the employee

- the employer shall deposit the gratuity with the Controlling Authority.
- The controlling authority shall, after due inquiry and ROBH.
- Determine the amount of gratuity payable to an employee.

DIRECTION TO EMPLOYER BY CONTROLING AUTHORITY

If as a result of such inquiry	any amount in excess of the amount deposited by the employer is found to be payable	the controlling authority shall direct the employer to pay such amount as is in excess of the amount deposited by him.

APPLICATION FOR GRATUITY

APPLICATION FOR GRATUITY

- An employee who is eligible for payment of gratuity under the Act, or any person authorized, in writing, to act on his behalf
  - shall apply, ordinarily within 30 days from the date the gratuity became payable, in Form 'I' to the employer.
- Where the date of superannuation or retirement of an employee is known, the employee
  - may apply to the employer before 30 days of the date of superannuation or retirement.

QUESTION:

Mr. vasu working as managing director in Reliance group of companies. he knows that he is going to retire on superannuation on 30-05-2022. what is the last date for making application to employer for gratuity??

APPLICATION BY NOMINEE

Nominee of an employee who is eligible for payment of gratuity

- shall apply, ordinarily within thirty days from the date of gratuity became payable to him, in Form 'J' to the employer.
- An application in plain paper with relevant particulars shall also be accepted. The employer may obtain such other particulars as may be deemed necessary by him.

APPLICATION BY LEGAL HEIRS

legal heir of an employee who is eligible for payment of gratuity

shall apply, ordinarily within one year from the date of gratuity became payable to him

in Form 'K' to the employer.

BY PERSON OR RPAD

An application shall be presented to the employer

either by personal service or by registered post acknowledgement due.

BELATED APPLICATION



an application for payment of gratuity filed after the expiry of the periods specified shall also be entertained by the employer

if the applicant has sufficient cause for the delay in preferring his claim, and no claim for gratuity under the Act shall be invalid merely because the claimant failed to present his application within the specified period.

Any dispute in this regard shall be referred to the controlling authority for his decision.

NOTICE FOR PAYMENT OF GRATUITY

Within 15 days of the receipt of an application for payment of gratuity, the employer shall-

- if the claim is found admissible on verification
  - issue a notice in Form 'L' to the applicant
    - specifying the amount of gratuity payable and fixing a date, not being later than the 30th day.
    - copy of the notice shall be endorsed to the controlling authority
- if the claim for gratuity is not found admissible
  - issue a notice in Form 'M' to the applicant
    - specifying the reasons why the claim for gratuity is not considered admissible.
    - copy of the notice shall be endorsed to the controlling authority.

IF THE CLAIMANT IS NOMINEE OR LEGAL HEIR

If the claimant for gratuity is a nominee or a legal heir

- the employer may ask for such witness or evidence as may be deemed relevant for establishing his identity or maintainability of his claim, as the case may be.
- In that 'case, the time limit specified for issuance of notices under sub-rule (1) shall be operative with effect from the date such witness or evidence, as the case may be, called for by the employer is furnished to the employer.

IF MODE OF SERVING OF APPLICATION

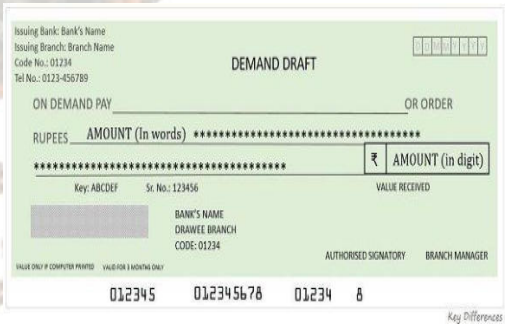
Notice in Form 'L' or Form 'M' shall be served on the applicant

- either by personal service
- or by RPAD

MODE OF PAYMENT







Gratuity payable under the Act shall be paid

- in cash
- Or
- if so desired by the payee
  - in Demand Draft or bank Cheque

IF THE APPLICANT DESIRES & AMOUNT IS < INR.1,000





IF THE APPLICANT DESIRES & AMOUNT IS < INR.1,000

payment may be made by postal money order after deducting the postal money order commission there for from the amount payable.

INTIMATION ABOUT PAYMENT

shall also be given by the employer to the controlling authority of the area.

APPLICATION FOR DIRECTION

CONTROLLING AUTHORITY = ASSISTANT LABOUR COMISSIONER

INTIMATION ABOUT PAYMENT

eligible person to receive the gratuity may file an application in Form – N within 90 days from the date of occurrence of the cause,

- To the Controlling authority for the issue of directions to the employer.
- Additional copies are to be sent along with the application for the purpose of issuing the same to the opposite parties.

SITUATIONS

if the employer-

- refuses to accept nomination; or
- to entertain an application for gratuity; or
- rejects the eligibility of gratuity; or
- indicates less amount than the eligible amount of gratuity in the notice; or
- fails to issue notice

POWERS OF THE CONTROLLING AUTHORITY



Powers of the Controlling Authority

same powers as are vested in a court

- enforcing the attendance of any person or examining him on oath;
- requiring the discovery and production of documents;
- receiving evidence on affidavits
- issuing commission for the examination of witnesses.

COMMISSION

- An instruction, command or role given to a person or group

APPEAL



Any person aggrieved by an order

- may within sixty (60) days from the date of the receipt of the order
- prefer an appeal to the appropriate Government or such other authority as may be specified by the appropriate Government in this behalf.

- LATE APPEAL may be admitted if AG is satisfied.

ACTION BY A.G

May, after giving the parties to the appeal a ROBH

- confirm
- modify
- reverse

the decision of the controlling authority.

SEC-8: RECOVERY OF GRATUITY

if the amount of gratuity payable under this Act is not paid by the employer, within the prescribed time → Application made by the aggrieved party to controlling authority. → controlling authority will issue certificate for that amount to the Collector → who shall recover the same, together with compound interest thereon at the rate of (9 %)nine per cent per annum

DISPLAY OF ABSTRACT OF THE ACTS AND RULES

The employer shall display an abstract of the Act and the rules made there under

- in Form 'U' in English and in the language understood by the majority of the employees
- at conspicuous place at or near the main entrance of the establishment.

Frequently asked questions

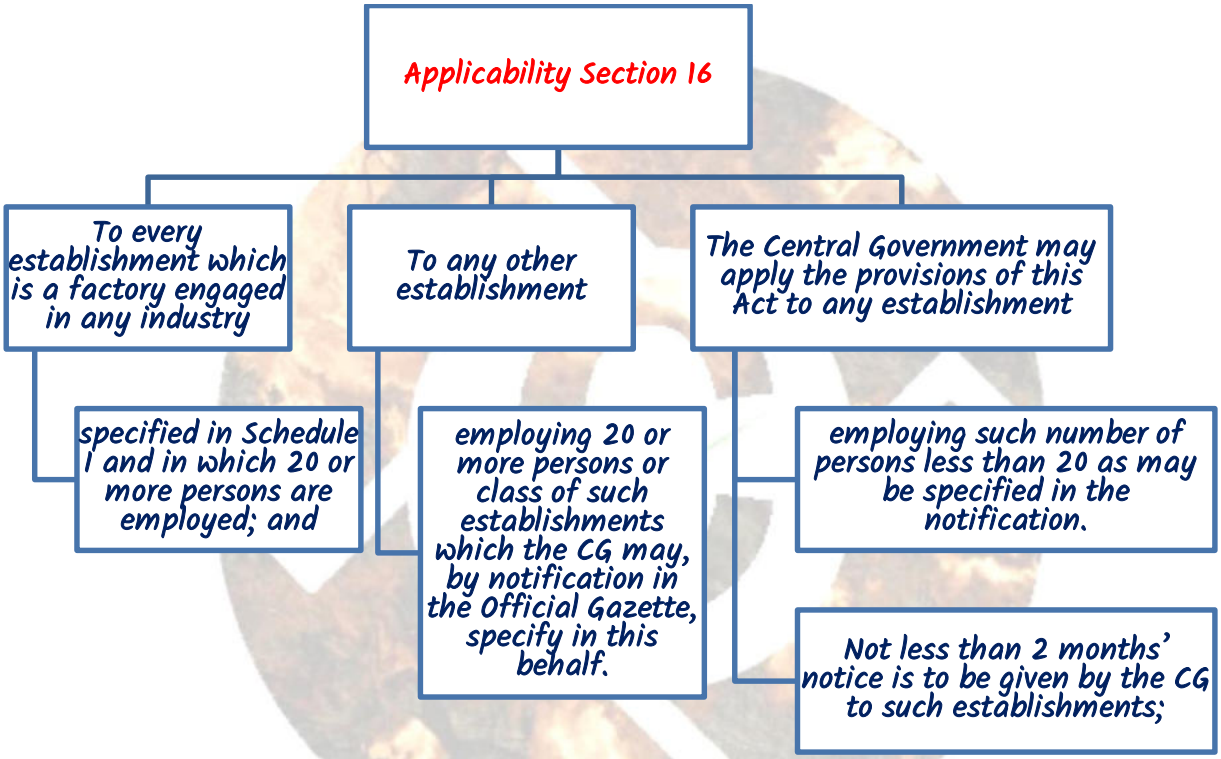
1. Applicability of act
2. Forfeiture of gratuity (imp)

THE END

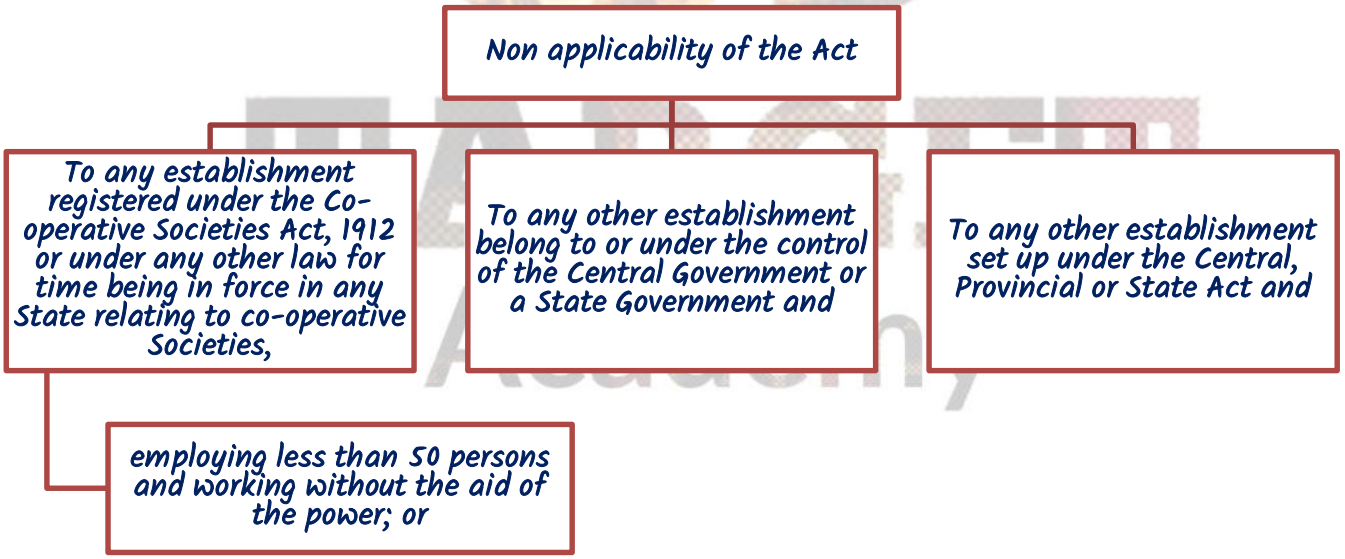
EMPLOYEES' PROVIDENT FUNDS AND MISCELLANEOUS PROVISIONS ACT, 1952

Three schemes have been framed under the Act by the Central Government:

- The Employees' Provident Fund Schemes, 1952;
- The Employees' Pension Scheme, 1995; and
- The Employees' Deposit-Linked Insurance Scheme; 1976.



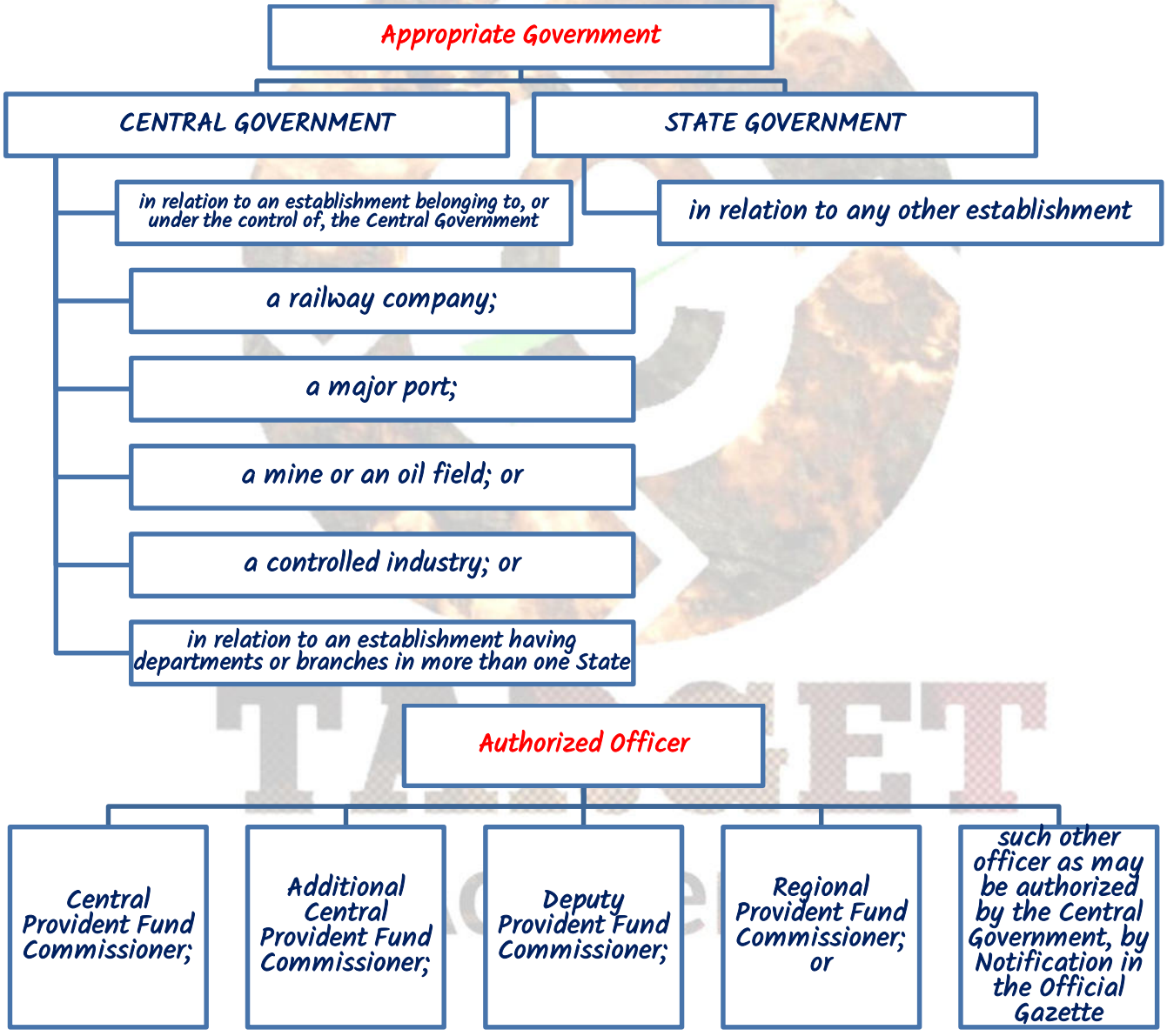
Once applicable – always applicable irrespective of 20 limit.



Non applicability of the Act

- To any establishment registered under the Co-operative Societies Act, 1912 or under any other law for time being in force in any State relating to co-operative Societies,
  - employing less than 50 persons and working without the aid of the power; or

- To any other establishment belong to or under the control of the Central Government or a State Government and
  - whose employees are entitled to the benefit of contributory provident fund or old age pension in accordance with any scheme or rule framed by the Central Government or the State Government governing such benefits; or
- To any other establishment set up under the Central, Provincial or State Act and
  - whose employees are entitled to the benefits of contributory provident fund or old age pension in accordance with any scheme or rule framed under that Act governing such benefits.



BASIC WAGES:



BASIC WAGES

- all emoluments which are earned by an employee while on duty or on leave or on holidays with wages
- does not include
  - cash value of any consideration;
  - D.A
  - HRA , O.T, BONUS, commission or any other similar allowance
  - any presents made by the employer.

Contribution Section 2(c)

as a contribution payable in respect of a member under a scheme or the contribution payable in respect of an employee to whom the Insurance scheme applies.

Fund

It means Provident Fund established under the Scheme.

EMPLOYER

- in relation to an establishment which is a factory,
  - owner or occupier of the factory.
  - agent of such owner or occupier,
  - the legal representative of a deceased owner or occupier and,
  - where a person has been named as a manager of the factory, the person so named.
- in relation to any other establishment,
  - Person who, or the authority which, has the ultimate control over the affairs of the establishment.
  - manager, managing director or managing agent.

EMPLOYEE

- 'Employee' as any person who is employed for wages in any kind of work, manual or otherwise, in or in connection with the work of an establishment, and who gets, his wages directly or indirectly from the employer, and includes any person
- employed by or through a contractor in or in connection with the work of the establishment;
- engaged as an apprentice, not being an apprentice engaged under the Apprentices Act, 1961 or under the Standing orders of the establishment

FACTORY:



FACTORY

any premises, including the precincts thereof, in any part of which a manufacturing process is being carried on or is ordinarily so carried on, whether with the aid of power or without the aid or power.

Occupier of a factory

The person who has ultimate control over the affairs of a factory, and, where the said affairs are entrusted to a managing agent, such agent shall be deemed to be the occupier of the factory.

Schemes

- Employees' Provident Fund Schemes (Section 5)
- Employees' Pension Scheme (Section 6A)
- EDLI Scheme

Employees' Provident Fund Schemes

- for the establishment of provident funds for employees.
- The CG framed, 'The Employees' Provident Fund Scheme, 1952 which came into effect from 2nd September, 1952.
- The fund shall vest in and be administered by the Central Board constituted under Section 5A of the Act.
- The scheme framed may provide for all or any of the matters specified in Schedule II.
- The scheme may provide that any of the provisions shall take effect either prospectively or retrospectively on such date as may be specified in the scheme.

Central Board

- The Board consists of a Chairman and a Vice Chairman
  - appointed by the Central Government.
- The Central Provident Fund Commissioner is ex officio.
- Members to this Board
  - appointed by the CG.

Executive Committee

- Appointment of an Executive Committee by the Central Government
- to assist the Central Board in the performance of its functions.
- The members of the Executive Committee are appointed by the CG.

State Board

Central Government, in consultation with the Government of any State, constitutes for that State, a Board of Trustees to exercise such powers and perform such duties as the Central Government may assign to it from time to time.

- Contribution
  - If salary is more than Rs.15,000
    - Maximum contribution
      - Notified establishments
        - 12%
      - Others
        - 10%
  - If salary is less than Rs.15,000
    - Minimum contribution
      - Notified establishments
        - 12%
      - Others
        - 10%

- Applicability of the scheme (EPF scheme)
  - This scheme applicable to all factories and establishments to which this act applies.
  - This scheme shall not applicable to tea factories in state of Assam.

Withdrawal from the fund



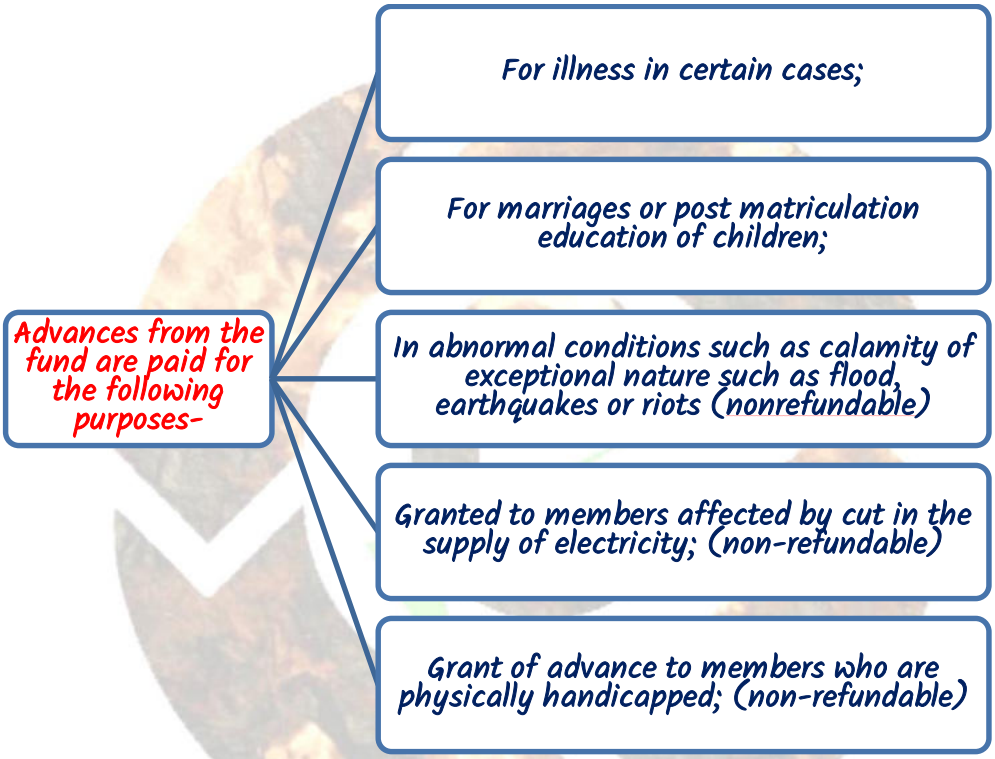
- Purposes
  - For the purchase of a dwelling house/flat
  - For the construction of a dwelling house including the acquisition of a suitable site for this purpose;
  - For repayment of loans in special cases;

Note

Withdrawal should be within one year before the retirement

NOTE:		
Withdrawal should be within one year before the retirement	Withdrawal up to 75% of the balance subject to approval of P.F. Commissioner or any officer authorised by him.	Such withdrawals are not required to be repaid.

ADVANCES FROM THE FUND:



CONTRIBUTION IN PF SCHEME

- There is no contribution from the employee.
- The employer is to contribute 8.33% of the basic wages, dearness allowance and retaining allowance.
- if any of the concerned employees as may be specified in the pension scheme. Contribution is not payable when the employee crosses 58 years of age since the scheme ceases on completion of 58 years

Employees' Pension Scheme

- CG framed Employees' Pension Scheme for the purpose of providing for-
  - Superannuation pension;
  - Retiring pension or permanent total disablement pension to the employees of any establishment or class of establishments to which this Act applies; and
  - Widow or widower's pension;
  - Children pension or orphan pension payable to the beneficiaries of such employees.

Employees' Deposit linked Insurance Scheme- Section 6C

- CG made the Employees' Deposit Linked Insurance Scheme, 1976 which came into effect from 01.09.1976.
- It applies to all factories and other establishments to which the Act applies except tea factories in State of Assam.

wage ceiling limit under Employees Deposit linked Insurance Scheme

Rs.15,000.

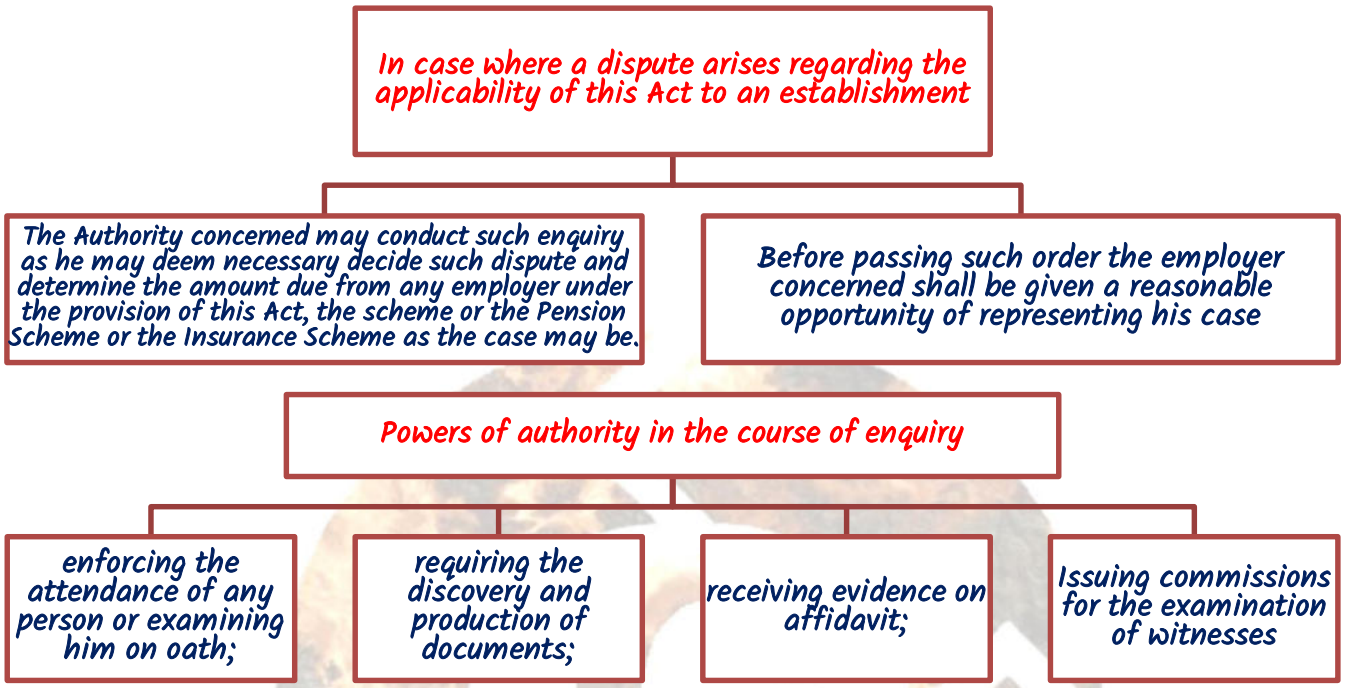
Benefit under EDLI scheme

The insurance benefit under the scheme shall be an amount between 2.5 lakhs and 6 lakhs

CONTRIBUTION UNDER EDLI SCHEME:

- In this Fund the employer shall pay such amount not being more than 1% of the aggregate of basic wages, dearness allowance and retaining allowance of every such employee in relation to whom he is the employer.
- The employer shall pay into the Insurance Fund such further amount of money not exceeding one fourth of the contribution which is required to make as the Central Government may from time to time determine to meet all the expenses in connection with the administration of the scheme other than the expenses towards the cost of any benefits provided by or under that scheme
- Where the monthly pay of an employee exceeds `15,000 the contribution payable is restricted to the amounts payable on a monthly pay of `15,000, dearness allowance, retaining allowance and cash value of food concession

DETERMINATION OF MONEYS DUE FROM EMPLOYERS:



- Where the employer, employee or any other person required to attend the inquiry, fails to attend such inquiry, the Authority shall decide the case ex-parte and pass orders based on the available documents put forth before him.
- The employer, within three months from the date of communication of such order, may apply to the Authority to set aside the ex-parte order showing that there are sufficient causes for not enabling him to attend the hearing on the prescribed date.
- If the Authority is satisfied, he may set aside the ex-parte order and shall appoint a date for proceeding with the inquiry.

REVIEW OF ORDER UNDER SECTION 7A

- Any person aggrieved by an order under Section 7A may apply for a review of that order to the Officer who passed the order, if he-
- discovered new and important matter of evidence which after the exercise of due diligence was not within his knowledge; or
- could not be produced by him at the time when the order was made; or
- on account of some mistake; or 8 error apparent on the face of the record; or 8 for any other sufficient reason.
- Such officer may also on his own motion review his order if he is satisfied that it is necessary so to do any such ground.

DETERMINATION OF ESCAPED AMOUNT

- Section 7C provides that the officer can re-open the case within five years from the date of order passed under Section 7A or Section 7B if he has reason to believe that by reason of omission or failure on the part of the employer to make any document or report available, or to disclose fully and truly all material facts any amount so due from such employer for any period has escaped his notice.
- The Officer may pass appropriate orders redetermining the amount due from the employer in accordance with the provisions of the

EPF APPELLATE TRIBUNAL SECTION 7D :

- The appointment of EPF Appellate Tribunal to hear the appeal against the order passed by the Central Government or any authority under Section 7A or 7B or 7C.
- The Appellate Tribunal may, after giving reasonable opportunities to the parties decided the appeal either confirming, modifying or annulling the order appealed against or may refer the case back to the authority which passed such order with such directions as the Tribunal may think fit.
- The Tribunal may rectify any mistake apparent from the record within five years from the date of its appeal order.
- No appeal by the employer shall be entertained unless he has deposited with it 75% o the amount due from him.
- The Tribunal may, for reasons to be recorded in writing, waive or reduce the amount to be deposited under this section.

Protection against attachment Section 10

The amount standing to the credit of any member of the Fund shall not in any way be capable of being assigned or charged and shall not be liable to attachment under any decree or any court in respect of any debt or liability incurred by the member and neither the Official assignee nor any receiver shall be entitled to, or have any claim on, any such amount

Employer not to reduce wages Section 12

No employer in relation to an establishment to which any scheme or the insurance scheme applies shall, by reason only of his liability for the payment of any contribution to the fund or any charges or the scheme or the insurance scheme, reduce, whether directly or indirectly, the wages of any employee to whom they apply.

Transfer of Accounts Section 17A

Where an employee employed in an establishment to which the Act applies, leaves his employment and obtains re-employment in other establishment to which this Act does not apply,

The amount of accumulations to the credit of such employee shall be transferred to the credit of his account in the provident fund of the establishment in which he is re-employed, if the employee so desires and the rules, in relation, to that provident fund permit such transfer.

- Penalties and offences are not covered in this material.

- Refer other material for this concepts.

Frequently asked questions

1. EDLI scheme
2. Protection against attachment

TARGET Academy

THE END

FACTORIES ACT, 1948

Objective of this Act

- To ensure adequate safety measures and to promote the health and welfare of the workers employed in factories.
- The Act also makes provisions regarding employment of women and young persons (including children and adolescents), annual leave with wages etc.

APPLICABILTY

The Act extends to whole of India including Jammu & Kashmir



any process or activity in relation to an industry specified in the First Schedule where, unless special care is taken

raw materials used therein or the intermediate or finished products, bye-products, wastes, or effluents thereof

would- cause material impairment to the health of the persons engaged in or connected therewith, or result in the pollution of the general environment.

Manufacturing process — any process for

- making, altering, repairing, ornamenting, finishing, packing, oiling, washing, cleaning, breaking up, demolishing, or otherwise treating or adapting any article or substance with a view to its use, sale, transport, delivery or disposal, or
- pumping oil, water, sewage or any other substance; or
- generating, transforming or transmitting power; or
- composing types for printing, printing by letter press, lithography, photogravure or other similar process or book binding; or
- constructing, reconstructing, repairing, refitting, finishing or breaking up ships or vessels; or
- preserving or storing any article in cold storage.


Worker
Person employed, directly or by or through any agency (including a contractor)
in any manufacturing process, or in cleaning any part of the machinery or premises used for a manufacturing process, or in any other kind of work incidental to, or connected with, the manufacturing process, or the subject of the manufacturing process
Does not include any member of the armed forces of the Union.
with or without the knowledge of the principal employer,
whether for remuneration or not,
Factory
Any premises including the precincts thereof-
but does not include
whereon 10 or more workers are working with the aid of power.
whereon 20 or more workers are working without the aid of power.
a mine
A mobile unit belonging to
armed forces of the Union, a railway running shed or a hotel, restaurant or eating place
Occupier
Person who has ultimate control over the affairs of the factory.

occupier

- in the case of a firm or other association of individuals,
  - any one of the individual partners or members thereof shall be deemed to be the occupier;
- in the case of a company,
  - any one of the directors shall be deemed to be the occupier;
- in the case of a factory owned or controlled by the Central Government or any State Government, or any local authority,
  - the person or persons appointed to manage the affairs of the factory by the Central Government, the State Government or the local authority, as the case may be, shall be deemed to be the occupier;
- in the case of a ship which is being repaired, or on which maintenance work is being carried out, in a dry dock which is available for hire
  - the owner of the dock
  - owner of the ship or his agent or master or other office-in-charge of the ship or any person who contracts with such owner, agent or master or other officer-in-charge

Notice by occupier

occupier shall, at least 15 days before he begins to occupy or use any premises as a factory,

send to the Chief Inspector,

a written notice containing the

- name and situation of the factory, the name and address of the occupier, the nature of manufacturing process, the details of workers etc.,

Whenever a new manager is appointed,

the occupier shall send to the Inspector a written notice and to the Chief Inspector a copy thereof within seven days from the date on which such person takes over charge.

Duties of occupier Section 7A

Every occupier shall ensure, so far as is reasonably practicable, the health, safety and welfare of all workers while they are at work in the factory.

Inspector Section 8

SG may appoint such persons as possess the prescribed qualification to be Inspectors for the purpose of this Act and may assign to them such local limits as it may think fit.

Powers of the Inspector (Section 9)

to enter into any place which is used, or which he has reason to believe is used as a factory;	make examination of the premises, plant, machinery, article or substance;	inquire into any accident or dangerous occurrence, whether resulting in bodily injury, disability or not and take on the sport statements of any person which he may consider necessary for such inquiry;	require the production of any document relating to factory;	seize or take copies of any register, record or other documents of any portion thereof as he may consider necessary;	to take possession of any article or substance or part thereof and detain it for so long as is necessary for such examination;	such other powers as may be prescribed.

Certified surgeons (Section 10)

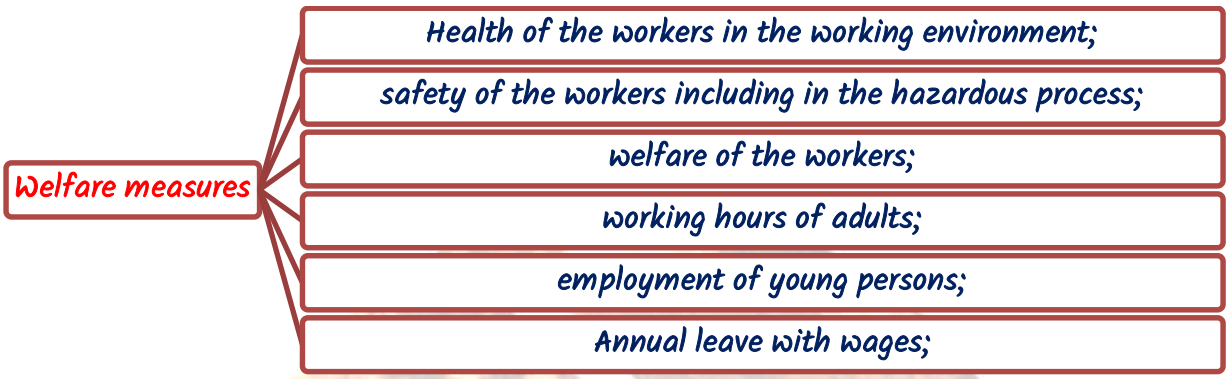
SG may appoint qualified medical practitioners to be certifying surgeons for the purposes of this Act within such local limits or for such factory or class or description of factories as it may assign to them respectively.

DUTIES OF CERTIFIED SURGEONS:

- Examination and certification of young persons;
- Examination of person engaged in factories in such dangerous occupations or processes as may be prescribed;
- exercising of such medical supervision as may be prescribed for any factory or class or description of factories, where-
  - cases of illness have occurred which it is reasonable to believe are due to the nature of the manufacturing process carried on, or other conditions of work prevailing, therein;
  - by reason of any change in the manufacturing process carried on or in the substances used therein or by reason of the adoption of any new manufacturing process or of any new

substance for use in a manufacturing process, there is a likelihood of injury to the health of workers employed in that manufacturing process;

– young persons are, or are about to be, employed in any work which is likely to cause injury to their health.





Cleanliness Section 11

- Every factory shall be kept clean and free from effluvia arising from any drain, privy or other nuisance.
- removal of accumulated dirt and refuse on floors, benches of workroom, stair cases and passages and effective disposal of the same;
- cleaning of the floor of every workroom
  - once in every week by washing with disinfectant or by some other effective method;
- providing effective drainage for removing water to the extent possible;
- all doors, windows and other framework which are of wooden or metallic shall be kept painted or varnished at least once in every period of five years;
- to ensure that interior walls and roofs etc., are kept clean the following is to be complied with-
  - white wash or color wash should be carried out at least once in every period of 14 months;
  - where surface has been painted or varnished, repair or revarnish should be carried out once in every five years, if washable then once in every period of six months;
  - where they are painted or varnished or where they have smooth impervious surface, it should be cleaned once in e very period of 14 months by such method as may be prescribed. 8

Disposal of wastes and effluents (Section 12)

- provides that effective arrangements shall be made in every factory for the treatment of wastes and effluents due to the manufacturing process carried on therein
- so as to render them innocuous, and for their disposal.

Ventilation and temperature Section 13

- provides that effective and suitable provision shall be made in every factory for securing and maintaining every workroom with adequate ventilation by the circulation of fresh air and such a temperature as will secure to workers therein reasonable conditions of comfort and prevent to health.
- In case of the work involves the production excessively high temperatures, adequate measures shall be taken to protect the workers by separating their process which produces such high temperatures from the workroom by insulating the hot parts or by other effective means.

Dust and fume Section 14

- provides that in every factory if there is given off any dust or fume or other impurity of such nature in the process of manufacturing and it is likely to be injurious or offensive to the workers employed, any dust in substantial quantities, offensive to the workers, effective measures shall be taken to prevent its inhalation and accumulation in any work room.
- Exhaust appliance shall be applied as near as possible to the point of origin of dust, fume or other impurity and such points shall be enclosed so far as possible

Artificial humidification Section15

if the humidity of the air is artificially increased, the State Government may make rules-

- prescribing standards of humidification;
- regulating the methods used for artificially increasing the humidity of the air;
- directing prescribed tests for determining the humidity of the air to be correctly carried out and recorded;
- prescribing methods to be adopted for securing adequate ventilation and cooling of the air in the workrooms

Overcrowding Section16

- No room in any factory shall be overcrowded to an extent injurious to the health of the workers employed therein.
- There shall be in every workroom in a factory at least14.2 cubic meters of space for every worker employed therein.

LIGHTING SECTION 17

– In every part of a factory where workers are working or passing there shall be provided and maintained sufficient and suitable lighting, nature or artificial or both.

- All glazed windows and skylights used for the lighting shall be kept clean on both the inner and outer surfaces and free from obstruction.
- Effective provisions shall be made for the prevention of glare, either directly from a source of light or by reflection from a smooth or polished surface and the formation of shadows to such an extent as to cause eye strain or the risk of accident to any worker.

Drinking water Section 18

- Effective arrangements shall be made to provide and maintain at suitable points conveniently situated for all workers employed a sufficient supply of wholesome drinking water.
- Where more than 250 workers are employed
  - provision shall be made for cool drinking water during hot weather.
- The water points shall be away six meters from any washing place, urinal, latrine, spittoon, open drain carrying sullage or effluent or any other source of contamination

Latrines and urinals Section 19 provides that in every factory-

- sufficient latrine and urinal accommodation of prescribed types shall be provided conveniently situated and accessible to workers at all times while they are at factory;
- separate enclosed accommodation shall be provided for male and female workers;
- they shall be adequately lighted and ventilated;
- they shall be maintained in a clear and sanitary conditions at all times;
- sweepers shall be employed to keep clean latrines, urinals and washing places

NOTE:

- If there are more than 250 workers are employed
  - all latrine and urinal accommodation shall be of prescribed types.
- The flows and internal walls and the sanitary blocks shall be laid in glazed tiles to provide a smooth polished impervious surface.
- The latrines and urinals shall be washed and cleaned at least once in every seven days with suitable detergents or disinfectants or with both.

Spittoons Section 20

There shall be provided a sufficient number of spittoons in convenient places and they shall be maintained in a clean and hygienic condition.

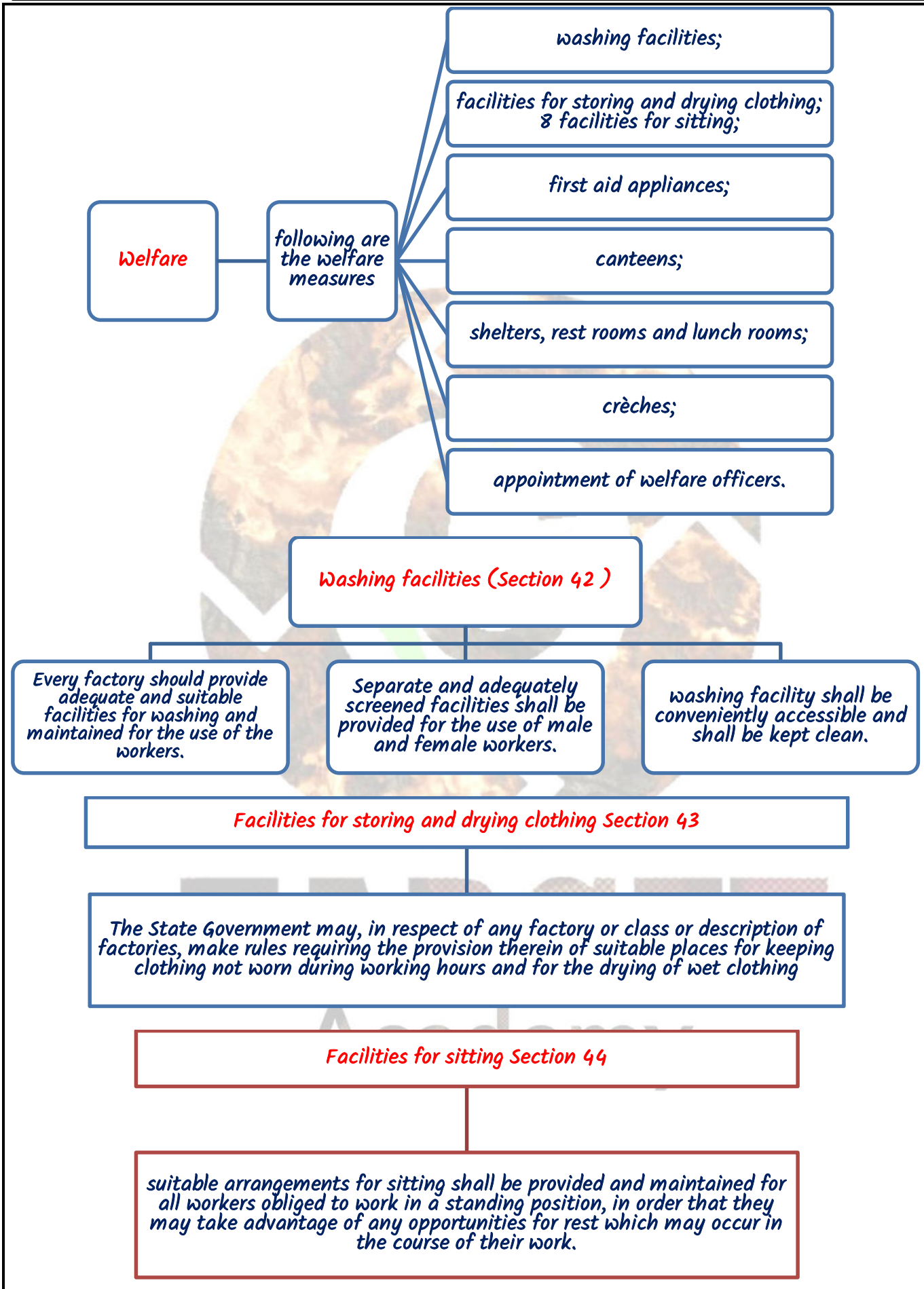
SAFETY :

– The factory is to take safety measures in respect of the following-

- Fencing of machinery;
- Work on or near machinery in motion;
- Employment of young persons on dangerous machines;
- Striking gear and devices for cutting off power;
- Self acting machines;
- Casing of a new machinery;
- Prohibition of employment of women and children near cotton openers;
- Lifting machines, chains, ropes and lifting tackles; 8 Revolving machinery; 8 Floors, stairs and means of access;
- Pits, sumps openings in floors etc.,;
- Excessive weights;
- Protection of eyes;
- Precaution against dangerous fumes, gases, etc.,
- Precautions regarding the use of portable electric light;
- Explosive or inflammable dust, gas etc.,
- Precaution in case of fire;
- Safety on buildings and machinery; 8 Maintenance of buildings; 8 Appointment of safety officers.

Responsibility of the occupier

To lay down a detailed policy with respect to the health and safety of the workers;	To disclose all the information regarding dangers including health hazards and the measures taken.	To draw up an onsite emergency plan and detailed disaster control measures, the safety measures required to be taken in the event of accident taking place.	To lay down measures for the handling usage, transportation and storage of hazardous substances inside the factory premises and the disposal of such substances outside the factory premises and publicize them in the manner prescribed among the workers and the general public living in the vicinity.


Welfare
following are the welfare measures
washing facilities;
facilities for storing and drying clothing; & facilities for sitting;
first aid appliances;
canteens;
shelters, rest rooms and lunch rooms;
crèches;
appointment of welfare officers.
Washing facilities (Section 42)
Every factory should provide adequate and suitable facilities for washing and maintained for the use of the workers.
Separate and adequately screened facilities shall be provided for the use of male and female workers.
washing facility shall be conveniently accessible and shall be kept clean.
Facilities for storing and drying clothing Section 43
The State Government may, in respect of any factory or class or description of factories, make rules requiring the provision therein of suitable places for keeping clothing not worn during working hours and for the drying of wet clothing
Facilities for sitting Section 44
suitable arrangements for sitting shall be provided and maintained for all workers obliged to work in a standing position, in order that they may take advantage of any opportunities for rest which may occur in the course of their work.

First aid appliances Section 45

- First aid appliances shall be provided and maintained so as to be readily accessible during all working hours or cupboards equipped with the prescribed contents and the number of such boxes or cupboards to be provided and maintained shall not be less than for every 150 workers at any one time in the factory.
- Each first aid box or cupboard shall be kept in charge of a separate reasonable person who holds a certificate in the first aid treatment recognized by the State Government and he should always be readily available during the working hours of the factor.
- In a factory where more than 500 workers are employed an ambulance of the prescribed size containing the prescribed equipment, nursing staff etc., shall be provided and made readily available at all times

Canteens Section 46

If more than 250 workers are employed in a factory

- a canteen or canteens shall be provided and maintained by the occupier for the user of the workers.
- The items of expenditure in the running of the canteen
  - not to be taken into account in fixing the cost of foodstuffs
  - it shall be borne by the employer.

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Shelters, rest rooms and lunch rooms Section 47

If more than 150 workers are employed

- adequate and suitable shelters or rest rooms and a suitable lunch room with provision for drinking water shall be provided and maintained for the use of the workers.
- shall be sufficiently lighted and ventilated and
- shall be maintained in a cool and clean condition.

Crèches Section 48

If more than 30 women workers are employed

- There shall be provided and maintained a suitable room for the use of children under the age of 6 years of such women.
- The same shall be adequately ventilated and shall be maintained in clear and sanitary conditions and under the charge of women trained in the care of children and infants.

Welfare Officers Section 49

If 500 or more than workers are employed in a factory

- Occupier shall employ in the factory such number of welfare officers as may be prescribed.

Section 51 provides that no adult worker shall be required or allowed to work in a factory for more than 48 hours in any week.In 'Richa & Company V. Shri Suresh Chand' – 2009 LLR 333 (SN) (Del HC) it was held that increase of 15 minutes working will not be violative of Section 51 of the Act.

Section 54

No adult worker shall be required or allowed to work in factory for more than 9 hours in any day.

Section 55

The periods of work of adult workers in a factory each day

- shall be so fixed that no period shall exceed 5 hours and
- that the worker shall work for more than 5 hours before he has had an interval for rest of at least half an hour.

Section 56

The periods of work of an adult worker in a factory shall be so arranged that inclusive of his intervals for rest, they shall not spread over more than ten and half hours in any day.

- Weekly holidays Section 52
- No adult worker shall be required or allowed to work in a factory on the first day of the week unless-
- He has or will have a holiday for a whole day on one of the three days immediately before or after the said day; and
- The manager of the factory, has, before the said day or the substituted day whichever is earlier.
- delivered a notice at the office of the Inspector of his intention to require the worker to work on the said day and of the day which is to be substituted; and
- Displayed a notice to that effect in the factory

Compensatory holidays Section 53

If a worker is deprived of any of the weekly holidays he shall be allowed within the month in which the holidays were due to him or within two months immediately following that month, compensatory holidays of equal number to the holidays so lost shall be given.

Section 58

The work shall not be carried on in any factory by means of a system of shifts so arranged that more than one relay of workers is engaged in work of the same kind at the same time.

Shift duty Section 57

- where a worker in a factory works on a shift which extends beyond midnight-
- for the purposes of Section 52 and 53, a holiday for a whole day shall mean in his case a period of 24 consecutive hours beginning when his shift ends;
- the following day for him shall be deemed to be the period of 24 hours beginning when such shift ends, and the hours he has worked after midnight shall be counted in the previous day.

Overtime Section 59

- where a worker works in a factory for more than 9 hours in any day or for more than 48 hours in any week,
- he shall, in respect of the overtime work, be entitled to wages at the rate of twice his ordinary rate of wages.

- The term 'ordinary rate of wages'
- is defined as the basic wages plus such allowances, including the cash equivalent of the advantage accruing through the concessional sale to workers of food grains and other articles, as the worker is for the time being entitled to, but does not include a bonus and wages for overtime work.
- Where any workers are paid on a piece rate basis, the time rate shall be deemed to be equivalent to the daily average of their full time earnings for the days on which they actually worked on the same or identical job during the month immediately preceding the calendar month during which the overtime work was done and such time rates shall be deemed to be ordinary rate of wages of those workers.

Double employment Section 60

imposes restriction that no adult worker shall be required or allowed to work in any factory on any day on which he has already been working in any other factory, save in such circumstances as may be prescribed.

Register of adult workers Section 62

- Register of adult workers shall be maintained, showing-
- Name of each adult worker in the factory; & the nature of the work;
- the group, if any, in which he is included;
- where his group works on shifts, the relay to which he is allotted;
- such other particulars as may be prescribed.

Employment of women Section 66

- No exemption from the provisions of Section 54 may be granted in respect of any woman;
- No woman shall be required or allowed to work in any factory except between the hours of 6 a.m. and 7 p.m.;
- The State Government may authorize the employment of any women between the hours of 10 p.m. and 5 a.m.;
- There shall be no change of shifts except after a weekly holiday or any other holiday. Employment of young person's Chapter VII of the Act deals with the employment of young persons.

Prohibition of employment of young children Section 67

No child who has not completed his 14th year shall be required or allowed to work in any factory.

Adolescent worker Section 68

A child who has completed his 14th year or an adolescent shall not be allowed to work in any factory unless-

- a certificate of fitness granted is in the custody of the manager of the factory; and
- such child or adolescent carries while he is at work a token giving a reference to such certificate.

Certificate of fitness Section 69(1)

- A certifying surgeon shall, on the application of any young person or his parent or guardian accompanied by a document signed by the Manager of a factory that such person will be employed therein if certified to be fit for work in a factory, or on the application of the Manager of the factory in which any young person wishes to work, examine such person and ascertain his fitness for work in a factory.

Section 69(2)

- The certifying surgeon, after examination, may grant to such young person, in the prescribed form or may renew-
- A certificate of fitness to work in a factory as a child, if he is satisfied that the young person has completed his 14th year, that he has attained the prescribed physical standards and that he is fit for such work;
- A certificate of fitness to work in a factory as an adult, if he is satisfied that the young person has completed his 15th year and is fit for a full day's work in a factory.

- The certificate granted by the certifying surgeon shall be valid for a period 12 months from the date thereof.
- He shall revoke any certificate granted or renewed if in his opinion the holder of it is no longer fit to work in capacity stated therein in a factory.
- In case the certifying surgeon refuses to give certificate, he has to give reasons for the same.
- If a certificate is given under certain conditions, the young person shall not be allowed in any factory except in accordance with those conditions.
- The occupier is to pay the fee for getting the certificate from the certifying surgeon and the same shall not be recovered from the young person, his parents or guardian

Working hours for children Section 71

- No child shall be employed or permitted to work in any factory for more than 4.5 hours in any day and during night.
- The period of work of all children employed in a factory shall be limited to two shifts which shall not overlap or spread over more than five hours each.
- Each child shall be employed in only one of the relays which shall not, except with the previous permission.
- No female child shall be allowed to work in any factory except between 8 a.m. and 7 p.m

Register of child workers Section 73

- Manager of every factory shall maintain a register of child workers showing-
  - Name of each child worker in the factory;
  - Nature of his work;
  - Group, if any, in which he is included;
  - where his group works on shifts, the relay to which he is allotted; and
  - Number of his certificate of fitness granted under Section 69.

Annual Leave with wages

Chapter VIII of the Act deals with annual leave granted workers with wages.

Annual leave Section 79

Every worker who has worked for a period 240 days or more in a factory during a calendar year

- if an adult → 1 day for every 20 days of work performed by him during the previous calendar year;
- if a child → 1 day for every 15 days of work performed by him during the previous calendar year.

Advance payment Section 81

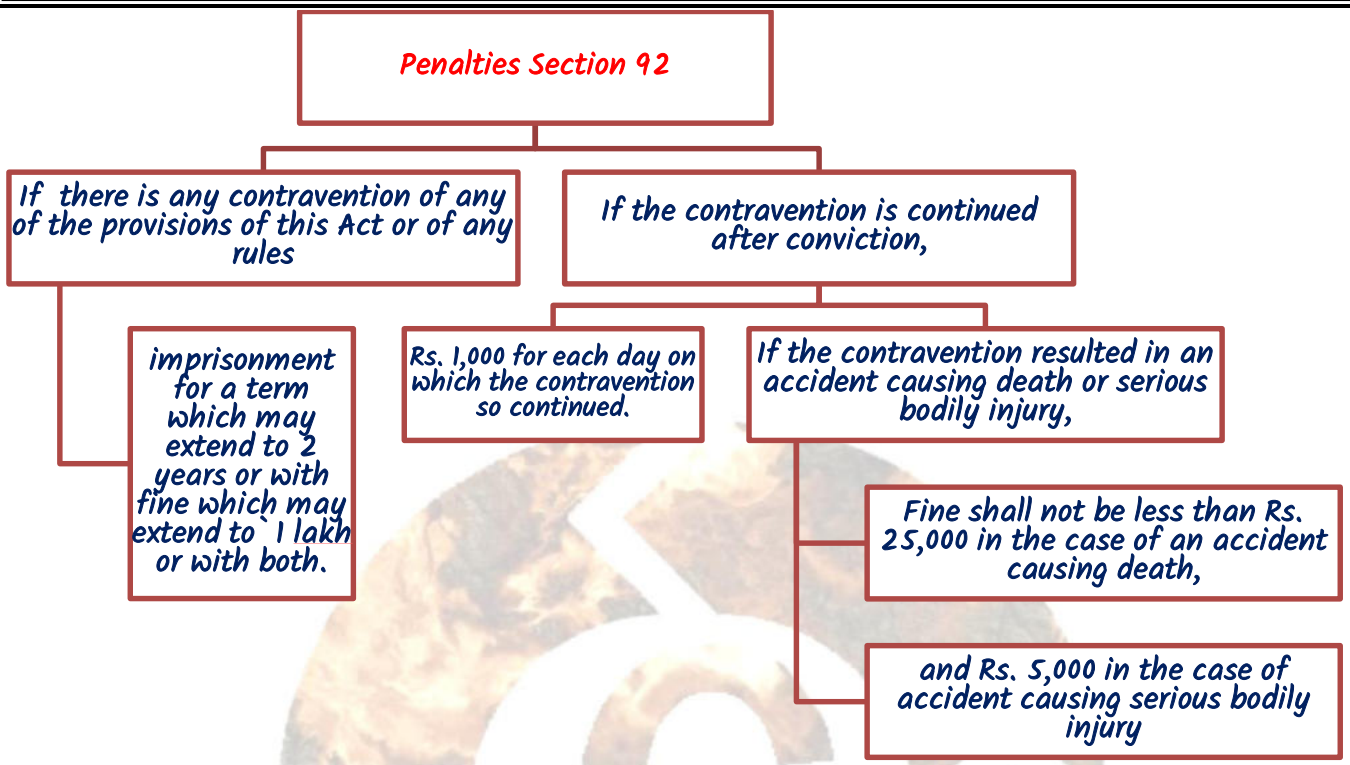
worker who has been allowed leave for not less than four days, in case of an adult, and five days, in the case of a child, shall, before his leave begins be paid the wages due for the period of the leave allowed

Encashment of leave Section 79(3)

- If a worker is discharged or dismissed from services or quits his employment or is superannuated or dies while in service, during the course of the calendar year, he or his heir or nominee, shall be entitled to the wages in lieu of the quantum of leave to which he was entitled immediately before such termination of his services.
- Such payment shall be made before the expiry of the second working day from the date of discharge, dismissal or quitting and where the worker is superannuated or dies while in service, before the expiry of two months from the date of such superannuation or death.

Liability of owners Section 93

- provides that where in any premises separate buildings are leased to different occupiers for use as separate factories, the owner of the premises shall be responsible for the provision and maintenance of common facilities and services, such as approach roads, drainage, water supply, lighting and sanitation.
- The owners of the premises shall be liable as if they were the occupier or manager of a factory for any contravention of the provisions of this Act.



Enhanced penalty Section 94

- provides that if any person who has been convicted of any offence punishable under Section 92 of the Act is again guilty of an offence involving a contravention of the same provision, he shall be punishable on a subsequent conviction with imprisonment for a term which may extend to 3 years or with fine which shall not be less than `10,000 but which may extend to ` 2 lakhs or with both.
- The Court may, for any adequate and special reasons recorded in writing, impose of a fine of less than ` 10,000. No cognizance shall be taken of any conviction made more than 2 years before the commission of the offence for which the person is subsequently convicted.
  - Section 95 to 99 other penalties are not covered in this book. Refere other material (main) for these sections.

Frequently asked questions

1. Responsibilities of occupier

Academy

THE END

EMPLOYEES STATE INSURANCE ACT, 1948

Object of this Act

To provide for certain benefits to employees in case of sickness, maternity and employment injury and to make provision for certain other matters in relation thereto.

Applicability

To whole of India.

This Act applies to- .

- All factories, including factories belonging to the Government, other than season factories;
- the appropriate Government may, in consultation with the corporation and
  - where the appropriate Government is a State Government, with the approval of Central Government, after giving one month's notice of its intention of so doing by notification in the Official Gazette, extend the provisions of this Act or any of them, to any other establishment or classes of establishments, industrial, commercial, agricultural or otherwise;

Once applicable = always applicable.

Wage limit

- CG has since prescribed the wage limit for coverage of an employee under Section 2(9) of the Act, as Rs.21,000 per month.
- Further it is provided that an employee whose wages (excluding overtime) exceeds Rs.21,000 a month at any time after and not before the beginning of the contribution period, shall continue to be an employee until the end of the said period.

Appropriate Government

- Establishments under the control of the CG or a railway administration or a major port or a mine or oilfield, → Central Government
- In all other cases → State Government.

Confinement

as labour resulting in the issue of a living child or labour after 26 weeks of pregnancy resulting in the issue of a child, whether alive or dead

Dependant Section 2(6A)

as any of the following of a deceased insured person:

- a widow, a legitimate or adopted son who has not attained the age of 25 years, an unmarried legitimate or adopted daughter;
- a widowed mother;
- if wholly dependent on the earnings of the insured person at the time of his death, a legitimate or adopted son or daughter who has attained the age of 25 years and is infirm;
- if wholly or in part dependant on the earnings of the insured person at the time of his death-
  - a parent other a widowed mother;
  - a minor illegitimate son, an unmarried illegitimate daughter or a daughter legitimate or adopted or illegitimate if married and a minor or if widowed and a minor;
- a minor brother or an unmarried sister or a widowed sister if a minor;
- a widowed daughter-in-law;
- a minor child of a pre-deceased son;
- a minor child of a pre-deceased daughter where no parent of the child is alive; or
- a paternal grand-parent if no parent of the insured person is alive.

Employment injury Section 2(8)

Personal injury to an employee caused by accident or an occupational disease arising out of and in the course of employment, being an insurable employment, whether the accident occurs or the occupation disease is contracted within or outside the territorial limits of India.

The following categories are coming under the purview of the term 'employee'-

- Canteen workers
- Employees who are working in a show room or sales office
- Workers rendering services outside the place of establishment or
- Part time employees employed on daily rate basis
- Casual workers

Family

- a spouse;
- a minor legitimate or adopted child dependent upon the insured person;
- a child who is wholly dependent on the earnings of the insured person and who isreceiving education, till he or she attains the age of 21 years; an unmarried daughter;
- a child who is infirm by reason of any physical or mental abnormality or injury and is wholly dependent on the earnings of the insured person, so long as the infirmity continues;
- dependent parents, whose income from all sources does not exceed such income as may be prescribed by the Central Government;
- in case the insured person is unmarried and his or her parents are not alive, a minor brother or sister wholly dependent upon the earnings of the insured person.

Factory Section 2(12)

- Any premises including the precincts thereof whereon 10 or more persons are employed or
- were employed on any day of the preceding 12 months and in any part of which a manufacturing process is being carried on or is ordinarily so carried on,
- but does not include a mine subject to the operation of the Mines Act, 1952 or a railway running shed.

Immediate employer Section 2(13)

in relation to employees employed by or through him, as a person who has undertaken the execution, on the premises of a factory or an establishment to which this Act applies or under the supervision of the principal employer or his agent, of the whole or any part of any work which is ordinarily part of the work of the factory or establishment of the principal employer or is preliminary to the work carried on in, or incidental to the purpose of, any such factory or establishment, and includes a person by whom the services of an employee who has entered into a contract of service with him are temporarily lent on hire to the principal employer and includes a contractor.

Insured Person Section 2(14)

- Person who is or was an employee in respect of whom contributions are or were payable under the Act
- and
- who is by reason thereof, entitled to any of the benefits provided by this Act.

Permanent partial disablement Section 2(1SA)

- such disablement of a permanent nature, as reduces the earning capacity of an employee in every employment which he was capable of undertaking at the time of the accident resulting in the disablement.
- Every injury specified in Part II of the Second Schedule shall be deemed to result in permanent partial disablement.

Permanent total disablement Section 2(1SB)

- such disablement of a permanent nature as incapacitates an employee for all work which he was capable of performing at the time of the accident in such disablement.
- The permanent total disablement shall be deemed to result from every injury specified in Part I of the Second Schedule or from any combination of injuries specified in Part II thereof where the aggregate percentage of the loss of earning capacity, as specified in the said Part II against those injuries, amounts to 100% or more.

Principal Employer Section 2(17)

in a factory	in any establishment under the control of any department of any Government in India	in any other establishment
owner or occupier of the factory and includes the managing agent of such owner or occupier, the legal representative of a deceased owner or occupier, and where a person has been named as the manager of the factory under the Factories Act, 1948, the person so named;	authority appointed by such Government in this behalf or where no authority is so appointed, the head of the Department;	any person responsible for the supervision and control of the establishment.

SEASONAL FACTORY SECTION 2(19A):

- Factory which is exclusively engaged in one or more of the following manufacturing processes namely
- cotton ginning,
- cotton or jute pressing,
- decortications of groundnuts,
- the manufacture of coffee,
- indigo,
- lac,
- rubber,
- sugar (including gur)
- tea
- Any manufacturing process which is incidental to or connected with any of the aforesaid processes and includes a factory which is engaged for a period not exceeding seven months in a year-
  - in any process of blending, packing or repacking of tea or coffee; or
  - in such other manufacturing process as the Central Government may, by notification in the Official Gazette, specify

Temporary disablement Section 2(21)

as a condition resulting from an employment which requires medical treatment and renders an employee, as a result of such injury, temporarily incapable of doing the work which he was doing prior to or at the time of the injury.

Wages Section

All remuneration paid or payable in cash to an employee, if the terms of the contract of employment, express or implied, were fulfilled and includes any payment to an employee in respect of any period of authorized leave, lock out, strike which is not illegal or lay-off and other additional remuneration, if any, paid at intervals not exceeding two months.

but not include-

- any sum paid to the person employed to defray special expenses entailed on him by the nature of his employment; or
- any gratuity payable on discharge.
- LIC Premium subsidy;
- House rent allowance, heat, gas and dust allowance and incentive allowance;
- Incentive bonus;
- Over time allowance;
- any contribution paid by the employer to any pension fund or provident fund, or under this Act;
- any travelling allowance or the value of any travelling concession;

Constitution of Corporation Section 4

Corporation shall consist of a

- Chairman,
- a Vice Chairman
- other members representing the interests of employers, employees, state governments, union territories and medical professions.
- Three members of the Parliament and the Director General of the Corporation are its ex-officio members.

- Section 5 provides for the term of office of members of Corporation.
- Section 6 provides for the eligibility for re-nomination or re-election.
- All orders and decisions of the Corporation shall be authenticated by the signature of the Director General

Regional Boards Section 25

Corporation may appoint Regional Boards, Local Committees and Regional and Local Medical Benefit Councils in such areas and in such manner and delegate to them such powers and functions, as may be provided by the regulations.

STANDING COMMITTEE SECTION 8:

- consisting of
- a Chairman;
- 3 members of the Corporation;
- 3 members of the Corporation representing such three State Governments;
- 8 members elected by Corporation –
  - 3 members from among the members of the Corporation representing employers;

- 3 members from among the members of the Corporation representing employees;
- 1 member from among the members of the Corporation representing medical profession; and
- 1 member from among the members of the Corporation elected by Parliament.

– Director General of the Corporation, ex-officio.

Term of office of standing committee Section 9

- 2 years from the date on which his election is notified.
- A member of the Standing Committee shall cease to hold office
  - when he ceases to be a member of the Corporation.

Powers of the Standing Committee Section 18

- Standing Committee shall administer the affairs of the Corporation and may exercise any of the powers and perform any of the functions of the Corporation.
- The Standing Committee shall submit for the consideration and decision of the Corporation all such cases and matters as may be specified in the regulations made in this behalf.
- The Standing Committee may, in its discretion, submit any other case or matter for the decision of the Corporation

Meetings of Standing Committee

- Standing Committee shall meet at such times and places and
- shall observe such rules or procedure in regard to transaction of business at their meetings as may be specified in the regulations made in this behalf.

SUPERSESSION OF THE CORPORATION AND STANDING COMMITTEE SECTION 21:

- if in the opinion of the CG, the Corporation or the Standing Committee persistently makes default in performing the duties imposed on it by or under this Act or abuses its powers, that Government may, by notification in the Official Gazette, supersede the Standing Committee in consultation with the Standing Committee.
- Before issuing a notification the Standing Committee shall be given a reasonable opportunity to show cause why it should not be superseded and shall consider the explanations and objections, if any, of the Standing Committee.
- On such superseding all the members shall be deemed to vacate their office.

A new Standing Committee shall be immediately constituted.

MEDICAL BENEFIT COUNCIL SECTION 10:

- consisting of
  - Director General of ESI, ex-officio – Chairman;
  - Director General, Health Services, ex-officio – Co-Chairman;
  - Medical Commissioner of the Corporation – ex-officio;
  - one member each representing each state other than Union territories;
  - 3 members representing employers;
  - 3 members representing employees;
  - 3 members representing the medical profession; among them one shall be a woman

Term of office of Medical Benefit Council

4 years from the date on which the appointment is notified.

Duties of Medical Benefit Council Section 22

- advise the Corporation and the Standing Committee on matters relating to the administration of medical benefit, the certification for purposes of the grant of benefits and other connected matters;
- have such powers and duties of investigation as may be prescribed in relation to complaints against medical practitioners in connection with the medical treatment and attendance; and
- perform such other duties in connection with the medical treatment and attendance as may be specified in the regulations.

DISQUALIFICATION SECTION 13 STANDING COMMITTEE OR THE MEDICAL BENEFIT COUNCIL:

- if he is declared to be of unsound mind by a competent court; or
- if he is an undischarged insolvent; or
- if he has directly or indirectly by himself or by his partner any interest in a subsisting contract with, or any work being done for, the Corporation except as a medical practitioner or as a shareholder of a company; or
- if before or after commencement of this Act, he has been convicted of an offence involving moral turpitude

Resignation Section 11

- member of the Corporation, the Standing Committee or the Medical Benefit Council may resign his office
- by notice in writing to the Central Government and his seat fall vacant on the acceptance of the resignation by Government.

Cessation Section 12

- if he fails to attend 3 consecutive meeting.
- The Corporation, the Standing Committee or the Medical Benefit Council may restore the membership subject to the rules made by the Government

REGISTRATION OF EMPLOYEES:

- Every employee is to register himself under the provisions of the Act.
- Registration is the process of obtaining and recording information about his employment which is insurable employment. This process also identifies to provide the benefits available under the Act that are related to the contributions paid by the employer on behalf of insured employees.
- The employee is required to give his details and his family details to his employer. A family photo is also to be provided so that the employer can register the employee.
- Registration is the process of obtaining and recording information about the entry of an employee into 'insurable employment', for the purpose of his identification under the Act.
- Registration of employee is the process of identification to provide the benefits under the Act which are related to the contributions paid by the employer on behalf of each of the insured persons.
- At the time of joining the insurable employment, an employee is required to provide his and his family details to the employer along with a family photo so that the employer can register the employee online.
- This exercise of registering an employee has to be a onetime exercise in life time of an employee. The insurance number generated on the first occasion of registration is to be used throughout his life time irrespective of change of employment including change of place

Employees' State Insurance Fund

- All contributions paid under this Act and all other moneys received on behalf of the corporation shall be paid into this fund.
- The grants, donations and gifts received from the Central Government or any State Government, local authority or any individual or body whether incorporated or not, are also paid into this Fund.

PURPOSES FOR WHICH THE FUND MAY BE EXPENDED SECTION 28

- Payment of benefits and provision of medical treatment and attendance to insured persons and, where the medical benefit is extended to their families, the provision of such medical benefit to their families in accordance with the provisions of this Act and defraying the charges and costs in connection therewith;

- Payment of fees and allowances to members of the Corporation, the Standing Committee and the Medical Benefit Council, the Regional Boards, Local Committees and Regional and Local Medical Benefit Councils;
- Payment of salaries, leave and joining time allowances, travelling and compensatory allowances, gratuities and compassionate allowances, pensions, contributions to provident or other benefit fund of officers and servants of the Corporation and meeting the expenditure in respect of offices and other services set up for the purpose of giving effect to the provisions of this Act;
- Establishment and maintenance of hospitals, dispensaries and other institutions and the provision of medical and other ancillary services for the benefit of insured persons and, where the medical benefit is extended to their families;

Payment of contributions to any State Government, local authority or any private body or individual, towards the cost of medical treatment and attendance provided to insured persons and, where the medical benefit is extended to their families, including the cost of any building and equipment, in accordance with any agreement entered into by the Corporation;

- defraying the cost (including all expenses) of auditing the accounts of the Corporation and of the valuation of its assets and liabilities;
- defraying the cost (including all expenses) of the Employees' Insurance Courts set up under this Act;
- payment of any sums under any contract entered into for the purpose of this Act by the Corporation or the Standing Committee or by any officer duly authorized by the Corporation or the Standing Committee in that behalf;
- payment of sums under any decree, order or award of any Court or Tribunal against the Corporation or any of its officers or servants for any act done in the execution of his duty or under a compromise or settlement of any suit or other legal proceeding or claim instituted or made against the Corporation;
- defraying the cost and other charges of instituting or defending any civil or criminal proceedings arising out of any action taken under this Act;
- defraying expenditure, within the limits prescribed, on measures for the improvement of the health, welfare of insured persons and for the rehabilitation and re-employment of insured persons who have been disabled or injured; and
- such other purposes as may be authorized by the Corporation with the previous approval of the Central Government.

CONTRIBUTIONS THE CONTRIBUTION PAYABLE UNDER THIS ACT IS OF TWO TYPES:

1. One is the contribution of the employer and the other is the contribution of the employee which is recovered from his wages and remitted to the Fund.
2. The present rate contribution is 3.25% and 0.75% of workers' wages by employers and employees respectively. Contribution against employee must be deposited within due date.

3. One shall not be able to deposit contribution online after 42 days from the end date of the contribution period. Employee whose salary per day is `176 or less need not to pay Employee's contribution and the same will be paid by the Govt.
4. However, employer will have to pay their share of contribution.
5. The employer is required to file monthly contributions online through ESIC portal on a monthly basis in respect of all its employees after duly registering them.
6. Through this, the employer has to file employee wise number of days for which wages paid and the amount of the wages paid respectively to ascertain the amount of contributions payable.
7. The total amount of contribution, both by the employer and the employee, for each month is to be deposited in any branch of SBI in cash or by cheque or demand draft on generation of such a challan through ESIC portal using credentials.
8. The contributions can also be paid through SBI internet banking.

Principal employer to pay contribution in the first instance Section 40(1)

- Principal employer shall pay in respect of all employer, whether directly employed by him or by or through an immediate employer, both the employer's contribution and the employee's contribution.
- Section 40(4) provides that any sum deducted by the principal employer from wages shall be deemed to have been entrusted to him by the employee for the purpose of paying the contribution in respect of which it was deducted.
- The principal employer shall bear the expenses of remitting the contributions to the corporation.

RECOVERY OF CONTRIBUTION FROM IMMEDIATE EMPLOYER :

1. Section 41 provides that a principal employer, who has paid contribution in respect of an employee employed through an immediate employer, shall be entitled to recover the amount of the contribution so paid from the immediate employer, either by deduction from any amount payable to him by the principal employer under any contract or as a debt payable by the immediate employer.
2. The immediate employer shall maintain a register of employees employed by or through him and submit the same to the principal employer before the settlement of any amount payable by him.

METHOD OF PAYMENT OF CONTRIBUTION SECTION 43:

- The Corporation may make regulations for payment and collection of contributions payable.
- Such regulations may provide for

1. The manner and time of payment of contributions;
2. The payment of contributions by means of adhesive or other stamps affixed to or impressed upon books, card or otherwise and regulating the manner, times and conditions, in, at and under which, such stamps are to be affixed or impressed;
3. The date of which evidence of contributions have been paid is to be received by the Corporation; 8 the entry in or upon books or cards of particulars of contributions paid and benefits distributed in the case of the insured persons to whom such books or cards relate; and

4. The issue, sale, custody, production, inspection and delivery of books or card and the replacement of books or cards which have been lost, destroyed or defaced.

Recovery of contributions Section 45B

Any contribution payable under this Act may be recovered as an arrear of land revenue.

SECTION 45C

- Authorized officer may issue certificate to Recovery Officer, who in turn proceed to recover the amount by one or more of the modes mentioned below-

1. Attachment and sale of moveable or immovable property of the factory or establishment or, as the case may be, the principal, or immediate employer;
2. Arrest of the employer and his detention in prison;
3. Approving a receiver for the management of the movable or immovable properties of the factory or establishment or, as the case may be, the employer.
4. The attachment shall first be effected against the properties of the factory or the establishment and such attachment and sale is insufficient for recovering the whole of the amount of arrears, the Recovery Officer may take such proceedings against the property of the employer.

BAR AGAINST RECEIVING COMPENSATION UNDER ANY OTHER LAW SECTION 53

1. An insured person or his dependents shall not be entitled to receive or recover, whether from the employer or from any other person
2. any compensation or damages under the Workmen Compensation Act, 1923 or any other law for the time being in force or otherwise in respect of an employment injury sustained by the insured person as an employee.

Medical benefit Section 56

- An insured person or a member of his family whose condition requires medical treatment and attendance shall be entitled to receive medical benefits.
- Such medical benefit may be given either in the form of out-patient treatment and attendance in a hospital or dispensary, clinic or other institution or by visits to the home of the insured person or treatment as in-patient in a hospital or other institution.
- A person shall be entitled to medical benefit during any period for which contributions are payable in respect of him or which he is qualified to claim sickness benefit or maternity benefit or is in receipt of such disablement benefit as does not disentitle him to medical benefit under the regulations.

Establishment of hospital by Corporation Section 59

The Corporation may, with the approval of the State Government, establish and maintain in a State such hospitals, dispensaries and other medical and surgical services as it may think fit for the benefit of insured persons and their families.

Benefits not assignable Section 60

Right to receive any payment or any benefit under this Act shall not be transferable or assignable.

Benefits not to be combined Section 65

An insured person shall not be entitled to receive for the same period-

- Both sickness benefit and maternity benefit; or
- Both sickness benefit and disablement benefit for temporary disablement; or
- Both maternity benefit and disablement benefit for temporary disablement.
- Where a person is entitled to more than one of the benefits he shall be entitled to choose which benefit he shall receive.

REPAYMENT OF BENEFIT IMPROPERLY RECEIVED SECTION 70:

1. Where any person has received any benefit or payment under this Act when he is now lawfully entitled to receive the same,
2. he shall be liable to the Corporation the value of the benefit or the amount of such payment, or in the case of his death his representative shall be liable to repay the same from the assets of the deceased, if any, in his hands.
3. The amount recoverable may be recovered as if it were an arrear of land revenue or by the Recovery Officer.

SECTION 72: EMPLOYER NOT TO REDUCE WAGES ETC.

4. No employer by reason only of his liability for any contributions payable under this Act shall, directly or indirectly reduce the wages of any employee, or except as provided by the regulations

discontinue or reduce benefits payable to him under the conditions of his service, which are similar to the benefits conferred by this Act.

EMPLOYER NOT TO DISMISS OR PUNISH THE EMPLOYEE DURING SICKNESS ETC. SECTION 73

- No employee shall dismiss, discharge or reduce or otherwise punish an employee during the period the employee is in receipt of
  - sickness benefit or maternity benefit, nor shall be, except as provided under the regulations, dismiss, discharge or reduce or otherwise punish an employee during the period which he is in receipt of disablement benefit for temporary disablement or is under medical treatment for sickness or is absent from work as a result of illness duly certified in accordance with the regulars to arise out of the pregnancy or confinement rendering the employee unfit for work.

Adjudication of disputes and claims Section 74

State Government shall constitute an ESI Court for such local area as may be specified in the notification.

SECTION 75 PROVIDES THAT ESI COURT MAY DECIDE ANY QUESTION OR DISPUTE ARISES AS TO-

1. whether any person is an employee within the meaning of this Act or whether he is liable to pay the employee's contribution; or
2. the rate of wages or average daily wages of an employee for the purposes of this Act; or
3. the rate of contribution payable by a principal employer in respect of any employee;
4. the person who is or was the principal employer in respect of any employee; or
5. the right of any person to any benefit and as to the amount and duration thereof; or3
6. any direction issued by the Corporation on a review of any payment of dependents' benefit; or
7. any other matter which is in dispute between-
   a) a principal employer and the Corporation; or
   b) a principal employer and an immediate employer; or
   c) a person and the Corporation; or
   d) an employee and a principal or immediate employer

THE FOLLOWING CLAIMS SHALL BE DECIDED BY ESI COURT-

1. claim for the recovery of contributions from the principal employer;
2. claim by a principal employer to recover contributions from any immediate employer;
3. claim against a principal employer;
4. claim for the recovery of the value or amount of the benefits received by a person when he is not lawfully entitled thereto; and
5. any claim for the recovery of any benefit admissible under the Act.

Jurisdiction of Civil Court Section 75(3)

No Civil Court have jurisdiction to decide or deal with any question or dispute as aforesaid or to adjudicate on any liability which is to be decided by a medical board or a medical appeal tribunal or ESI Court.

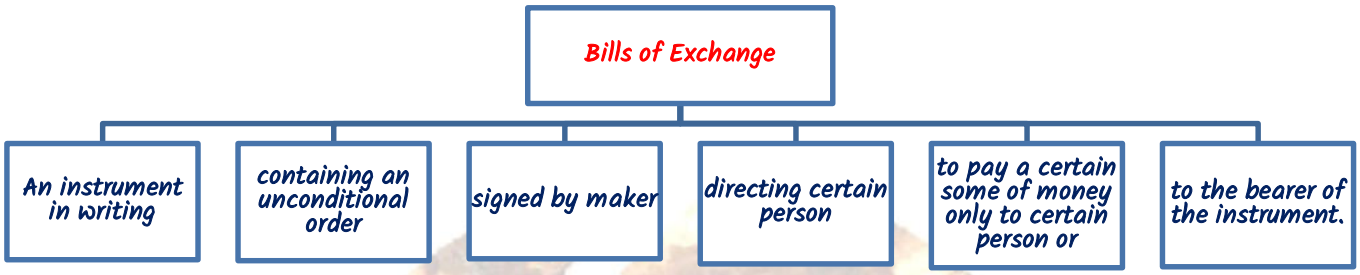
TARGET Academy

THE END

FINANCIAL ACCOUNTING

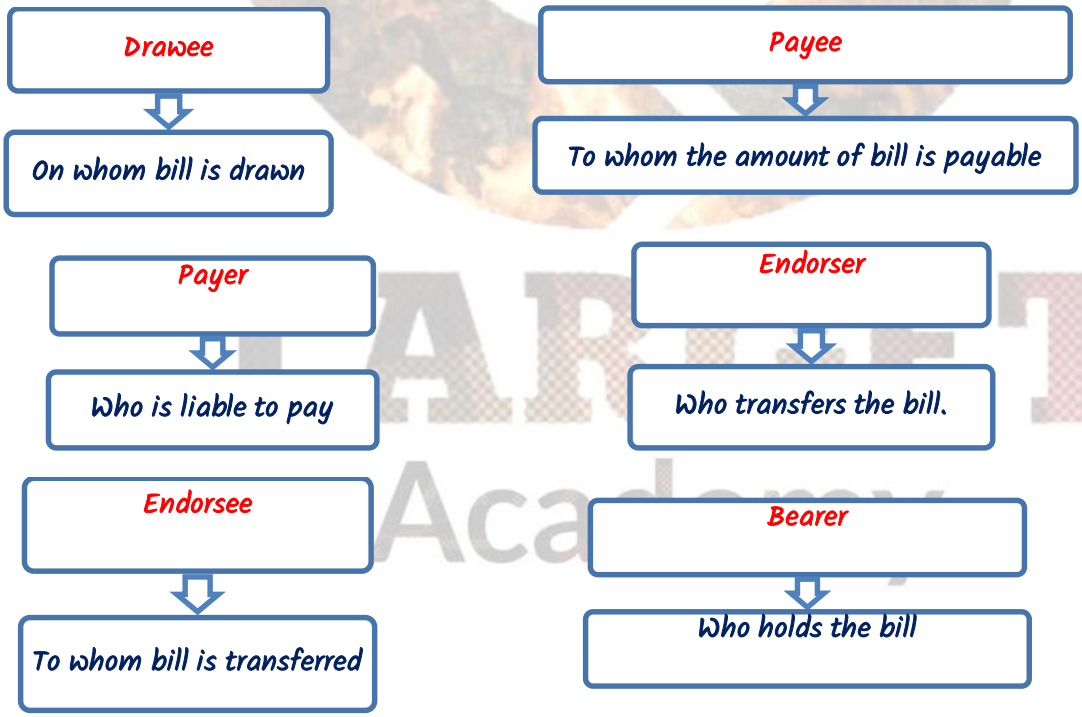
PART - I

BILLS OF EXCHANGES



Parties of bills of Exchange:

- Drawer / maker
- Drawee
- Payee
- Payer
- Endorser
- Endorsee
- Bearer



Example:

Ram purchased goods from Bheem value of Rs.50,000. both are agreed to settle this transaction through bills of exchange

Endorsement

Process of transfer of bill from one person to other person

Drawer of bill of exchange has 3 options.

- Retains till maturity
- Discounting of Bill
- Endorsement

Retirement of bill

Retirement of bill

making payment before due date

Usual entries for bill transactions are given below:

Transactions	Drawer's Books	Drawee's Books
When the bill is drawn and accepted	Bills Receivable A/c ... Dr. To Drawee's A/c	Drawer's A/c ... Dr. To Bills Payable A/c
When the bill is duly honoured on maturity	Bank A/c ... Dr. To Bills Receivable A/c (This entry will be made if the drawer retains the bill till due date and receives payment)	Bills Payable A/c ... Dr. To Bank A/c
When the bill is endorsed to a creditor	Endorsee's A/c ... Dr. To Bills Receivable A/c	
When the bill is	(i) Bank A/c ... Dr.	

discounted with the bank	To Bills Receivable A/c (with full amount of the bill)	
	(ii) Discount on Bills A/c ... Dr. To Bank A/c (with the amount of discount)	
	Alternative combined entry : Bank A/c ... Dr. Discount on B ills A/c ... Dr. To Bills Receivable A/c	
When the bill is sent to bank for collection and the bill is duly collected	(i) When sent: Bills for Collection A/c ... Dr. To Bills Receivable A/c	
	(ii) When collected: Bank A/c ... Dr. To Bills for Collection A/c	
When the bill is retired before maturity	Bank A/c ... Dr. Discount on Bills (or Rebate) A/c ... Dr. To Bills Receivable A/c	Bills Payable A/c ... Dr. To Bank A/c Discount on Bills (or Rebate) A/c
When the bill is dishonoured	(i) If retained by the drawer till maturity: Drawee's A/c ... Dr. To Bills Receivable A/c	Bills Payable A/c ... Dr. To Drawer's A/c
	(ii) If discounted with Bank Drawee's A/c ... Dr. To Bank A/c	Bills Payable A/c ... Dr. To Drawer's A/c
	(iii) If endorsed to a creditor: Drawee's A/c ... Dr. To Endorsee's A/c	Bills Payable A/c ... Dr. To Drawer's A/c
	(iv) If sent to Bank for collection: Drawee's A/c ... Dr. To Bills for Collection A/c	Bills Payable A/c ... Dr. To Drawer's A/c

When Noting Charges are paid on dishonoured bill	(i) If paid by drawer: Drawee's A/c ... Dr. To Bank A/c	Noting Charges A/c ... Dr. To Drawer's A/c
	(ii) If paid by endorsee: Drawee's A/c ... Dr. To Endorsee's A/c	Noting Charges A/c ... Dr. To Drawer's A/c
	(iii) If paid by discounting Bank: Drawee's A/c ... Dr. To Bank A/c	Noting Charges A/c ... Dr. To Drawer's A/c
When the bill is renewed for a further period	(i) For cancellation of the old bill: Drawee's A/c ... Dr. To Bills Receivable A/c	Bills Payable A/c ... Dr. To Drawer's A/c
	(ii) For interest on the extended period: Drawee's A/c ... Dr. To Interest A/c	Interest A/c ... Dr. To Drawer's A/c
	(iii) For drawing the new bill : Bills Receivable A/c ... Dr. To Drawee's A/c	Drawer's A/c ... Dr. To Bills Payable A/c

EXAMPLE:

Sunil owed Anil Rs.80,000. Anil draws a bill on Sunil for that amount for 3 months on 1st April. Sunil accepts it and returns it to Anil. On 15th April, Anil discounts it with Citi Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges of Rs.100. Anil settles the bank's claim along with noting charges in cash. Sunil accepted another bill for 3 months for the amount due plus interest of Rs.3,000 on 1st July. Before the new bill became due, Sunil retires the bill with a rebate of Rs.500. Show journal entries in books of Anil.

SOLUTION:

Journal entries in the books of Anil

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
April, 1	Bills Receivables A/c	Dr		80,000	
	To, Sunil's A/c				80,000
	(Being acceptance by Sunil)				
April, 15	Bank A/c	Dr		78,000	

	Discount A/c	Dr		2,000	
	To, Bills Receivables A/c				80,000
	(Being discounting of the bill @ 12% p.a. & discounting charges for 2.5 months)				
June, 30	Sunil's A/c	Dr.		80,100	
	To, Bank A/c				80,100
	(Being dishonour of the bill & noting charges paid by bank)				
June, 30	Bank A/c	Dr.		80,100	
	To, Cash				80,100
	(Being cash paid to bank)				
July, 1	Sunil's A/c	Dr.		3,000	
	To, Interest				3,000
	(Being interest due from Sunil)				
July, 1	Bills Receivables A/c	Dr.		83,100	
	To, Sunil's A/c				83,100
	(Being new acceptance by Sunil for Rs. 80,100 & interest of Rs. 3,000)				
July, 1	Bank A/c	Dr.		82,600	
	Rebate A/c	Dr.		500	
	To, Bills Receivables A/c				83,100
	(Being the amount received on retirement of the bill)				

EXAMPLE:

X bought goods from Y for Rs.4,000. Y draws a bill on 1.1.2013 for 3 months which was accepted by X for this purpose. On 1.3.2013, X arranged to retire the bill at a rebate of 12% p.a. Show the entries in the books of X and Y.

SOLUTION:

In the books of Y Journal

Date	Particulars		L.F	Dr. (Rs.)	Cr. (Rs.)
2013	X A/c	Dr.		4,000	
Jan 1	To, Sales A/c				4,000
	(Goods sold to X)				
Jan 1	Bills Receivable A/c	Dr.		4,000	
	To, X A/c				4,000
	(Bills drawn for 3 months)				
March 1	Cash A/c	Dr.		3,954	
	Rebate Allowed A/c	Dr.		46	
	To, Bills Receivable A/c				4,000
	(Bills retired under a rebate of 12% p.a.)				

In the books of X Journal

Date	Particulars		L.F	Dr. (Rs.)	Cr. (Rs.)
2013 Jan 1	Purchase A/c To, Y A/c (Goods purchased from Y)	Dr.		4,000	 4,000
Jan 1	Y A/c To, Bills Payable A/c (Bills accepted for 3 months)	Dr.		4,000	 4,000
March 1	Bills Payable A/c To, Cash A/c To, Rebate Received A/c (Bills retired under a rebate of 12% p.a.)	Dr.		4,000	 3,956 46

Operating Cycle of the Accommodation Bill of Exchange

The basis for accommodation bill is not a trade transaction. It is drawn to accommodate the financial requirements of drawer or even a drawee. This transaction presupposes trust and understanding between the parties to the transaction. The drawer normally discounts this bill with the bank. The amount received from bank is either retained by the drawer for himself or shared between the drawer and the drawee. On the date of maturity, the drawee settles the bill with bank by effecting payment. The drawer will pay the drawee either full amount of the bill or his share. Accounting entries for accommodation bill are:

Situations	Drawer's books		Drawee's books	
Drawing of a bill	B/R A/c To, Drawee A/c	Dr.	Drawer A/c To, B/P A/c	Dr.
Discounting with bank	Bank A/c Discount A/c To, B/R A/c	Dr. Dr.	No Entry	
Payment on due date	Drawee A/c To, Bank A/c	Dr.	B/P A/c To, Bank A/c	Dr.

Accommodation Bill

Operating Cycle of the Accommodation bill of exchange

The basis for accommodation bill is not a trade transaction. It is drawn to accommodate the financial requirements of drawer or even a drawee. This transaction presupposes trust and understanding between the parties to the transaction. The drawer normally discounts this bill with the bank. The amount received from bank is either retained by the drawer for himself or shared between the drawer and the drawee. On

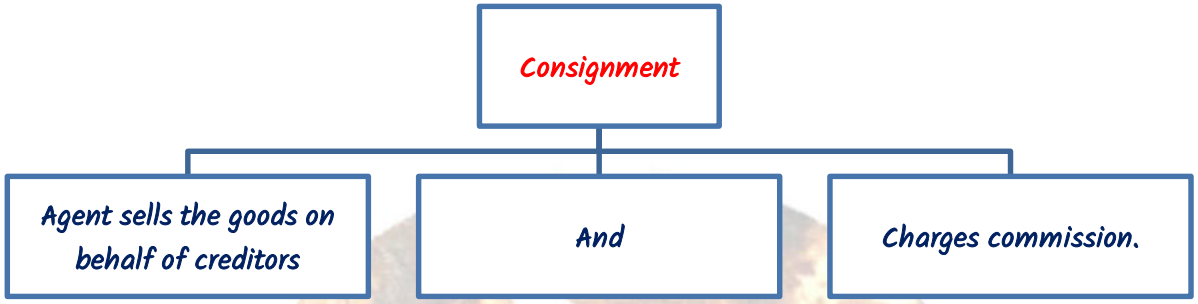
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Situations	Drawer's books		Drawee's books	
Drawing of a bill	B/R A/c To, Drawee A/c	Dr.	Drawer A/c To, B/P A/c	Dr.
Discounting with bank	Bank A/c Discount A/c To, B/R A/c	Dr. Dr.	No Entry	
Payment on due date	Drawee A/c To, Bank A/c	Dr.	B/P A/c To, Bank A/c	Dr.

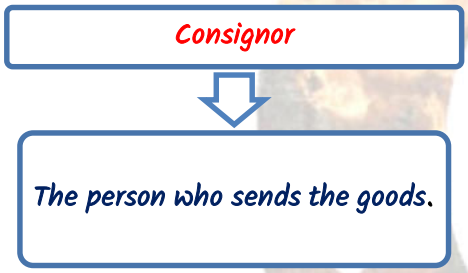
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CONSIGNMENT

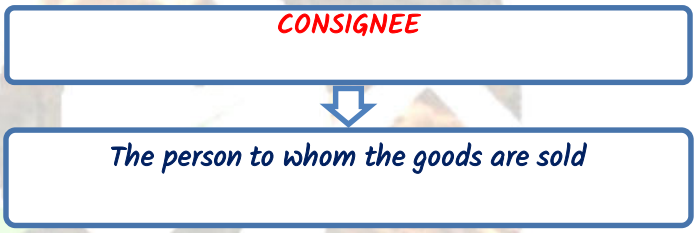
CONSIGNMENT



Consignor or principal

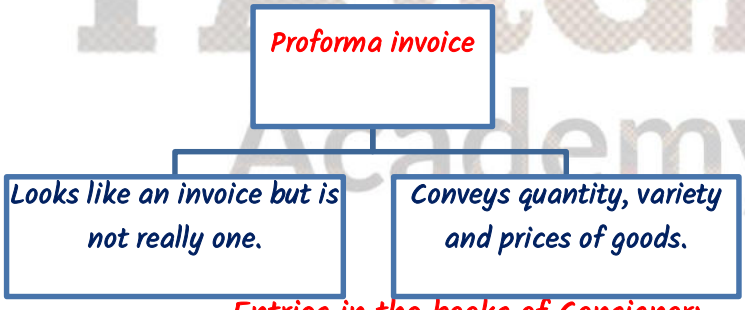


CONSIGNEE





CONSIGNEE IS NOT A DEBTOR



Entries in the books of Consignor:

	When goods are invoiced at cost	When goods are invoiced at invoice price
For goods sent on consignment	Consignment A/c... Dr. To Goods Sent on	Consignment A/c ... Dr. To Goods Sent on

	Consignment A/c (with the cost of goods)	Consignment A/c (with the invoice price of goods)
Adjustment Entry for removing loading	No Entry	Goods Sent on Consignment A/c ... Dr. To Consignment A/c (with the amount of loading)
For goods returned by consignee	Goods Sent on Consignment A/c ... Dr. To Consignment A/c (with the cost of goods)	Goods Sent on Consignment A/c ... Dr. To Consignment A/c (with the invoice price of goods)
Adjustment Entry for removing loading	No Entry	Consignment A/c ... Dr. To Goods Sent on Consignment A/c (with the amount of loading)
For opening stock	Consignment A/c ... Dr. To Stock on Consignment A/c (with the cost of opening stock)	Consignment A/c ... Dr. To Stock on Consignment A/c (with the invoice price of opening stock)
Adjustment Entry for removing loading	No Entry	Stock Reserve A/c ... Dr. To Consignment A/c (with the amount of loading)
For closing stock	Stock on Consignment A/c ... Dr. To Consignment A/c (with the cost of closing stock)	Stock on Consignment A/c ... Dr. To Consignment A/c (with the invoice price of closing stock)
Adjustment Entry for removing loading	No Entry	Consignment A/c ... Dr. To Stock Reserve A/c (with the amount of loading)

Let us see the entries in the books of consignor as well as consignee:

Situations	Consignor's books	Consignee's books
On sending goods	Consignment A/c Dr.	No Entry

	To Goods Sent on Consignment	
On expenses for sending goods	Consignment A/c Dr. To Cash/Bank/Creditors for Expenses A/c	No Entry
For advance received from consignee	Cash/ Bank/ Bill Receivables A/c Dr. To Consignee's Personal A/c	Consignor's Personal A/c Dr. To Cash/ Bank/ Bills Payable A/c
On expenses incurred by consignee	Consignment A/c Dr. To Consignee's Personal A/c	Consignor's Personal A/c Dr. To Cash/ Bank/ Creditors for expenses A/c
On consignee reporting sales	Consignee's Personal A/c Dr. To Consignment A/c	Cash/ Bank/ Consignment Debtors A/c Dr. To Consignor's Personal A/c
For commission due	Consignment A/c Dr. To Consignee's Personal A/c	Consignor's Personal A/c Dr. To Commission A/c
For Bad Debts	Consignment A/c Dr. To Consignee's Personal A/c	Consignor's Personal A/c Dr. To Consignment Debtors A/c
For closing the consignment account	For profit : Consignment A/c Dr. To General Profit and Loss A/c. For Loss General Profit and Loss A/c Dr. To Consignment A/c	No entry
For the final settlement	Cash/ Bank/ B/R A/c Dr. To Consignee A/c	Consignor A/c Dr. To Cash/ Bank/ B/P A/c
For closing the Goods Sent on Consignment Account	Goods sent on Consignment A/c Dr. To Trading/ Purchases A/c	No entry
On closing stock	Stock on Consignment A/c Dr. To Consignment A/c	No Entry

Del Credere Commission and Bad Debts

Sometimes the consignor allows an extra commission to the consignee in order to cover the risk of collection from customer on account of credit sales which is known as Del Credere Commission. Naturally, if debt is found to be irrecoverable the same must be borne by the consignee. There will be no effect in the books of consignor. In short, credit sales will be treated as cash sales to consignor. If no Del credere commission is given by the consignor to the consignee, the amount of Bad debts must be borne by the consignor.

Entries in the Books of Consignor

a) When Del Credere Commission is given

(i)	For Credit Sales – Consignee's Personal A/c Dr. To Consignment A/c	
(ii)	For Bad Debts – No Entry	
(iii)	For Del Credere Commission — Consignment A/c Dr. To, Consignee's Personal A/c	

b) When Del Credere Commission is not given

(i)	For Credit Sales – Consignment Debtors A/c Dr. To Consignment A/c		
(ii)	For Bad Debts – Consignment A/c Dr. To Consignment Debtors A/c		
(iii)	(a) For realization of Cash — Cash A/c Dr. To Consignment Debtors A/c		if collected by Consignor
	(b) Consignee's Personal A/c Dr. To Consignment Debtors A/c		if collected by Consignee

Entries in the Books of Consignee

a) When Del Credere Commission is given

(i)	For Credit Sales – Consignment Debtors A/c Dr. To, Consignor A/c
(ii)	For Bad Debts – Bad Debts A/c Dr. To, Consignment Debtors A/c
(iii)	For realization of cash from cash from Debtors — Cash/ Bank A/c Dr. To, Consignment Debtors A/c
(iv)	For Closing Bad Debts A/c- Commission Received A/c Dr. To, Bad Debts A/c

EXAMPLE:

'A' sends goods worth Rs.50,000 to 'B' for sales for 5% commission. He incurs Rs.1,500 for Freights and Rs.500 for Insurance. The goods are sold for Rs.60,000, consignee incurs Rs.500 unloading expenses and Rs.500 rent. B sends a draft after deducting his expenses and commission.

Prepare necessary accounts in the books of A.

SOLUTION:

In the books of A Consignment Account

Dr. Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Goods Sent on Consignment A/c	50,000	By B's A/c Sale	60,000
To Cash A/c (Freight)	1,500		
To Cash A/c (Insurance)	500		
To B's A/c			
-Unloading Expenses	500		

- Rent	500		
To B's A/c -Commission (60,000 x 5%)	3,000		
To Profits and Loss A/c (Profit on Consignment)	4,000		
	60,000		60,000

B's (Consignee's) Account

Dr. Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Consignment A/c- Sale	60,000	By Consignment A/c – (Unloading Expenses)	500
		By Consignment A/c (Rent)	500
		By Consignment A/c (Commission)	3,000
		By Bank A/c	56,000
	60,000		60,000

Goods Sent on Consignment Account

Dr. Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Trading A/c (Balancing Figure)	50,000	By Consignment A/c	50,000
	50,000		50,000

THE END

JOINT VENTURE

Joint venture

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Two or more people having requisite skill sets come together to form a temporary partnership

The business activities for which Joint Ventures are formed could be :

- Construction of dams, bridges roads etc .
- Buying & selling of goods for a particular season.
- Producing a film.
- Purchasing land selling plot

BASIC FEATURES OF A JOINT VENTURE BUSINESS ARE

- It is done for a specific purpose and hence has a limited duration.
- The partners are called co-ventures.
- The profit or loss on joint venture is shared between the co-ventures in the agreed ratio.
- The co-ventures may or may not contribute initial capital.
- The JV is dissolved once the purpose of the business is over.
- The accounts of the co-ventures are settled immediately on dissolution.
- A joint venture has no name.

Ways of maintaining books of accounts

- Where separate books of accounts are maintained
- Where no separate books of accounts are maintained
- Memorandum Joint Venture method

Separate books are maintained:

- In this method "Joint Venture A/c" (Like a normal P & L A/c) is opened which records all transactions related to the activities carried out.
- The net result of this a/c will be either profit or loss.
- To record transaction related to co-ventures, "Co-Ventures' personal A/cs" are also maintained.

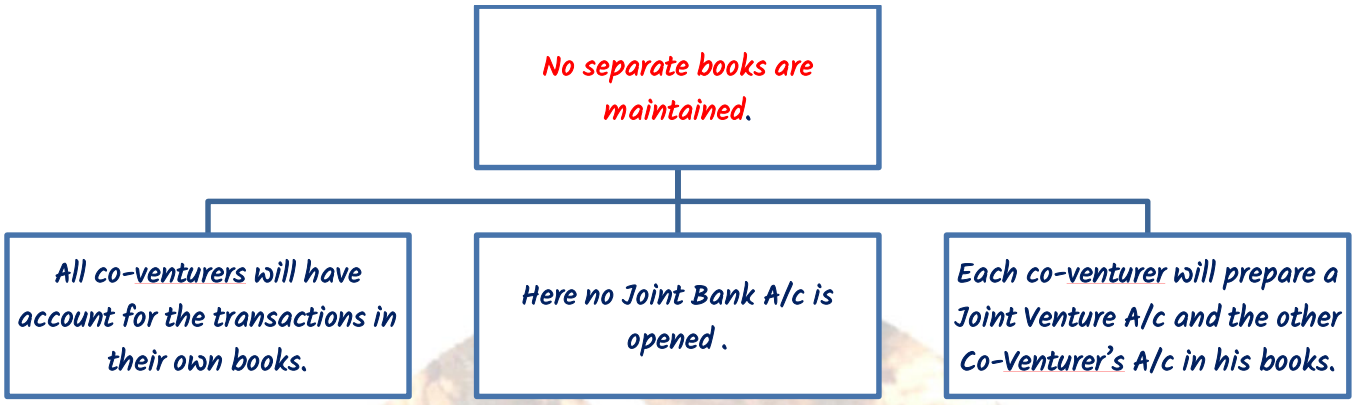


The accounting entries are normally as follows:

No.	Transaction	Entry
1	Contribution of co-venturers	Joint Bank A/c Dr. [with total] To Co-Venturers A/c [with individual sum contributed]
2	On purchase of goods	Joint Venture A/c Dr. To Joint Bank/ Supplier's/ Co-Venturers A/c
3	On making payment to suppliers ofgoods	Supplier's A/c. Dr. [with total] To Cash/ Joint Bank/ B/P A/c[with paymentmade] To Joint Venture A/c [with discount received]
4	On supply of goods out of own stock byany of the co-ventures	Joint Venture A/c Dr. To, Co-Venturer's Personal A/c
5	On payment of expenses	Joint Venture A/c Dr. To, Joint Bank/ Co-Venturers A/c
6	For sale of goods sold	For cash Joint Bank A/c Dr.

		To Joint Venture A/c For credit Customer's A/c To, Joint Venture A/c By any Co-ventures Co- Venturer's A/c To, Joint Venture A/c	 Dr. Dr.
7	On receiving payment from a customer	Cash/ Joint Bank/ B/R A/c payment received] Joint Venture A/c discount allowed/ bad debts] To, Customer's A/c	Dr. [with Dr. [with [with total]
8	Contract / sale price received in form of shares / cash	Joint Bank A/c Shares A/c To Joint Venture A/c	Dr. Dr.
9	Commission / salary to co-ventures	Joint Venture A/c To Co-Venturers A/c	Dr.
10	Unsold goods taken over by co- ventures	Co-Venturers A/c To Joint Venture A/c	Dr.
11	Shares taken over by co-ventures	Co-Venturers A/c To Shares	Dr.
12	If shares are sold in open market	Joint Bank A/c To Shares	Dr.
13	For profit on joint venture	Joint Venture A/c To Co-Venturers A/c	Dr.
14	For loss on joint venture	Co-Venturers A/c To Joint Venture A/c	Dr.
15	For final distribution of funds	In case of a debit balance Joint Bank A/c To, Co-Venturer's Personal A/c In case of a credit balance Co-Venturers A/c To Joint Bank A/c	 Dr. Dr.

When no separate books are maintained:



Journal entries

In books of Co-venturer A		In books of co-venturer B	
When goods are supplied and expenses paid by A			
Joint Venture A/c	Dr.	Joint Venture A/c	Dr.
To, Goods A/c		To, A's A/c	
To, Cash / Bank A/c			
When goods are supplied by B and expenses paid by B			
Joint Venture A/c	Dr.	Joint Venture A/c	Dr.
To, B's A/c		To, Goods A/c	
		To, Cash / Bank A/c	
When advance is given by A to B or bill accepted by A			
B's A/c	Dr.	Cash / Bank A/c	Dr.
To, Cash / Bank A/cTo, B/P A/c		B/R A/c	Dr.
		To, A's A/c	
When sale proceeds are received by A			
Cash / Bank A/c	Dr.	A's A/c	Dr.
To, Joint Venture A/c		To, Joint Venture A/c	
When sale proceeds are received by B			
B's A/c	Dr.	Cash / Bank A/c	Dr.
To, Joint Venture A/c		To, Joint Venture A/c	

For unsold goods taken over by A			
Goods A/c To Joint Venture A/c	Dr.	A's A/c To Joint Venture A/c	Dr.
For unsold goods taken over by B			
B's A/c To, Joint Venture A/c	Dr.	Goods A/c To, Joint Venture A/c	Dr.
For profit on joint venture business			
Joint Venture A/c To, B's A/c To, P & L A/c	Dr.	Joint Venture A/c To, A's A/c To, P & L A/c	Dr.
For loss on joint venture business			
B's A/c P & L A/c To, Joint Venture A/c	Dr. Dr.	A's A/c P & L A/c To, Joint Venture A/c	Dr. Dr.

Memorandum Joint Venture Account

- When all the parties keep accounts, the method adopted for recording the transactions relating to joint venture, is called Memorandum Joint venture method.
- Here each Co-Venturer records only those joint venture transactions which are affected by him with the help of a personal account designed as 'Joint Venture with ..... (Name of the other Co-Venturer).....Account'.

Journal Entries: The journal entries which may be required at any point of time, are summarized below

1. (a) On receipt of any amount/Bills Receivable from other Co-Venturer: Cash/Bank/Bills Receivable A/c To, Joint Venture with A/c	Dr.	
2. (b) On discounting Bills Receivable: Bank A/c Joint Venture with ...A/c To, Bills Receivable A/c	Dr. Dr.	(with net proceeds) (with discount) (with total)

3. On purchase of goods: Joint Venture with .....A/c To, Cash/Bank A/cTo, Supplier's A/c	Dr.	(with total) (with cash purchase) (with credit purchase)
4. On making payment to supplierSupplier's A/c To, Cash/Bank/Bills Payable A/c To, Joint Venture with ..... A/c	Dr.	(with total) (with payment made) (with discount received)
5. On supply of goods out of own stock: Joint Venture with A/c To, Purchases/Goods sent on Joint Venture A/cTo, Sales A/c	Dr.	(if supplies at cost) (if supplies at profit)
6. On payment of expenses: Joint Venture with .....A/c To, Cash/Bank A/cTo, Creditor's A/c	Dr.	(with total) (with cash expenses) (with outstanding expenses)
7. On sale of goods:Cash/Bank A/c Customer's A/c To, Joint Venture with..... A/c	Dr. Dr.	(with cash sales) (with credit sales) (with total)
8. On receiving payment from a customer: Cash/Bank A/c Joint Venture with .....A/c To, Customer's A/c	Dr. Dr.	(with the payment received) (discount allowed/bad debt) (with total)
9. On taking away of unsold goods: Goods sent on Joint Venture A/c To, Joint Venture with..... A/c	Dr.	
10. On considering some commission/salary to the Co-Venturer: Joint Venture with .....A/c To, Commission/Salary A/c	Dr.	

11. On recording the share of Profit/Loss: a) When profit- Joint Venture with .....A/c Dr. To, Profit & Loss A/c b) When loss- Profit & Loss A/c Dr. To, Joint Venture with A/c	
12. On settlement of balance of Joint Venture with A/c: a) When there is a debit balance: Cash/Bank A/c Dr. To, Joint Venture with A/c b) When there is a credit balance: Joint Venture with .....A/c Dr. To, Cash/Bank A/c	

Joint Venture Business on Consignment Principle:

The co-venturers may decide to appoint an agent for selling goods on their behalf on consignment basis. He is allowed expenses and commission on sales. The agent would remit the cash to co-venturers. In such case in addition to Joint Venture A/c and the co-venturer's A/c a separate Account is maintained for the agent as well.

The Agent's A/c is debited with the sales proceeds received by him and credited with the expenses incurred and commission payable to him

Hence additional entries are:

i) Goods sold by the agent

Agent's A/c Dr.

To, Joint Venture A/c

ii) Expenses & commission entitled to agent

Joint Venture A/c Dr.

To, Agent's A/c

iii) Payment received from agent

Bank A/c Dr.

To, Agent's A/c

iv) Cash paid by agent to co-venturers

Co-Ventures' A/c Dr.

To, Agent's A/c

TARGET Academy

THE END

HIRE PURCHASE SYSTEM

Under this system the purchaser (Hirer) pays the entire amount in staggered way viz. monthly, quarterly or yearly with some interest

Particulars	Hire Purchase	Installment Sale
Ownership	Stipulates the time at which the ownership passes to the buyer. It is usually on the payment of last installment.	Ownership passes at the time of sale.
Default in making payment	Seller can repossess the goods. In that case the installment so far paid is treated to be Hiring charges.	Seller does not have any other right except the right of suing the buyer for the non-payment of price.
Right of sale or other wise	No right to sale or otherwise transfer the goods since the legal position of the hirer is bailee.	Right to sale or otherwise transfer the goods.
Loss or damages to the goods.	Any loss occurring to goods has to be borne by the seller if the buyer takes reasonable care.	Any loss occurring to goods has to be borne by the buyer.

ACCOUNTING TREATMENT

- Accounting treatment in the books of buyer is presented in below :
- In the Books of the Hire-Purchaser The following methods are followed: (1) Cash Price Method (2) Interest Suspense Method

Cash Price Method:

	Particulars		Debit (Rs.)	Credit (Rs.)
1.	Hire Purchase A/c	Dr.	xxxx	
	To, Hire Vendor A/c [Cash price]			xxxx
2.	Hire Vendor A/c	Dr.	xxxx	
	To, Bank A/c [Down payment]			xxxx
3.	Interest A/c	Dr.	xxxx	
	To, Hire Vendor A/c			xxxx
4.	Hire Vendor A/c	Dr.	xxxx	
	To, Bank A/c [Instalment amount]			xxxx
5.	P/L A/c	Dr.	xxxx	
	To, Interest A/c			xxxx
	To, Depreciation A/c			xxxx

Interest Suspense Method:

	Particulars		Debit (Rs.)	Credit (Rs.)
1.	Hire Purchase Asset A/c [Cash Price]	Dr.	xxxx	
	Interest Suspense A/c [Total Interest]	Dr.	xxxx	
	To, Hire Vendor A/c [H.P price]			xxxx
2.	Hire Vendor A/c	Dr.	xxxx	
	To, Bank A/c [Down payment]			xxxx
3.	Interest A/c	Dr.	xxxx	
	To, Interest Suspense A/c			xxxx
4.	Hire Vendor A/c	Dr.	xxxx	
	To, Bank A/c [Instalment amount]			xxxx
5.	P/L A/c	Dr.	xxxx	
	To, Interest A/c			xxxx
	To, Depreciation A/c			xxxx

SALES METHOD

Journal Entries

The various accounting entries in the books of the hire purchaser and hire vendor are shown below:

Case	In the Books of Hire Purchaser		In the Books of Hire Vendor	
1. On transfer of Possession	Asset A/c	Dr.	Hire Purchaser's A/c	Dr.
	To Hire Vendor's A/c		To H.P. Sales A/c	
2. On making Down Payment	Hire Vendor's A/c	Dr.	Bank A/c	Dr.
	To Bank A/c		To Hire Purchaser's A/c	
3. On making Interest due on unpaid balance	Interest A/c	Dr.	Hire Purchaser's A/c	Dr.
	To Hire Vendor's A/c		To Interest A/c	
4. On makingpayment of Instalment	Hire Vendor's A/c	Dr.	Bank A/c	Dr.
	To Bank A/c		To Hire Purchaser's A/c	
5. On providing Depreciation	Depreciation A/c	Dr.	No Entry	
	To Asset A/c			
6. On closure of Depreciation A/c	Profit & Loss A/c	Dr.	No Entry	
	To Depreciation A/c			
7. On closure of Interest A/c	Profit & Loss A/c	Dr.	Interest A/c	Dr.
	To Interest A/c		To Profit & Loss A/c	

- Complete or Full Repossession
- Journal Entries under Complete or Full Repossession

Journal Entries under Complete or Full Repossession

All Entries till the date of default are passed in the usual manner. The additional Entries are as follows:

Books of Hire Purchaser	Books of Hire Vendor
1. For Closing Hire Vendor's Account Hire Vendor's A/c Dr. To Asset A/c Note: This entry is passed with the amount due to the hire-vendor.	1. On Repossession of goods Goods Repossessed A/c Dr. To Hire Purchaser's A/c Note: This entry is passed with the revalued amount of goods repossessed.
2. For Closing Asset Account (i) If the Book Value of the Asset exceeds the amount due to Hire-Vendor Profit & Loss A/c Dr. To Asset A/c (ii) If the amount due to Hire-Vendor exceeds the Book Value of the Asset Asset A/c Dr. To Profit & Loss A/c	2. For amount spent on reconditioning of Goods Repossessed Goods Repossessed A/c Dr. To Cash A/c/Bank A/c 3. For sale of Goods Repossessed Cash A/c/Bank A/c /Debtors A/c Dr. To Goods Repossessed A/c 4. For loss on sale of Goods Repossessed Profit & Loss A/c Dr. To Goods Repossessed A/c Note: In case of profit, a reverse entry will be passed.

Partial Repossession In case of partial repossession

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the hire vendor takes back the possession of a part of the goods

Practical Steps under Partial Repossession

- Step1: Calculate Book value of Goods Repossessed
- A. Cost
- B. Less: Depreciation up to date of repossession
- C. Book value of Goods Repossessed
- Step 2: Calculate Agreed Value of Goods Repossessed
- Step 3: Loss on default = Book Value – Agreed Value

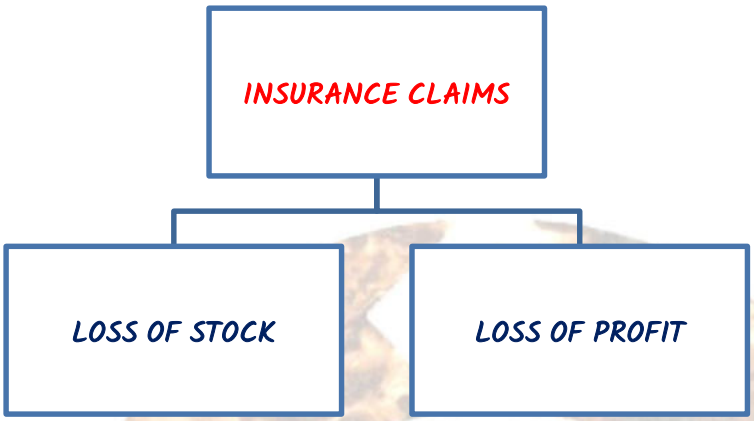
Journal Entries under Partial Repossession

Entries till the date of default are passed in the usual manner. The additional Entries are as follows:

Books of Hire Purchaser	Books of Hire Vendor
1. For transfer of the agreed value of Goods Repossessed Hire Vendor's A/c Dr. To Asset A/c	1. On Repossession of Goods at agreed value H.P. Goods Repossessed A/c Dr. To Hire Purchaser's A/c
2. For Transfer of Loss on default Profit & Loss A/c Dr. To Asset A/c Note: In case of profit on default, the reverse entry will be passed	2,3,4—Same entries as in case of complete repossession.

THE END

INSURANCE CLAIMS



LOSS OF STOCK:

STEPS TO BE FOLLOWED:

- Calculation of gross profit ratio by using trading account
- Calculation of stock on date of fire using memorandum trading account.

Calculation of Actual Claim:

Book value of stock on date of fire (ascertained from the memorandum Trading Account)	xxx
Deduct : The value of any stock saved or salvaged	(xxx)
Actual value of stock lost	xxx

Average clause:

- It is a clause contained in a fire insurance policy. It encourages full insurance and discourages under-insurance. The insured person also has to bear a portion of loss himself in case the value of-stock lost is more than the value of the policy.
- Net Claim = Actual Loss of Stock x Policy Value / Value of Stock on the date of fire

Loss of profit:

Standing charges

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Standing charges like Rent, Rates and Taxes; Salaries to payment Staffs; Depreciation of fixed Assets, Director's Remuneration.

Indemnity period

Date of damage to Date of normal activities begin.

Indemnity

actual profit earned after the damage – profit should have been earned (if there is no damage occurred).

Standard Turnover

Turnover during that period in the twelve months immediately preceding the date of the damage which corresponds with the indemnity period

Annual Turnover

It is the period of 12 months immediately before the date of damage.

Net Profit

It is the ordinary net profit of the business which is disclosed by the income statement excluding capital receipts and payments.

It excludes non-operating income (i.e., income from investment) for the purpose of insurance indemnity.

GROSS PROFIT

Net profit + insured standing charges

Calculation of the amount of claim under "loss of Profit" Policy:

1. Find out the rate of Gross Profit [after considering trend of business etc.]
2. Find out the short sales [Standard turnover – Actual turnover of the period of dislocation]
3. Find out Gross Profit on short sales.
4. Find out the Amount Admissible for Additional Expenses
   It should be the minimum of:
   a) Actual expenses (b) Gross profit on additional sales generated by additional expenditure and

(c) Additional expenses X $\frac{\text{Net Profit+Insured Standing Charges}}{\text{Net Profit+All Standing Charges}}$ (or)

Additional Expenses X $\frac{\text{Gross Profit on Annual Turnover}}{\text{Gross Profit on Annual Turnover+Uninsured Stamdomg Charges}}$

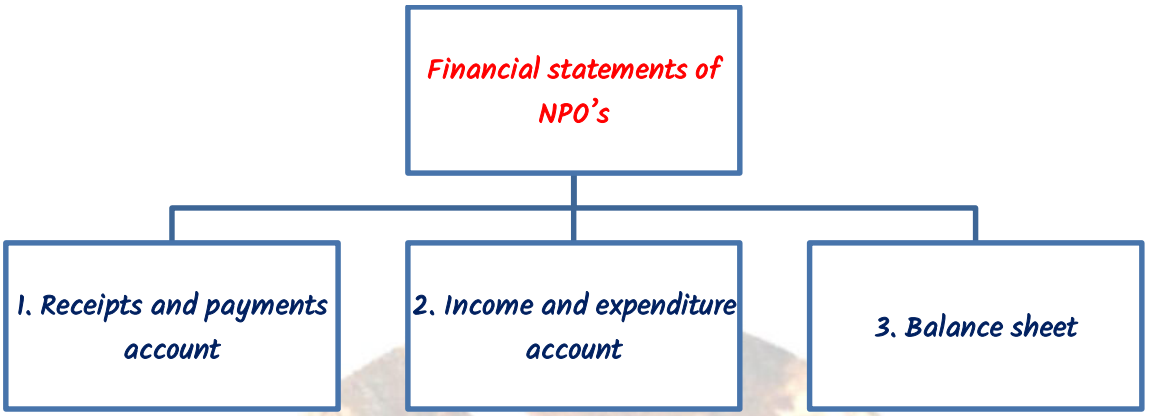
5. Add (3) and (4). From the total deduct saving in any insured standing charge during the period of indemnity. The result is gross claim.

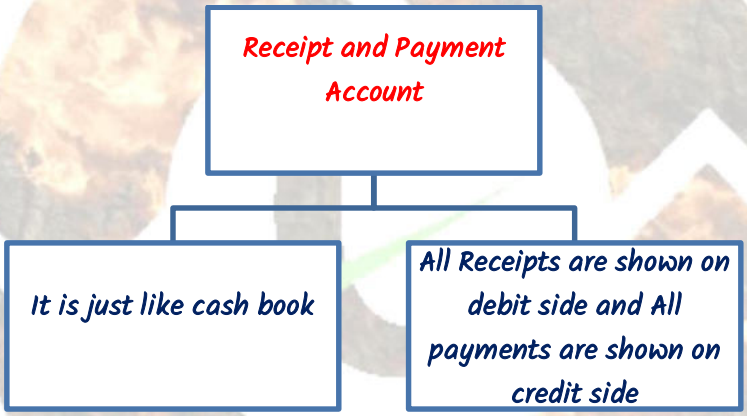
6. Under average clause: Net Claim = Gross claim X $\frac{\text{Policy Value}}{\text{Gross Profit on Annual Turnover}}$

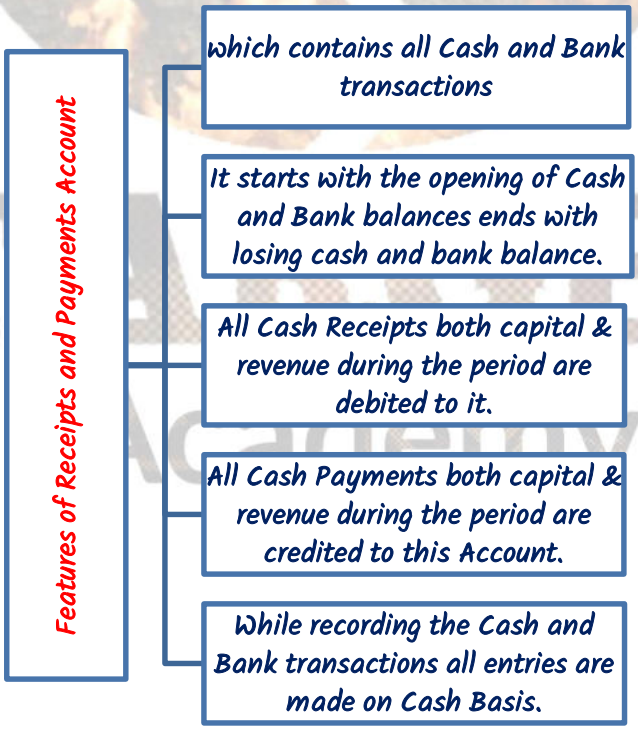


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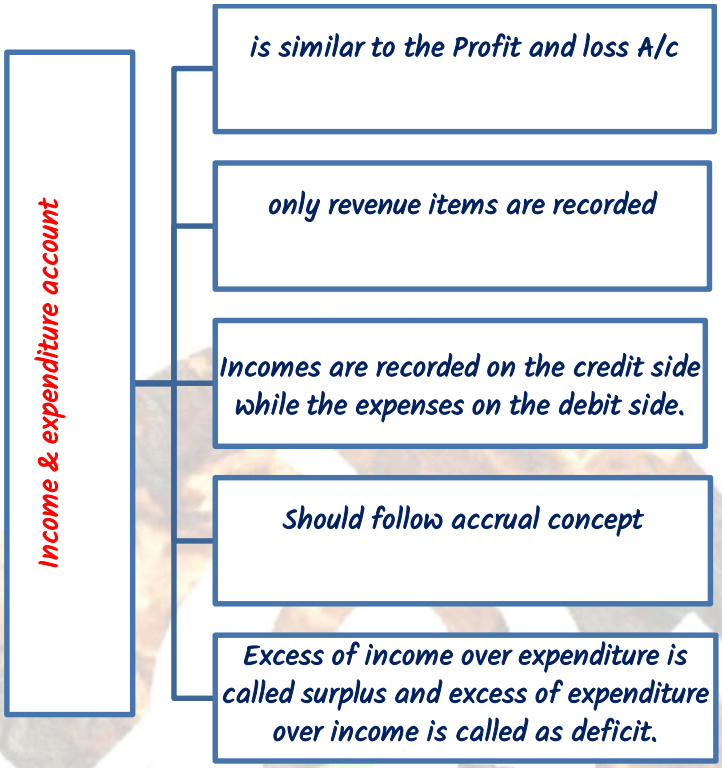
FINANCIAL STATEMENTS OF NPO's







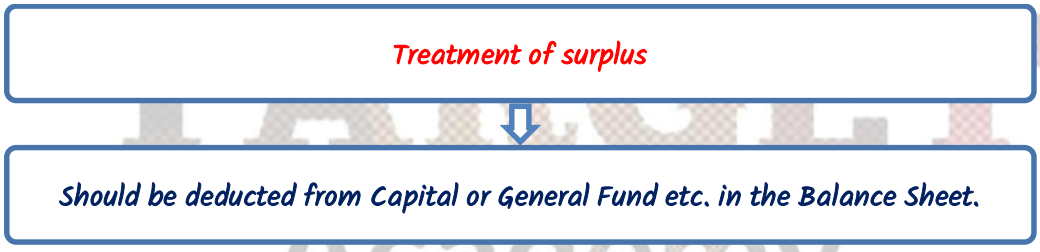
Income and Expenditure Account:



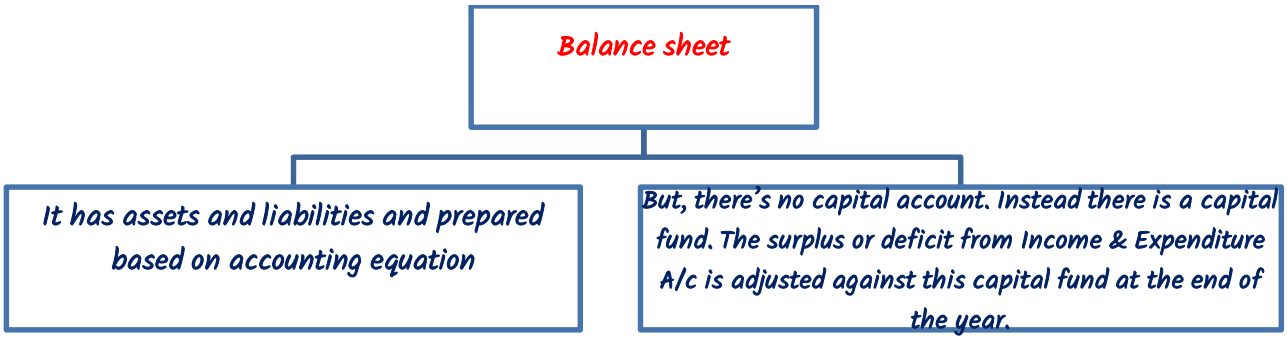
Treatment of surplus:



Treatment of deficit:



Balance sheet:



Receipt and Payment Account

Receipts		Payments	
Opening cash bal	XXX		
All receipts- capital or revenue	XXX	All payments-Capital or revenue	XXX
		Closing cash balance	XXX
	XXX		XXX

Income and expenditure account

Expenses	Amount (Rs.)	Income	Amount (Rs.)
Only revenue expenses		Only revenue receipts	
Only related to current period		Only related to current period	
Shows either surplus		Or shows deficit	

Capital Fund

- It is the Capital of a non-profit concern
- Also called "General Fund" or "Accumulated Fund."
- "Surplus" or "Deficit" during a period is added with or deducted from it.
- A portion of Capitalised incomes like donations may be added with it.

Special Fund:

Special Fund

- It may be created out of special donation or subscription or out of a portion of the "Surplus".
- Any income is derived out of investments made against this fund or if any profit or loss occurs due to sale of such investments, such income or profit or loss is transferred to this fund.

Other Treatments

a) If the Special Fund is used to meet an expense

Special Fund A/c Dr.

To Bank A/c (amt. of expense)

The balance of the Fund is shown as a liability.

If the balance is transferred to Capital Fund, the entry will be -

Special Fund A/c Dr.

To Capital Fund A/c (Balance of Special Fund)

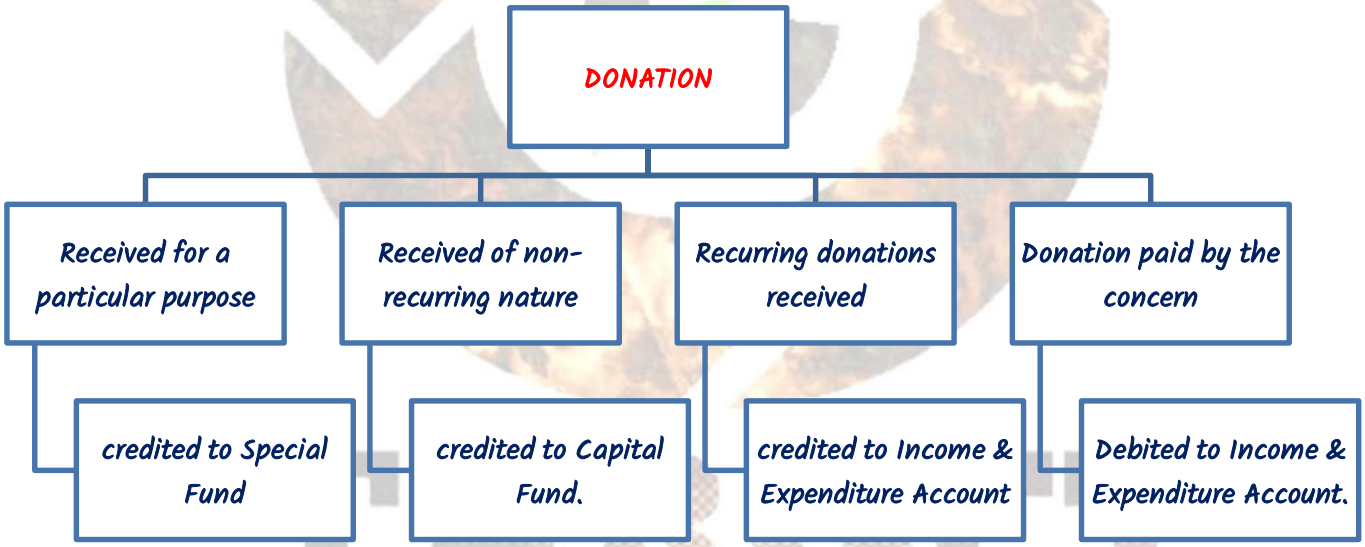
b) If the Special Fund is used to purchase an asset

Asset A/c Dr.

To Bank A/c (Cost of the asset)

Special Fund A/c Dr.

To Capital Fund A/c (Special Fund closed)





Entrance Fees or Admission Fees

- If there is no such rule, Admission or Entrance Fees paid once by members for acquiring membership should be added with Capital Fund.
- If such fees are of small amounts covering the expenses of admission only, the fees may be credited to Income & Expenditure Account.

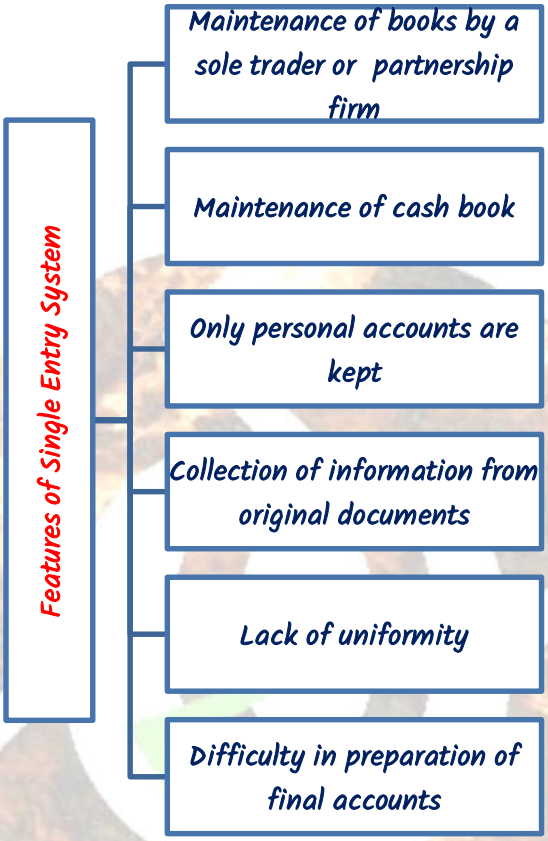
Subscriptions

- Annual subscriptions are credited to Income & Expenditure Account on accrual basis.
- Life membership subscription is usually credited to a separate account shown as a liability.

TARGET Academy

THE END

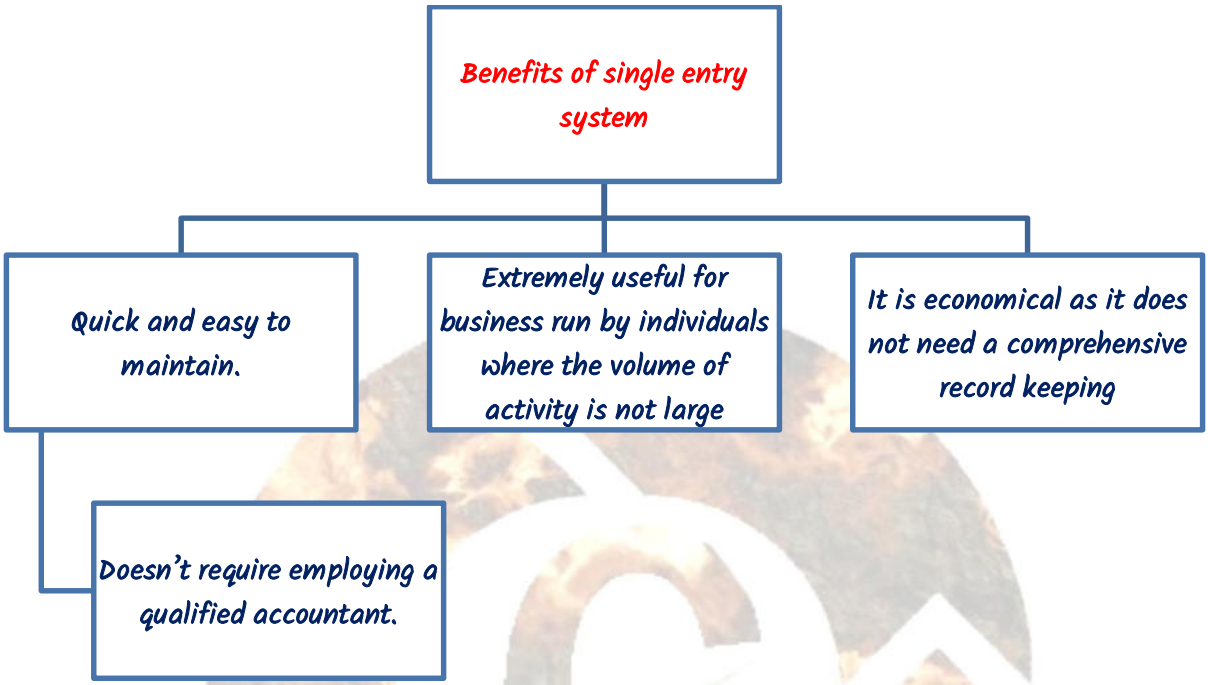
SINGLE ENTRY SYSTEM



Difference between single entry system and double entry system

- In double entry system both the aspects (debit and credit) of all the transactions are recorded. But in single entry system, there is no record of some transactions, some transactions are recorded only in one of their aspects whereas some other transactions are recorded in both of their aspects.
- Under double entry system, various subsidiary books such as sales book, purchases book etc are maintained. Under single entry system, no such subsidiary books except cash book which is also considered as a part of ledger is maintained.
- In the case of double entry system, there is a ledger which contains personal, real and nominal accounts. But in single entry system, the ledger contains some personal accounts only.
- Under double entry system, preparation of trial balance is possible whereas it is not possible to prepare a trial balance in single entry system. Hence accuracy of work is uncertain.
- Under double entry system, Trading A/c, Profit & Loss A/c and the Balance Sheet are prepared in a scientific manner. But under single entry system, it is not possible – only a rough estimate of profit or loss is made and a Statement of Affairs is prepared which resembles a balance sheet in appearance but which does not present an accurate picture of the financial position of the business.

Benefits of single entry system:



Weaknesses of single entry system

- As principle of double entry is not followed, the trial balance cannot be prepared.
- Profit or loss can be found out only by estimates as nominal accounts are not maintained.
- It is not possible to make a balance sheet in absence of real accounts.
- It is very difficult to detect frauds or errors.
- Valuation of assets and liabilities is not proper.
- The external agencies like banks cannot use financial information. A bank cannot decide whether to lend money or not.
- It is quite likely that the business and personal transactions of the proprietor get mixed.

Statement of Profit and Loss for the year ended

Particulars	Amount (Rs.)	Amount (Rs.)
Capital (at the end)	xx	
Less : Capital (at the beginning)	xx	xx
Add : Drawings		xx

		xx
Less : Further Capital (if any)		xx
Profit/Loss		xx
Less : Adjustments, if any say, Bad debts,		
Depreciation etc.		xx
Net Profit/Loss for the period		xx
Less : Appropriation items :		
i) Interest on partner's capital	xx	
ii) Partners' salaries etc.	xx	xx
Divisible Profit		xx

TARGET Academy

THE END

PARTNERSHIP

ADMISSION OF PARTNER:

Admission of Partner

Partners of a continuing business may, by common consent, decide to admit a new partner for additional capital, technical skill or managerial efficiency.

ADJUSTMENT AT THE TIME OF ADMISSION OF PARTNER:

Adjustment of .

- Profit Sharing Ratio
- Valuation of Assets and Liabilities
- Goodwill
- Accumulated Profits or Losses and
- Capital Contribution of New partner and Capitals of existing partners

Adjustment regarding Profit Sharing Ratio

- The new partner becomes entitled to a share of future profits which is sacrificed by the existing (old) partners in his favour.
- The sacrifice may be made by one or all of the existing partners.

Example 1: X and Y were partners sharing profit/losses as 3 : 2. They admit as a new partner giving him 1/5th share of future profits. What should be the new profit sharing ratio?

Solution :

- 2's share = 1/5
- Balance = 1 – 1/5 = 4/5.
- X's share = 4/5 x 3/5 = 12/25;
- Y's share = 4/5x2/5 = 8/25;
- 2's share = 1/5 = 5/25.
- The new profit sharing ratio = 12 : 8 : 5.

Example 2: P and Q were partners sharing profits/losses as 4 : 3. R is admitted as a new partner for 1/5th share. P and Q decide to share the balance of profits equally.

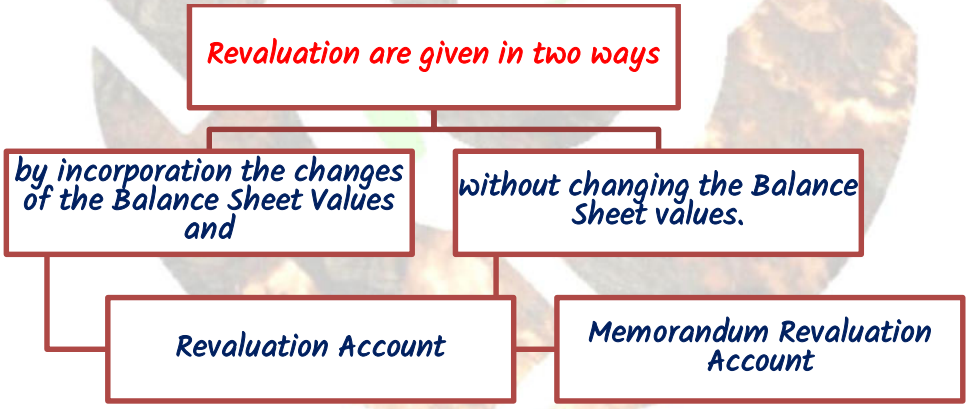
Sol: R's share = 1/5 Balance = 1 – 1/5 = 4/5. P's share = 4/5 × 1/2 = 4/10;

- Q's share = 4/5 × 1/2 = 4/10;
- R's share = 1/5 = 2/10.
- New Ratio = 4 : 4 : 2 or 2 : 2 : 1.

Example 3: A, B & C were partners sharing profits/loses as 3 : 2: 1. They admitted D as a new partner giving him 1/6th share of future profits. D acquired 3/24 th share from A and 1/24 share from B. Calculate the new Profit Sharing Ratio.

Solution :

- New Ratio = Old Ratio – Sacrifice Ratio
- A = 3/6 – 3/24 = 12/24 – 3/24 = 9/24;
- B = 2/6-1/24 = 8/24 – 1/24 = 7/24;
- C = 1/6 – Nil = 4/24 – Nil = 4/24;
- D=3/24 + 1/24=4/24
- The new ratio = 9 : 7 : 4 : 4.



For increase in the value of assets, decrease in the value of liabilities, unrecorded assets

Assets A/c Dr (with the increase in value)

Liabilities A/c Dr (with the decrease in value)

To Revaluation A/c

For decrease in the value of assets, increase in the value of liabilities, provision for unrecorded liabilities:

Revaluation A/c Dr

To Assets A/c (with the decrease in value)

To Liabilities A/c (with the increase in value)

For profit on revaluation :

Revaluation A/c Dr

To old partners capital A/c

For loss on revaluation :

old partners capital Dr

To Revaluation A/c

MEMORANDUM REVALUATION METHOD:

- Prepare Memorandum Revaluation Account (i) Record increase/decrease in the value of assets and liabilities .
- Share the profit or loss on Revaluation amongst the old partners in their old profit sharing Ratio.
- Reverse the increase/decrease in the value of assets and liabilities.
- After reversal, calculate profit or loss.
- Share the profit/loss, after reversal amongst all the partners (including the new partner) in their new profit sharing ratio.

MEMORANDUM REVALUATION ACCOUNT:

Dr. Cr.

Particulars		₹	Particulars	₹
To Assets (Decrease)		x x	By Assets	x x
To Liabilities (Increase)		x x	(Increase) By	x x
To Partners Capital A/c (Share of Revaluation Profit) [Old Partners in old Profit sharing Ratio]		x x x x	Libilities (Decrease) By Partners Capital A/c (Share of Revaluation loss) [Old Partners in their Old profit sharing ratio]	x x
		xxx		xxx
To	Reversal of Items b/d	x x	By Revarsal of Items	x x
To	Partners Capital A/c	x x	b/dBy Partners	x x
	(Revaluation Profit amount all partners in new profit sharing Ratio)		capital A/c (Revaluation loss amought all partners in their new Profit sharing (Ratio)	
		xxx		xxx

GOODWILL:

- Goodwill = Purchase consideration – Net assets

TREATMENT OF GOODWILL (AT THE TIME OF ADMISSION OF A NEW PARTNER):

Sl. No	Case	Journal Entry	Ratio used	Remarks
1.	New Partner pays Premium for Goodwill.	Cash/Bank.....Dr. To Old Partners Capital (Premium money)	Sacrifice Ratio	(1) If mutual ratio between old partners do not change sacrifice ratio = Old Ratio (2) If Goodwill stands at or is raised to full value, no premium should be paid.
2.	If the premium or its part is immediately withdrawn by old partners	Old Partners Capital ..... Dr. To Bank (Amount withdrawn)	As withdrawn	

3.	New Partner pays Premium although Goodwill appears in the Books at full value	Either Old Partners Capital .. Dr. To Goodwill (written off) Cash/Bank..... Dr. To New Partner's Capital [Premium Money treated as part of new partner's capital]	Old Ratio	Write off Goodwill if it is already existing in the Books.
4.	New Partner pays privately for premium for Goodwill to old partners	No Entry		Not a transaction of the business.
5.	New Partner cannot pay the Premium temporarily, but a loan account is opened.	Loan to New Partner.... Dr. To Old Partners Capital A/c	Sacrifice Ratio	OR old ratio if the mutual ratio between old partners do not change.
6.	New Partner is unable to pay the Premium and an adjustment is to be made through the Capital A/c.	New Partner's Capital Dr. To Old Partners Capitals [Premium Money]	Sacrifice Ratio	Or, old ratio if the mutual ratio between old Partners remain unchanged.
7.	New partner pays only a portion of the Premium but cannot pay the remaining portion: For Portion Paid	Cash/Bank Dr. To Old Partners Capitals [Portion Paid]	Sacrifice Ratio	Or, old ratio 'Goodwill is valued on the basis of unpaid Premium. For example, the new partner for his 2/5th share paid `12,000 out of `20,000 Premium.

VALUATION OF INHERENT OR NON-PURCHASED GOODWILL:

Serial No.	Name of the Method	Description of the method	Other Consideration
1.	Average Profits Methods		(i) If profits are fluctuating, simple average is taken. If profits show an increasing trend, weights may be used. If profits constantly decrease, the lowest of the profits after adjustments may be considered. (ii) Exceptional Income or Expense of any particular year, should better be adjusted against the profit of that year. (iii) More weightage is usually given to later years.
2.	Super Profits Method	Super Profit = Future maintainable profits – Normal Return on Capital Employed Goodwill = Super Profit × No. of years Steps to be followed Steps (a) Calculation of Capital employed OR Average Capital Employed	(i) Calculation of Average capital Employed cannot be made if current years' profits are not separately given. (ii) Trading Profits exclude any non trading income like Interest on Non-trading investments. (iii) Adjustments against profits including provision for managerial remuneration, should be made. [iv) If there is any change in the value of any fixed asset on revaluation, that does not affect Annual Trading Profit. But adjustment for over charged or undercharged depreciation may be required to adjust the profits. (v) If there is any decrease in the value of any

			Current Asset like bad debts or reduction of stock and that has not been adjusted, the adjustment should be made for finding out correct Trading Profit of the current year. (vi) For calculating capital employed, proposed dividend need not be deducted. [Please see valuation of shares']
		Sundry Assets Excluding:	00
		(i) Goodwill But including Goodwill at Cost Paid for	
		(ii) Non-trading assets and	- 00
		(iii) Fictitious Assets Less:	- 00
		(i) Current Liabilities &	00
		Provisions	- 00
		(ii) Contingent & Probable Liabilities (Trading) Capital Employed Less: ½ of Current years trading profits after taxation (if the profits remain undistributed) Average Capital Employed	000
		Step (b) Average Annual Adjusted Profits (Maintainable)	00
		Same as shown under Method 1. But debenture interest, if any, should be added back with Profits before making provision for taxation Step (c) Calculate Normal Return on Capital Employed or Average Capital Employed [Say at 10% or 12%, etc. — as may be given or assumed] Step(d) Deduct Normal Return (c) from Average Maintainable Profits (b). The difference is called Annual Super Profit Step (e) Goodwill = Annual Super Profit × No. of Years for which the Super Profit can be maintained. [Usually expressed as...years purchase of super profit]	

3.	Capitalization of Profits Methods (A) Profits	Under the method follow these steps – (a) Calculate Annual Maintainable Profit as shown above. (b) Calculate normal Capital Employed capitalizing the above profit by applying the normal rate of return. $\text{Normal Capital Employed} = \frac{\text{Maintainable Profit}}{\text{Normal Rate Return}} \times 100$ (c) Calculate actual Capital Employed (d) Goodwill = Normal Capital Employed – Actual capital Employed.	Here also the profits should be adjusted considering necessary adjustments for managerial remunerations, change of depreciation, etc.
	(B) Capi-talization of Super Profits	(a) Calculate Super profit as said under Method 2. (b) Goodwill = $\frac{\text{super profit}}{\text{Normal rate of return}} \times 100$	
4.	Annuity Method	It is a derivative of super profit concept. If super profit is expected to be earned uniformly over a number of years, Goodwill is computed with the help of Annuity Table. Calculate Super Profit as discussed before Goodwill=Annual Super ProfitxPresent Value of Annuity of 1.	Here also similar principles as said before should be followed for calculating — Capital Employed or Average Capital Employed, Annual Average Profits and Annual Super Profits.

ACCUMULATED RESERVES & SURPLUS:

For transferring accumulated profits

Profit & Loss	A/c (Cr.)	Dr.
General Reserve	A/c	Dr.
Any other Surpluses	A/c	Dr.
To Old Partner's Capital A/c		

For transferring accumulated losses

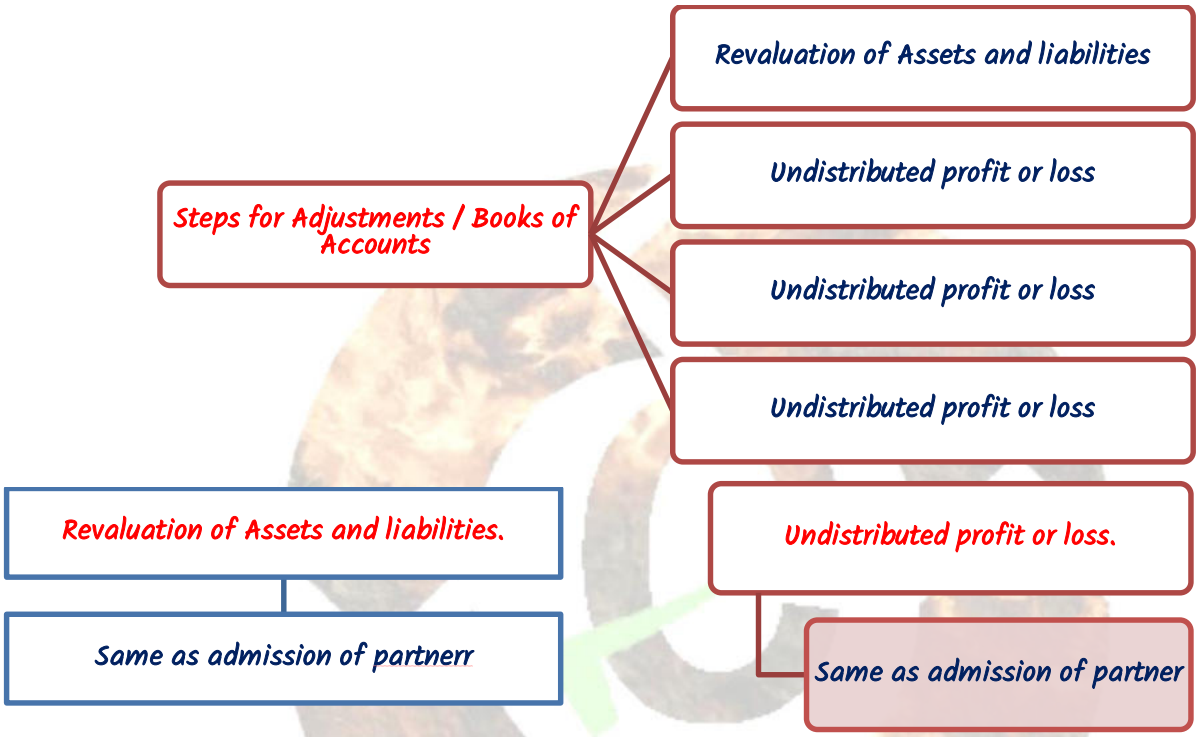
Old Partner's Capital	A/c	Dr.
To Accumulated Losses A/c		

ADJUSTMENT OF CAPITAL

- When a new partner is admitted, the total amount of capital is determined on the basis of new partners' capital and his profit sharing ratio.
- On the basis of new profit sharing ratio old partners' capital is to be ascertained.

- Thereafter, existing capital (after considering all adjustments) is to be compared with the capital so ascertained on the basis of new profit sharing ratio, and excess if any, is to be withdrawn by the partner concerned and deficit, if any, is to be brought in by the concerned partner. Sometimes, the excess or deficit, is to be adjusted against the current account of the partners.

RETIREMENT OF PARTNER:



Adjustment regarding goodwill

- can be made in the following ways
- Raising of goodwill (If goodwill is already existing in the Balance sheet the difference shall be raised)
- Goodwill A/c Dr.
  - (Value of goodwill – existing goodwill in the balance sheet)

To All Partners Capital A/c (Old P.S.R)

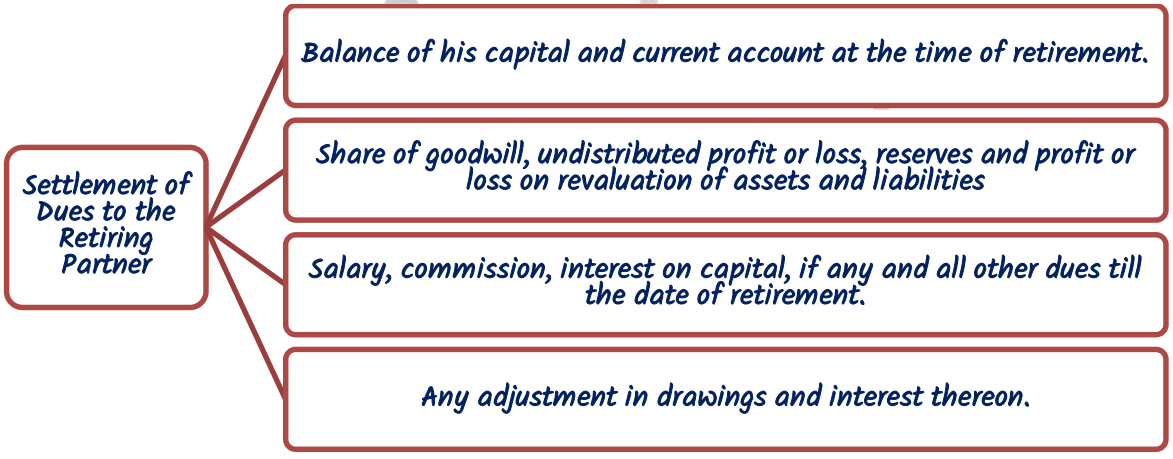
Goodwill raised and written off :

(i) Raise goodwill as discussed above.

(ii) Write off goodwill

Existing partners Capital A/c Dr.

To Goodwill A/c



(i) Payment at a time. Subject to availability of the fund, the payment may be made at a time.

Journal entry :

Retiring Partner's Capital A/c Dr.

To Bank A/c

(ii) If part payment be made by giving assets :

Retiring Partner's Capital A/c Dr.

To Assets A/c

(iii) If the dues are transferred to Loan account.

Retiring Partner's Capital A/c Dr.

To Retiring partners' Loan A/c

(iv) If the existing partners bring in cash for making payment:
Bank/Cash A/c Dr.
To Existing Partners' Capital A/c

(v) For interest due on Retiring Partners Loan A/c
Interest on Retiring Partner's Loan A/c Dr.
To Retiring Partner's Loan account.

Amount Payable includes

- The deceased partner's Capital and / Current Accounts last Balance.
- His share of undistributed profit/loss.
- His share of revaluation profit/loss
- His share of goodwill.
- His share of Joint Life Policy, if any and
- His share of profit/loss made by the firm between the last year ending and the date of his death

DISSOLUTION OF A PARTNERSHIP FIRM:

- By Mutual consent of all the partners or in accordance with a contract made by them
- By Notice – given in writing, by any partner to all other partners if the Partnership is at will

Journal Entries

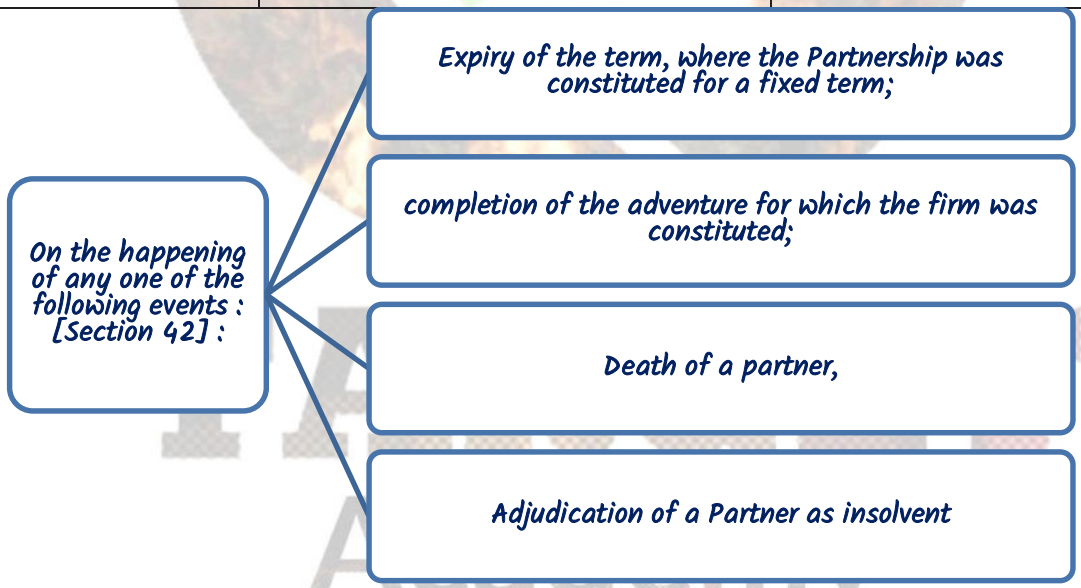
Item/Purpose	Entry	Special Points to be noted
1. Transfer of book values of assets as recorded in the Balance Sheet	Realization A/c .....Dr. To Sundry Assets [Book value] (including goodwill if any, shown in the Balance Sheet) Realization A/c .....Dr. To Debtors A/c Provision for Bad Debts A/c .....Dr. To Realization A/c.	(a) Cash or Bank A/c are not to becredited unless the firm, as a whole,is sold out as a going concern. (b) Debit balance of any Cap. A/c etc. or Debit balance of P/L A/c not to be transferred to Realization A/c. (c) If there is any Provision for bad Debts, debit Realization A/c and credit Debtors A/c with gross figure.Then debit Provision A/c and credit Realization A/c. Same treatment for Provision for Depreciation.
2. Realization/Sale of above assets	Cash/Bank A/c (amt. realized) .....Dr. OR Partners Cap. A/c .....Dr. (agreed value at which a partner takesover an asset/assets) To Realization A/c.	

3. Shares etc. received as purchase consideration	in exchange of the firm's assets. Shares A/c.....Dr. To Realization A/c.(agreed value)	
4. Closing the External liabilities	External Liabilities A/c.....Dr. (such as creditors, outstanding expenses, Bank Loan etc.)To Realization A/c. (book value)	(a) Alternatively – this entry may be passed (combining 4,5 & 6) Liability A/c ..... Dr. To Bank A/c (actual amt. paid) OR, To Partners Cap. A/c (agreed value) To Realization A/c (Discount, if any received on payment/ discharge) (b) Where assets and liabilities are takenover by another business on making somelump sum payment, separate entries for realization of assets and / payment of liabilities need not be made.
5. External liabilities paid off	Realization A/c. .....Dr. To Cash/Bank A/c (actual amt. paid)	
6. External liabilities takenover by any partner	Realization A/c. .....Dr. To Particular Partner's Cap. A/c (agreed value)	
7. Unrecorded asset soldor taken over by any partner	Cash / Bank A/c .....Dr. Partners Capital A/c.....Dr. To Realisation A/c	
8. If any unrecordedliability is paid.	Realization A/c .....Dr. To Cash/Bank A/c(actual amt.)	
9. If shares etc. received and shown in (3) above are sold out or transferred to partners.	Cash/Bank A/c .....Dr. OR, Partners Cap. A/c .....Dr. [excluding insolvent partner]To shares A/c	For sale, there may be profit or loss on sale which is transferred to Realization A/c.
10. Payment of Expenses of Realization.	Realization A/c.....Dr. To Cash/Bank A/c (if paid by the firm) OR To Partners Cap. A/c (if paid by any partner)	If a partner bears such expenses personally in pursuance of a separate agreement – NO ENTRY is required.
11. Balance of Realization Account representing Profit or Loss on Realization.	Realization A/c.....Dr. To Partners Cap. A/c (Profit shared in Profit Sharing Ratio) OR, Partner's Cap. A/c.....Dr. To Realization A/c. (Loss shared in Profit Sharing Ratio)	

Settlement of Partners Dues – through Capital Accounts

Item/Purpose	Entry	Special Points to be noted
1. Prepare Capital Accounts with balanceas per Balance Sheet before the dissolution.	By Balance b/d (Cr. balance) To Balance b/d (Dr. balance)	
2. Transfer of Current A/c, ifany.	Partner's Current A/c ... Dr.To Partner's Cap. A/c. (Credit Balance) OR Partner's Capital A/c ... Dr.To Partner's Current A/c (Debit balance)	

3. Undistributed Profit, Reserve, Joint Life PolicyReserve, Investment Fluctuation Fund, Contingency Reserve etc. transfer.	Profit & Loss (Cr.) A/c... Dr. OR, Any Reserve A/c.....Dr. To Partner's Capital A/cs [Profit sharing ratio]	
4. Undistributed Loss, Fictitious/Unrealizable Assets etc. transfer.	Partners Capital A/c... Dr.To Profit & Loss (Dr.) A/c OR, To Fictitious Assets A/c (Profit Sharing Ratio)	Example of unrealizable Asset- Advertisement Suspense A/c
5. Any loan taken from any partner	Partner's Loan A/c .... Dr. To Cash/Bank A/c	U/s 48 Repayment of loan should enjoy priority over repayment of capital.
6. Any loan given to any partner	Cash/Bank A/c..... Dr. To Partner's Loan A/c OR Partner's Capital A/c Dr. To Partner's Loan A/c	If such amount is realized. Adjustment of loan against Capital
7. If any Partner's Capital A/c shows a debit balance (after balancing)	Cash/Bank A/c..... Dr. To Particulars Partner's Capital A/c [Cash brought in to make up the shortfall]	If the deficient partner is insolvent, treatment will be different- Vide – Insolvency of Partner.
8. Payment of credit balance (after final balancing)	Particulars Partner's Cap. A/c Dr. To Cash/Bank A/c	Same as above



PIECEMEAL DISTRIBUTION:

The order of the payment will be as follows : (i) Realisation expenses (ii) For provision for expenses that are to be made (iii) Preferential creditors (say, Income Tax or any payment made to the Government) (iv) Secured creditors – upto the amount realized from the disposal of assets by which they are secured and for the balance, if any, to be paid to unsecured creditors (v) Unsecured creditors – in proportion to the amount of debts, if more than one creditor (vi) Partners' loan – if there is more than one partner – in that case, in proportion to the amount of loan (vii) Partners' capital – the order of payment may be made by any one of the following two methods: (a) Surplus Capital Method/ Proportionate Capital Method/ Highest Relative Capital Method (b) Maximum Possible Loss Method

- Grounds of disolution
- insanity of a partner;
- permanent incapability of a partner to do his duties
- if a partner is guilty of misconduct that might affect prejudicially the carrying on of the business;
- If a partner willfully or persistently commits breach of agreement;
- If a partner transfers all his shares to a third party or has allowed his share to be charged under the Provisions of Rule 49 of order XXI of the First Schedule to the Code of Civil Procedure, 1908;
- If the court considers that the business cannot be carried on except at loss;
- On any other ground on which the court considers the dissolution as just and equitable.

1. For transferring sundry assets to Realisation Account

Realisation A/c Dr.

To Sundry Assets A/c [Individually]

(Assets transferred to Realisation Account at their book values except Cash and Bank i.e. if not taken over by the new firm)

2. For transferring sundry liabilities to Realisation Account Liabilities A/c Dr.

To Realisation A/c [Individually]

(Liabilities transferred to Realisation Account at their book values)

3. For the amount of purchase consideration

New Firm A/c Dr.

To Realisation A/c

(Purchase consideration due from the new firm)

4. For assets taken over by the proprietor

Capital A/c Dr.

To Realisation A/c

(Assets taken over by the proprietor)

5. For realisation of assets not taken over by the new firm

Bank A/c Dr.

To Realisation A/c

(Realisation of assets not taken over by the new firm)

6. For recording of unrecorded assets

Assets A/c Dr.

To Capital A/c

(Unrecorded assets are recorded)

7. For realisation of unrecorded assets

Bank A/c Dr.

To Assets A/c

(Realisation of unrecorded assets)

(Note: If unrecorded assets are taken over by the new firm, it is also transferred to Realisation Account along with other assets.)

8. For payment of liabilities not taken over

Realisation A/c Dr.

To Bank A/c

(Payment of liabilities not taken overby the new firm)

9. For recording of unrecorded liabilities

Capital A/c Dr.

To Liabilities A/c

(Being the unrecorded liabilities are recorded)

10. For payment of unrecorded liabilities

Liabilities A/c Dr.
To Bank A/c
(Payment of unrecorded liabilities)
(Note : If unrecorded liabilities are taken over by the new firm, it is also transferred to Realisation Account along with other liabilities.)

11. For liabilities taken over by the proprietor

Realisation A/c Dr.
To Capital A/c
(Being liabilities assumed by the proprietor)

12. For realisation expenses

Realisation A/c Dr.
To Bank A/c (Realisation expenses paid)

13. For profit on realisation

Realisation A/c Dr.
To Capital A/c
(Profit on realisation transferred to Capital Account)

14. For loss on realisation

Capital A/c Dr.
To Realisation A/c
(Loss on realisation transferred to Capital Account)

15. For accumulated profits / reserves

Reserves A/c Dr.
Profit and Loss A/c Dr.
To Capital A/c
(Undrawn profits transferred to Capital Account)

16. For accumulated losses

Capital A/c Dr.
To Profit and Loss A/c (if any)
(Accumulated losses transferred to Capital A/c))

17. For settlement of purchase consideration by the New firm

Capital in New Firm A/c Dr.
To New Firm A/c
(Settlement of purchase consideration)

18. For final adjustment

Capital A/c Dr.
To Capital in New Firm A/c
To Bank A/c (if any)
(Final adjustment to close the books of account)

CONVERSION OR SALE OF A PARTNERSHIP FIRM TO A COMPANY:

1. For transferring different assets to Realisation Account

Realisation A/c Dr.[Individually]
To Sundry Assets A/c
(Assets transferred to Realisation Account at their book values)

2. For transferring different liabilities to Realisation Account

Liabilities A/c Dr.[Individually]
To Realisation A/c
(Liabilities transferred to Realisation Account at their book values)

3. For purchase consideration due
Purchasing Co. A/c Dr
To Realisation A/c
(Purchase consideration due from the new firm)

4. For assets taken over by the proprietor
Capital A/c Dr
To Realisation A/c
(Assets taken over by the proprietor)

5. For realisation of assets not taken over by the Company
Bank A/c
To Realisation A/c
(Realisation of assets not taken over by the new firm)

6. For recording unrecorded assets
Assets A/c Dr
To Capital A/c
(Unrecorded assets recorded)

7. For realisation of unrecorded assets
Bank A/c Dr
To Assets A/c

8. For payment of liabilities not taken over
Realisation A/c Dr
To Bank A/c
(Payment of liabilities not taken over by the new firm)

9. For recording unrecorded liabilities
Capital A/c Dr
To Liabilities A/c
(Being the unrecorded liabilities recorded)

10. For payment of unrecorded liabilities
Liabilities A/c Dr
To Bank A/c
(Payment of unrecorded liabilities)

(Note: If unrecorded liabilities are taken over by the Company, it is also transferred to Realisation Account along with other liabilities.)

11. For liabilities taken over by the proprietor

Realisation A/c Dr

To Capital A/c

(Being liabilities assumed by the proprietor)

12. For realisation expenses

Realisation A/c Dr.

To Bank A/c (Realisation expenses paid)

13. For profit on realisation

Realisation A/c Dr

To Capital A/c

(Profit on realisation transferred to Capital Account)

14. For loss on realisation

Capital A/c Dr

To Realisation A/c

(Loss on realisation transferred to Capital Account

15. For accumulated profits / reserves

Reserves A/c Dr

Profit and Loss A/c Dr

To Capital A/c

(Undrawn profits transferred to Capital Account)

16. For Loss : Reverse entry of IS.

17. For transferring partners' current accounts (Credit balances) to capital accounts

Partners' Current A/cs Dr.

To Partners' Capital A/cs

If there is a debit balance in current account, the reverse entry shall be recorded.

18. For Settlement of purchase consideration by the company Shares in Purchasing Co. Dr.

Debentures in Purchasing Co. Dr.

Cash A/c Dr.

To Purchasing Co. A/c

19. For final adjustment

Partners' Capital A/cs Dr.

To Shares in Purchasing Co. A/c

To Debenture in Purchasing Co. A/c To Cash A/c

THE END

PREPARATION OF FINANCIAL STATEMENTS OF COMMERCIAL ORGANISATIONS

QUESTION: 1

Following are the ledger balances presented by M/s. P. Sen as on 31st March 2022:

Particulars	₹	Particulars	₹
Stock (1.4.2021)	10,000	Sales	3,00,000
Purchase	1,60,000	Return Inward	16,000
Carriage	10,000	Return Outward	10,000
Inwards Wages	30,000	Royalty on	6,000
Freight	8,000	Production Gas and Fuel	2,000

Additional Information:

1. Stock on 31.3.2022: (i) Market Price `24,000; (ii) Cost Price `20,000;
2. Stock valued `10,000 were destroyed by fire and insurance company admitted the claim to the extent of 6,000.
3. Goods purchased for `6,000 on 29th March, 2022, but still lying in-transit, not at all recorded in the books.
4. Goods taken for the proprietor for his own use for `3,000
5. Outstanding wages amounted to `4,000.
6. Freight was paid in advance for `1,000.

SOLUTION

M/s P. Sen

Trading Account

Dr. for the year ended 31st March, 2022. Cr.

Particulars	₹	₹	Particulars	₹	₹
To, Opening Stock		10,000	By, Sales	3,00,000	
To, Purchase	1,60,000		Less: Return Inward	16,000	2,84,000
Less: Return Outward	10,000				
	1,50,000		By, Closing Stock	20,000	
Less: Goods taken by Proprietor	3,000		Add: Stock Destroyed	10,000	
	1,47,000			30,000	
Add: Goods-in-transit	6,000	1,53,000	Add: Goods-in-Transit	6,000	36,000
To, Wages	30,000				
Add: Outstanding	4,000	34,000			
To, Carriage Inwards		10,000			
To, Freight	8,000				
Less: Prepaid	1,000	7,000			

To, Royalty on production		6,000			
To, Gas & fuel		2,000			
To, Profit & Loss A/c		98,000			
(Gross profit transferred)					
		3,20,000			3,20,000

Note:
a) Stock should be valued as per cost price or market price whichever is lower.
b) The claim which was admitted by insurance company and the loss of stock, will not appear inTrading Account.

QUESTION: 2

X,Y and Z are three Partners sharing profit and Losses equally. Their capital as on 01.04.2021 were: X ` 80,000 ; Y ` 60,000 and Z ` 50,000

They mutually agreed on the following points (as per partnership deed):

a) Interest on capital to be allowed @ 5% P.a.
b) X to be received a salary @ ` 500 p.m.
c) Y to be received a commission @ 4% on net profit after charging such commission.
d) After charging all other items 10% of the net profit to be transferred General Reserve.

Profit from Profit and Loss Account amounted to ` 66,720.

Prepare a Profit and Loss Appropriation Account for the year ended 31st March, 2022.

SOLUTION

Profit & Loss Appropriation A/c

Dr. for the year ended 31st March, 2022 Cr.

Particulars	₹	₹	Particulars	₹	₹
To, Interest on Capital:			By, Profit and Loss A/c (Net profit transferred)		66,720
X	4,000				
Y	3,000				
Z	2,500	9,500			
" Salaries X : (500 × 12)		6,000			
" Commission Y [WN: 1]		1970			
" General Reserve [WN: 2]		4,925			
" Partners' Capital A/c: (Net Divisible Profit)					
X	14,775				
Y	14,775				
Z	14,775	44,325			
		66,720			66,720

Working Note:

Net Profit before charging Y's Commission	= [66,720 – (9,500 + 6,000)]	= 51,220
Less: Y's Commission @ 4%	= ($\frac{4}{104}$ x 51,220)	= 1,970
		=49,250
Transfer to General Reserve	=` 49,250 x 10%	= 4,925

QUESTION: 3

Mr. Arvind Kumar has a small business enterprise. He has given the trial balance as at 31st March 2022

Particulars	Debit ₹	Credit ₹
Mr. Arvind Kumar's Capital		1,00,000
Machinery	36,000	
Depreciation on Machinery	4,000	
Repairs to Machinery	5,200	
Wages	54,000	
Salaries	21,000	
Income Tax of Mr. Arvind Kumar	1,000	
Cash in Hand	4,000	
Land & Building	1,49,000	
Depreciation on Building	5,000	
Purchases	2,50,000	
Purchase Returns		3,000
Sales		4,98,000
CC Bank		7,600
Accrued Income	3,000	
Salaries Outstanding		4,000
Bills Receivables	30,000	
Provision for Doubtful Debts		10,000
Bills Payable		16,000
Bad Debts	2,000	
Discount on Purchases		7,080
Debtors	70,000	
Creditors		62,520
Opening Stock (01.04.2021)	74,000	
Total	7,08,200	7,08,200

Additional information:

1. Stock as on 31st March 2022 was valued at` 60,000
2. Write off further` 6,000 as bad debt and maintain a provision of 5% on doubtful debt
3. Goods costing` 10,000 were sent on approval basis to a customer for` 12,000 on 30th March, 2022. This was recorded as actual sales.
4. ` 2,400 paid as rent for office was debited to Landlord's A/c and was included in debtors.
5. General Manager is to be given commission at 10% of net profits after charging his commission.

6. Works manager is to be given a commission at 12% of net profit before charging General Manager's commission and his own.

You are required to prepare final accounts in the books of Mr. Arvind Kuma, and also the Balance Sheet as on that date.

SOLUTION

Mr. Arvind Kumar

Dr. Trading Account for the year ended 31st March 2022 Cr.

Particulars	₹	₹	Particulars	₹	₹
To, Opening stock:			By, Sales A/c	4,98,000	
Finished goods		74,000	Less: Sent on Approval	(12,000)	4,86,000
To, Purchases:	2,50,000				
Less: Purchases returns	(3,000)	2,47,000	By, Closing stock A/c		
			Finished goods	60,000	
To, Wages:		54,000	Add Sent on Approval	10,000	70,000
To, P/L A/c (Gross Profit transferred)		181,000			
		5,56,000			5,56,000

Dr. Profit and Loss Account for the year ended 31st March 2022 Cr.

Particulars	₹	₹	Particulars	₹	₹
To, Salaries		21,000	By, Trading A/c		
To, Repairs to Machinery		5,200	(Gross Profit transferred)		1,81,000
To, Depreciation: on Machinery		4,000	By, Discount Received		7,080
on Building		5,000			
To, Rent		2,400			
To, Bad Debts	2,000				
Add: Further Bad Debts	6,000				
Provision for Doubtful Debts	2,480				

Particulars	₹	₹	Particulars	₹	₹
Less: Provision Opening	(10,000)	480			

To, Commission to Works Manager		18,000			
To, Commission to General Manager		12,000			
To, Capital A/c (Net Profit transferred)		1,20,000			
		1,88,080			1,88,080

Balance Sheet as on 31st March 2022

Liabilities	₹	₹	Assets	₹	₹
Arvind Kumar's Capital	1,00,000		Fixed Assets:		
Less: Drawings (incometax)	(1,000)		Land & Building		1,49,000
Add: Net Profit for the year	1,20,000	2,19,000	Machinery		36,000
Long term Liabilities:		-	Current Assets:		
Current Liabilities:			Stocks	60,000	
Sundry Creditors		62,520	Add: Sent on Approval	10,000	70,000
Outstanding Salaries		4,000	Sundry Debtors	70,000	
			Less: Goods on Approval	(12,000)	
CC Bank's Overdraft		7,600	Less: Bad Debts	(6,000)	
Bills Payable		16,000	Less: Related to Landlord	(2,400)	
Commission Payable		30,000	Less: Provision for Doubtful Debts	(2,480)	47,120
			Bills Receivable		30,000
			Cash in Hand		4,000
			Accrued Income		3,000
		3,39,120			3,39,120

Working Notes:

1. Commission payable to works manager & general manager is computed as below

Profit before charging any commission	1,50,000
Commission to works manager @ 12% on 1,50,000	18,000
Profit after works manager's commission	1,32,000
Commission to General Manager	12,000
(1,32,000/110 x 100)	

QUESTION: 4

The following Trial Balance has been prepared from the books of Mrs. Sexena as on 31st March, 2022 after making necessary adjustments for depreciation on Fixed Assets, outstanding and accrued items and differenceunder Suspense Account.

Trial Balance as at 31st March, 2022

Particulars	Debit ₹	Particulars	Credit ₹
Machineries	1,70,000	Sundry Creditors	82,000
Furniture	49,500	Capital Account	2,45,750
Sundry Debtors	38,000	Outstanding Expenses:	
Drawings	28,000	Salaries	1,500
Travelling Expenses	6,500	Printing	600
Insurance	1,500	Audit Fees	1,000
Audit Fees	1,000	Bank Interest	1,200
Salaries	49,000	Discounts	1,800
Rent	5,000	Sales (Less Return)	6,80,000
Cash in Hand	7,800		
Cash at Bank	18,500		
Stock-in-Trade (01.04.2021)	80,000		
Prepaid Insurance	250		
Miscellaneous Expenses	21,200		
Discounts	1,200		
Printing & Stationery	1,500		
Purchase (Less Returns)	4,60,000		
Depreciation:			
Machineries	30,000		
Furniture	5,500		
Suspense Account	39,400		
	10,13,850		10,13,850

On the subsequent scrutiny following mistakes were noticed:

a) A new machinery was purchase for `50,000 but the amount was wrongly posted to Furniture Account as 5,000.

b) Cash received from Debtors `5,600 was omitted to be posted in the ledger.

c) Goods withdrawn by the proprietor for personal use but no entry was passed `5,000.

d) Sales included `30,000 as goods sold cash on behalf of Mr. Thakurlal who allowed 15% commission on such sales for which effect is to be given.

You are further told that:

I. Closing stock on physical verification amounted to `47,500

II. Depreciation on Machineries and Furniture has been provided @ 15% and 10%, respectively, on reducing balancing system.

Full year's depreciation is provided on addition.

You are requested to prepare a Trading and Profit & Loss Account for the year ended 31st March 2022 and a Balance Sheet as on that date so as to represent a True and Correct picture.

solution

Mrs. Sexena

Trading and Profit and Loss Account

Dr. for the year ended 31st March, 2022 Cr.

Particulars	₹	₹	Particulars	₹	₹
To, Opening Stock		80,000	By, Sales (6,80,000 - `30,000)		6,50,000
To, Purchases	4,60,000		By, Closing Stock		47,500
Less: Drawings	5,000	4,55,000			
To, Profit & Loss A/c.					
Gross Profit transferred		1,62,500			
		6,97,500			6,97,500
To, Salaries:		49,000	By, Trading A/c.(Gross Profit)		1,62,500
To, Rent		5,000	By, Bank Interest		1,200
To, Insurance		1,500	By, Selling Commission		
To, Audit Fees		1,000	(15% on `30,000)		4,500
To, Printing & Stationery		1,500	By, Discount Received		1,800
To, Miscellaneous Expenses		21,200			
To, Discount Allowed		1,200			
To, Travelling Expenses		6,500			
To, Depreciation:					
Machinery	37,500				
Furniture	5,000	42,500			
To, Capital Account (Net Profit transferred)		40,600			
		1,70,000			1,70,000

Balance Sheet

as at 31st March, 2022

Liabilities	₹	₹	Assets	₹	₹
Capital Account	2,45,750		Machinery	2,50,000[1]	
Add: Net Profit	40,600		Less: Depreciation	37,500	2,12,500
	2,86,350				
Less: Drawings (28,000+5,00	33,000	2,53,350	Furniture	50,000[2]	

0)					
			Less: Depreciation	5,000	45,000
Sundry Creditors		82,000	Stock		47,500
Outstanding Liabilities:			Debtors (38,000 - `5,600)		32,400
Salaries	1,500		Cash		7,800
Audit Fees	1,000		Bank		18,500
Printing	600	3,100	Prepaid Insurance		250
Thakurlal's A/c. (30,000 - `4,500)		25,500			
		3,63,950			3,63,950

Note

		₹
1.	Machinery as per Trial Balance	1,70,000
	Add: Depreciation	30,000
		2,00,000
	Additions	50,000
		2,50,000
2.	Furniture	49,500
	Add: Depreciation	5,500
		55,000
	Less: Wrong Debit	5,000
3.	Suspense A/c is eliminated by item	50,000

(i) ` 45,000 (50,000 – `5,000) and item
(ii) by `5,600 (debited), respectively.

QUESTION: 5

Mrs. Joshi has presented you the following Trial Balance as on 31st December 2021:

Dr. Trial Balance as on 31.12.2021 Cr.

Particulars	₹	Particulars	₹
Purchases	1,75,000	Sales	3,25,000
Interest	8,000	10 % Loan from UBI	1,00,000
Debtors	1,04,000	Bills Payable	86,000
Suspense A/c	8,000	Capital	4,87,000
Rent	6,600	Sundry Creditors	1,02,500
Plant & Machinery	5,30,000	Apprenticeship Premium Received	2,000
Furniture & Fixture	85,000	Purchase Return	1,500
Salaries	7,000		
Wages	2,500		

GST	6,000		
Motor Car	70,000		
Octroi	500		
Insurance	10,000		
Unexpired insurance	2,300		
Factory Shed	30,000		
Bills Receivable	25,000		
Patent	32,100		
Sales Return	2,000		
	11,04,000		11,04,000

You are required to prepare a Trading and Profit & Loss account and a Balance Sheet as on 31st Dec 2021 after considering the following adjustment:

1. A sale of ` 25,000 made for cash had been credited to Purchase A/c.
2. Private purchase amounting to ` 600 had been included in Purchase Day Book.
3. The loan account in the books of proprietor appeared as follows:

Dr. 10% Loan from UBI Account Cr.

Date	Particulars	₹	Date	Particulars	₹
31.12.21	To Balanced c/f	1,00,000	1.1.21	By Balance b/f	50,000
			31.12.21	By Bank A/c	50,000
		1,00,000			1,00,000

Interest paid includes ` 3,000 interest paid to UBI Bank.

4. During the year goods worth ` 1,00,000 were invoiced on 'sale on approval basis' at cost plus 25%. Out of these, goods worth ` 20,000 accepted by the customers, ` 40,000 worth of goods were rejected and properly accounted for but no intimation has been obtained for the balance of the goods and its period is yet to expire.
5. Debtors were shown after deduction of Provision for Doubtful Debt of ` 2,000. It was decided that this debt was considered to be bad and should be written off and a provision of ` 1,000 should be made which was considered doubtful.
6. Suspense account represents money advanced to sales manager who was sent to Mumbai in August, 2021 for sales promotion. On returning to Kolkata submitted a statement disclosing that ` 2,000 was incurred for travelling, ` 1,200 for legal expenses and ` 1,800 for miscellaneous expenses. The balance lying with him is yet to be refunded.
7. Business is carried on in a two-storied rented house. The ground floor, being 50 per cent of the accommodation, is used for business. Mrs. Joshi lives with her family on the first floor.
8. The Furniture account represents old furniture which was replaced on 1.1.2021 by a new one, costing 1,20,000 with an additional cash payment of ` 80,000 lying debited to purchases account. However, the assets were put to use on 1.4.2021.
9. Depreciation is to be charged on Furniture @ 10% p.a., Plant & Machinery @ 5% p.a., Motor Car @ 5% p.a.

10. The General manager is entitled to commission based on a percentage of net profit (such commission being charged to profit and loss account before ascertaining the net profits), calculated in the following manner :

On the first `30,000 of net profit Nil
On the next `30,000 of net profit 10%
On the next `30,000 of net profit 20%
And on the balance of net profit 30%

11. Closing Stock was 31.12.2021 was 22,000

SOLUTION

Mrs. Joshi

Dr. Trading and Profit & Loss Account for the year ended 31.12.2021 Cr

Particulars	₹	₹	Particulars	₹	₹
To, Purchases	1,75,000		By, Sales	3,25,000	
Less : Purchase Return	1,500		Less : Sales Return	2,000	
	1,73,500			3,23,000	
Add : Sales wrongly credited in Purchase	25,000		Add : Sales wrongly credited to Purchase	25,000	
	1,98,500			3,48,000	
Less : Private purchase	600		Less : Sale on approval basis	40,000	3,08,000
	1,97,900		By, Closing Stock		
Less : Payment for Furniture [WN: 2]	80,000	1,57,900	In hand	22,000	
To, Wages		2,500	With Customer [WN: 1]	32,000	54,000
To, Octroi		500			
To, Gross Profit c/d		2,01,100			
		3,62,000			3,62,000
To, Rent	6,600		By, Gross Profit b/d		2,01,100
Less: Rent of Personal portion (50%)	3,300	3,300	By, Apprenticeship Premium		2,000
To, Salaries		7,000	By, Provision for Bad Debt		2,000
To, GST		6,000			
To, Insurance		10,000			
To, Interest	8,000				
Add : Outstanding [(50,000 × 10%) – 3,000]	2,000	10,000			
To, Bad Debt		2,000			
To, Provision for Bad Debts		1,000			

To, Depreciation:					
Furniture	12,000				

Particulars	₹	₹	Particulars	₹	₹
Plant & Machinery	26,500				
Motor Car	3,500	42,000			
To, Loss on Exchange [WN: 2]		45,000			
To, Sales Promotion Expenses:					
Travelling	2,000				
Legal Expenses	1,200				
Misc. Expenses	1,800	5,000			
To, General Manager's Commission [WN:3]		16,140			
To, Capital A/c [Net Profit transferred]		97,660			
		2,41,100			2,41,100

Balance Sheet as on 31.12.2021

Liabilities	₹	₹	Assets	₹	₹
			Patent		32,100
			Factory Shed		30,000
Capital	4,87,000		Plant & Machinery	5,30,000	
Add : Net Profit	97,660		Less : Depreciation @ 5%	26,500	5,03,500
	5,84,660				
Less : Drawings [Rent of Personal Accommodation]	3,300	5,81,360	Furniture & Fixture	85,000	
			Add: Net Exchange	35,000	
				1,20,000	
10 % Loan from UBI		1,00,000	Less : Depreciation @ 10%	12,000	1,08,000
Bills Payable		86,000			
Sundry Creditors	1,02,500		Motor Car	70,000	
Less : Private purchase	600	1,01,900	Less : Depreciation @ 5%	3,500	66,500
Outstanding Interest		2,000	Stock-in-Trade:		
Outstanding Manger's Commission		16,140	In hand	22,000	
			With Customers [WN: 1]	32,000	54,000

Liabilities	₹	₹	Assets	₹	₹
			Debtors [1,04,000 + 2,000]	1,06,000	
			Less : Sale on Approval basis [WN:1]	40,000	
				66,000	
			Less : Bad debt	2,000	
				64,000	
			Less : Provision for Bad Debts	1,000	63,000
			Bills Receivable		25,000
			Unexpired insurance		2,300
			Due from Sales Manager [8,000 – 5,000]		3,000
		8,87,400			8,87,400

Working Notes:

1. Unexpired goods on Sale on approval basis

	₹
Invoice price of goods sent	1,00,000
Less: Goods accepted	(20,000)
Goods returned	(40,000)
∟ Invoice Vale of goods lying in the hands of customer	40,000
∟Cost price of goods waiting approval = `40,000 × 100/125 = `32,000	

2. Exchange of Furniture

	₹
Original Cost of new Furniture	1,20,000
Less: Payment made	80,000
∟ Exchange Value	40,000
∟ WDV of old Furniture	85,000
∟ Loss on Exchange	45,000

Rectification Entry		₹	₹
Furniture A/c	Dr.	35,000	
Loss on Exchange A/c		45,000	
To Purchases A/c			80,000

3. General manager's Commission

Net Profit before manager's commission = `241,100 – `1,27,300 = `1,13,800

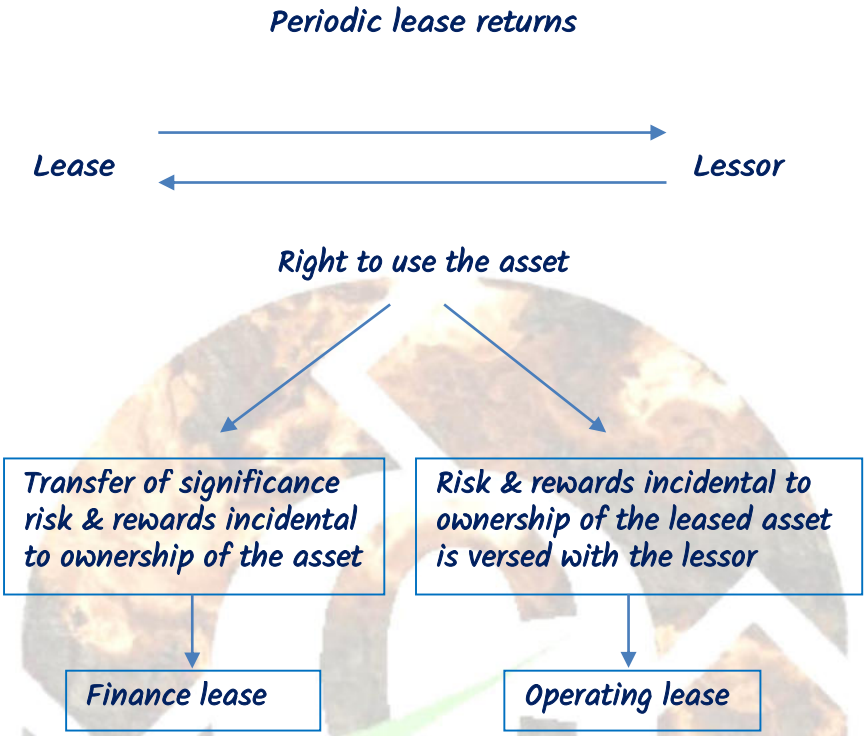
Net Profit	Rate of Commission	Commission ₹

On first `30,000	-	-	
On Next `30,000	10%	3,000	[30,000 × 10%]
On Next `30,000	20%	6,000	[30,000 × 20%]
On balance	30%	7,140	[1,13,800 – 90,000] × 30%
☐ Commission payable to General Manager		16,140	

TARGET Academy

LEASE ACCOUNTING

LEASE:



Indicators of finance lease:

- Lease transfer the leased asset to the lessee at the end of the lease term.
- Lease has an option to acquire the leased asset at the end of the lease term.
  - At a price significantly lower than the fair value of the aseet.
  - It is reasonably certain at the inception of lease that the lessee will exercise the option.
- Lease covers majority (>50%) of economic life of the asset.
- PV of MLP is substantially equal to the fair value of the leased asset at the inception of lease
- Asset is customized in such a way that the leased asset cannot be used by any other person other than the lessee without major...

MLP (minimum lease payments):

MLP (lessee) = [LR x LT] + GRV by the lessee

MLP (lessor) = [LR x LT] + GRV by the lessee/by 3rd party

LR = lease rentals

LT = lease term

GRV = guaranteed residual value

Lease rent excludes :

- Taxes

- Contingent rent
- Cost of goods & services provided by the lessor

Lease should be classified as financial or operating lease on inception of lease.

Lease cannot be reclassified – i.e. if lease agreement is amended in such a way that it requires reclassification. Amended lease agreement should be treated a new lease agreement & old lease agreement is considered to lapse.

RECOGNITION & MEASUREMENT:

Finance lease:

Initial recognition	Books of lease	Books of lessor
Inception of lease measurement	Leased asset To lease liability Lower: fair value of the asset PV of MLP (lessee)	Leased receivable To sales Net investment in lease(NIL)
Subsequent recognition		
On lease rentals measurement Lease rentals = principal + finance charges	Lease liability finance charges To bank	Bank To lease receivables To finance income

Net investment in lease (NIL) = PV of GIL

GIL = [LR x LT] – residual value

Unearned financial income (UFI) = GIL – PV(GIL)

Operating lease:

Lease rentals should be recognized as EXPENSE in the books of lessee & INCOME in the books of lessor over the lease earn on a straight line basis unless:

- Another systematic pattern represents the benefits derived by the lessee.
- Lease rentals increase each year corresponding to the inflation index

Sale & lease back:



Results in financial lease:

Profit or loss on sale should be recognized in P&L over the lease term

Results in operating lease:

SP = fair value

Profit or loss on sale should be recognized in P & L immediately

SP ≠ fair value

Compensated with future lease rentals

Fair value – carrying value → recognize immediately

Selling price – fair value → defer over the lease term

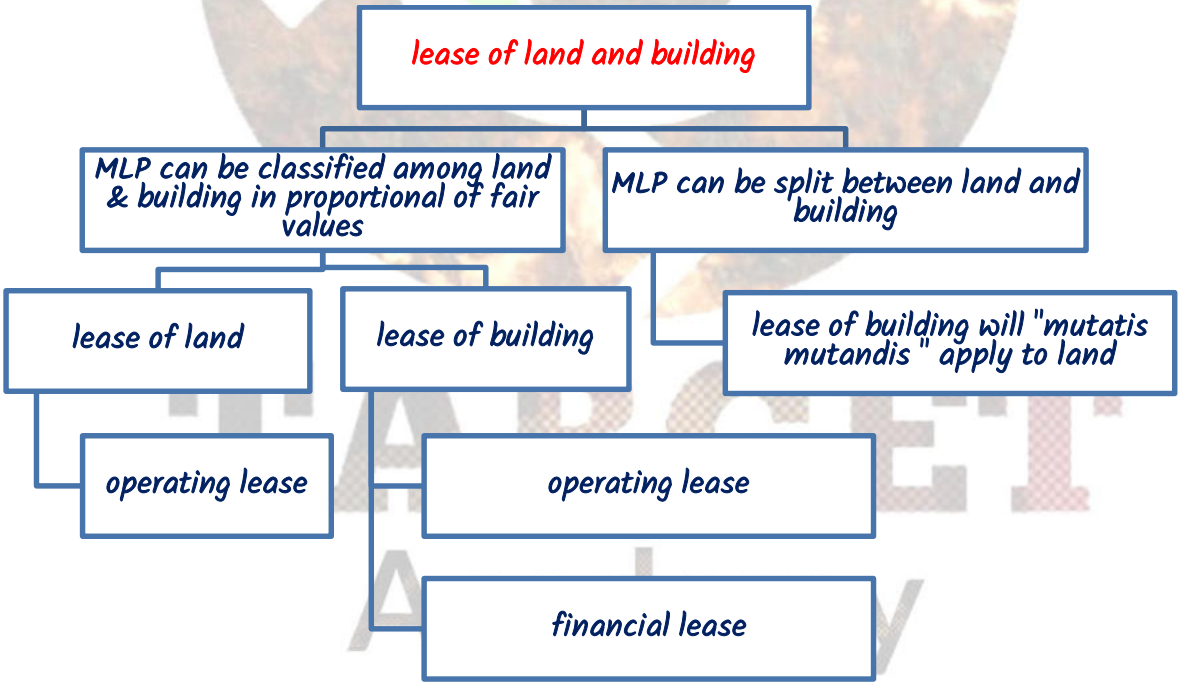
Not compensated with future lease rentals

Recognize profit or loss immediately

Incentives paid by lessor under operating lease

Form of reimbursement of relocation cost, rent free/concessional rent for initial period etc.,

Such incentives will be reduced from lease rent recognized as income by lessor expense by lessee in a straight line basis over the lease term



Arrangement which contain a lease:

Conditions to be satisfied to identify a lease

- Fulfillment of arrangement is dependent on a specific asset. The supplier is obliged to supply the agreed goods and services only from the asset specified in the contract & cannot source it from other assets.

- Agreements conveys a right to use the asset
  - Purchaser has an ability & right to operate the asset or can direct other to operate the asset.
  - Purchaser has an ability & right to control physical access of the asset.
  - Not more than insignificant output of the specified asset is taken by other than the purchaser.
  - Price of the arrangement is not contracted based on fixed rate per unit at the market price per unit on date of delivery

A lease is an agreement which is entered into by the owner of an asset (lessor) with the intended user of the asset (lessee) in return for a payment or series of payments for an agreed period of time. It is a transaction which gives the lease the right to use an asset for a specified period of time.
It is to ne noted here that the definition of a lease includes agreements for the hire of an asset which contain a provision giving the hirer an option to acquire title to the asset upon the fulfillment of agreed conditions. These agreements are commonly known as hire purchase agreements.
In India, accounting for leases is covered under Accounting Standard (AS) 19 Leases.

Objective

The objective of AS 19 is to prescribe the appropriate accounting policies and disclosures in relation to finance leases and operating leases for both lessees and lessors.

Applicability

AS 19 should be applied in accounting for all leases other than:

a) lease agreements to explore for or use natural resources, such as oil, gas, timber, metals and other mineral rights;
b) licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and
c) lease agreements to use lands.

Important Definitions

The following terms are used in this Standard with the meanings specified:
A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.
A non-cancellable lease is a lease that is cancellable only: (a) upon the occurrence of some remote contingency; or (b) with the permission of the lessor; or (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of an additional amount such that, at inception, continuation of the lease is reasonably certain.
The inception of the lease is the earlier of the date of the lease agreement and the date of a commitment by the parties to the principal provisions of the lease.
The lease term is the non-cancellable period for which the lessee has agreed to take on lease the asset together with any further periods for which the lessee has the option to continue the lease of the asset, with or without further payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise.

Minimum lease payments are the payments over the lease term that the lessee is, or can be required, to make excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

a) in the case of the lessee, any residual value guaranteed by or on behalf of the lessee; or

b) in the case of the lessor, any residual value guaranteed to the lessor:

I. by or on behalf of the lessee; or

II. by an independent third party financially capable of meeting this guarantee. However, if the lessee has an option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable that, at the inception of the lease, is reasonably certain to be exercised, the minimum lease payments comprise minimum payments payable over the lease term and the payment required to exercise this purchase option.

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Economic life is either: (a) the period over which an asset is expected to be economically usable by one or more users; or (b) the number of production or similar units expected to be obtained from the asset by one or more users.

Useful life of a leased asset is either: (a) the period over which the leased asset is expected to be used by the lessee; or (b) the number of production or similar units expected to be obtained from the use of the asset by the lessee.

Residual value of a leased asset is the estimated fair value of the asset at the end of the lease term.

Guaranteed residual value is:

I. in the case of the lessee, that part of the residual value which is guaranteed by the lessee or by a party on behalf of the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and

II. in the case of the lessor, that part of the residual value which is guaranteed by or on behalf of the lessee, or by an independent third party who is financially capable of discharging the obligations under the guarantee.

Unguaranteed residual value of a leased asset is the amount by which the residual value of the asset exceeds its guaranteed residual value.

Gross investment in the lease is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor.

Unearned finance income is the difference between:

a) the gross investment in the lease; and

b) the present value of (i) the minimum lease payments under a finance lease from the standpoint of the lessor; and (ii) any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Net investment in the lease is the gross investment in the lease less unearned finance income.

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments under a finance lease from the

standpoint of the lessor; and (b) any unguaranteed residual value accruing to the lessor, to be equal to the fair value of the leased asset.

The lessee's incremental borrowing rate of interest is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on a factor other than just the passage of time (e.g., percentage of sales, amount of usage, price indices, market rates of interest).

Classification of Leases

The classification of leases is based on the extent to which risks and rewards incident to ownership of a leased asset lie with the lessor or the lessee.

Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return due to changing economic conditions. Rewards may be represented by the expectation of profitable operation over the economic life of the asset and of gain from appreciation in value or realisation of residual value.

Leases are classified into two types:

1) Finance lease: A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. Title may or may not eventually be transferred.
2) Operating lease: A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership.

It is important to note that lease classification is made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease the revised agreement is considered as a new agreement over its revised term. However, Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased asset) or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

I. Finance Lease

Finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than its form.

Situations which lead to a lease being classified as a finance lease

a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
b) the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

e) the leased asset is of a specialised nature such that only the lessee can use it without major modifications being made.

Indicators of situations leading to finance lease

a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee

b) gains or losses from the fluctuation in the fair value of the residual fall to the lessee (for example in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and

c) the lessee can continue the lease for a secondary period at a rent which is substantially lower than market rent.

Treatment of finance lease in financial statement of lessee

Treatment of finance lease transactions is very significant bcoz if such transactions are not reflected in the lessee's balance sheet, the economic resources and the level of obligations of an enterprise are understated thereby distorting financial ratios. It is therefore appropriate that a finance lease be recognised in the lessee's balance sheet both as an asset and as an obligation to pay future lease payments.

Recognition of finance lease by lessee: At the inception of the lease, the asset and the liability for the future lease payments are recognised in the balance sheet at the same amounts.

Such recognition should be at an amount equal to the fair value of the leased asset at the inception of the lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee.

In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate should be used.

Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Finance lease and Depreciation: A finance lease gives rise to a depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for a leased asset should be consistent with that for depreciable assets which are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the lease term or its useful life, whichever is shorter.

Disclosure of financial lease by lessee:

The lessee should, in addition to the requirements of AS 10, Accounting for Fixed Assets, AS 6, Depreciation Accounting, and the governing statute, make the following disclosures for finance leases:

a) assets acquired under finance lease as segregated from the assets owned;

b) for each class of assets, the net carrying amount at the balance sheet date;

c) a reconciliation between the total of minimum lease payments at the balance sheet date and their present value. In addition, an enterprise should disclose the total of minimum lease payments at the balance sheet date, and their present value, for each of the following periods: (i) not later than one year; (ii) later than one year and not later than five years; (iii) later than five years;

d) contingent rents recognised as expense in the statement of profit and loss for the period;
e) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date; and
f) a general description of the lessee's significant leasing arrangements including, but not limited to, the following: (i) the basis on which contingent rent payments are determined; (ii) the existence and terms of renewal or purchase options and escalation clauses; and (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Provided that a Small and Medium Sized Company, as defined in the Notification, may not comply with sub- paragraphs (c), (e) and (f).

Treatment of finance lease in financial statement of lessor

Recognition of finance lease by lessor: The lessor should recognise assets given under a finance lease in its balance sheet as a receivable at an amount equal to the net investment in the lease.

The recognition of finance income should be based on a pattern reflecting a constant periodic rate of return on the net investment of the lessor outstanding in respect of the finance lease.

Disclosure of financial lease by lessor:

The lessor should make the following disclosures for finance leases:

a) a reconciliation between the total gross investment in the lease at the balance sheet date, and the present value of minimum lease payments receivable at the balance sheet date. In addition, an enterprise should disclose the total gross investment in the lease and the present value of minimum lease payments receivable at the balance sheet date, for each of the following periods: (i) not later than one year; (ii) later than one year and not later than five years; (iii) later than five years;
b) unearned finance income;
c) the unguaranteed residual values accruing to the benefit of the lessor;
d) the accumulated provision for uncollectible minimum lease payments receivable;
e) contingent rents recognised in the statement of profit and loss for the period;
f) a general description of the significant leasing arrangements of the lessor; and
g) accounting policy adopted in respect of initial direct costs.

Provided that a Small and Medium Sized Company, as defined in the Notification, may not comply with sub- paragraphs (a) and (f).

2. Operating Lease

Operating lease is a lease other than a finance lease.

Treatment in financial statement of lessee

Recognition of operating lease:

Lease payments under an operating lease should be recognised as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Disclosure of operating lease:

The lessee should make the following disclosures for operating leases:

a) the total of future minimum lease payments under noncancellable operating leases for each of the following periods: (i) not later than one year; (ii) later than one year and not later than five years; (iii) later than five years;

b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date;

c) lease payments recognised in the statement of profit and loss for the period, with separate amounts for minimum lease payments and contingent rents;

sub-lease payments received (or receivable) recognised in the statement of profit and loss for the period;

a general description of the lessee's significant leasing arrangements including, but not limited to, the following: (i) the basis on which contingent rent payments are determined; (ii) the existence and terms o

renewal or purchase options and escalation clauses; and (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Provided that a Small and Medium Sized Company, as defined in the Notification, may not comply with sub- paragraphs (a), (b) and (e).

Treatment in financial statement of lessor

Recognition of operating lease:

The lessor should present an asset given under operating lease in its balance sheet under fixed assets. Lease income from operating leases should be recognised in the statement of profit and loss on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the use of the leased asset is diminished.

Operating lease and Depreciation: The depreciation of leased assets should be on a basis consistent with the normal depreciation policy of the lessor for similar assets, and the depreciation charge should be calculated on the basis set out in AS 6, Depreciation Accounting.

Disclosure of operating lease:

The lessor should, in addition to the requirements of AS 6, Depreciation Accounting and AS 10, Accounting for Fixed Assets, and the governing statute, make the following disclosures for operating leases:

(a) for each class of assets, the gross carrying amount, the accumulated depreciation and accumulated impairment losses at the balance sheet date; and (i) the depreciation recognised in the statement of profit and loss for the period; (ii) impairment losses recognised in the statement of profit and loss for the period; (iii) impairment losses reversed in the statement of profit and loss for the period;

(b) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods: (i) not later than one year; (ii) later than one year and not later than five years;

(i) later than five years;

(c) total contingent rents recognised as income in the statement of profit and loss for the period;

(d) a general description of the lessor 's significant leasing arrangements; and

(e) accounting policy adopted in respect of initial direct costs.

Provided that a Small and Medium Sized Company, as defined in the Notification, may not comply with sub- paragraphs (b) and (d).

Sale and Leaseback Transactions

A sale and leaseback transaction involves the sale of an asset by the vendor and the leasing of the same asset back to the vendor. The lease payments and the sale price are usually interdependent as they are negotiated as a package.

Accounting of sale and leaseback transaction

The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

When a sale and leaseback transaction results in a finance lease: Any excess or deficiency of sales proceeds over the carrying amount should not be immediately recognised as income or loss in the financial statements of a seller-lessee. Instead, it should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

When a sale and leaseback transaction results in an operating lease: In such a case, if it is clear that the transaction is established at fair value, any profit or loss should be recognised immediately. If the sale price is below fair value, any profit or loss should be recognised immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used.

For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognised immediately. For finance leases, no such adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with the Accounting Standard dealing with impairment of assets.

PROBLEMS

QUESTION: 1

Arun Ltd. has taken an equipment on operating lease for the coming 5 years. As per the agreement with the lessor, it will not make any payment for lease rentals for the first 2 years, and will have to pay ₹21,00,000 in each of the following 3 years. Advise Arun Ltd. on accounting for the lease rentals in this case.

Solution:

As per AS-19, lease payments under an operating lease should be recognised as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

The pattern of payment, in this case, does not follow straight line basis, rather it is arising towards the end of the lease period. For accounting purpose, such effect should be neutralized i.e. the total payment of₹63,00,000 in the last 3 years should be spread over the entire lease period of 5 years i.e.₹12,60,000 should be charged to the statement of profit and loss for each year.

QUESTION: 2

Vishnu Ltd. leased a printing machine from Garur Ltd. for a period of 3 years. The useful life of the printing machine is known to be of 5 years. It was agreed between the lessor and lessee that the amount will be paid in 3 instalments and at the termination of the lessee, Garur Ltd. will take back the said machine. The following details are available in respect of the machine lessee:

- Cost of the printing machine is₹15,00,000;
- Unguaranteed residual value at the end of the lease period is₹2,00,000;
- Fair value of the machine is₹15,00,000;
- The internal rate of return of the investment is 10%.

You are required to:

a) State whether the lease is a finance lease or an operating lease?

b) Ascertain the amount of unearned finance income.

Given: PVF10%, 3 = 0.7513; PVAF10%, 3 = 2.4868.

Solution:

Present value of unguaranteed residual value =₹2,00,000 × 0.7513 =₹1,50,260

∴ Present value of lease payments = ₹(15,00,000 – 1,50,260) =₹13,49,740

Present value of lease payments as percentage of Fair value = $\frac{13,49,740}{15,00,000}$ = 90% (approx.)

As the 'Present value of lease payments' makes a substantial portion of the 'Fair value', the machine lease by Vishnu Ltd. from Garur Ltd. is a finance lease by nature.

(a) Annual lease payments = $\frac{\text{Present value of lease payments}}{\text{PVAF10\%, 3}} = \frac{13,49,740}{2.4868}$ =₹5,42,762 (approx.)

Gross investment in lease = ₹[(5,42,762 × 3) + 2,00,000] =₹18,28,286

∴ Unearned finance income = Excess of 'Gross investment in lease' over 'Cost of the printing machine'

= ₹(18,28,286 – 15,00,000)

= ₹3,28,28

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AS – 1: DISCLOSURE OF ACCOUNTING POLICIES

Accounting policies

Specific accounting principles adopted by the enterprise.

- Proper disclosure would ensure meaningful comparison both inter/intra enterprise and also enable the users to properly appreciate the financial statements.

Areas involving different accounting policies by different enterprises

- Methods of depreciation, depletion and amortization
- Treatment of expenditure during construction
- Treatment of foreign currency conversion/translation.
- Valuation of inventories
- Treatment of intangible assets
- Valuation of investments
- Treatment of retirement benefits
- Recognition of profit on long-term contracts
- Valuation of fixed assets
- Treatment of contingent liabilities

Fundamental Accounting Assumptions

- Going Concern
- Consistency
- Accrual

Factors governing the selection and application of accounting policies are

- Prudence
- Substance over form
- Materiality

Changes in Accounting Policies

Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in the later period should be disclosed

Note:

The following are not considered as changes in accounting policies :

(a) Accounting policies adopted for events or transactions that differ in substance at present (introducing Group Gratuity Scheme for employees in place of adhoc ex-gratia payment earlier followed.)

(b) Accounting policies pertains to events or transactions which did not occur previously or that were immaterial.

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THE END

AS 2 - VALUATION OF INVENTORIES

Objective of AS -2

- To formulate the method of computation of cost of inventories/stock
- To determine the value of closing stock/ inventory at which, the inventory is to be shown in balance sheet

Accounting Standard-2 is not applicable

- Work-in-progress arising under construction contract
- Work-in-progress arising in ordinary course of business for service providers
- Financial Instrument held as stock-in-trade
- Producer's inventories like livestock, agricultural and forest pro¬ducts, mineral oils, ores and gases

Inventories include

- Held for sale in the ordinary course of business (finished goods)
- In the process of production of such sale (raw material and work-in-progress)
- In the form of materials or supplies to be consumed in production process or in the rendering of services (stores, spares, raw material, consumables).
- Inventories do not include machinery

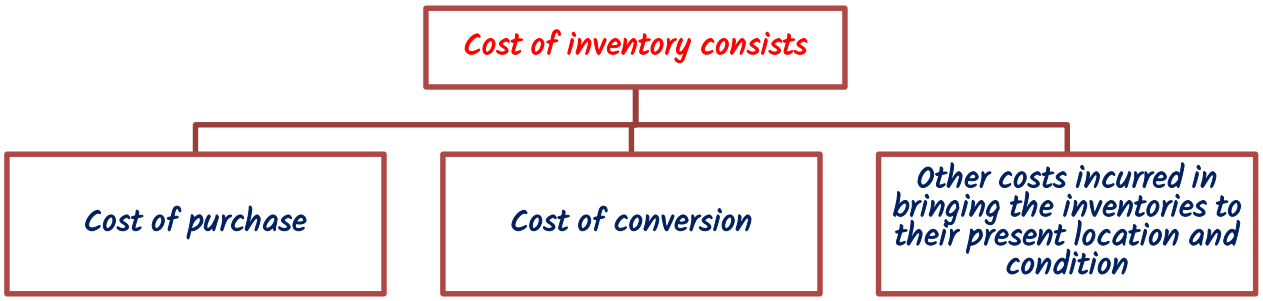
Spare parts

- Inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of PPE as per AS-10.
- Machinery spares, not specific to a particular item of fixed asset and which can be used generally for various items of fixed assets, should be treated as inventories for the purpose of AS-2.

- Inventories should be valued at lower of cost and net realizable value.

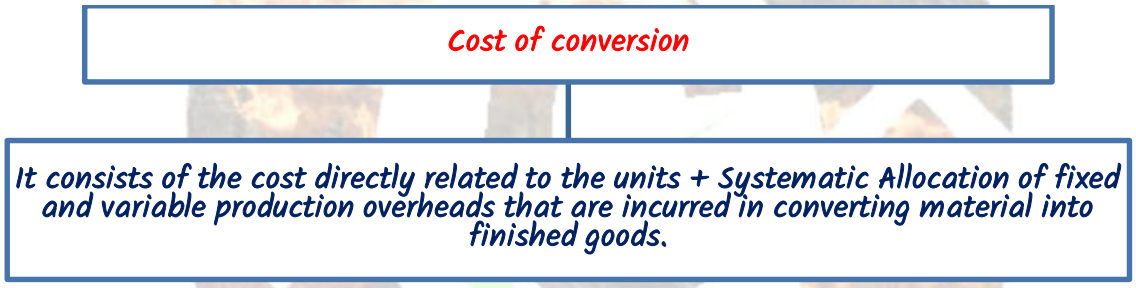
Steps for valuation of Inventories:

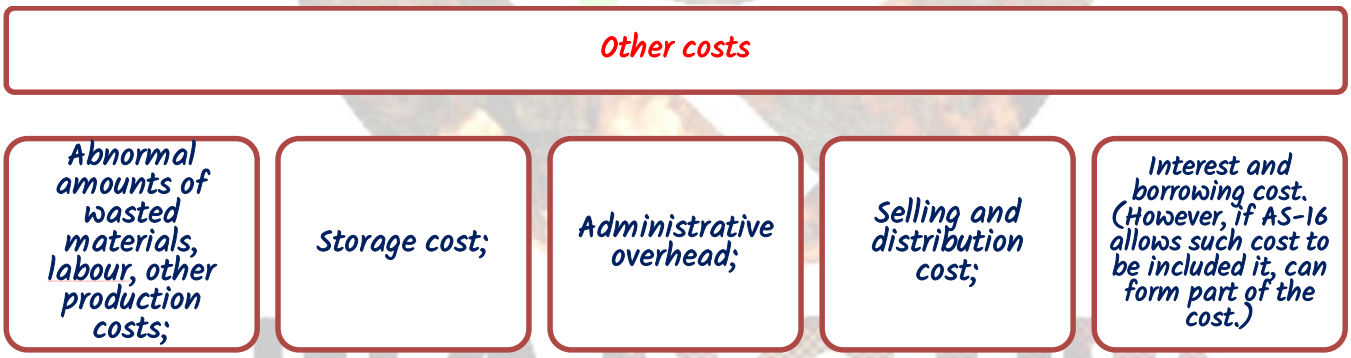
1. Determination of cost of inventories
2. Determination of net realisable value;
3. Comparison between the cost and net realisable value. The comparison should be made item by item or by group of items.



Cost of purchase

- Purchase price, Duties and Taxes, Freight inward, other expenditures directly attributable to the acquisition.
- Less: Duties and taxes recoverable by enterprises from taxing authorities, Trade discount, Rebate, Duty drawback, Other similar items.







When it is not practical to calculate the cost, the following methods may be followed to ascertain cost:

- Standard Cost
- Retail Method

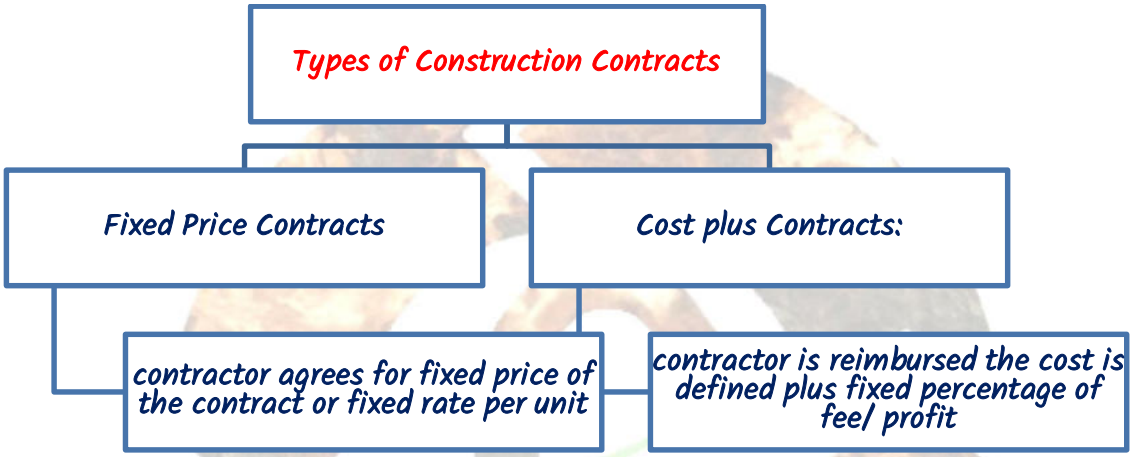
Disclosure in the financial statement	• Cost formula used. • Classifications of inventories are: • Raw materials and components • Work-in-progress • Finished goods • Stock-in-trade (in respect of goods acquired for trading) • Stores and spares • Loose tools • Others(specific nature)

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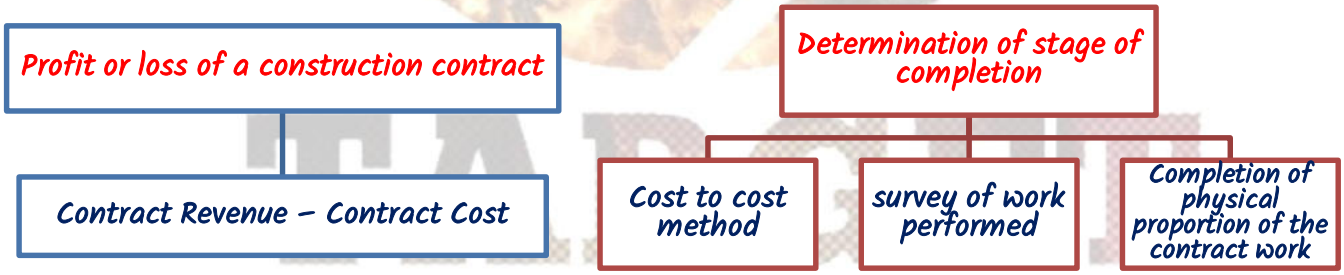
THE END

AS- 7: CONSTRUCTION CONTRACTS

- Accounting Standard (AS) further mentions that the following are also included
- Contracts for rendering of services which are directly related to the construction of Assets, for example, service of architect, and
- Contract for destruction or restoration of Asset and the restoration of the environment following the demolition of Asset



- Objective of AS-7
- determine profit or loss: · On year to year basis based on percentage of completion or · On completion of the contract
- However, the revised standard has eliminated the existing option, by adopting only percentage of completion method for recognizing the revenue



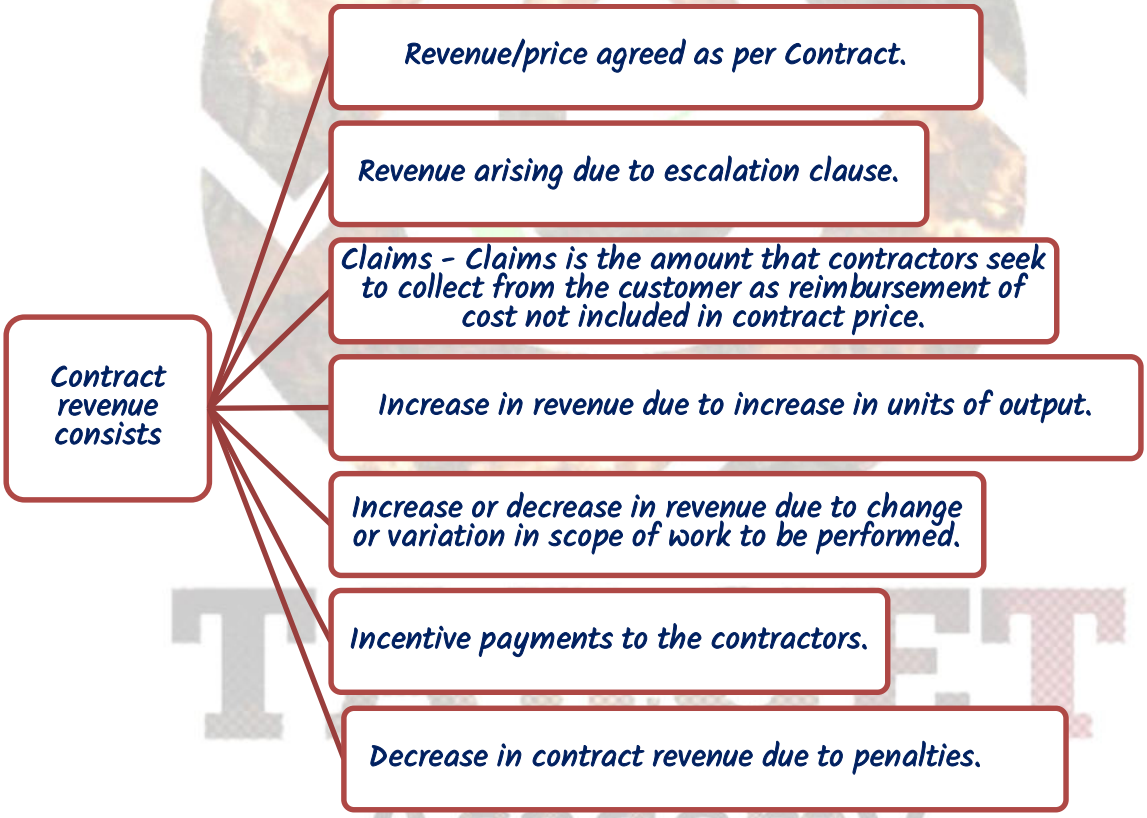
COST TO COST METHOD:

- Percentage of Completion = (Cost to Date × 100) / (Cumulative Cost Incurred + Estimated Cost to Complete)
- Current revenue from contract = Contract price × Percentage of completion – Revenue previously recognized
- Note:
- While calculating the contract cost to date as mentioned above in formula following contract cost should be excluded.

- Contract cost that relates to future activity on the contract such as cost of material that have been delivered to a contract site or set aside for use of a contract but not used and applied.
- Payment made to sub-contractors in advance of work performed under the sub-contract
- Basic principles of recognition of revenue and expenses
    - Revenue recognized in the period in which work is performed;
    - Expenses recognized in the period in which the work to which expenses relate is performed
- Conditions for recognizing the contract revenue
- Total contract revenue can be measured reliably
- It is probable that economic benefits associated with contract will flow to the enterprise / contractor
- Total contract cost and cost upto the stage of completion is measured reliably
- Contract cost attributable to contract can be clearly identified.
- Conditions for recognizing the contract revenue
    - Total contract revenue can be measured reliably
    - It is probable that economic benefits associated with contract will flow to the enterprise / contractor
    - Total contract cost and cost upto the stage of completion is measured reliably
    - Contract cost attributable to contract can be clearly identified
- When outcome of contract cannot be estimated reliably
- revenue should be recognized only to the extent of contract costs incurred of which recovery is probable
- Contract costs consist of
    - Site labour cost including supervision
    - Cost of material used in construction
    - Depreciation of plant and equipments used on the contract
    - Cost of moving plant, equipments and materials from contract site
    - Cost of hiring plant
    - Cost of design and technical assistance
    - Estimated cost of rectification and guarantee work including expected warranty cost

- Claim from third parties
- Pre-contract cost.
- These costs should be reduced by incidental income if any not included in contract revenue, for example, sale of surplus/scrap material, disposal of plant and equipment at the end of contract.

- Cost excluded
  - General administration cost
  - Selling cost
  - Research and development
  - Depreciation cost of idle plant and equipment
  - Cost incurred in securing the contract



- Disclosure by contractors:
- The method used to determine the stage of completion of contract in progress
- The method used to determine the contract revenue recognized in the period.
- The amount of contract revenue recognized in the period
- Contract cost incurred and recognized profit (less recognized losses) upto the reporting period
- Advance received

- Gross amount due from customers for contract work [(cost incurred + recognised profit) – (recognized losses + progress billing)]
- Gross amount due to customer for contract work [(recognized losses + progress billing) – (cost incurred + recognized profit)].



THE END

AS - 9: REVENUE RECOGNITION

Objective of AS – 9

standard explains when the revenue should be recognized in profit and loss account also mentions the circumstances in which revenue recognition can be postponed

- Revenue means gross inflow of cash, receivable or other consideration arising in the course of ordinary activities of an enterprise such as:
  - Sale of goods
  - Rendering the services
  - Use of enterprises resources by others yielding interest, dividend and royalties

AS -9 does not deal with3

- Revenue arising from construction contracts
- Revenue arising from hire-purchase, lease agreements;
- Revenue arising from government grants and other similar subsidies;
- Revenue of insurance companies arising from insurance contracts.

TIMING OF REVENUE RECOGNITION

- Revenue from sale or rendering of services should be recognized at the time of sale or rendering of services.
- However if at the time of sale or rendering of services there is a significant uncertainty in ultimate collection of the revenue, then the revenue recognition is postponed and in such cases revenue should be recognized only when it becomes reasonably certain that ultimate collection will be made. It also applies to the revenue arising out of escalation of price; export incentive, interest etc.

CONDITIONS OF REVENUE FROM SALE OF GOODS

- Seller has transferred the ownership of goods to buyer for a price
- All significant risks and rewards of ownership have been transferred to buyer
- Seller does not retain any effective control of ownership on the transferred goods

- There is no significant uncertainty in collection of the amount of consideration

REVENUE RECOGNITION WHEN DELIVERY OF GOODS SOLD SUBJECT TO CERTAIN CONDITIONS

- Installation and Inspection
- Sale on Approval
- Guaranteed Sales
- Warranty Sales
- Consignment Sales
- Special Order and Shipments
- Subscription for Publication

Installation and Inspection

Revenue should be recognized when goods are installed at the buyer's place to his satisfaction and inspected and accepted by the buyer.

Sale on Approval

Revenue should be recognized when buyer confirms his desire to buy such goods through communication.

Guaranteed Sales

Revenue should be recognized as per the substance of the agreement of sale or after the reasonable period has expired.

Warranty Sales

Revenue should be recognized immediately but the provision should be made to cover unexpired warranty.

Consignment Sales

Revenue should be recognized only when the goods are sold to third party

Special Order and Shipments:

Revenue from such sales should be recognized when the goods are identified and ready for delivery.

Subscription for Publication

When items delivered vary in value from period to period, the revenue should be recognized on the basis of sales value of those items delivered. When items delivered do not vary in value from period to period, the revenue should be recognized on straight-line basis over time.

Installment Sales

Revenue of sales price excluding interest should be recognized on the date of sale. Interest should be recognized proportionately to the unpaid balance.

- Revenue from Rendering of Services
- Completed Service Contract Method
- Proportionate Completion Method

SOME SPECIAL TREATMENT OF REVENUE RECOGNITION:

Revenue from interest

Revenue from interest should be recognized on time proportion basis.

Revenue from royalties:

It is recognized on accrual basis as per terms of agreement.

Revenue from dividend:

It is recognized when declaring company declares dividend.

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THE END

AS - 10: PROPERTY, PLANT AND EQUIPMENT

- Property, plant and equipment are tangible items that:
  - are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
  - are expected to be used during more than a period of twelve months.
- Recognition Criteria
- The cost of an item of property, plant and equipment should be recognised as an asset if, and only if:
  - it is probable that future economic benefits associated with the item will flow to the enterprise; and
  - the cost of the item can be measured reliably.

Objective

To prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about investment made by an enterprise in its property, plant and equipment and the changes in such investment.

AS- 10 does not apply to

- biological assets. This Standard applies to bearer plants but it does not apply to the produce on bearer plants
- wasting assets including mineral rights

Carrying amount

Amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Cost

- Amount of cash or cash equivalents paid or
- the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or,
- where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Accounting Standards.

Depreciable amount

cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation

systematic allocation of the depreciable amount of an asset over its useful life.

Fair value

Amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Gross carrying amount of an asset

cost or other amount substituted for the cost in the books of account, without making any deduction for accumulated depreciation and accumulated impairment losses.

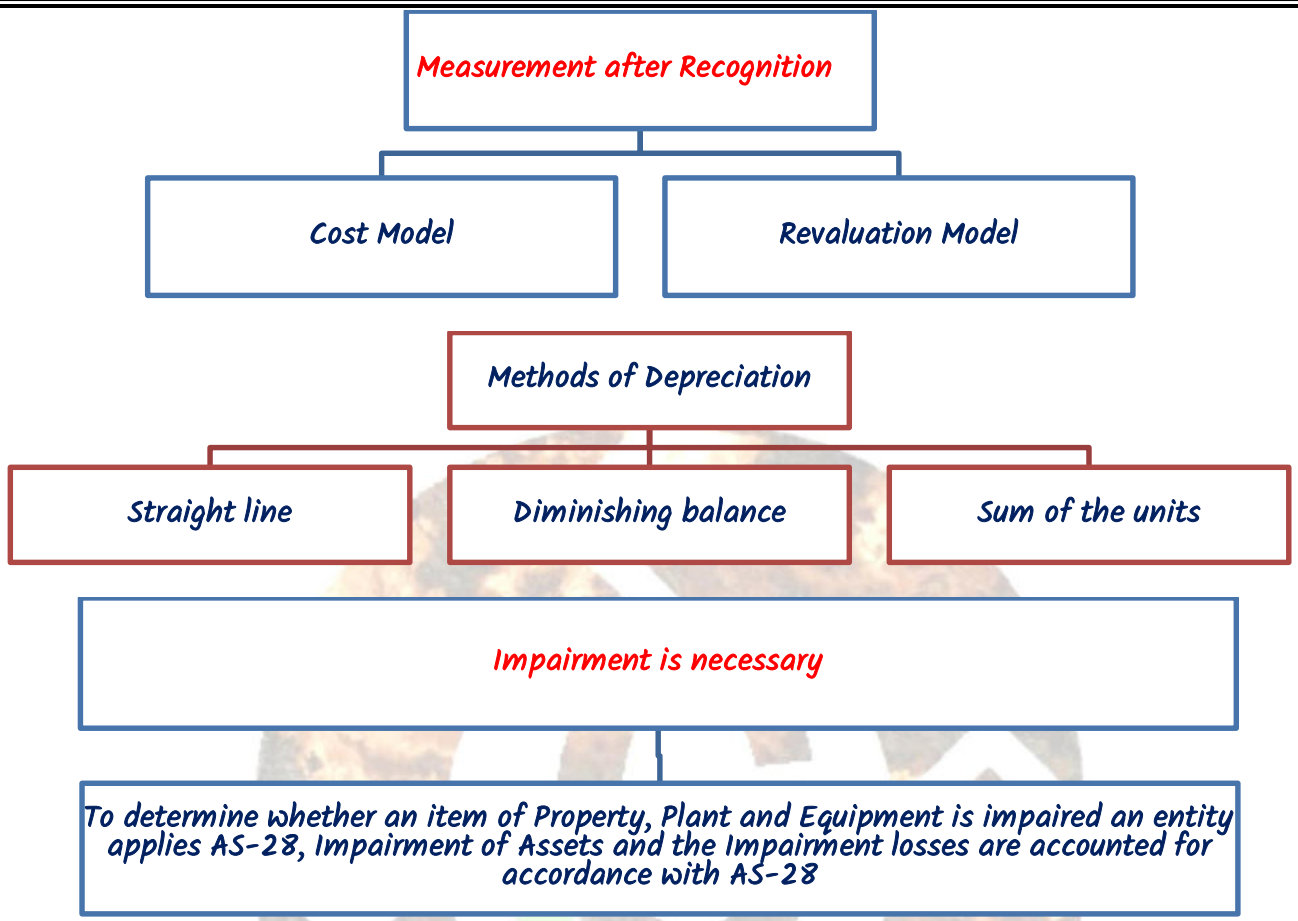
An impairment loss

- Amount by which the carrying amount of an asset exceeds its recoverable amount.

Recoverable amount

Higher of an asset's net selling price and its value in use.

- Cost of dismantling or decommissioning
  - Provision is recognized in accordance with AS-29. Therefore, the decommissioning costs at the end of the asset's life are just as much a cost of acquiring or constructing the asset as the costs incurred at the start of the asset's life


Measurement after Recognition
Cost Model
Revaluation Model
Methods of Depreciation
Straight line
Diminishing balance
Sum of the units
Impairment is necessary
To determine whether an item of Property, Plant and Equipment is impaired an entity applies AS-28, Impairment of Assets and the Impairment losses are accounted for accordance with AS-28

THE END

PAPER 7A: DIRECT TAX

BASICS (AY 2023- 24)

What is Tax

Tax is a fee charged by a Government on a product, income or activity. There are two types of taxes - direct taxes and indirect taxes

Basis of Taxation in India

Progressive Taxation

The more we earn the more we pay taxes.

Tax rates should go up as Income rises.

LIST GIVEN BY CONSTITUTION (ARTICLE 246) – VII SCHEDULE

List	Particulars	Entry No.	Particulars
List-I	Union List	Entry No. - 82	Taxes on Income other than Agriculture Income
List-II	State List	Entry No. - 46	Taxes on Agriculture Income
List-III	Concurrent List		GST

Direct tax



Ultimate burden of tax payment

Responsibility to pay tax

Example: Income tax

Indirect tax



Ultimate burden of tax payment: purchaser

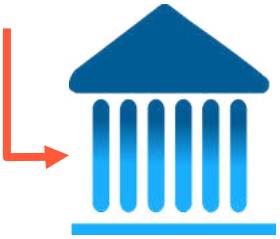
Responsibility to pay tax: shopkeeper

Example: GST





When you earn income, you are responsible for tax payment, and you also have the burden



When you buy stuff, the shopkeeper is responsible for tax payment, but he can collect it from you

Direct Tax	Indirect Tax
Directly incurred and paid by the person concerned.	Paid by one person (Assessee / Dealer), but the same is recovered from another person (Consumer).
on the income / wealth	on Purchase / Sale / Manufacture of goods and Provision of Services.
no shifting of tax burden.	burden is shifted to the subsequent user.
collected after the income for a year is earned	collected at the time of sale or purchase or Rendering of services.

Sec-2(25A) India (Includes)

- Land Mass
- Water ways up to 200nm
- Sea bed
- Soil & sub soil
- Air space
- Continental Shelf

Sec-4- Charging Section

- Total Income
- Of every person
- During the previous year
- Shall be taxed at the rates applicable in Assessment Year

Sec-14

Particulars	Section
Income from salary	15-17
Income from HP	22-27

PGBP	28-44D
Capital gain	45-55
Other Source	56-59

RULES RELATED TO INCOME

1. Income Tax has nothing to do with legal or illegal. In fact illegal income is also taxable (SC, TA Quershi).
2. It can be regular or irregular e.g.:- Capital gain.
3. It can be earned in India or outside India.
4. It is irrelevant who receive it.

SECTION 2(31) PERSON INCLUDES

- individual
- HUF
- Company
- Firm
- AOP/BOI
- Local Authority
- Artificial juridical person

Previous Year

↓

The FY immediately Preceding the AY

Provided that

In case of newly set up business/profession

↓

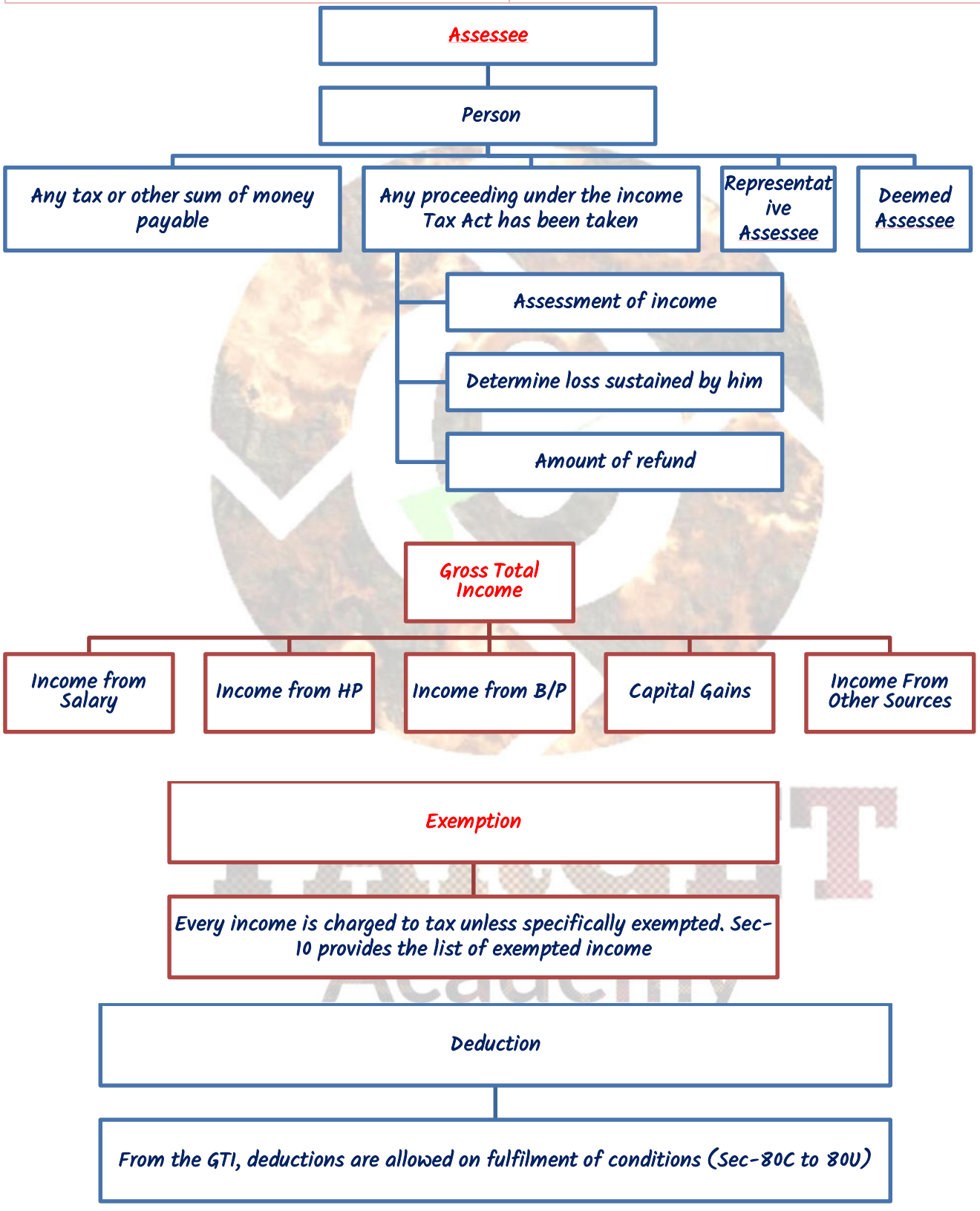
PY = Beginning date to Ending date(31/3)

Assessment Year

↓

The Period of 12m starting from 1st April

P.Y	A.Y
It is a F.Y immediately preceding A.Y	A period of 12m commencing from 1st Apr
It is the year in which Income is earned	It is the year in which tax is paid



Exemption	Deductions
Exemptions means 100% exempt i.e. not chargeable to Tax	Deduction means partial exemption i.e. only certain % of Income is exempt.
Certain Income as specified u/s 10 of income tax is exempt from tax	Deduction are available in 2 ways, 1st from Individual heads & 2nd from GTI
If income is exempt it is not considered for the purpose of taxation.	Deduction from GTI is available from 80C to 80U

Total Income

Total income is the Income after reducing the deductions under chapter-VI from GTI. This income is also called as Taxable Income on which Tax has to be computed

Particulars	Amount(Rs)
GTI	Xxx
(-) Deductions u/s 80C to 80U	(xxx)
Total Income	Xxx

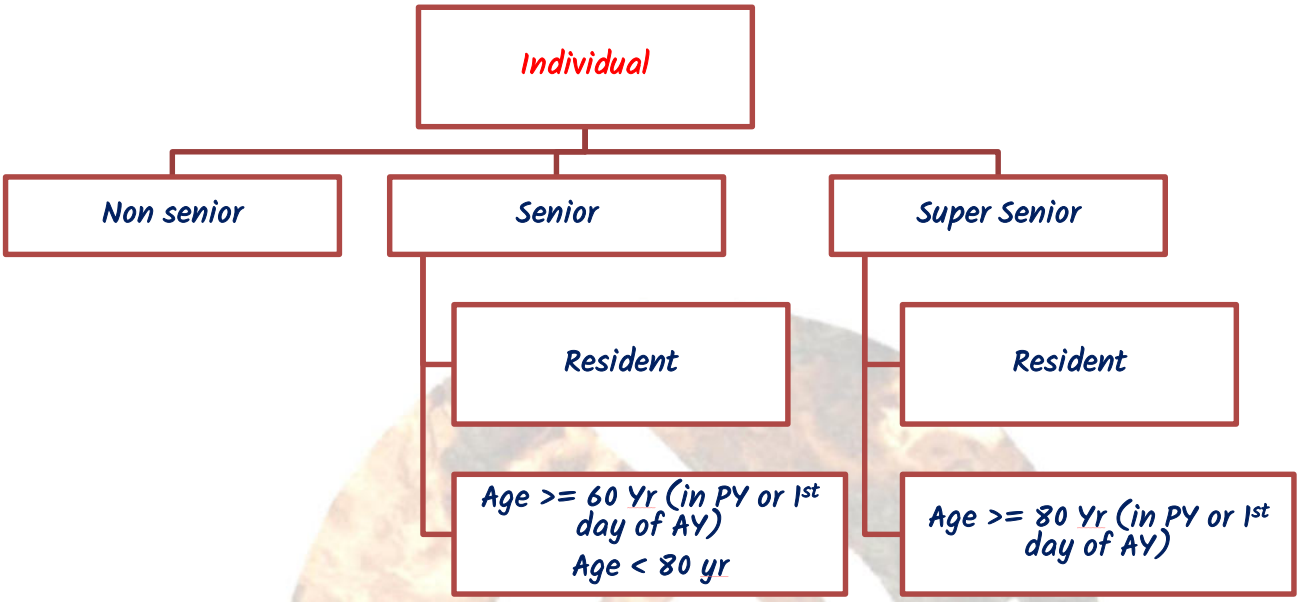
Relief

Relief is reduced from Tax liability on fulfilment of conditions as prescribed in Sec- 86,89 ect.

Rates of Income Tax

- **Normal Rates** — These are specified by relevant Finance Act
- **Special Rates** — These are specified by the Income Tax Act.

TAX RATES - INDIVIDUAL



TAX RATES FOR ASSESSMENT YEAR 2023-2024

FOR INDIVIDUALS (Resident age less than 60), NR



Total Income	Rate (%)
Upto 2,50,000	Nil
2,50,001—5,00,000	5%
5,00,001—10,00,000	20%
Above 10,00,000	30%



TAX RATES FOR ASSESSMENT YEAR 2023-2024

RESIDENT SENIOR CITIZENS OF THE AGE 60-80 YEARS



Total Income	Rate (%)
Upto 3,00,000	Nil
3,00,001—5,00,000	5%
5,00,001—10,00,000	20%
Above 10,00,000	30%



TAX RATES FOR ASSESSMENT YEAR 2023-2024

RESIDENT VERY SENIOR CITIZENS OF THE AGE 80 YEARS OR MORE



Total Income	Rate (%)
Upto 5,00,000	Nil
5,00,001—10,00,000	20%
Above 10,00,000	30%



EXAMPLE-1:

Mr. Single age 36 is an Individual having a Total Income.

(i) 2,40,000;

(ii) 2,80,000

(iii) 5,90,000;

(iv) 18,00,000;

(v) 1,50,00,000.

Solution:

General Rule :- Income of P.Y is taxable in A.Y.

- Exception:-Income of P.Y is taxable in P.Y itself (P.Y = A.Y)
- OP/BOI formed for short duration.
- NR shipping Business.
- Transfer of property to avoid tax.
- Closure of business.
- Person leaving India permanently.

REBATE U/S 87A – (DISCOUNT OF TAX)

APPLICABILITY:

- ✓ Individual (Resident)
- ✓ Total Income (All heads after deductions) (NI+SI) $\leq$ 5 Lakhs (Excluding Agricultural Income & Exempted Income).

CONDITIONS

- ✓ TI Not Exceeding 5,00,000.
- ✓ Rebate is not available to

- LTCG on sale of securities (LTCG u/s 112A)

REBATE (LEAST OF):

- ✓ 100% of Tax (or)
- ✓ 12,500.

EXAMPLE-4:

Calculate tax (Tax + Rebate) of Mr. Committed

- Individual(R)
- 4,90,000; 5,30,000,

CESS

- ✓ It is the additional levy
- ✓ Mandatory.
- ✓ 4% (2% EC+1%SHEC+1%Health Cess)
- ✓ For specific purpose.
- ✓ Levied after all adjustments

EXAMPLE-5:

Calculate tax (Tax + Rebate, Cess) of Mr. Happy

- Individual(R)
- 5,20,000

REBATE U/S 87A – (DISCOUNT OF TAX)

- Sec-288A Income Round off.
- Sec- 288B Tax Round off.
- In multiples of nearest 10.
- Rule of 5 applies.

Rounding Off

- TI = 283622; 283625; 283629.

3. SURCHARGE

Total Income	Surcharge
Up to 50 lacks	Nil

50 lacs - 1 Cr	10%
1 Cr - 2 Cr	15%
2 Cr – 5 Cr	25%
Above 5 Cr	37%

NOTE:

Enhanced surcharge is not applicable to Dividend, STCG U/s 111A & LTCG U/s 112A.

S No.	Situation	Surcharge
1	Up to 50L	-
2	50L to 1Cr	10%
3	1 Cr to 2 Cr	15%
4	If TI is above 2 CR	
	LTCG(112A), STCG(111A),Dividend	15%
	Other Income <= 2 Cr	15%
	Other Income 2 Cr to 5 Cr	25%
	Other Income above 5 Cr	37%

EXAMPLE-6:

- STCG 111A = 25 Lacs
- LTCG 112A = 23 Lacs
- Other TI = 41 Lacs

EXAMPLE-7:

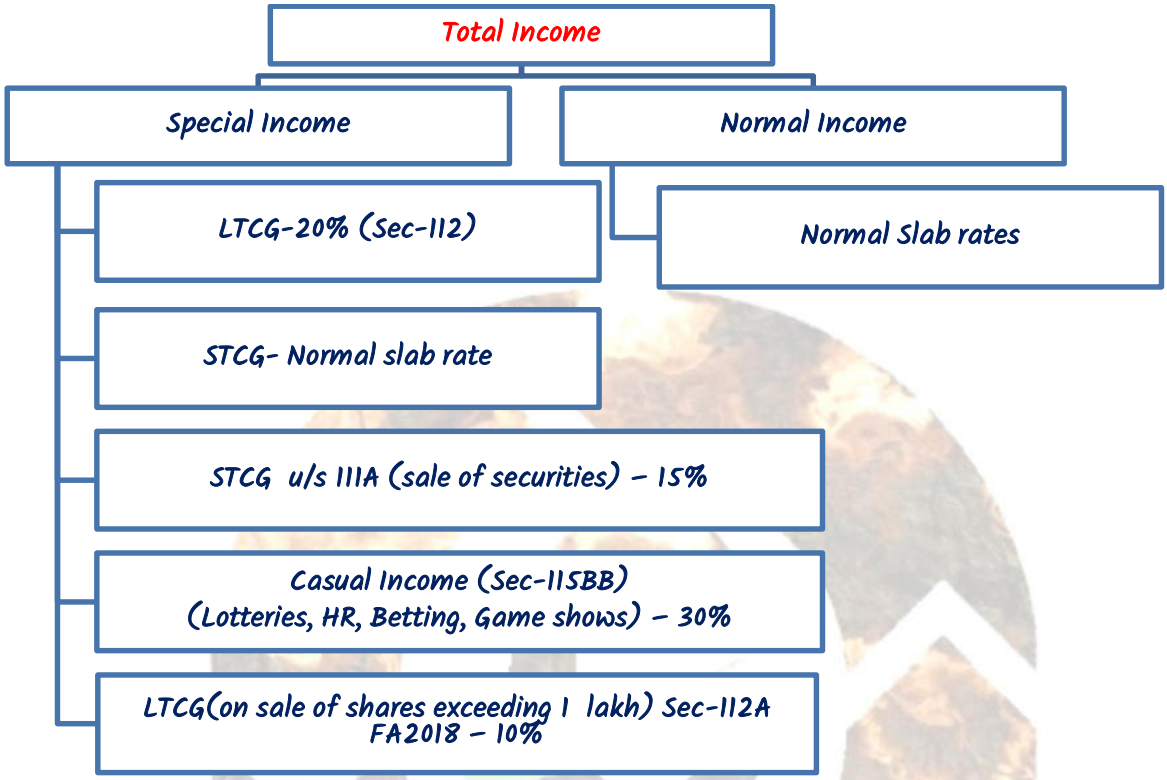
- STCG 111A = 50 Lacs
- LTCG 112A = 53 Lacs
- Other TI = 70 Lacs

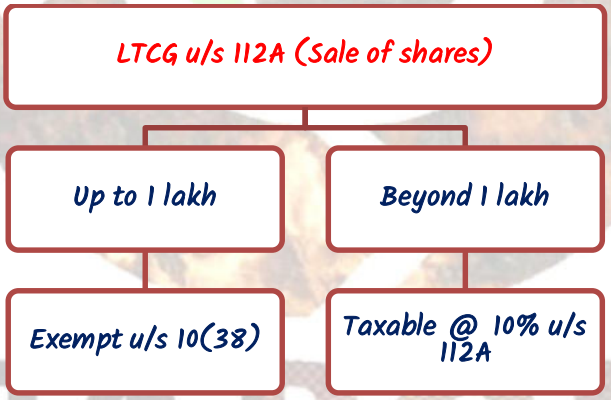
EXAMPLE-13:

Calculate Tax liability (Tax+Rebate+Surcharge+Cess+Round off)

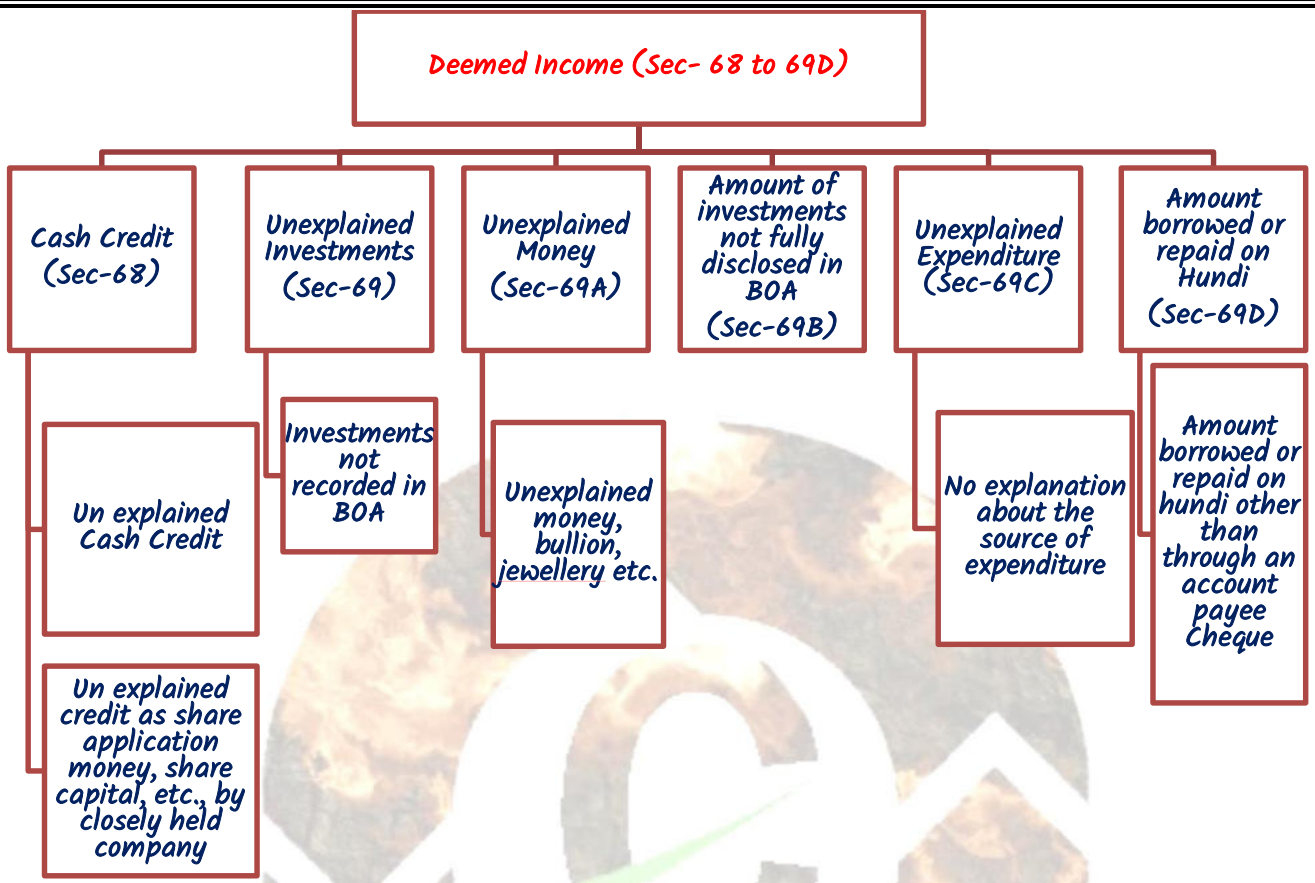
- Individual (R)
- Total Income 60,00,000

SPECIAL RATE OF TAX





LTCG U/s 112A(10% beyond 1L)	STCG U/s 111A(15%)	CG(S-115AD(1)(b)
· Equity Shares · STT paid on both on Purchase & sale · EOU(MF) · STT Paid on Sale · Units (BT) · STT paid on Sale	· Equity Shares · STT paid on sale · EOU(MF) · STT Paid on Sale · Units (BT) · STT paid on Sale	· FII/FPI · Invested in Securities



SPECIAL INCOME

Deemed Income	· U/s 68/69/69A/69B/69C/69D – 60%

EXAMPLE-15:

Calculate Tax Liability (Normal income+Special Income+ Rebate+Surcharge+ Round Off) of Mr. Extrovert

- Individual (R).
- PGBP = 5,00,000
- IFOS = 2,00,000.
- LTCG = 10,00,000.

EXAMPLE-16:

Calculate Tax Liability (Normal income+Special Income+ Rebate+Surcharge+ Round Off) of Mr. Extrovert

- Individual (R).

- Salary = 2,00,000
- HP = 2,00,000
- PGBP = 2,00,000
- IFOS = 2,00,000
- LTCG = 2,00,000.
- LTCG u/s 112A = 2,00,000.
- STCG = 2,00,000.
- STCG u/s 111A = 2,00,000
- Lottery = 2,00,000
- Horse race = 2,00,000

NOTE:

- ✓ Rebate u/s 87A is not available from the income u/s 112A.
- ✓ If Assessee can't absorb BEL & has special income (LTCG/STCG not casual income), then such special income shall be 1st adjusted towards BEL (balance) & Balance special income if any shall be taxable @ special rates.

EXAMPLE-18:

Calculate Tax Liability (Normal income+Special Income+ Rebate+Surcharge+ Round Off) of Mr. Extrovert

- Individual (R).
- LTCG u/s 112A = 12,00,000

MARGINAL RELIEF SEC-89

- Tax payable exceeds income earned.
- Marginal relief is available to all Assessees.

Step-1	· Calculate Tax (including surcharge) on total income of the Assessee.
Step-2	· Calculate tax payable on 50 lakhs/1crore/2crores/5crores as the case may be.
Step-3	· Extra tax payable = step 1 – Step -2
Step-4	· Marginal Relief = Extra charge payable(step-3) – Income above 50 lakhs/1 crore/ 2 crores/5crores as the case may be.

Step-5	·Tax Payable = Step-1 – Step-4
Step-6	·Tax liability = Step-5 + Cess @ 4%

EXAMPLE-19:

Calculate Tax Liability (Normal income+Special Income+ Rebate+Surcharge+ Round Off)

- Individual (R).
- TI = 51,00,000.

NOTE:

- If a person becomes senior citizen on 1st day of A.Y (1st April) then he will be eligible for higher Basic exemption limit (i.e. 3lakh/5 lakh as the case may be).
- Casual income is also eligible for rebate u/s 87A

Particulars	Rebate U/s 87A	Balance Basic Exemption Limit
LTCG u/s 112A	Not allowed	Allowed
Casual Income	Allowed	Not Allowed

TAX RATES

Nature	Total Income	Tax Rate
Firm/LLP/Local Authority	Up to 1 crore	TI*30%+4%
	Above 1 crore	TI*30%+12%+4%

No benefit of slab rates

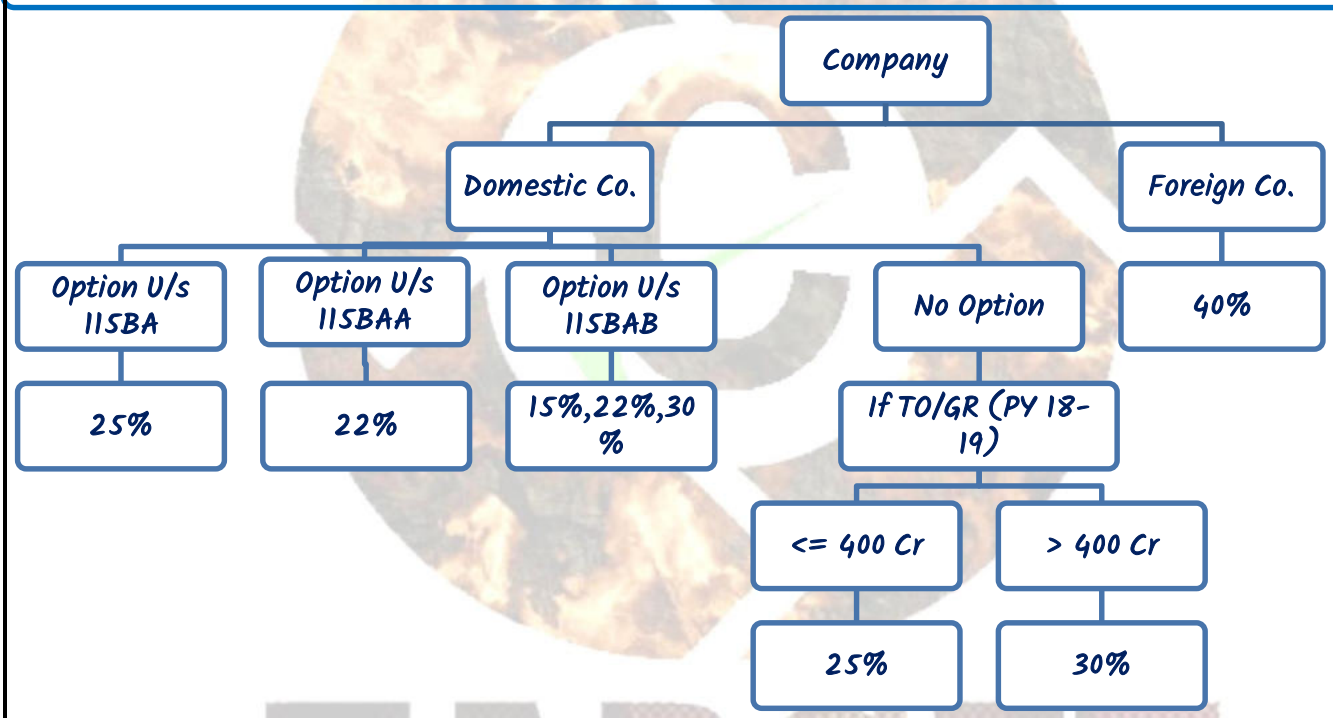
DOMESTIC COMPANY

Domestic Company	Total Income	Tax Rate
TT/GR in F.Y 2020-21 does not exceed 400 cr	Up to 1 crore	TI*25%+4%
	Above 1 crore to 10 crores	TI*25%+7%+4%
	Above 10 cr	TI*25%+12%+4%
TT/GR in F.Y 2020-21 exceed 400 cr	Up to 1 crore	TI*30%+4%
	Above 1 crore to 10 crores	TI*30%+7%+4%

	Above 10 cr	TI*30%+12%+4%

Foreign Company	Total Income	Tax Rate
Foreign Company	Up to 1 crore	TI*40%+4%
	Above 1 crore to 10 crores	TI*40%+2%+4%
	Above 10 cr	TI*40%+5%+4%

FOREIGN COMPANY



TAX RATES FOR HUF, AOP, BOI,AJP

- Normal Slab rates applicable to individual age less than 60 years will apply

SURCHARGE IN CASE OF UNEXPLAINED INCOME

- Rate = 25% (any amount)

CO-OPERATIVE SOCIETY

Co- Operative Society	Total Income	Tax Rate
Co- Operative Society	First 10,000	10%

	For Next 10,000	20%
	For Balance	30%

Surcharge @ 12% (If TI exceeding 1cr) Cess @ 4%

ALTERNATIVE TAX REGIME (SEC-115BAC)



Total Income (NTI)	Rate of Tax
Up to 2,50,000	Nil
From 2,50,001 to 5,00,000	5%
From 5,00,001 to 7,50,000	10%
From 7,50,001 to 10,00,000	15%
From 10,00,001 to 12,50,000	20%
From 12,50,001 to 15,00,000	25%
Above 15,00,000	30%

Same for senior and super senior citizen

TARGET Academy

Conditions (Assessee should not claim)

- Leave Travel Concession (S- 10(5))
- House Rent Allowance (S-10(13A))
- Allowance U/s 10(14) (other than transport, conveyance, allowance to meet cost of travel or daily allowance at place of duty)
- Allowance for income of minor U/s 10(32)
- Deduction for SEZ unit u/s 10(32)
- Standard Deduction-50,000, Deduction for entertainment allowance, Professional Tax
- 10BC w.r.t Self occupied Property or vacant Property. No carry forward or set off of loss under HP
- Additional Depreciation (u/s 32
- Deduction u/s 32AD, 33AB, 33 ABA
- Deduction on Scientific research u/s 35
- Deduction u/s 35AD, 35CCC
- Deduction from family pension
- Any deduction from Chapter-VIA)- However Deduction u/s 80 CCD(2) and 80JJAA can be claimed.
- No set off of loss or depreciation attributable to above points

NOTES:

If subsequently, the individual or HUF not satisfied any of foregoing conditions, the option of concessional rate shall become invalid and other provision of the Act shall apply

An individual or HUF who does not have any business income would have an option to choose either of the two tax regimes each year depending upon their liability under each one of them

In respect of an individuals or HUFs having business income, the option once exercised cannot be withdrawn. In such a case, an option once exercised would be applicable for all subsequent assessment years and can be withdrawn only once for a previous year other than the year in which it was exercised and thereafter, the individual or HUF shall never be eligible to exercise opinion under this section, except where such individual or HUF ceases to have any business income

Rebate u/s 87A is available even if assessee opt section 115BAC

Tax on special Rate Income (like 112, 112A) Taxable at special rates only

Surcharge : Surcharge applicability is depends on Total income of assessee. Surcharge @ 10%, 15%, 25%, 37% may apply depends on total income.

Health and Education Cess @ 4% always apply

If assessee opt section 115BAC so if a assessee hasb/f AMT credit, it can first exhaust the AMT credit, and thereafter opt for section 115BAC in a subsequesnt PY

If an employee intending to opt for the concessional rate u/s 115BAC may intimate to his employer for each PY and upon such intimation, the employer shalldeduct TDS as per section 115BAC. If such intimation is not made by employee, the employer shall deduct TDS as per Normal Tax rates. It is also clarified that the intimation so made to the deductor shall be only for the purpose of TDS during the PY and cannot be modified during that year. However, at the time of filing of return, employee may take different option. Further, I case of a EE who has income under the head PGBP the intimation to the employer in his case for subsequent previous years must not deviate from the option u/s 115BAC of the Act once exercised in a PY

If Assessee opted Section 115BAC or & if any unabsorbed additional depreciation of earlier years then it will not be allowed to be set-off but shall be added to opening WDV of the block in the year in which assessee opted such section

If assessee opted section 115BAC then maximum depreciation allowed @ 40%

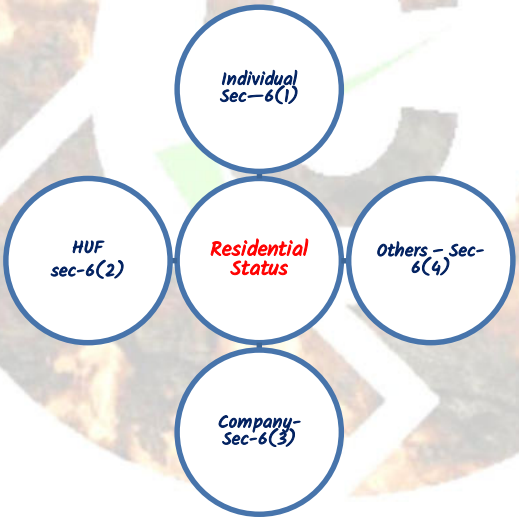
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RESIDENTIAL STATUS

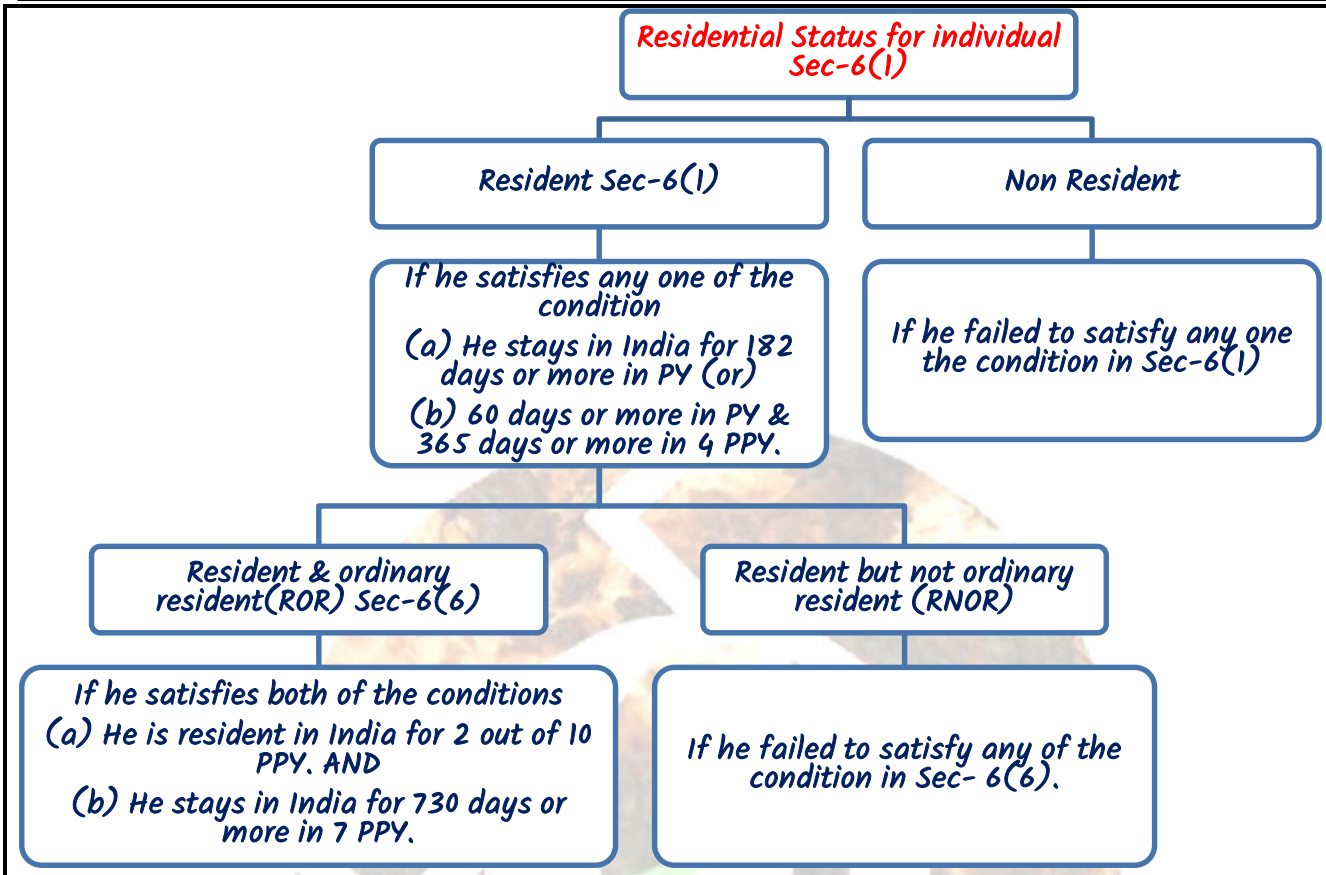
Citizen	Resident
Where person is born	If a person stays for certain period
All fundamental rights are available	Rights are not available
Used for the purpose of nationality	Used for tax purpose

NOTE:

- In the Income Tax Act the word citizen is not used bcz, in that case we could collect tax only from persons born in India.
- The use of word non-resident enable the department to collect tax from NR.
- Residential status is not equal to citizenship.
- Citizenship is not the criteria to decide residential status.



TARGET Academy



NOTE:

- RS is determined for every year.
- Continuous stay at one place is not important. Stay in India should be seen.
- Continuous stay in one country is also not important.
- One day = 24 hours.
- The day he leaves India (or) the day he comes to India both are counted.

Year	Days
2022-23	59
2021-22	365
2020-21	365
2019-20	365
2018-19	365

NR

Year	Days
2022-23	72
2021-22	180
2020-21	190
2019-20	220
2018-19	365

R

Year	Days
2022-23	100
2021-22	0
2020-21	90
2019-20	100
2018-19	0

NR

Year	Days
2022-23	100
2013-14	365
2010-11	365
2007-08	365
2003-04	0

NR

NOTE:

- 4 PPY should be continues 4 PPY.
- 3 person shall be resident only if they stays in India for 182 days (or) more (i.e the 2 nd condition of 60 days will not applicable).
  - ✓ Person leaving India for employment.
  - ✓ Person of Indian origin(PIO= either Assessee/ his parents/his great grand parents born in undivided India)
  - ✓ Ship crew Member.
- Notification for counting No. of days for Ship Crew Member, while counting no. of days stay in India for a ship crew member period stated in CDC9 Continuous discharge certificate) should be excluded.

EXAMPLE 1:

- A ship crew member, who was citizen of India has followed detais prescribed in CDC 1 st Dec to 31st Dec. determine residentual stutus.
- 365-31 = 334
- R

Year	Days
2022-23	62
2021-22	100
2020-21	120
2019-20	130
2018-19	140
2017-18	150
2016-17	100
2015-16	120
2014-15	160
2013-14	170
2012-13	180

ROR

Year	Days
2022-23	59
2021-22	265
2020-21	200
2019-20	180
2018-19	170
2017-18	150
2016-17	140
2015-16	130
2014-15	170
2013-14	180
2012-13	180

NR

Year	Days
2022-23	100
2021-22	100
2020-21	100
2019-20	100
2018-19	100
2017-18	100
2016-17	100
2015-16	100
2014-15	100
2013-14	100
2012-13	100

RNOR

EXAMPLE 2:

- Mr. K leaves India for the first time on 6th Aug 2022. Determine his residential Status.
- 128 days
- ROR

3 person shall be resident only if they stays in India for 182 days (or) more (i.e the 2 nd condition of 60 days will not applicable).
· Person leaving India for employment. · Person of Indian origin(PIO= either Assessee/ his parents/his great grand parents born in undivided India) · Ship crew Member.



EXAMPLE 4:

Mr. K is a Indian Citizen, and his grand parents born in India on 1943, visits to India for 165 days during PY 2022-23 and 370 days in 4 PPY.

- Income from land situated in US but received in India Rs. 5,00,000
- Income from Business in UK received in UK but set up in India Rs. 6,00,000
- Income from Business in India received in UK Rs. 7,00,000
- Income from Property situated in India Rs. 8,00,000

Sec-6(1A)

Indian Citizen

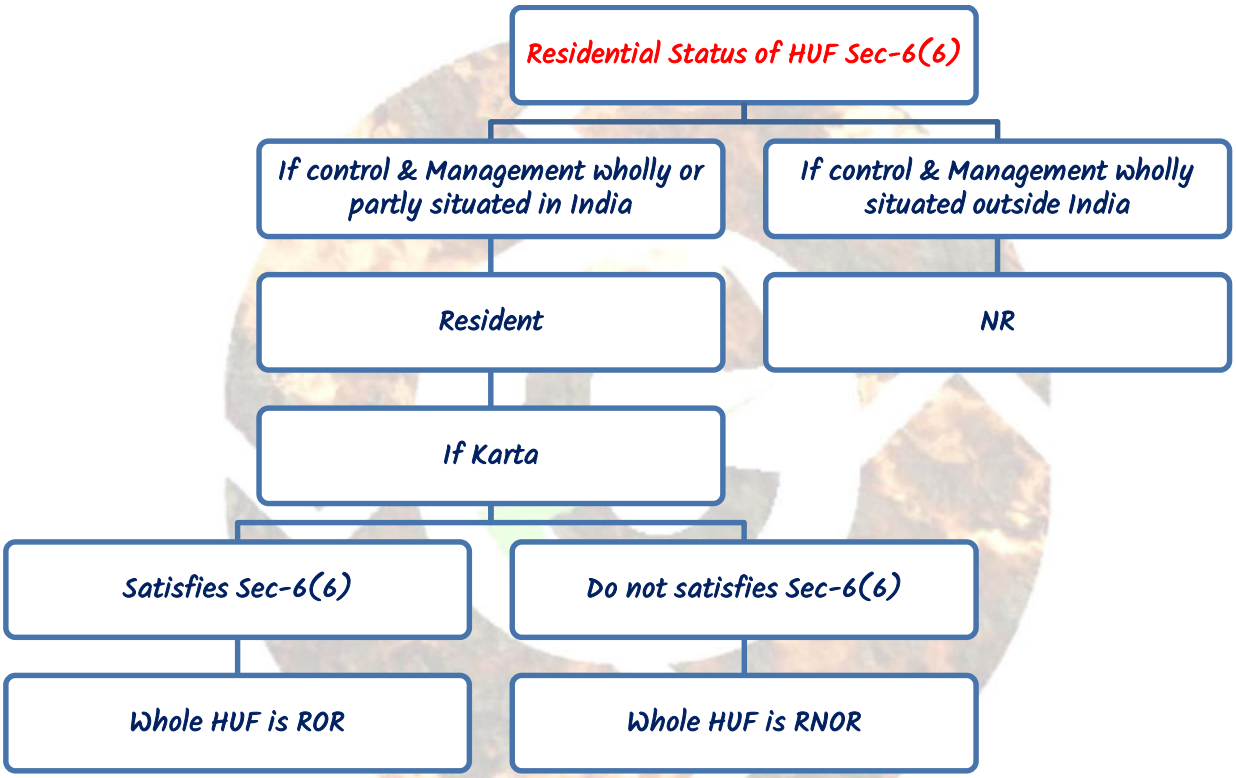
Not Residence in any country (Not liable to tax in any Country) & TI (Other than FI) > 15 Lakhs

RNOR

EXAMPLE 7:

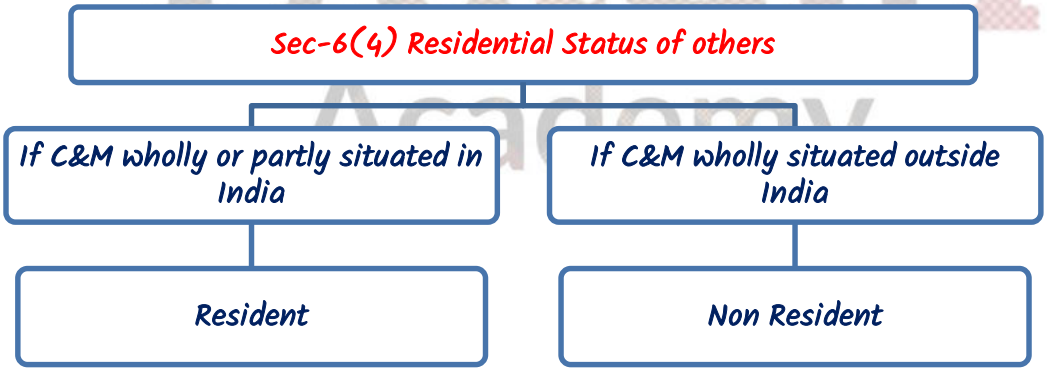
Mr. M is an Indian Citizen. He is employed in Canada. He visited to India for 55 days. During PY 2020-21 Mr. M is not taxable in Canada or any other country by reason of his Residence. His Total Income other than Foreign Income is 25,00,000

Determine his Residential Status



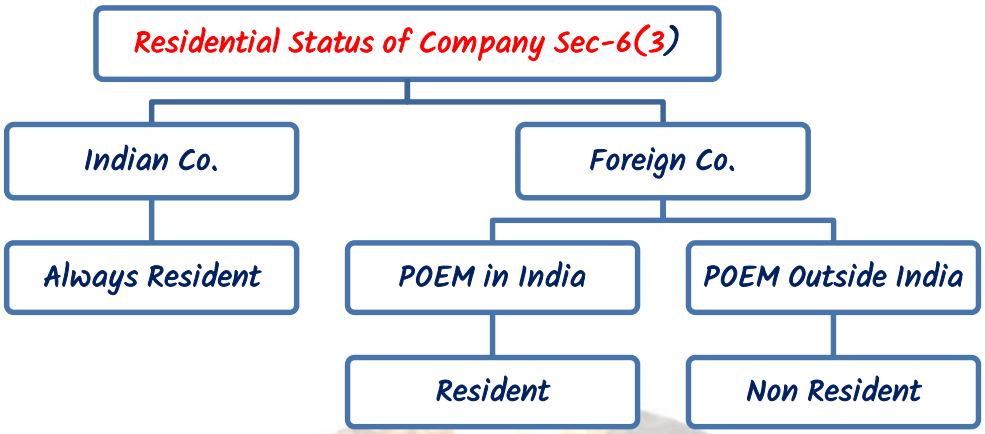
NOTE:

- Control & Management :- Decision making power or in other words head & brain HUF is situated.
- HUF itself declare the decision maker & place of decision.



NOTE:

Only Individual & HUF could be ROR/RNOR other wise all other are R/NR.



NOTE:

POEM = Place of effective management = The place where Key management decisions & commercial decisions that are necessary for conduct of business of an entity as a whole are in substance made.

SCOPE OF INCOME (SEC-5)- FOR INDIVIDUAL & HUF)

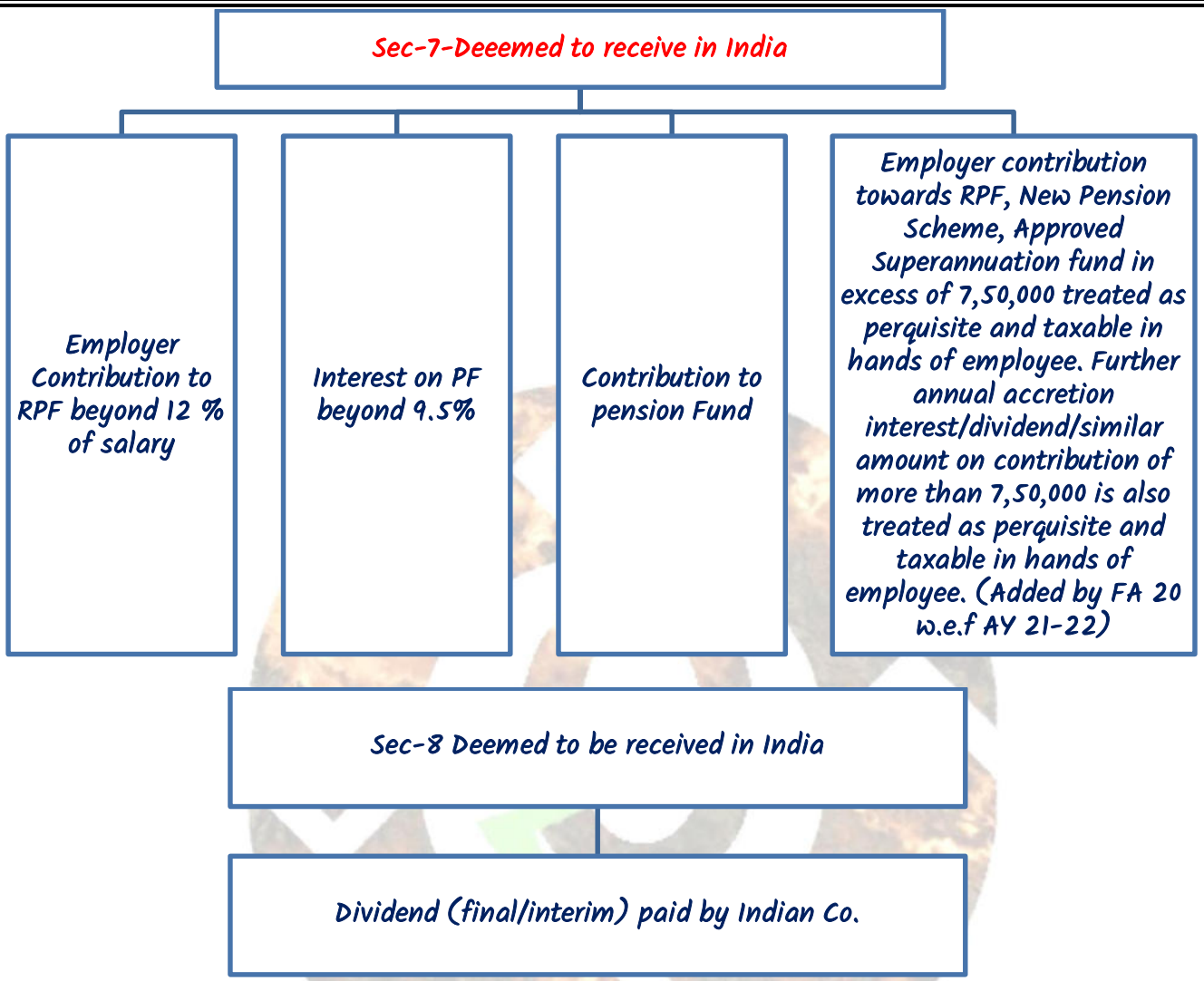
Particulars	ROR	RNOR	NR
Indian Income	T	T	T
Foreign Income	T	Only 2 incomes are Taxable – From Business/ profession setup/controlled in India	NT

NOTE:

Global income of ROR is taxable but he also got DTAA (double Taxation Avoidance agreement) benefits.

INDIAN INCOME

- Received in India.
- Deemed to received in India.(sec-7&8)
- Accrued in India.
- Deemed to be accrued in India.(sec-9)



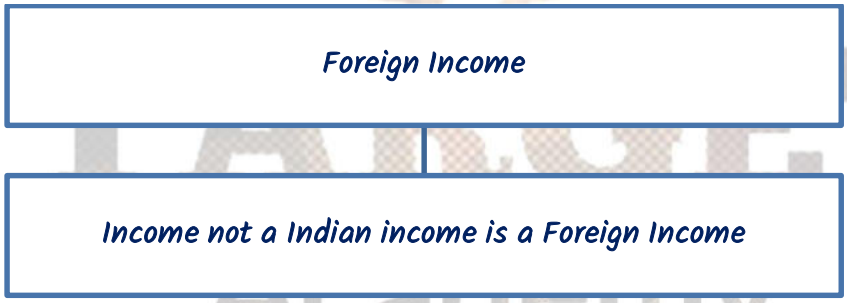
SEC-9 DEEMED TO BE ACCRUED IN INDIA

- Income arising from a business connection
- Salary earned from services rendered in India.(including salary for preceeding/succeeding period in India)
- Salary payable by GOI to Indian citizen for services rendered outside India (allowances & perquisites are exempted u/s 10).
- Dividend paid by Indian Co.
- Interest payable, Royalty, Fees for technical services in India.
- Income from property in India.
- Income from any asset or source of income in India.
- Income from transfer of capital asset situated in India(Vodafone case)

Particulars	Interest- 9(1)(v)	Royalty- 9(1)(vi)	Technical Services- 9(1)(vii)
Received from Government	T	T	T
Payer is a resident (exception- no deeming provision if loam amount applied outside India for B/P)	T	T	T
Payer is a NR (Exception – Deeming provision applies if loan amount applied in India for B/P)	NT	NT	NT

WHAT IS BUSINESS CONNECTION

- BC includes any business activity carried out through a person acting on behalf of NR (agent of NR).
- Conditions:-
  - ✓ He must have authority which is habitually exercised in India to conclude contract on behalf of NR.
    - ➢ Such contact should be in the name of NR.
    - ➢ Ownership is transferred to NR.
    - ➢ Provision of services by NR.
  - ✓ (Or) He maintain/delivery stock on behalf of NR
  - ✓ Secure order for NR.



SCOPE OF OTHERS

Particulars	R	NR
Indian Income	Taxable	Taxable
Foreign Income	Taxable	Not Taxable

EXAMPLE 10:

- Mr. B provided the following information.
- Income from profession in Bali, amount received there (business is set up from India) Rs. 10 lakhs.
- Profit from business in Guntur, Amount received in Iraq Rs. 5 lakh.
- Profits from business in USA, Amount received there Rs. 6 lakh (not set up from India)
- Income from property in London amount received in Pakistan Rs. 8 Lakhs
- Income from technical services rendered in India Rs. 10 lakhs out of which 5 lakhs is received in Afghanistan
- Compute total Income assuming he is (i) ROR; (ii) RNOR; (iii) NR.

FOLLOWING INCOMES ARE EXEMPT

Sec-10(1)	· Agriculture Income from land situated in India
Sec-10(2A)	· Share received to partner from Firm
Sec-10(2)	· Income from HUF received by Co- Parcener



EXAMPLE 13:

- Mr. M provided the following information.
- Property income (computed from Dubai, rent received in Dubai Rs. 9 lakhs.
- Agriculture income from Malaysia, received there Rs. 7lakhs
- Agriculture income from Land situated in Guntur, received there Rs. 12 lakhs
- Profit from business in Canada, amount received there Rs. 9 lakhs (set up India)

- Interest on Australian development bonds Rs. 7lakhs , 60 % received in India
- Dividend from Japanies Co. Rs. 8 lakh
- Dividend from Indian Co. Rs. 1 lakh
- Amount remitted in India Rs. 3 lakh from approved source
- Fee for technical services rendered in India Rs. 8 lahks
- Compute total Income assuming he is (i) ROR; (ii) RNOR; (iii) NR.

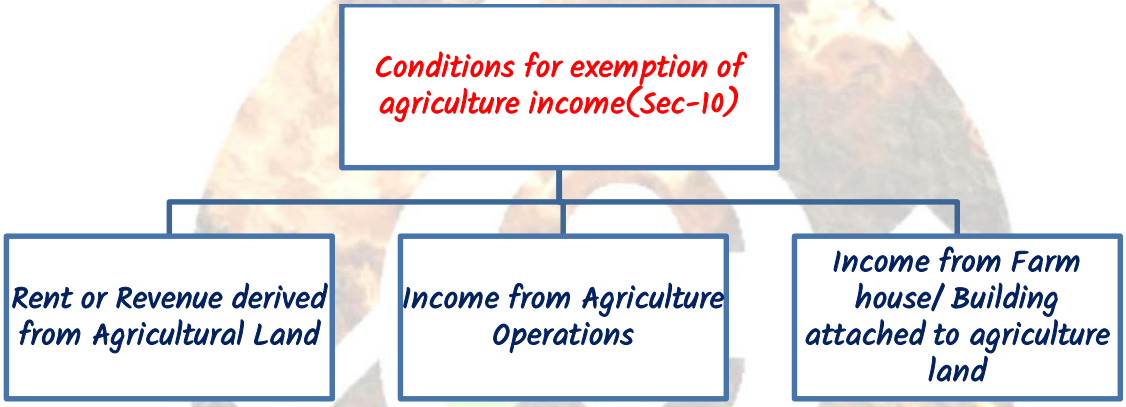
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Academy

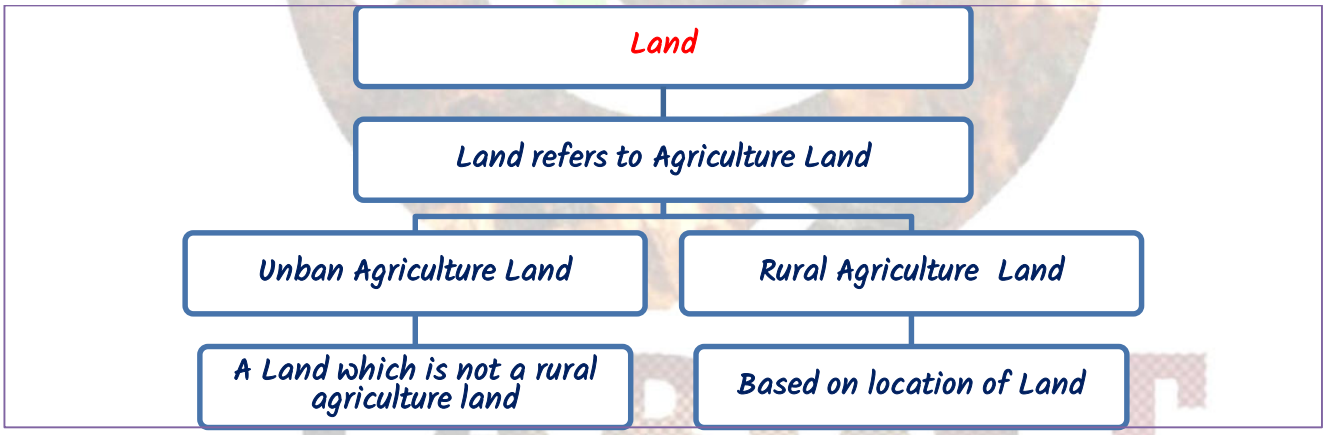
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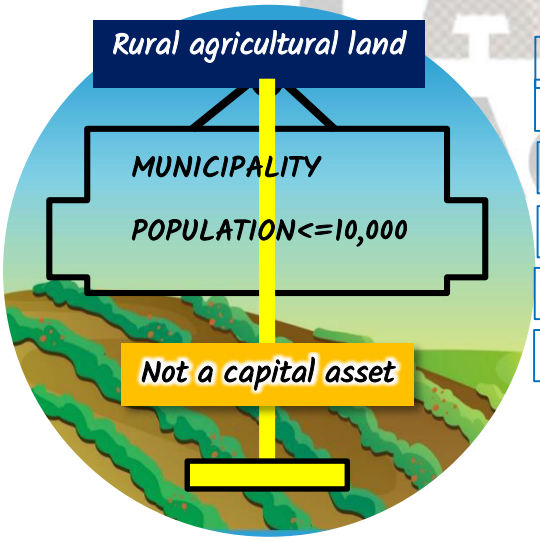
AGRICULTURE INCOME

BASICS:

1. The power to levy tax on agriculture income is with state Govt through entry No. 46 under State List.
2. Agriculture is defined under Sec-2(1).
3. Agriculture Income is exempt U/s 10(1) of Income Tax Act, 1961. If conditions are satisfied.
4. It is irrelevant whether that agriculture land is situated in urban area or rural area. Income out of agriculture is exempt.



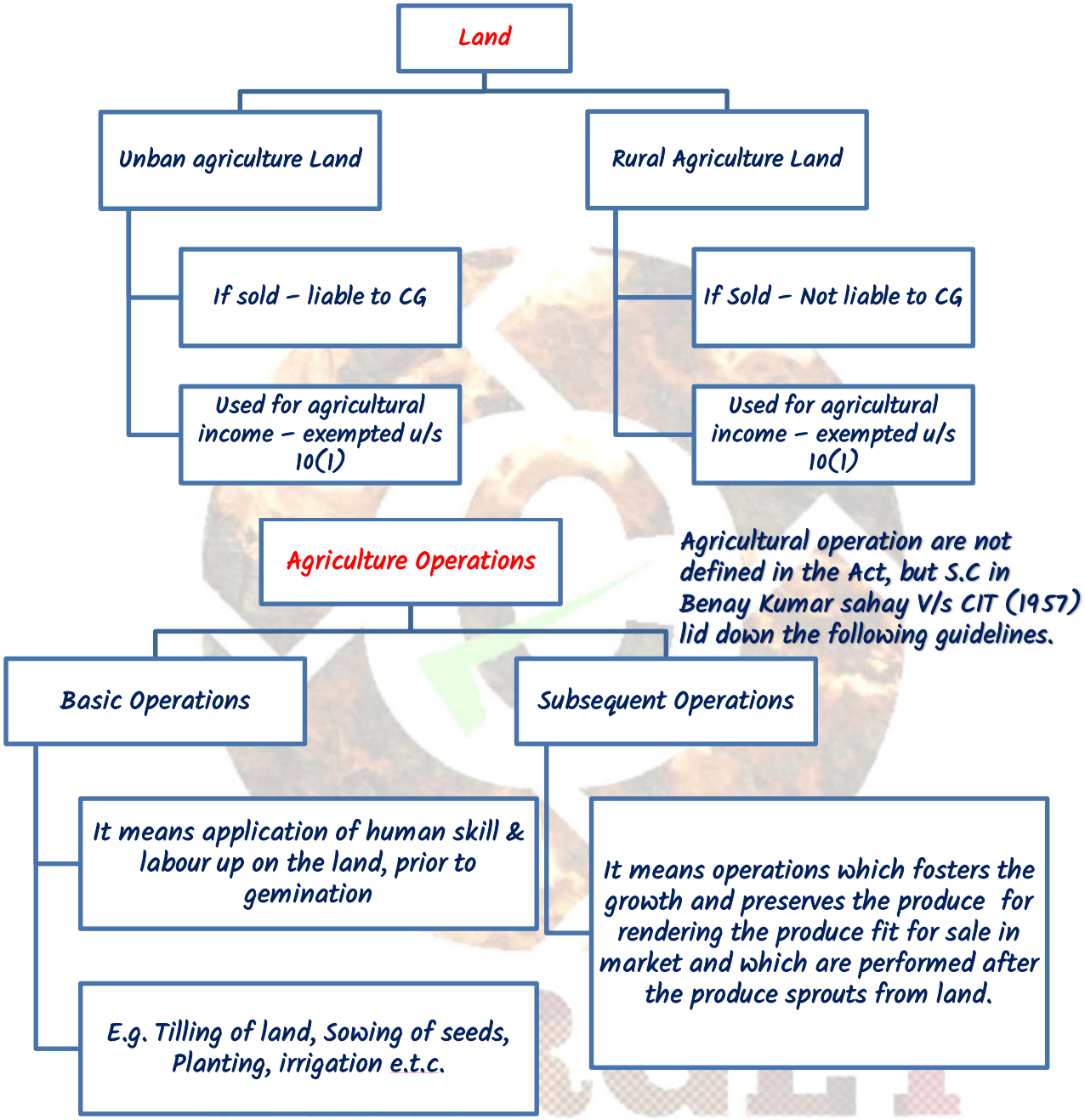




Should be atleast 2 Kms away from any municipality
Population : > 10,000 ≤ 1,00,000
Should be atleast 6 Kms away from any municipality
Population : > 1,00,000 ≤ 10,00,000
Should be atleast 8 Kms away from any municipality
Population : > 10,00,000

NOTE:

Distance is measured on aerial basis



Assessee engaged in	Income
Only basic operations	Agriculture Income
Basic + Subsequent	Agriculture Income
Only subsequent operations	Non agriculture

Income derived from Shooting or filming on agriculture land	· Not an Agriculture Income
Milking Cow, selling eggs	· Not an Agriculture Income
Income from Fishing	· Not an Agriculture Income
Income from Poultry	· Not an Agriculture Income
Selling of water for agriculture purpose	· Not an Agriculture Income
Any share of Agriculture land	· Agriculture Income
Selling of spontaneous growing tree	· Not an Agriculture Income
Dividend received from a Company engaged in agricultural activity	· Not an Agriculture Income
Income from Nursery (selling of pots)	· Agriculture Income
If remuneration is given by Firm to Partner	· Agriculture Income
Any rent from renting Agricultural land	· Agriculture Income
Income from Farm house	· Agriculture Income
Income from making bricks	· Not an Agriculture Income
Income from Coal mine	· Not an Agriculture Income

If any person having agriculture income and any other income then he has to follow this method of aggregation

Method of aggregation

Applicable to I/HUF/AOP/BOI/AJP

- Agricultural income should exceed Rs. 5,000
- Non agriculture income should exceed Basic exemption limit

Step-1	· Agriculture + Non agricultural income
Step-2	· Tax on Step-1
Step-3	· Agriculture Income + Basic exemption limit(applicable)
Step-4	· Tax on step-3
Step-5	· Difference of Tax (Step-2- step-4)
Step-6	· Rebate(if any)/Surcharge(if any)/ Cess
Step-7	· Final Tax liability = After all adjustments above step-6

NOTE:

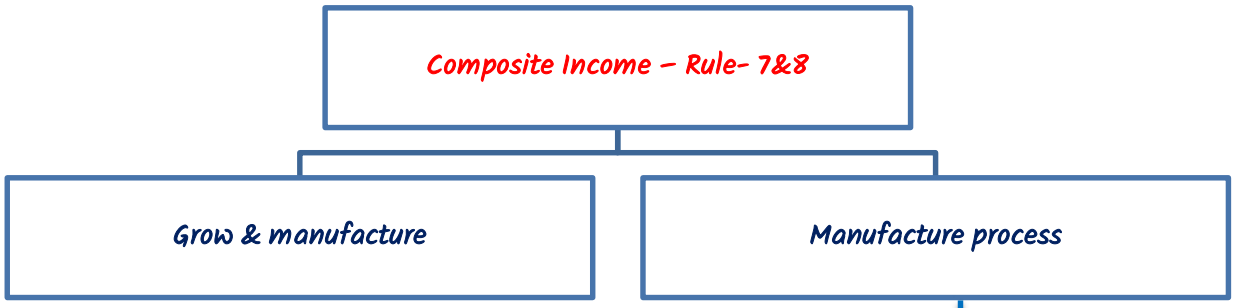
Rebate u/s 87A is given based on TI (TI income does not include exempted income). NAI is only considered for rebate u/s 87A

EXAMPLE 1:

Mr. Pen is Resident individual age 50 years having income from agriculture Rs.4,000 and Other Income Rs.6,00,000 . Specify whether the concept of partial Integration will apply.

SOLUTION:

The method of aggregation is applicable, agricultural income exceed Rs. 5,000 & NAI > BEL. Here agriculture Income does not exceed Rs. 5000. Hence not applicable.



Particulars	AI	NAI
Rubber	65%	35%
Coffee grown & Cured	75%	25%
Coffee grown, cured & roasted	60%	40%
Tea	60%	40%

PGBP

EXAMPLE 8:

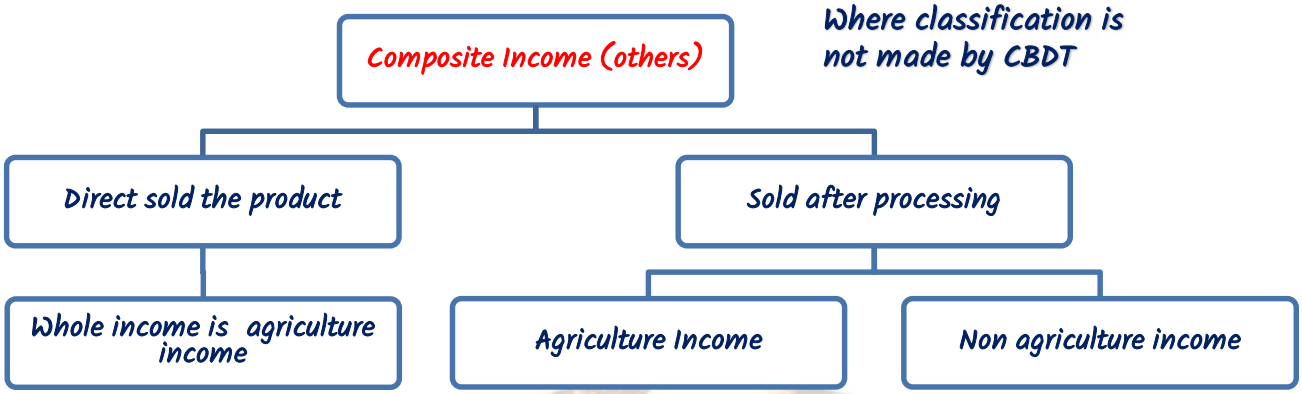
Mr. V engaged in following.

- Growing & manufacturing rubber = 6 lakhs.
- Growing & manufacturing coffee grown, cured = 8 lakhs.
- Growing & manufacturing coffee grown, cured & Roasted = 10 Lakhs.
- Growing & manufacturing Tea = 8 lakhs.
- Income from nursery (pot selling) = 11 Lakhs.

Compute AI & NAI

NOTE:

- Income from nursery is always an agriculture income it is irrelevant. Whether activity on land is carried out or not.
- Agricultural income from land situated in India is exempted, hence income received out of agricultural activity from outside India is taxable in India.



Particulars	Amount
Sale Value	xxx
(-) Cost of cultivation	(xxx)
AI	xxx

Particulars	Amount
FMV of product used	xxx
(-) Cost of cultivation	(xxx)
AI	xxx

Particulars	Amount
Sale value	xxx
(-) FMV of product used	(xxx)
(-) Other expenditure incurred for sale	(xxx)
PGBP	xxx

EXAMPLE 10:

Mr. A grows, roses in his garden and also uses same in his factory. Roses (30%) is sold for Rs. 15 lakhs & the cost of cultivation was 10 lakhs for that. The cost of cultivation for balance flowers (70%) is 14 lakhs, while the M.V of the same is 22 lakhs. After incurring Rs. 1.5 lakhs in manufacturing process on the balance roses, the Gulab gel were sold for 25 lakhs. Composite B.I & A.I.

THE END

HEADS OF INCOME

- Income from Salaries (Sec: 15-17)
- Income from House property (Sec: 22-27)
- Income from Profits and gains From business or Profession (Sec: 22-27)
- Income from Capital gains (Sec: 22-27)
- Income from Other sources (Sec: 22-27)

Income under the head "Salaries"

Chargeability (Section 15) :
- Salary due.
- Paid or allowed, though not due.
- Arrears of salary.

Deduction (Section 16)
- Standard deduction.
- Entertainment allowance.
- Professional tax.

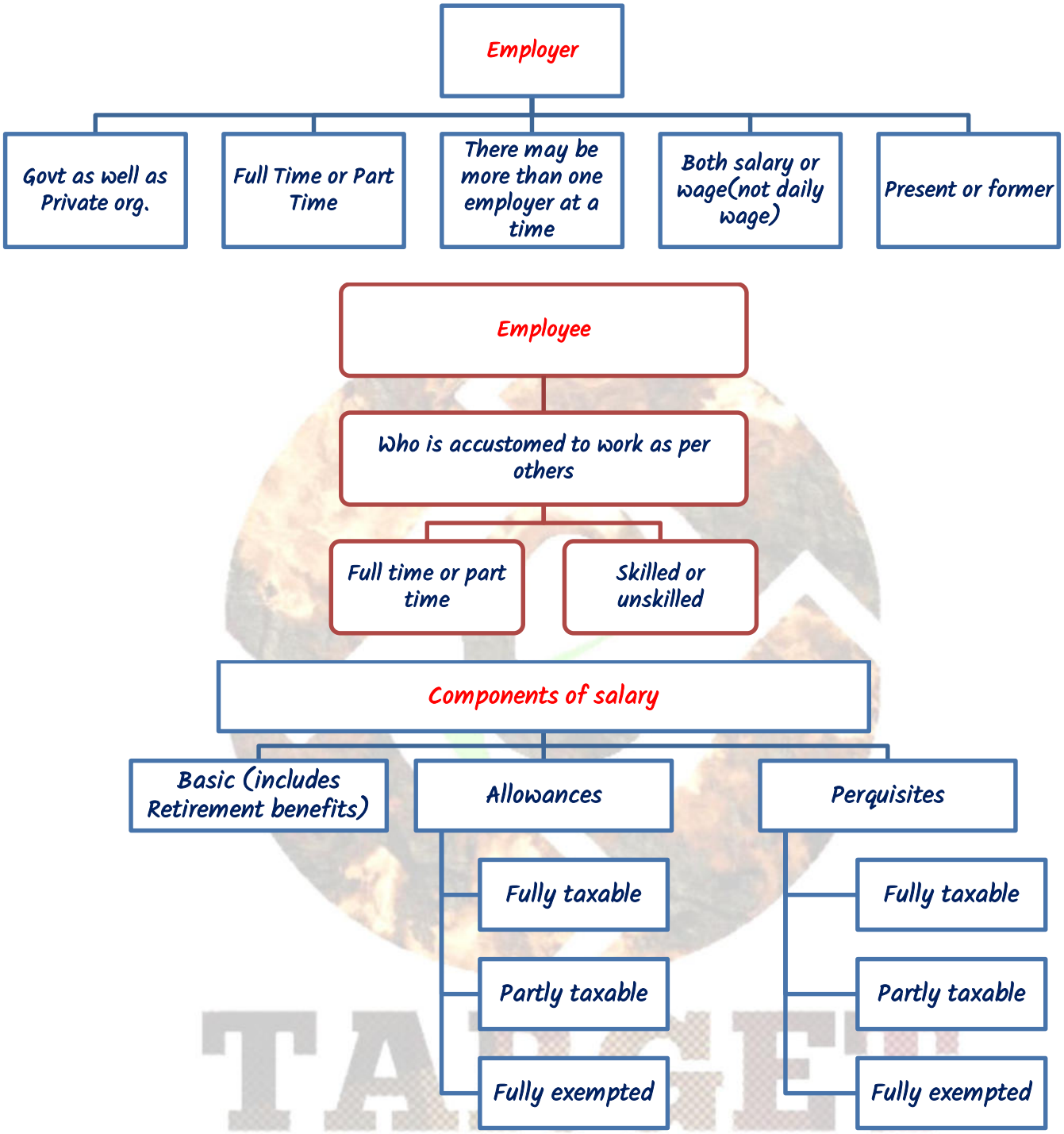
Meaning (Section 17) :
- Salary.
- Perquisite.
- Profits in lieu of salary.

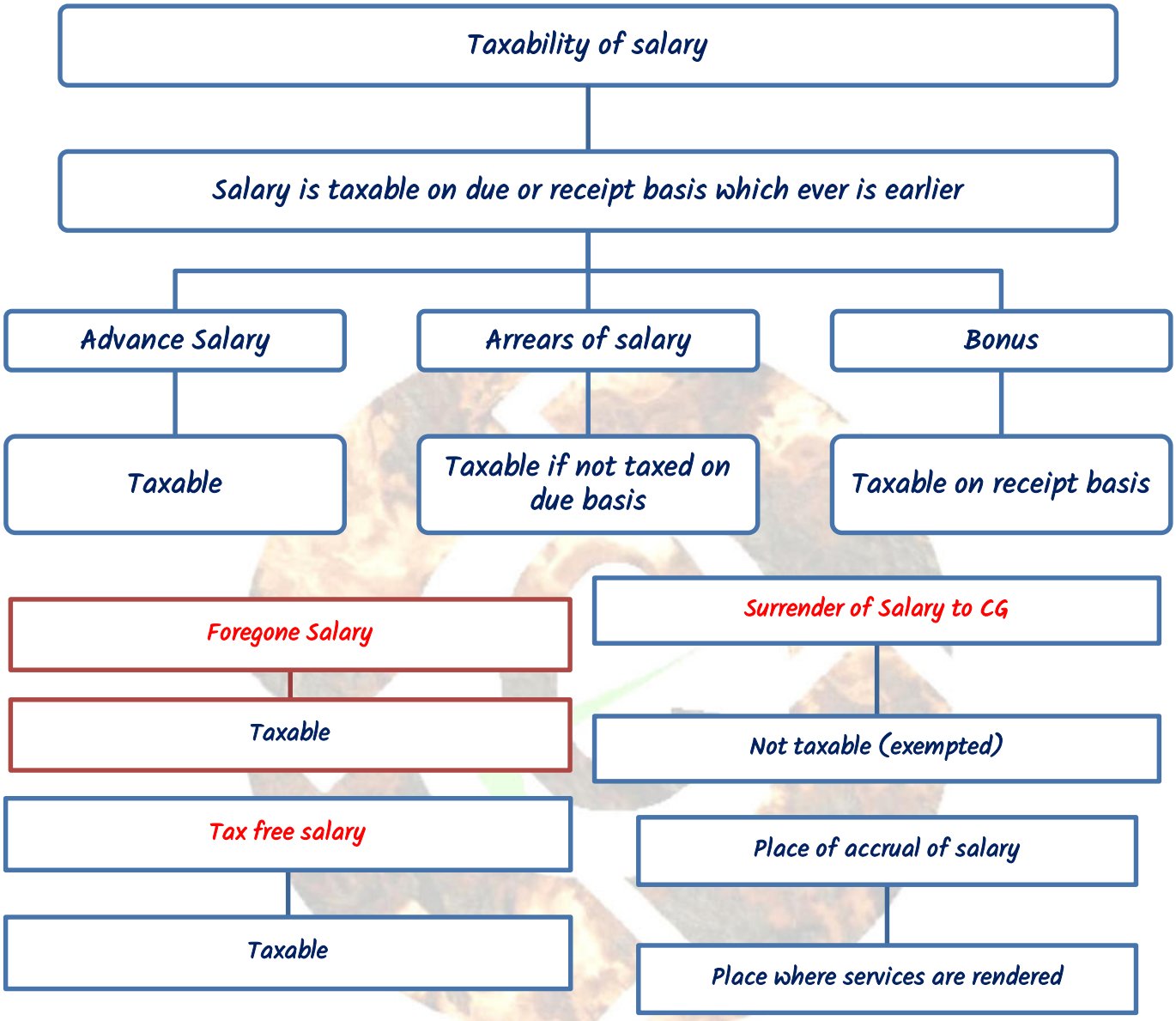
Sections

Sec-15	Sec-16	Sec-17 & Rule-3
Charging Section	Deductions	Valuation of Perquisites & Definitions

Sec – 15 Basic of Charge(Charging Section)

There must be a employer & employee relationship Between payer & payee


Employer
Govt as well as Private org.
Full Time or Part Time
There may be more than one employer at a time
Both salary or wage(not daily wage)
Present or former
Employee
Who is accustomed to work as per others
Full time or part time
Skilled or unskilled
Components of salary
Basic (includes Retirement benefits)
Allowances
Perquisites
Fully taxable
Partly taxable
Fully exempted
Fully taxable
Partly taxable
Fully exempted



Particulars	ROR	RNOR	NR
Salary received in India services rendered outside India	T	T	T
Salary Received outside India services rendered outside India	T	NT	NT
Salary received outside India, Services rendered in India	T	T	T
Salary received in India, Services rendered in India	T	T	T
Govt giving salary outside India for services rendered outside India on behalf of Indian Govt Sec – 9	T	T	T
Indian govt giving allowance & perk outside India Sec-10(7)	NT	NT	NT

Note

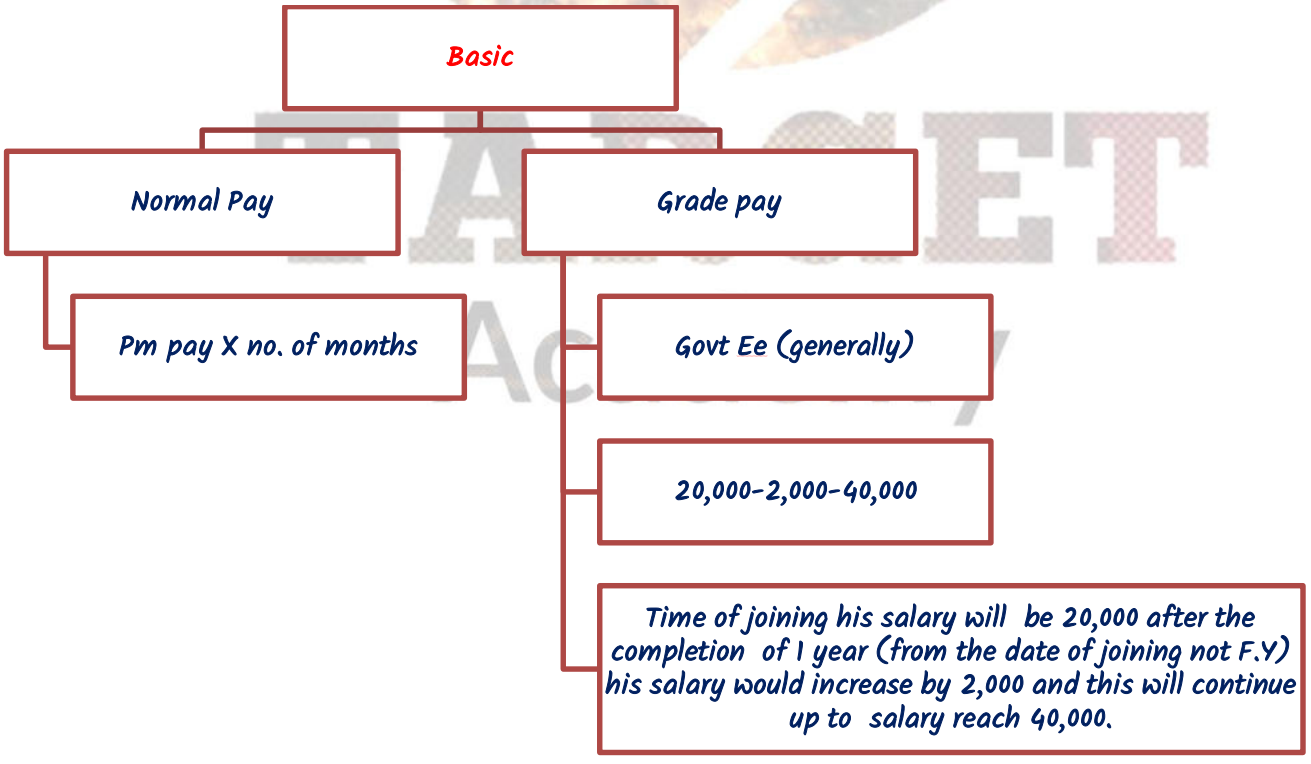
- Person getting Pension outside India w.r.t services rendered in India is taxable in India, because deemed to accrued or arised in India.
- Exception: - Person who is permanently residing outside India getting Pension outside India w.r.t services rendered in India is not taxable in India

FORMAT TO CALCULATE INCOME FROM SALARY

Particulars	Amount(Rs.)
Basic	xxx
Retirement Benefits	xxx
Allowances (Taxable)	xxx
Perk (Taxable)	xxx
Gross salary	xxx
Less : Deductions U/s 16	
(i) Standard Deduction(50,000)	(xxx)
(ii) Entertainment allowance	(xxx)
(iii) Professional Tax	(xxx)
Taxable Salary	xxx

- There can't be loss in salary.
- Calculate Annually.

Fully Taxable component of Basic & allowance



Problem no:1

Mr. G joined S ltd on 1/1/19 @ grade pay of 30,000 – 3000- 60000. Calculate salary for F.Y 19-20 ?

- Dearness allowance
  - Pay with salary
  - At the time of retainment
    - Used for calculate retirement Benefits & Perk
- Bonus
  - Amount
  - %
    - Calculate % on basic salary
- Commission
  - Amount
  - % on Turn over

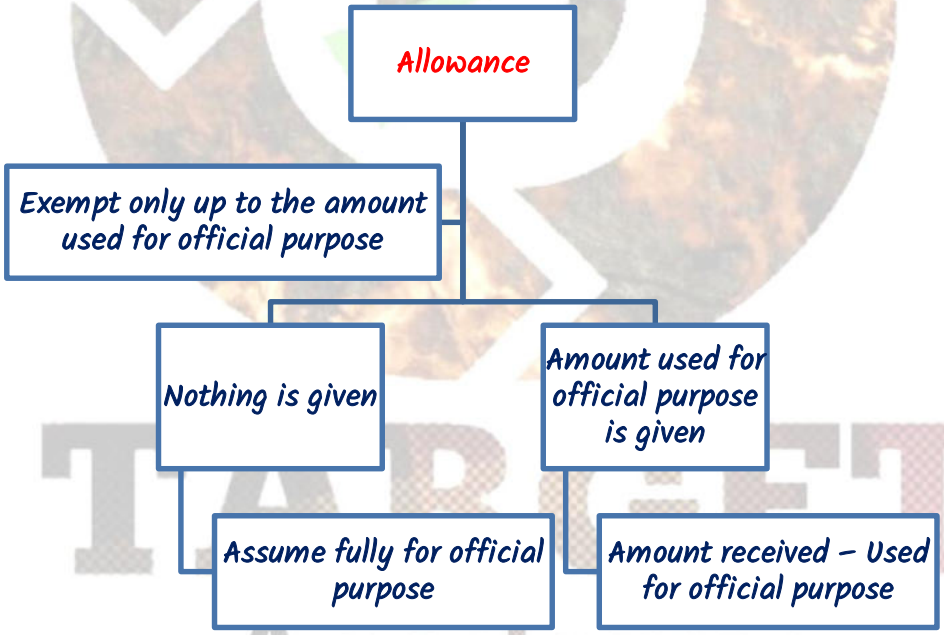
- Advance Salary
- Arrears of Salary

- City Compensatory allowance
  - To compensate the leaving of home town or meet the cost of big city
- Entertainment allowance
  - To compensate for the loss of entertainment during the service e.g. :- police/Army/navy
- Fixed medical allowance
  - Allowance given to up keep the health of employee
- Family allowance
  - To meet the cost of big family of employee

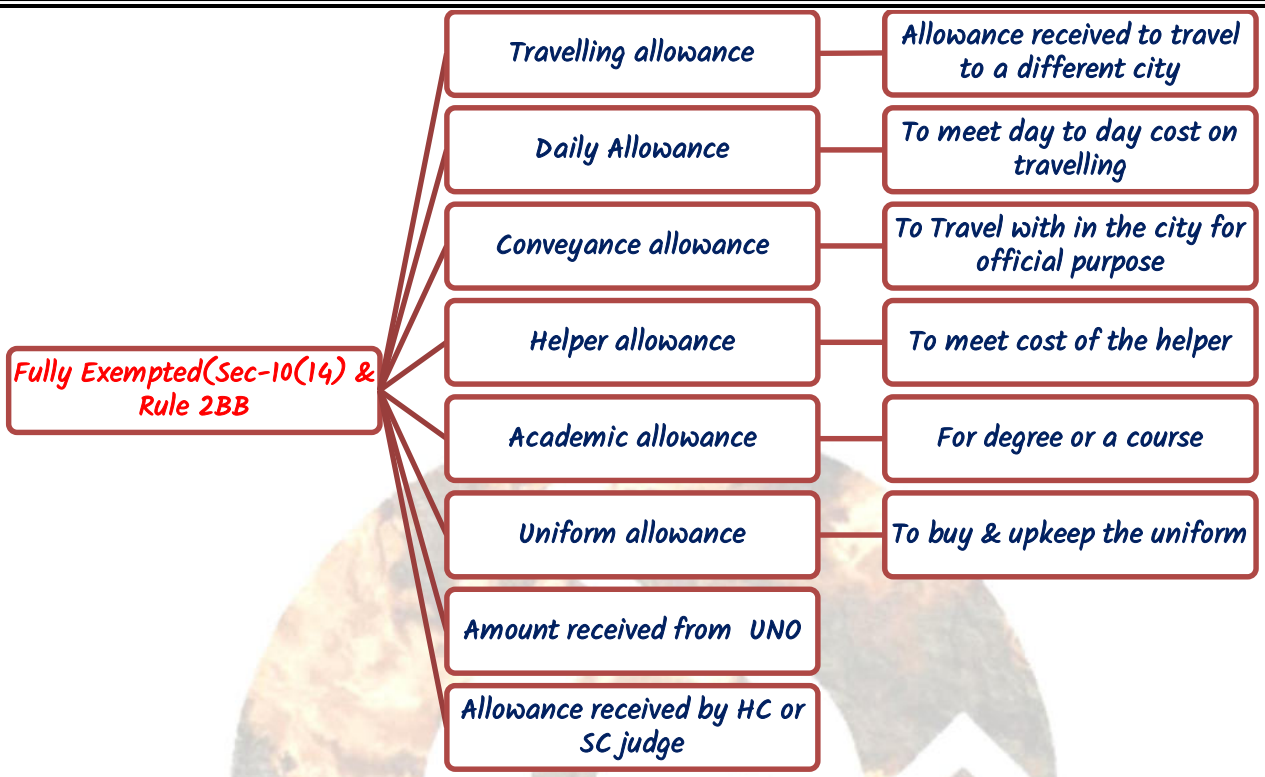
- Leave encashment during service
  - Received to scarified leave & work on a non working day

- Overtime allowance
- Servant allowance.
- Warden allowance : - Keeping security.
- Interim allowance :- Received in between multiple months.
- Project allowance
- Telephone allowance
- Non practicing allowance
- Lunch/Tiffin allowance.
- Fees
- Any other cash allowance

Fully Exempted component of salary



Particulars	Amount(Rs.)
Amount Received	xxx
Less : Used for official purpose	(xxx)
Taxable	xxx



Particulars	Amount(Rs.)
Basic	25000 pm
DA(Retirement)	2000 pm
Commission	1% of Turn Over, TO = 4,00,000
Uniform allowance	300 pm
City Compensatory allowance	400 pm
Interim allowance	100 pm
Project allowance	1500 pm
Daily allowance	400 pm
Conveyance allowance	700 pm
Over time allowance	100 pm
Entertainment allowance	1500 pm
Fixed Medical allowance	600 pm

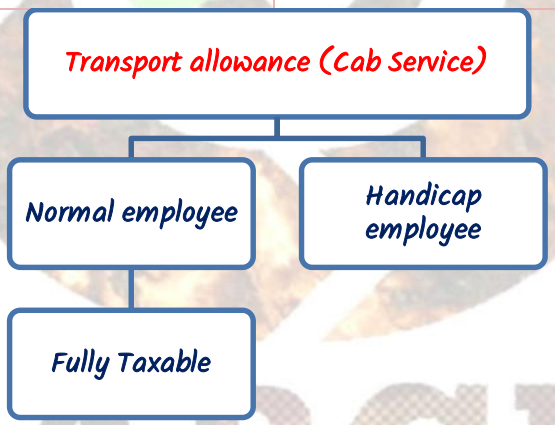
Partly taxable component

CHILDREN EDUCATION ALLOWANCE:

Particular	Amount(Rs.)
Amount Received	xxx
Less : Exempt U/s 10(14) (Rs. 100 per child/month subject to 2 child)	(xxx)
Taxable	xxx

CHILDREN HOSTEL ALLOWANCE:

Particular	Amount(Rs.)
Amount Received	xxx
Less : (Rs. 300 per child/month subject to 2 child)	(xxx)
Taxable	xxx

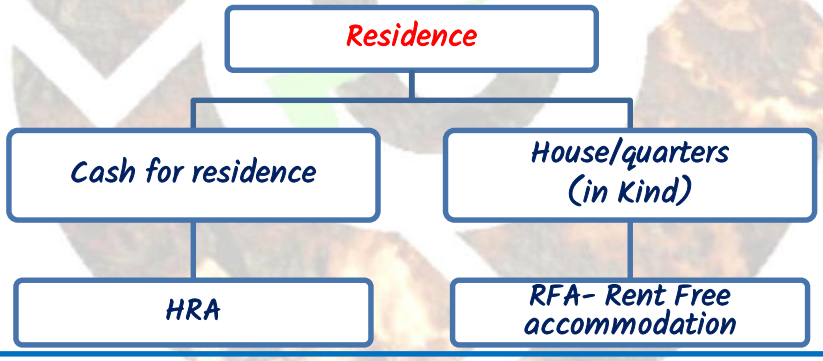


TRANSPORT ALLOWANCE (CAB SERVICES):

HANDICAP EMPLOYEE:

Particular	Amount(Rs.)
Amount Received	xxx
Less : (Rs. 3200 per month)	(xxx)
Taxable	xxx

Particulars	Amount(Rs.)
Basic	4500 pm
DA(Retirement)	1000 pm
Children education allowance for 2 children	600 pm
Uniform allowance	150 pm
Non practicing allowance (started receiving from august)	300 pm
Children hostel allowance for 2 children each	500 pm
Tribal allowance	2300 pm
Daily allowance	300 pm
Running allowance	1200 pm
Conveyance allowance (received up to December)	100 pm
Transport allowance	2500 pm
Fee	750 pm



Section 10(13A) : House Rent Allowance



House Rent Allowance(HRA)- Sec-10(13A) & Rule 2A

Particular	Amount(Rs.)
Amount Received	xxx

Less : Exempt Lower of (a) Actual Amount (b) 50%/40% of Salary (c) Rent paid – 10 % of salary	xxx xxx xxx	(xxx)
Taxable		xxx

Conditions for HRA

1. Mumbai/Delhi/Kolkata/Chennai – 50%, rest of India – 40%

2. Place of residence is importance not place of office.

3. Salary = Basic + DA(R) + Commission. (take salary relevant to period of stay only)

Unless DA is not specified for the purpose of retirement don't take it

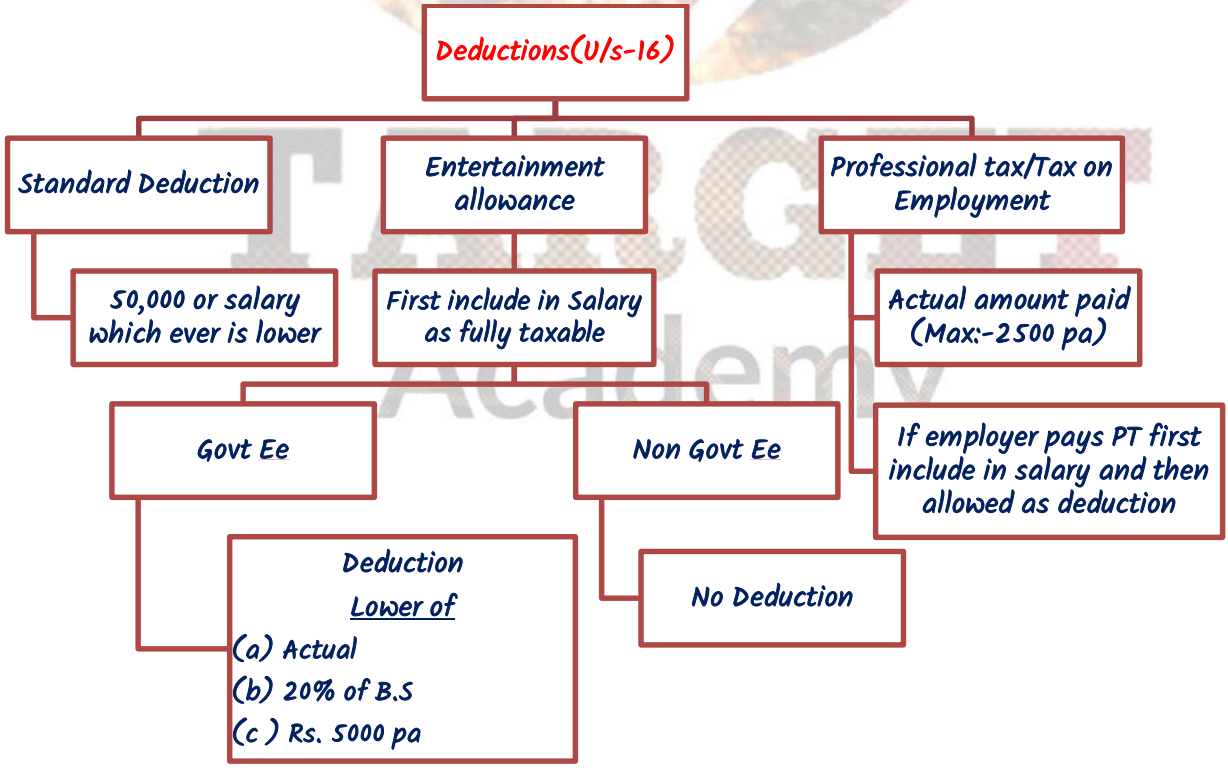
4. Generally Calculate Annually (If period of stay is given calculate only for the stay period)

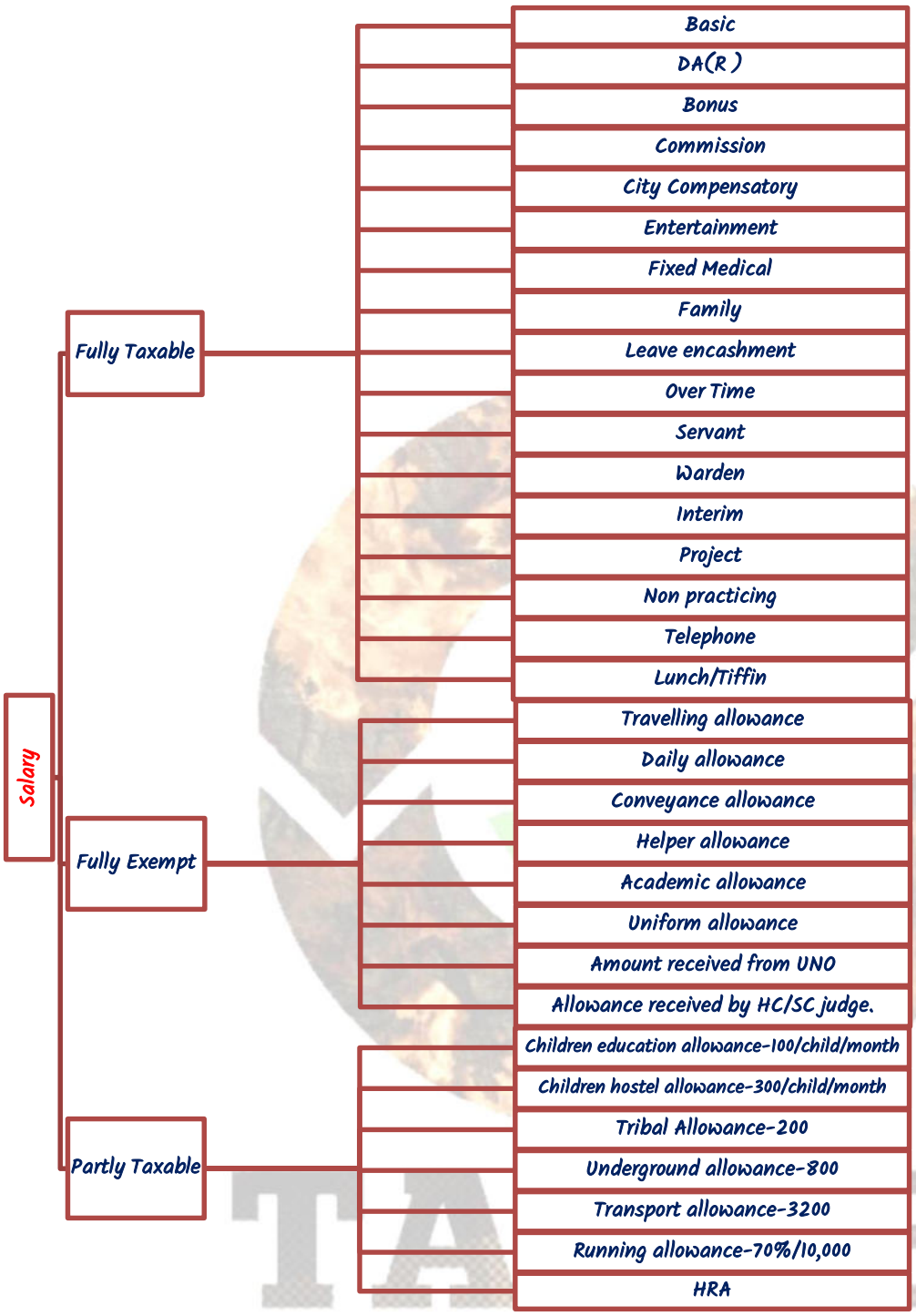
He does not own any house at the place of employment.

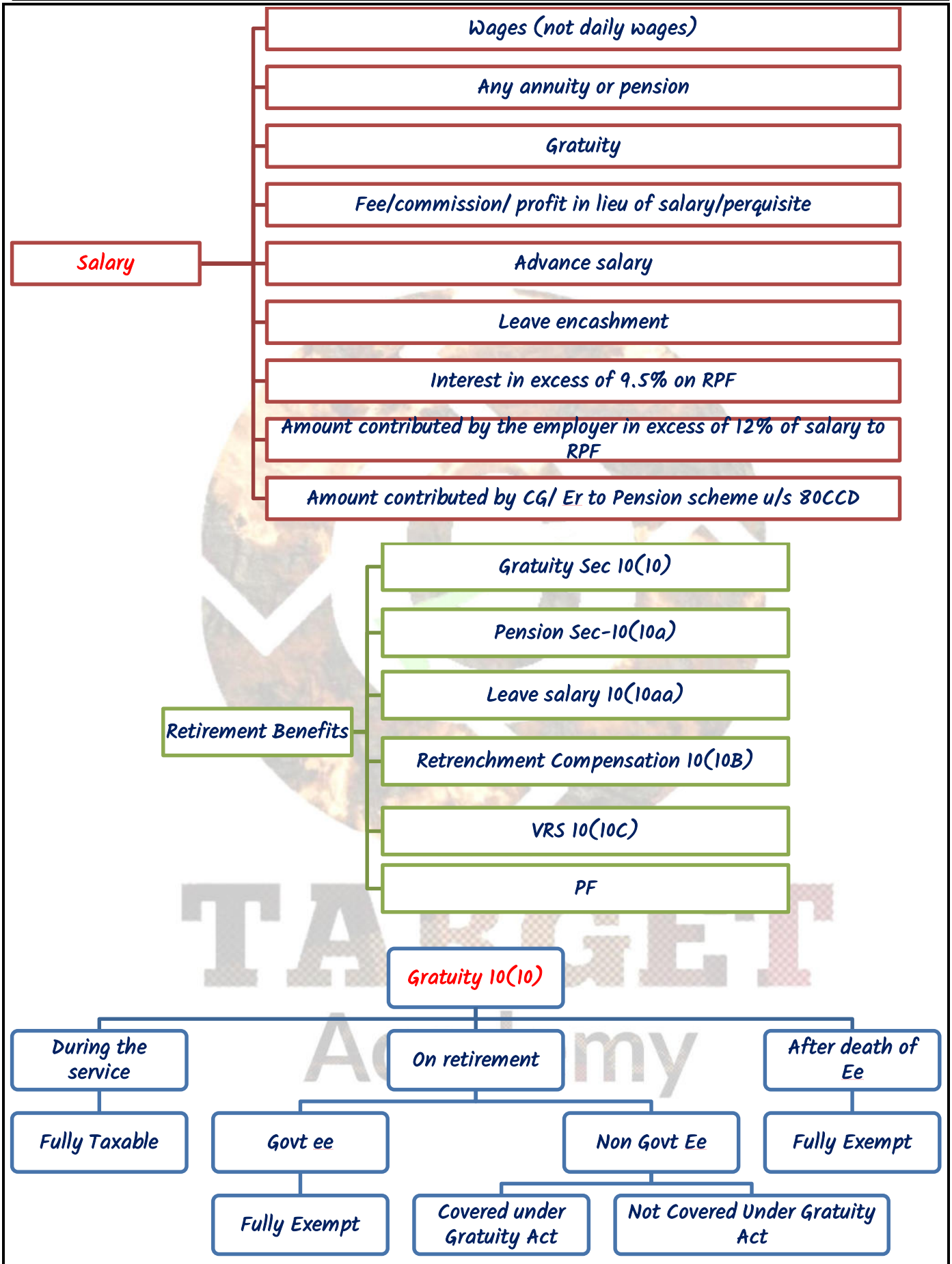
If any of the factor changes e.g. HRA, Place, Rent, . HRA should be calculated separately with respective to that changes.

HRA IS NOT ALLOWED

1. Employee stays in his own house.
2. Employee does not pays/incurs any rent.
3. When rent paid is less than 10 % of salary.



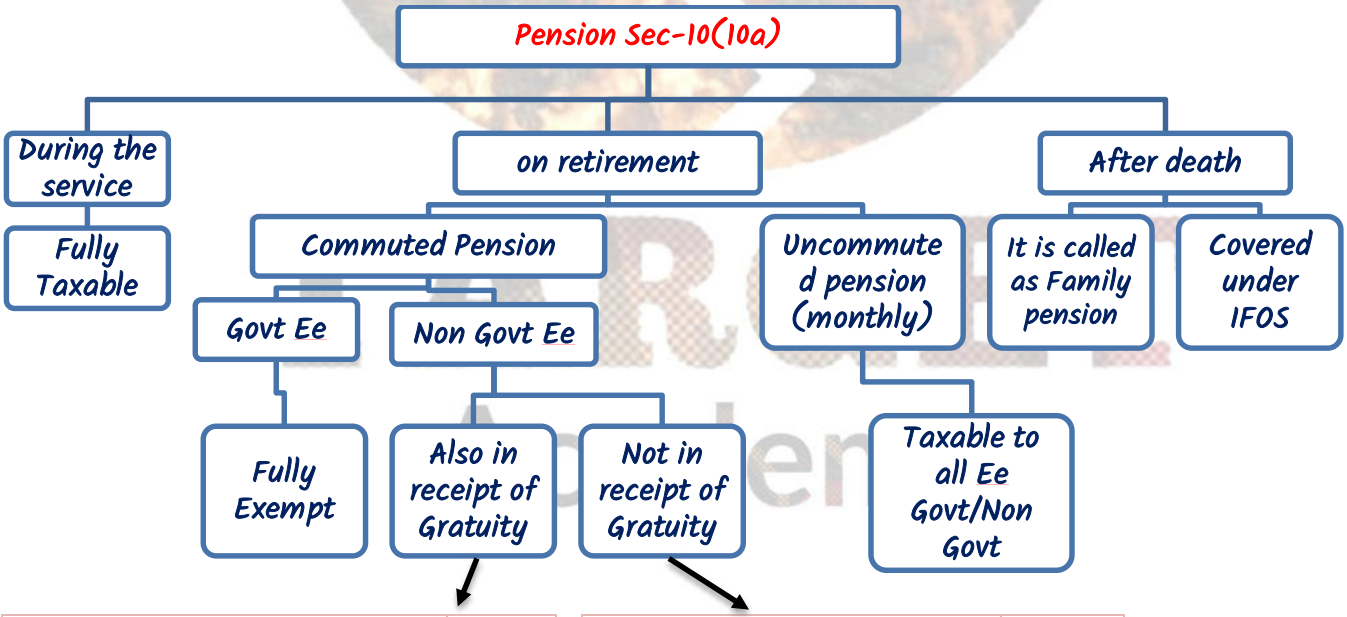

Salary
Fully Taxable
Basic
DA(R)
Bonus
Commission
City Compensatory
Entertainment
Fixed Medical
Family
Leave encashment
Over Time
Servant
Warden
Interim
Project
Non practicing
Telephone
Lunch/Tiffin
Fully Exempt
Travelling allowance
Daily allowance
Conveyance allowance
Helper allowance
Academic allowance
Uniform allowance
Amount received from UNO
Allowance received by HC/SC judge.
Partly Taxable
Children education allowance-100/child/month
Children hostel allowance-300/child/month
Tribal Allowance-200
Underground allowance-800
Transport allowance-3200
Running allowance-70%/10,000
HRA


Salary
Wages (not daily wages)
Any annuity or pension
Gratuity
Fee/commission/ profit in lieu of salary/perquisite
Advance salary
Leave encashment
Interest in excess of 9.5% on RPF
Amount contributed by the employer in excess of 12% of salary to RPF
Amount contributed by CG/ Er to Pension scheme u/s 80CCD
Retirement Benefits
Gratuity Sec 10(10)
Pension Sec-10(10a)
Leave salary 10(10aa)
Retrenchment Compensation 10(10B)
VRS 10(10C)
PF
Gratuity 10(10)
During the service
On retirement
After death of Ee
Fully Taxable
Govt ee
Non Govt Ee
Fully Exempt
Fully Exempt
Covered under Gratuity Act
Not Covered Under Gratuity Act

Particulars	Amt(Rs.)
Actual	xxx
Less:- Exempt- Least of	
(a) Actual	
(b) 15/26 * Last Drawn salary * No. of years of completed service or part there of in excess of 6m	
(c) Max Limit 20 lakhs	(xxx)

Particulars	Amt(Rs.)
Actual	xxx
Less:- Exempt- Least of	
(a) Actual	
(b) 1/2 * Avg salary of 10 m preceding the month of retirement * No. of years of completed service	
(c) Max Limit 20 lakhs	(xxx)

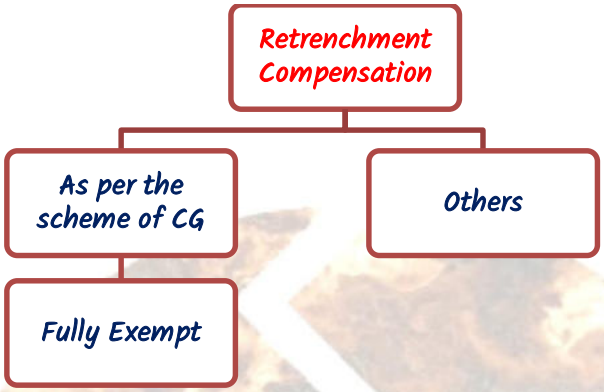
- ✓ If employee is a seasonal employee then take 7/26 in case of covered under gratuity Act, take ½ in case of not covered under Gratuity Act.
- ✓ Salary = Basic + DA – in case of covered under Gratuity Act.
- ✓ Salary = Basic + DA(Forming part of Retirement) + Commission (On Turn Over) take avg 10 months Salary. – in case of not covered under Gratuity Act.
- ✓ Even if gratuity received from more than 1 employer then also the max limit is 20 lakhs/ 10 lakhs only.



Particulars	Rs.
Actual	xxx
Less:- 1/3rd of full value of pension	(xxx)
Taxable	xxx

Particulars	Rs.
Actual	xxx
Less:- 1/2rd of full value of pension	(xxx)
Taxable	xxx

- Note-1- If nothing is mentioned in problem assume gratuity is not received
- 2) Full Value of pension = Amount received / % of commutation.
- 3) Always prepare W.No for full value of pension.



Particulars	Amt(Rs.)
Actual	xxx
Less: Lower of	
(a) Actual	
(b) Max Limit 5,00,000	
(c) Amount determined by industrial dispute Act	(xxx)
Taxable	xxx

- Note-1: Amount determined by Industrial Dispute Act

  = 15/26 x Avg salary of last 3 months x No. of years of completed service or part there off in excess of 6 months.

- Salary = Basic + DA ----monthly
- Relief u/s 89(1) is available.

VRS SEC-10(10C)

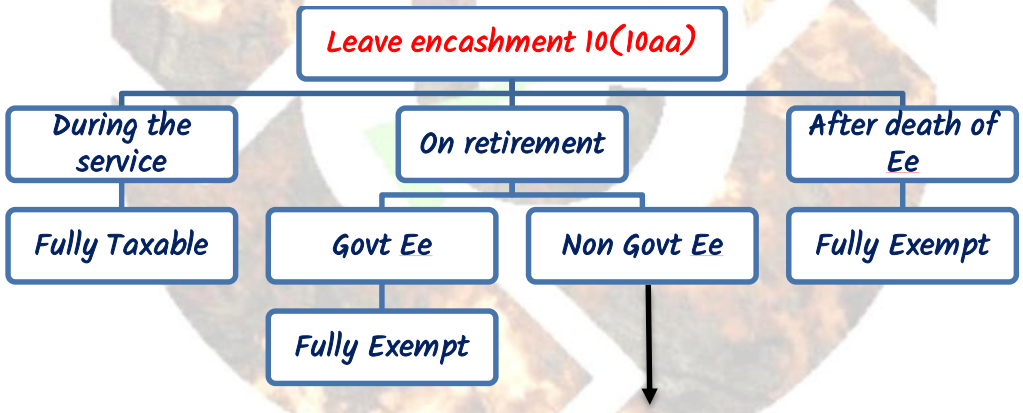
Particulars	Amount(Rs.)
Actual	xxx
Less:- Least of the following	
(a) Actual	
(b) Max Limit 5,00,000	
(c) Amount higher of (i) Last drawn salary x 3 x No. of years of completed service. (ii) LDS x balance no. of months left for service.	(xxx)
Taxable	xxx

Notes:

- Salary = Basic + DA (R) + Commission (T) ----- monthly.
- Balance no. of months

Particulars	
Co. age of retirement	xx
Less:- Age of employee at time of retirement	(xx)
	xx years
Multiply : No. months per year	12
Balance no. of months	xx

- No exemption under VRS if Employee claims relief u/s 89
- VRS exemption only once in life and only w.r.t single employee.
- VRS exemption is applicable even VRS given on instalments (but only to single employer).



Particulars	Amount(Rs.)
Actual	xxx
Less: Lower of	
(a) Actual	
(b) Max Limit 3,00,000	
(c) Avg salary x 10	
(d) Leave Credit	(xxx)
Taxable	xxx

Notes:

- Leave Credit = Balance leave(in days) x Avg salary
- Balance Leave

Particulars	Days
Leave allowed by the employer(sub to conditions)	xx(days)
Less : Leave taken by employee during the service	xx(days)
Less: Leave encashed during service	xx(days)
Balance Leave	xx (days)

- Leave allowed by employer
    - If below 30 days pa = take actual days allowed (Ex:- if 25 days pa take 25 days)
    - If 30 days pa or above 30 days = take 30 days pa (Ex:- if 35 days pa take only 30 days pa)
- Average Salary = 10 months average salary before the date of retirement
- Salary = Basic + DA(R) + Commission (T).

Particulars	SPF(Statutory Provident Fund)	RPF(Recognised Provident Fund)	URPF(Unrecognised Provident Fund)	PPF(Public Provident Fund)
Employers Contribution	Exempt	Exempt up to 12% of Salary	Not Taxable (at the time of contribution)	-
Employee Contribution	Deduction U/s 80C	Deduction U/s 80C	No Deduction U/s 80C	Deduction U/s 80C
Interest	Exempt	Exempt up to 9.5%	Not Taxable (at the time of contribution)	Exempt
Final Amount	Exempt	Exempt	Er Contri- Taxable in salary Ee contribution – Not taxable. Interest on Er contri – Taxable in salary. Interest on Ee Ccontri – Taxable in IFOS	Exempt

Note :

- 1)Salary = Basic + DA(R) + C(T). ---- yearly
- 2) Ee's contribution should be allowed as deduction u/s 80C and need not be included in salary.

PROBLEM:

Particulars	Amount(Rs.)
Basic Salary Up to 31.08.2022 --- 20,000pm From 01.09.2022 ----- 25,000pm	
Transport allowance	2000 pm
Contribution to recognized PF	15% of Basic salary
Children education allowance (total)	500 pm for 2 children
City compensatory allowance	300 pm
Hostel expenses allowed(Total)	380 pm for two children
Tiffin Allowance(actual expenses Rs. 3,700)	5,000 pa
Tax Paid on employment	2,500

Compute taxable salary of Mr. M for the AY 2023-24

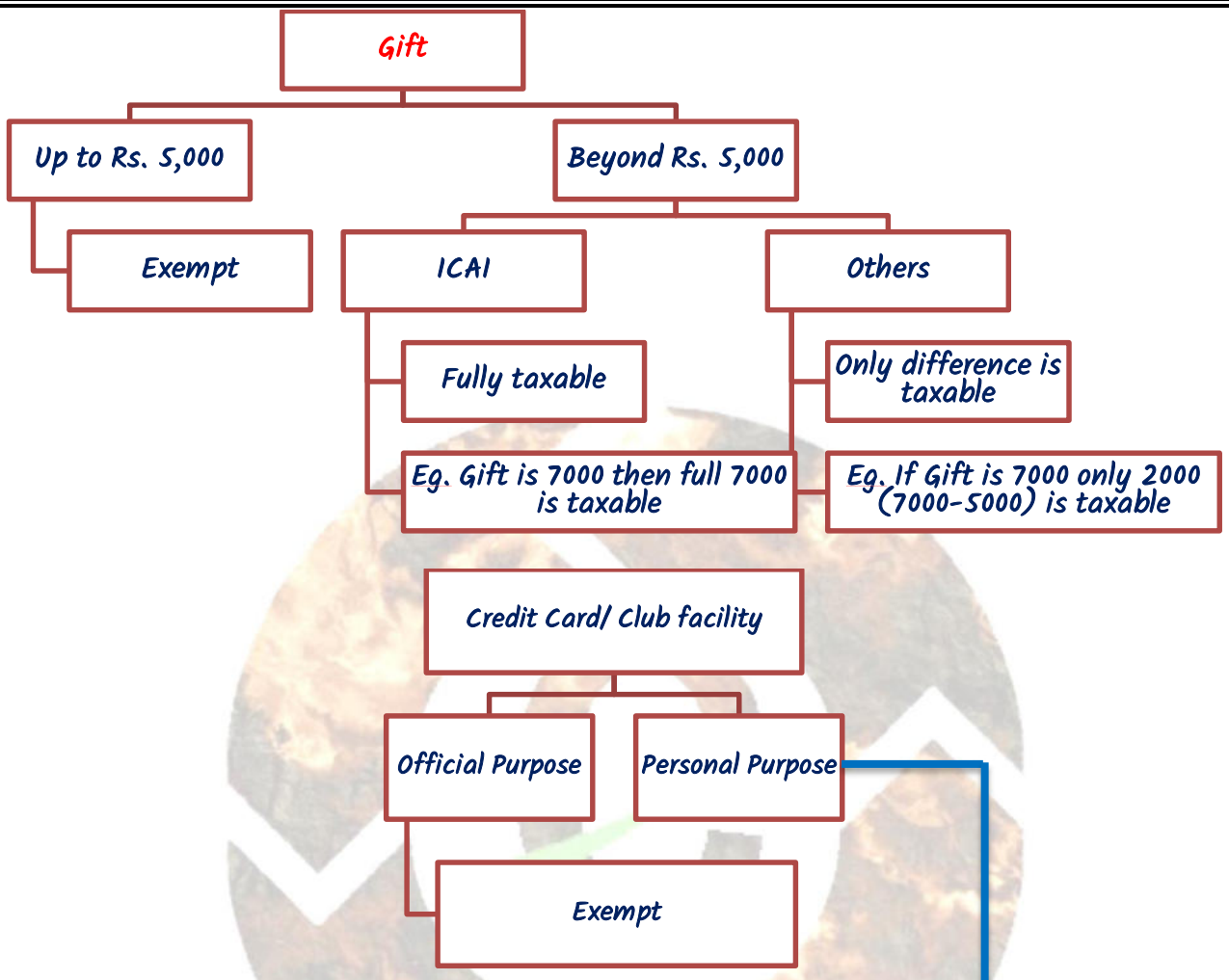
What is perquisite

Any benefit/Amenity provided at free of cost or at concession

FULLY EXEMPTED PERQUISITES

1. Tea & Coffee during office hours.
2. Laptop/Computer given for official or personal purpose.
3. Free food in remote areas or off shore installation.
4. Interest free/concessional loan up to Rs. 20,000
5. Interest free/concessional loan for specified diseases.
6. Periodicals/ Journals.
7. Travelling facility to railway or airline workers.
8. Education facility were cost does not exceed Rs. 1000 pm.
9. Insurance Group/ personnel insurance.
10. Transfer of movable asset after the use of 10 years.
11. Accommodation in Hotel up to 15 days.
12. Gift up to Rs. 5,000 pa.
13. Perquisite paid outside India by Indian Govt.

TAXABLE / PARTLY TAXABLE PERQUISITES



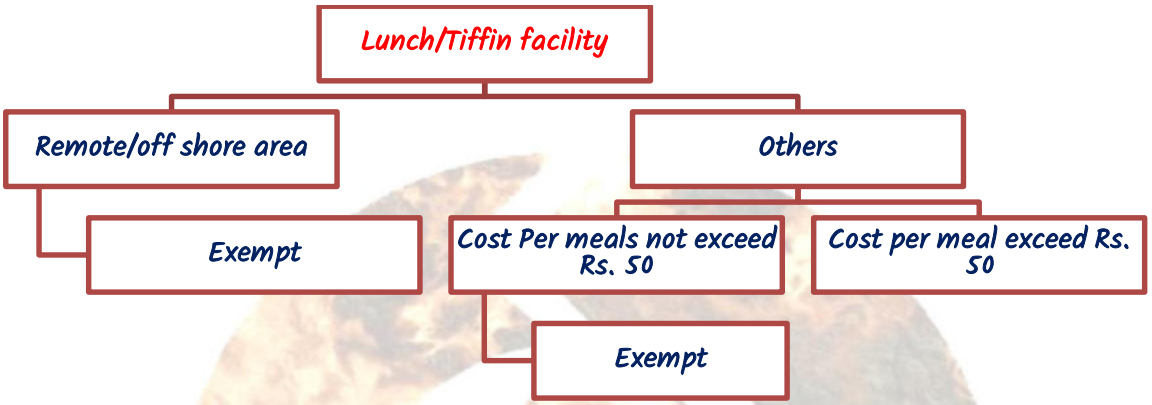
Particulars	Amount(Rs.)
Actual Cost to Er	xxx
(-) Amount recovered from Ee	(xxx)
Taxable	xxx

PROBLEM:

Particulars	
Basic	34000 pm
DA (40% Forming part of retirement)	30% of Basic
Overtime allowance	5000pm
Commission as a % on turnover	60000
HRA Rent paid 17000 pm up to June 30 2022. After that he shifted to his own house but HRA received through the year	15000 pm
Er contribution to recognised PF	54000 pm

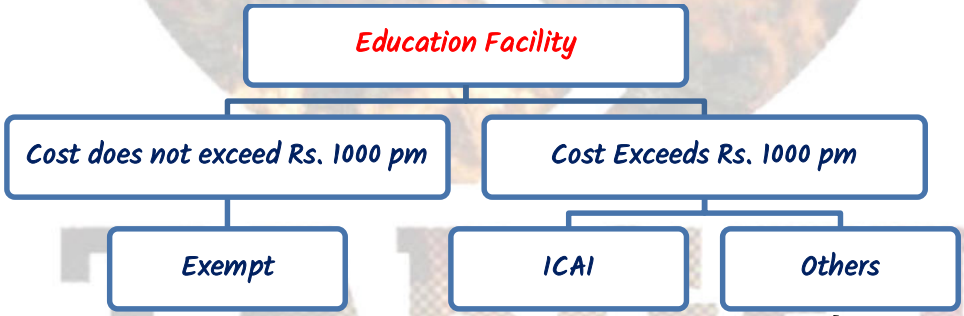
Interest on Er contribution to RPF @ 11%	56000 pa
Health Club facility (personal purpose)	7000pm
Tea & coffee facility	1000 pm

Calculate total salary of Mr. X for A.Y 2023-24 ?



Particulars	Amount(Rs.)
Actual cost to Er	xxx
Less: 50 Per Meal	(xxx)
	xxx
No. of Meals pa	xx
Taxable Perk	xxx

Note : If no. of meals are not given , then assume 300 days in a year.

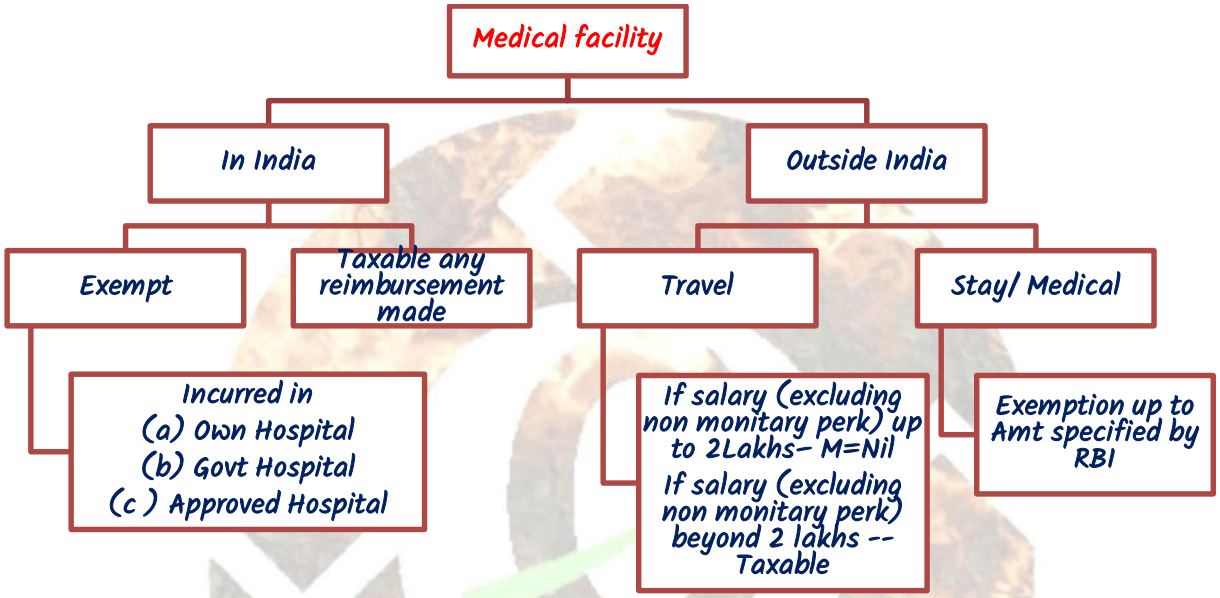


Particulars	Amt (Rs.)
Beyond Rs. 1000 it is fully taxable	xxx
Less : Recovered	(xxx)
Taxable	xxx

Particulars	Amt(Rs.)
Actual cost to Er	xxx
Less : Rs. 1000	(1000)
Less : Recovered from Ee	(xxx)
Taxable Perk	xxx

EDUCATION FACILITY

Benefit to	Category of education institutions		
	Own	Tied up	Other
Employee	Not a perk	Not a perk	Not a perk
Children of Ee	FMV (exempted up to 1000 pm	FMV (exempted up to 1000 pm	Cost to the Er
Any other member of house hold	FMV	FMV	Cost to the Er



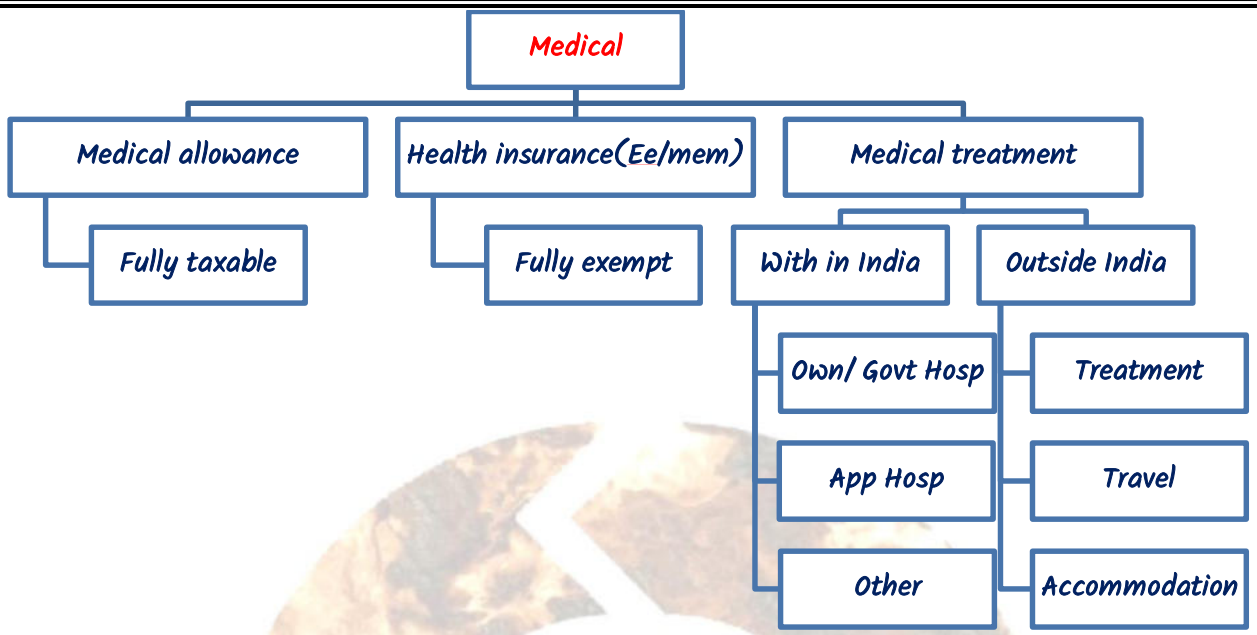
Note : In case of Out Side India exemption is for 2 people(Ee, attendant).

MEDICAL EXPENDITURE IN INDIA (PROVIDED/REIMBURSED BY ER)

Type of disease	Own hosp/Govt Hospt	Approved Hosp	Other Hosp
Specified disease	Not a Perk	Not a perk	Perk
Other disease	Not a Perk	Perk	Perk

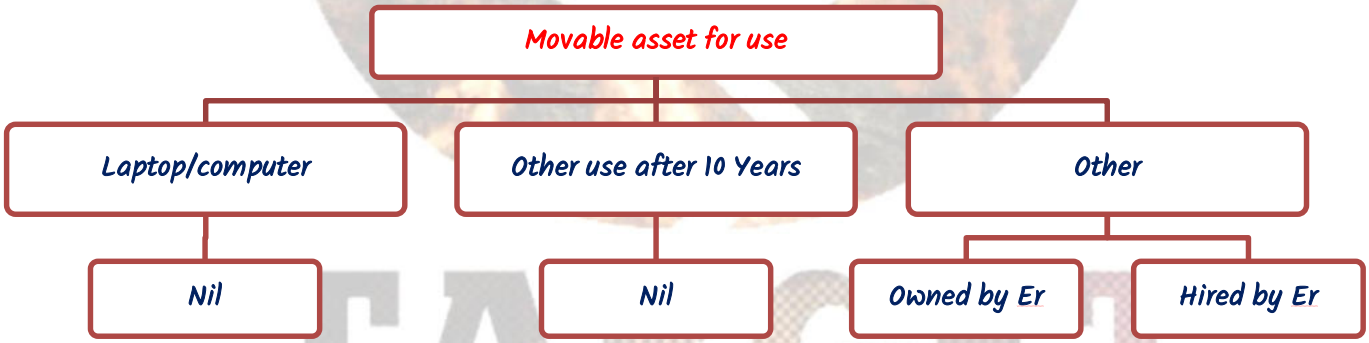
MEDICAL TREATMENT OUTSIDE INDIA (REIMBURSED BY THE EMPLOYER)

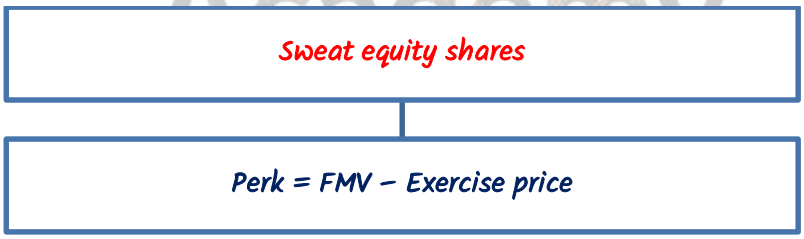
Type of cost	Tax treatment
Medical treatment cost	Exempt up to amount specified by RBI
Accommodation cost(patient+ 1 attendant)	Exempt up to amount specified by RBI
Travel Cost (Patent + 1 attendant)	If salary(excluding non monetary perk) <= 2 L – Not a perk. If Salary(excluding non monetary perk) > 2 L – Fully taxable Perk

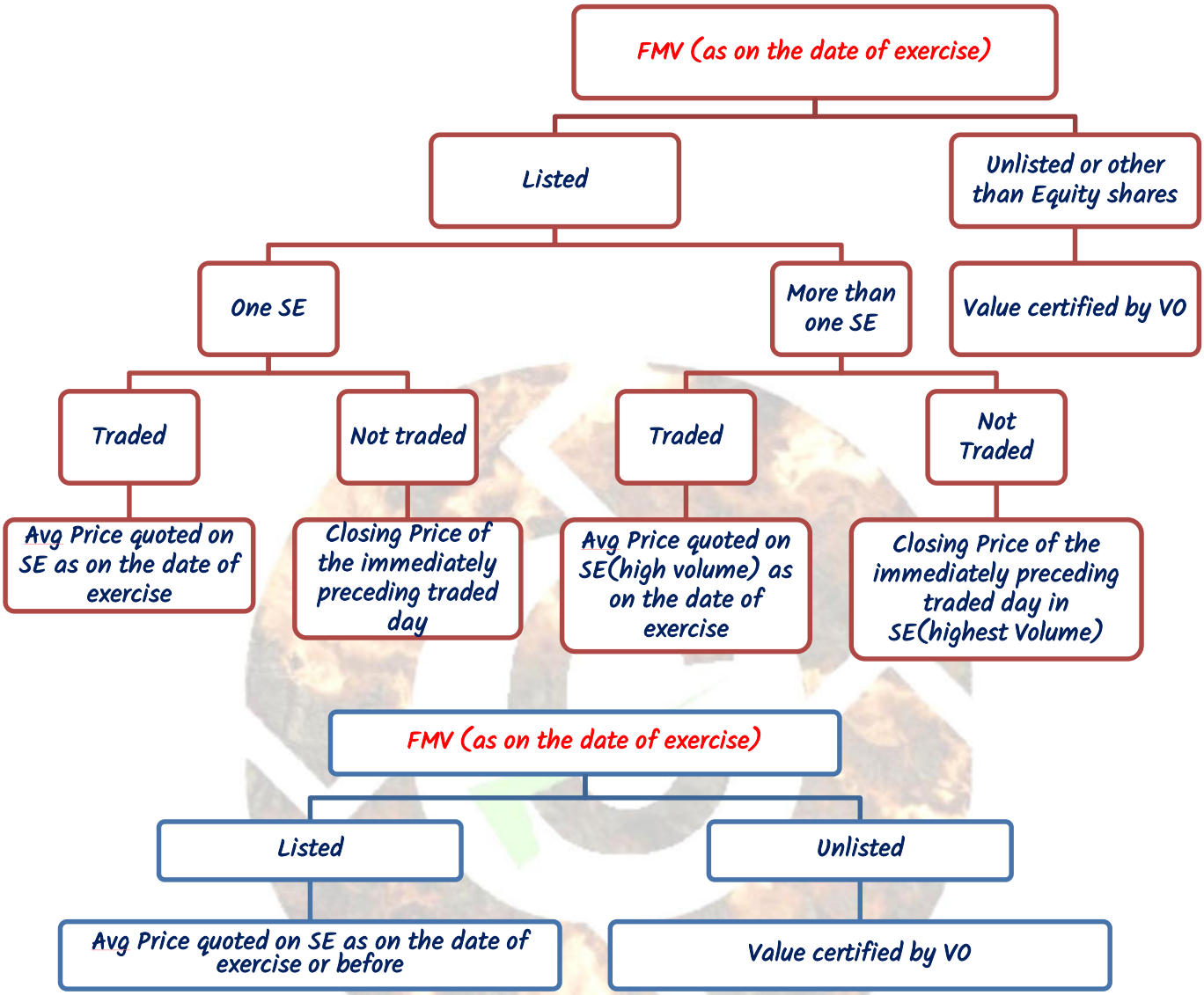


Particulars	Amt(Rs.)
10% of cost of asset	xxx
Less: Recovered	(xxx)
Perk	xxx

Particulars	Amt(Rs.)
Actual Cost to Er	xxx
Less: Recovered	(xxx)
Perk	xxx

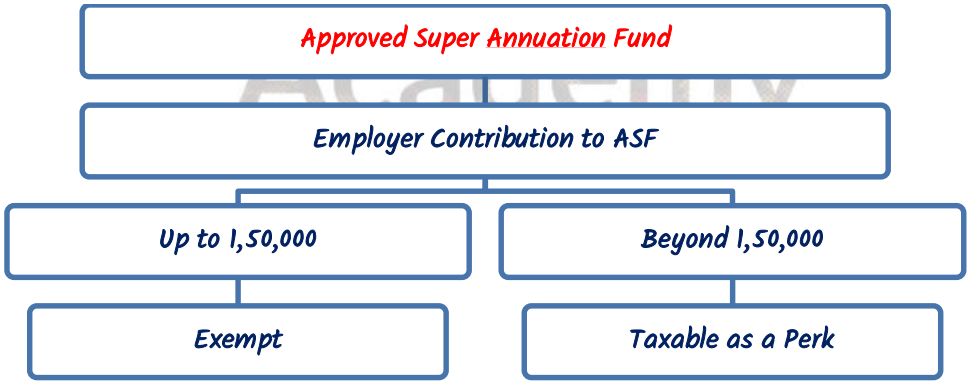


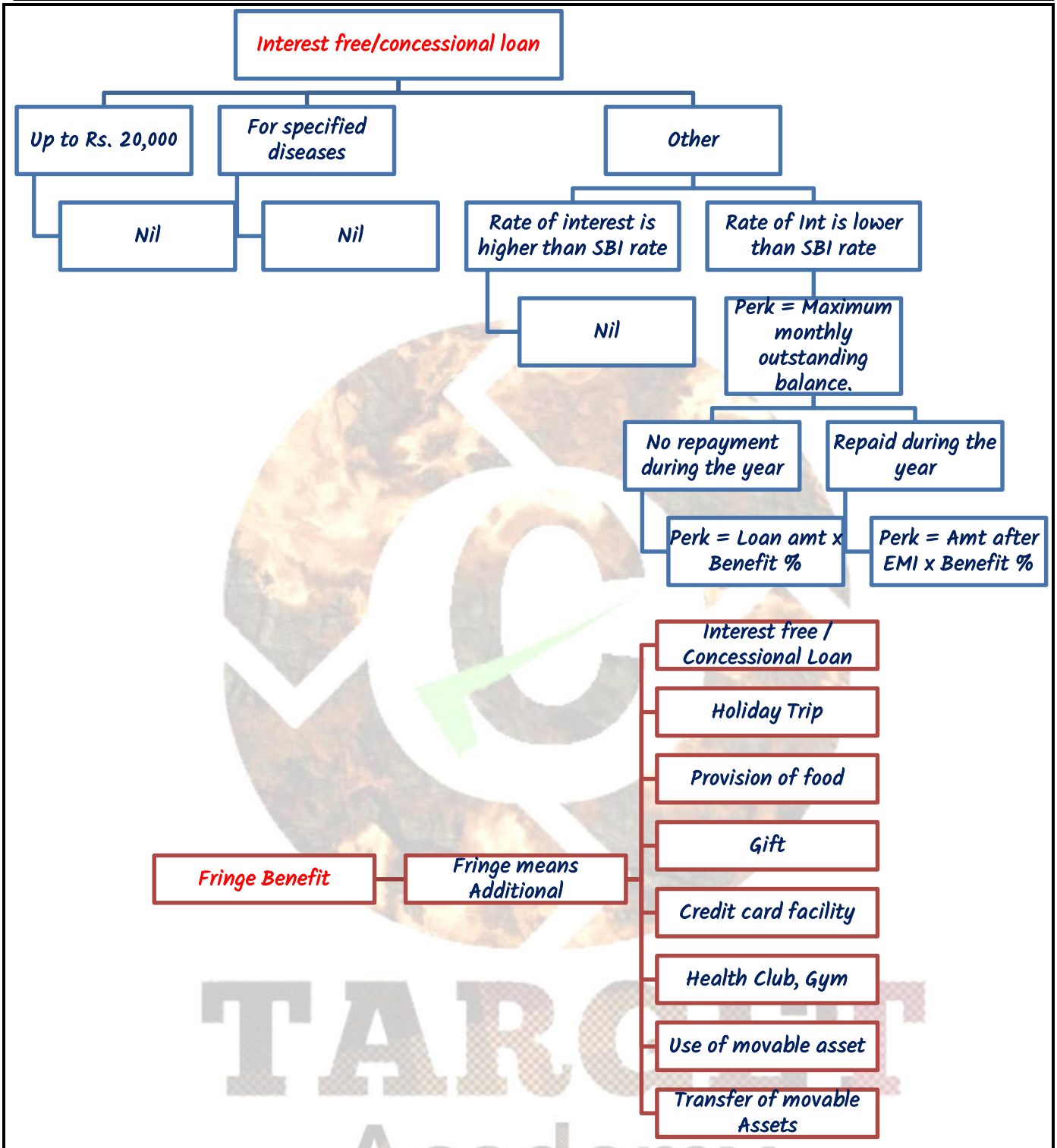




SWEAT EQUITY SHARES

- Taxable Perk = (FMV – Option Price/ Exercise Price/Purchase price) x No. of share.
- Note : When these shares would be sold FMV shall be treated as COA to avoid doubt taxable Sec-49[CG].





Interest Free/ Concessional Loan

Perk = (Monthly o/s balance) x (Differential rate of interest)

Exception :- Loan given for medical treatment for specified diseases

FORMAT

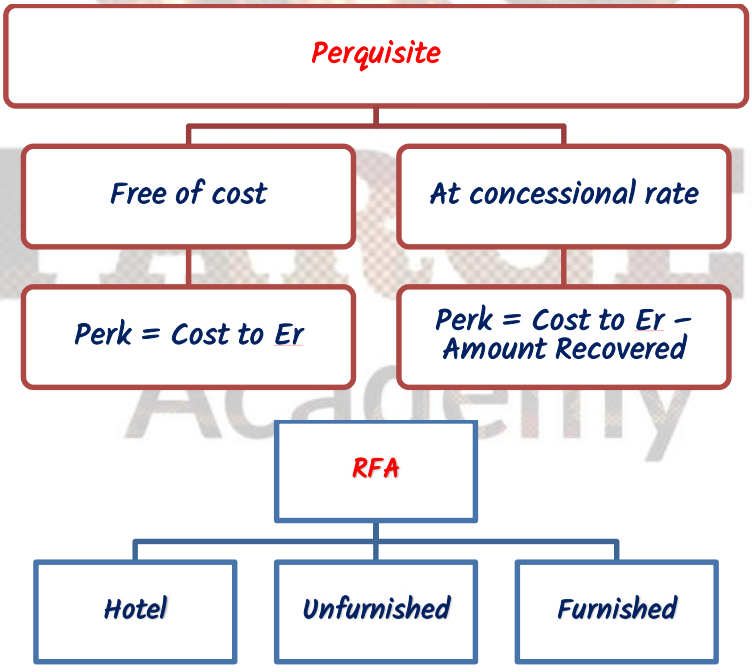
Month	Monthly O/S Balance	Differential rate of interest (monthly rate)	Perk

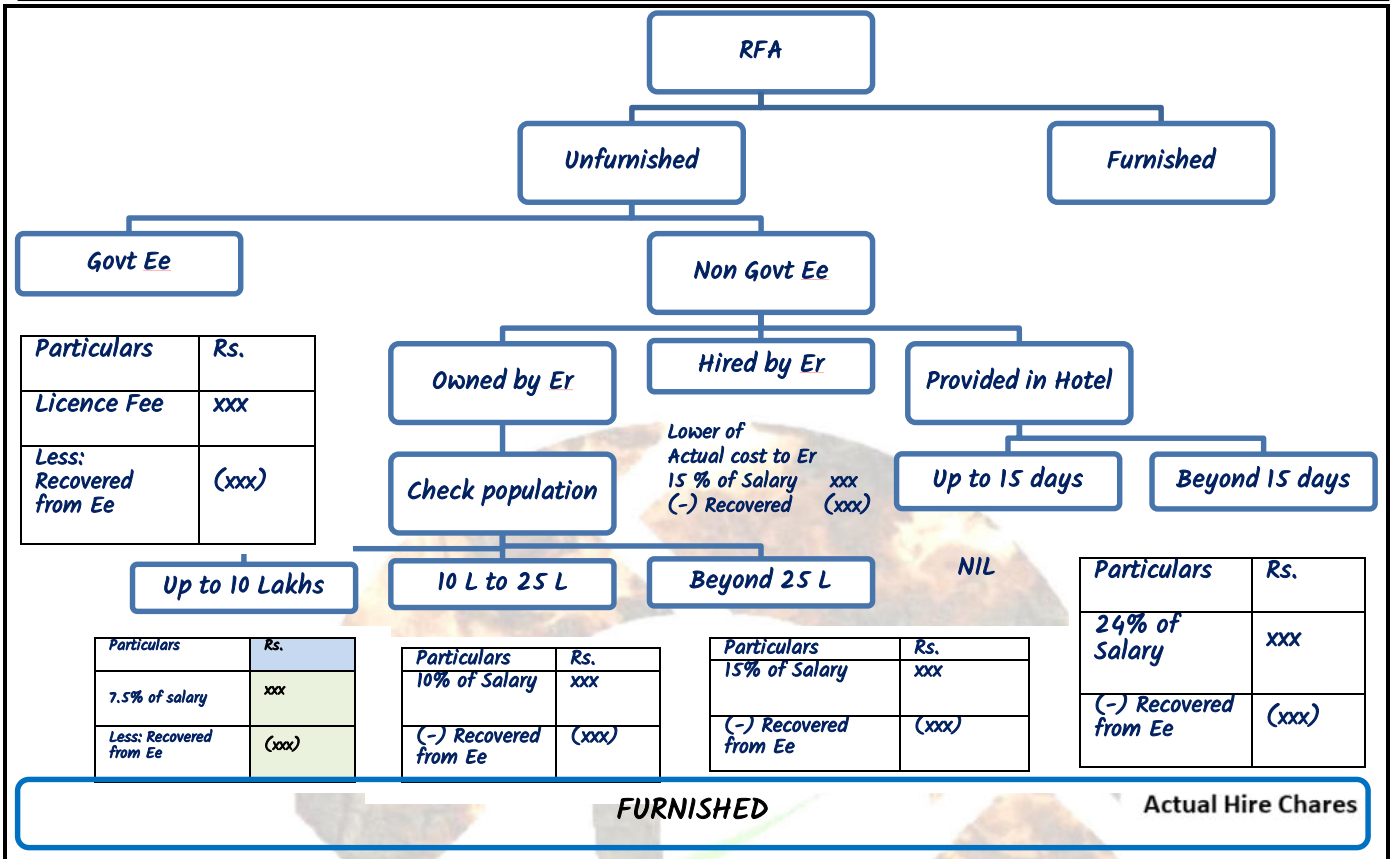
NOTE:

- Differential rate = SBI Rate – Er rate of interest.
- SBI rate = Rate as on the first date of PY.
- Exception
- If Interest free/concessional loan given for medical treatment of specified diseases the is exempted.
    - Condition:- If Ee receives any insurance claim on such medial treatment then he should return that amount to Er,, otherwise it is considered as personal loan form the date of receipt of insurance claim.
- If the amount of loan is petty amount (< 20,000)

NOTE:

- Benefit % = SBI Rate- Er rate.
- SBI rate = Rate of interest as on first day of PY(i.e. 1/4/2022).





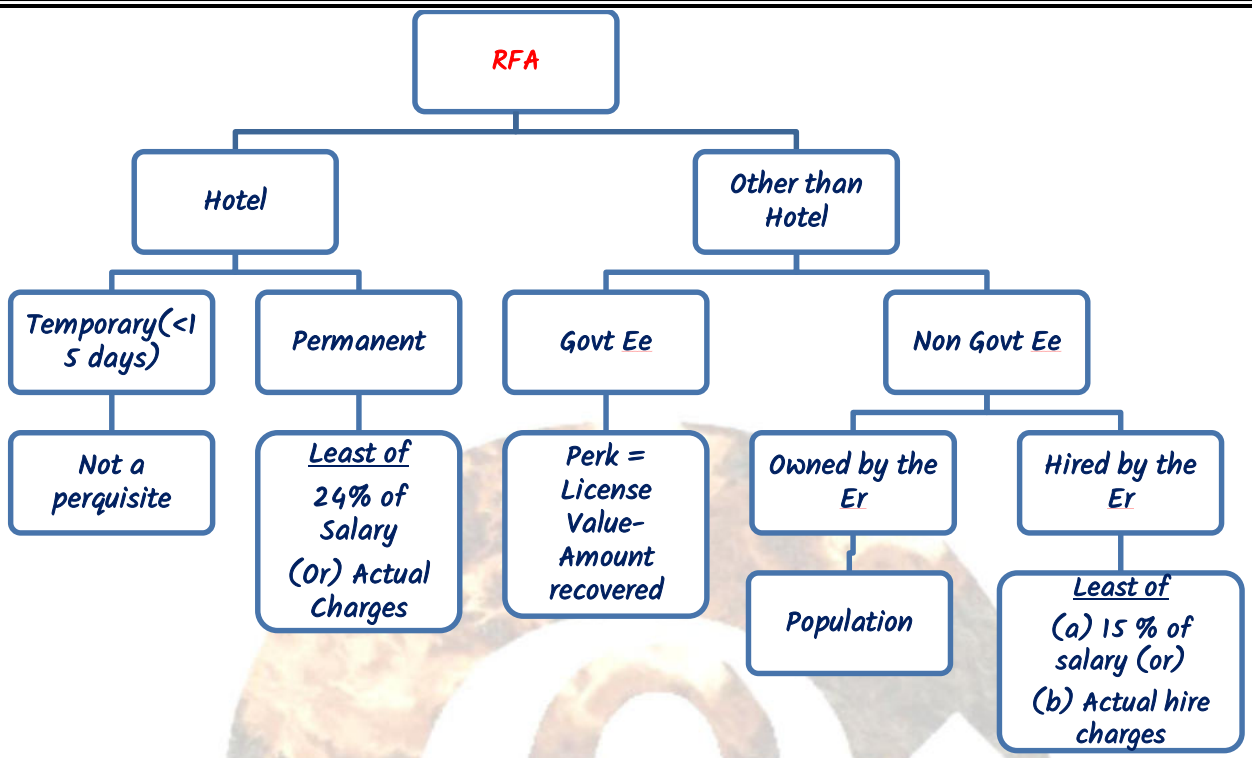
FURNISHED — Actual Hire Chares

Value as per unfurnished	xxx
+	
Value of Furniture	xxx

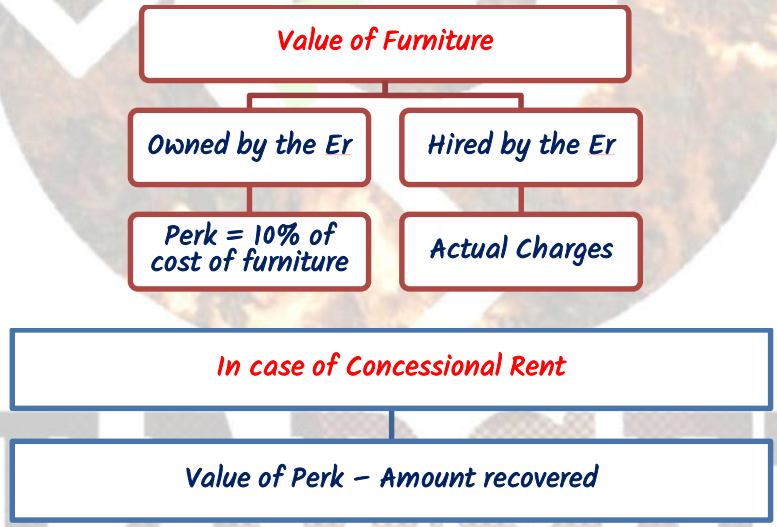
- Owned: 10% of actual cost of Furniture
- Hired: Actual Hire Chares

Recovered from Ee	(xxx)
	xxx

TARGET Academy



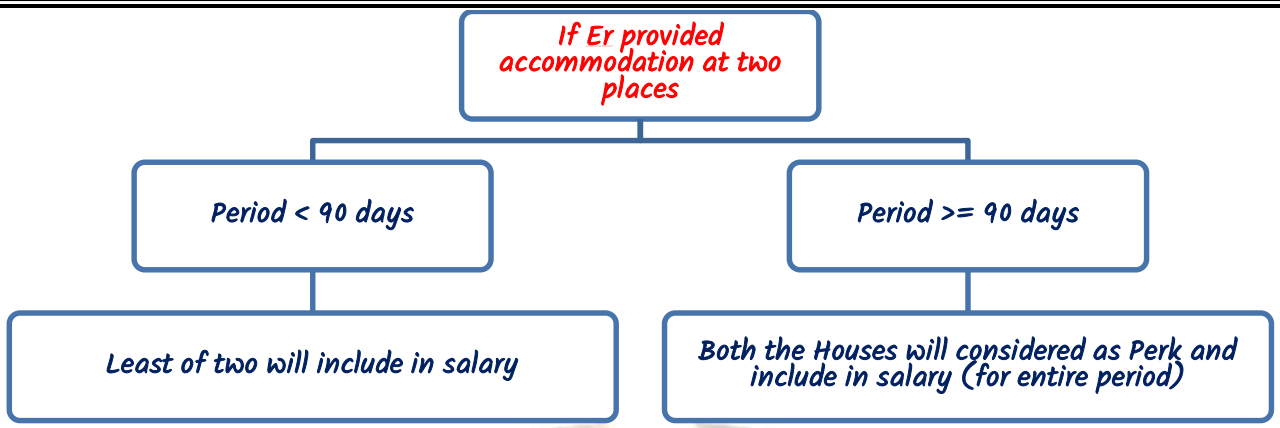
IN CASE OF FURNISHED ACCOMMODATION



Note:

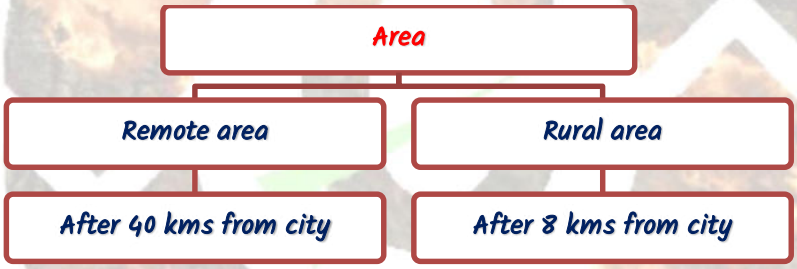
- ✓ Salary = B.S + All taxable allowances + other monetary payments + DA (forming part of retirement benefits).
- ✓ Salary does not includes
  - DA not forming part of retirement benefits.
  - Any perquisites.
  - Employer contribution to PF.:

Employer Might Give Accommodation In Two Places:



Other Points:

- If accommodation provided at remote areas
  - Not a perk
- If temporary accommodation provided at rural areas.
  - Not a Perk (bcz is necessary)



Note:

- Salary = Basic + DA(R) + Bonus + Commission + All taxable allowances----yearly
- If population is not given take appropriate assumption.

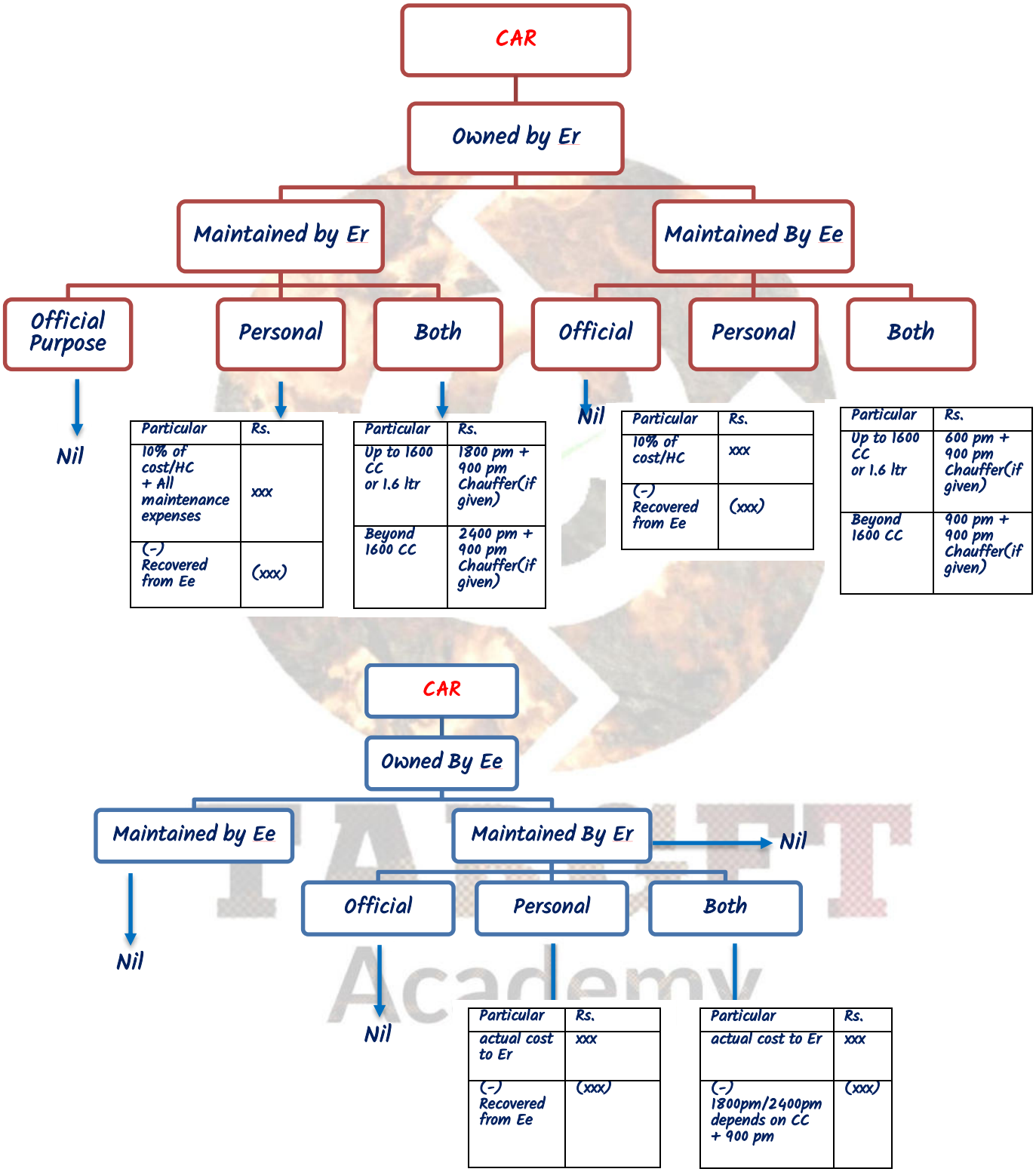
SANKAR KRISHNAN(BOMBAY) CASE LAW

- AO added the notional interest on security deposit to the lease rent
- Held that notional interest on security deposit should not be included

PERQUISITES IN THE HANDS OF SPECIFIED EMPLOYEES:

Rule -3(2)	Motor car facility
Rule -3(3)	Gardner, Sweeper, Watchman, personal attendant
Rule-3(4)	Electricity, Gas & Water connection
Rule -3(5)	Concessional Education facility
Rule -3(6)	Tickets/passes given to transport employees

Owned by	Maintained by
Employer	Employer
Employer	Employee
Employee	Employer
Employee	Employee (Not a perquisite)



Note:

- If Employer given more than one vehicle.

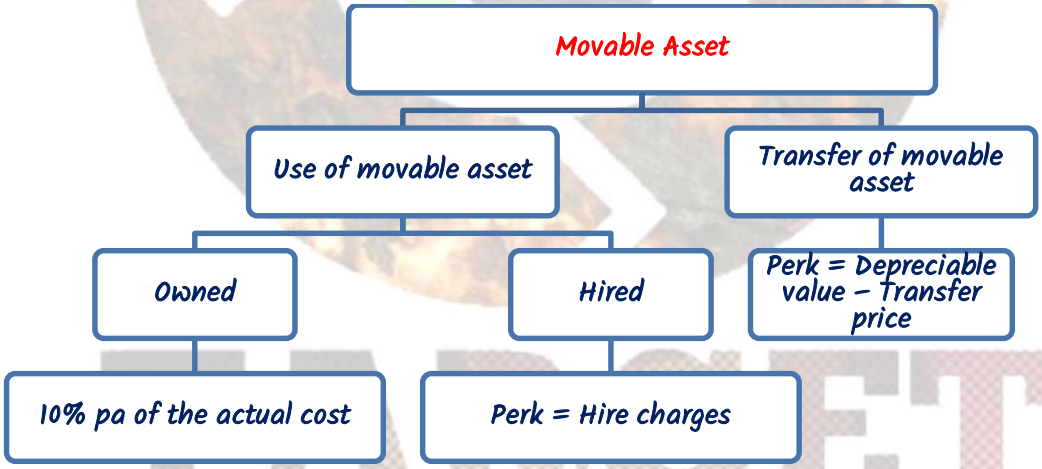
- Assume one car for both purpose.
- & all other car for personal purpose

Car	Option-1	Option -2	Amount (least)
Car -1	Both	Personal	xxx
Car - 2	Personal	Both	xxx

Note:

1) If CC is not given assume below 1600 CC.
2) If Purpose is not given assume both.
3) Don't take Chauffer if not given.
4) Irrespective of actual expenditure.
5) Month denotes complete month. Any part of the month shall be ignored.
6) If two cars are provided by Er. Consider one car for both and second car for private purpose (if not given)
7) If car is hired by the Er then take Actual hire charges in place of 10% of cost of CAR.

MOTOR CAR PROVIDED BY THE ER



Asset	Computer & Electronic	Car	Other Asset
Depreciation Rate	50%	20%	10%
Depreciation Method	WDV	WDV	SLM
Purchase Cost	xxx	xxx	xxx
(-) Depreciation for each completed yr from the date of acquisition to the date of transfer	(xxx)	(xxx)	(xxx)
WDV	xxx	xxx	xxx
Less: Sale vale	(xxx)	(xxx)	(xxx)

Perk	xxx	xxx	xxx

Note:

- Electronic means electronic related to computer e.g:- Mouse, scanner, Printer etc.
- Other electronics like AC etc. will be covered under other assets.
- Perquisite will arise only if sale vale is less than WDV.

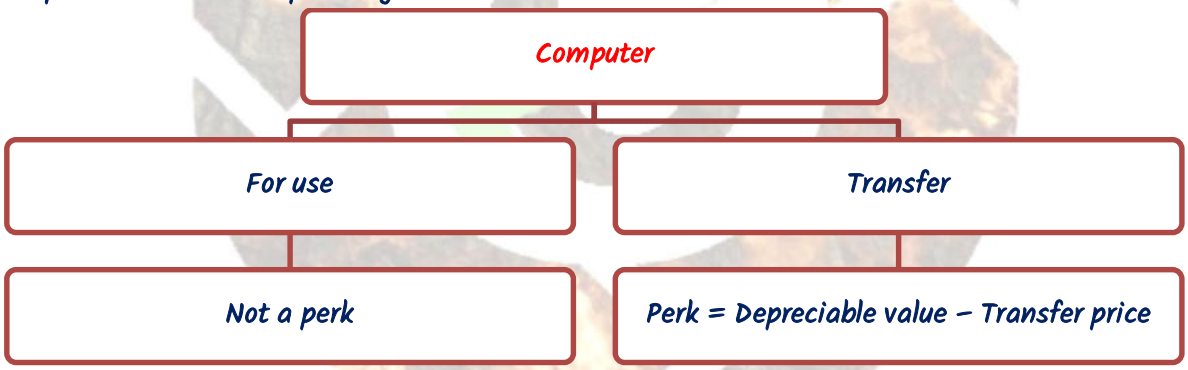
Example :-

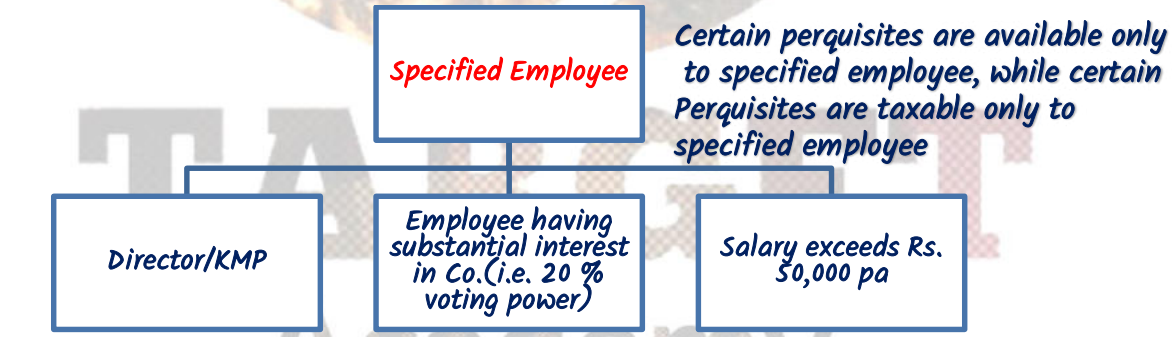
Cost of Computer = 1 lakh.

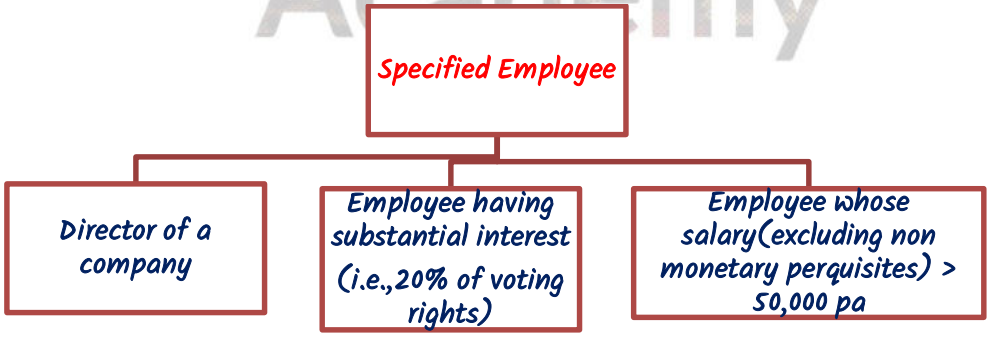
Transfer = 10,000.

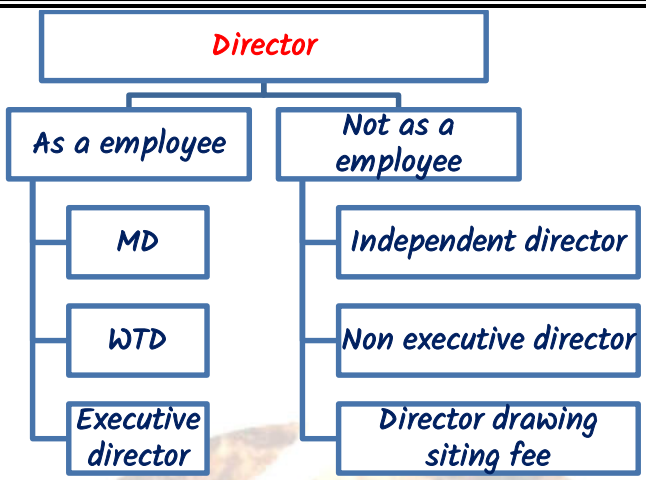
Example :-

- Cost of Asset = 10 lakhs.
- DOA = 1/11/17
- DOT = 15/12/22
- Depreciation for completed years from DOA to DOT.





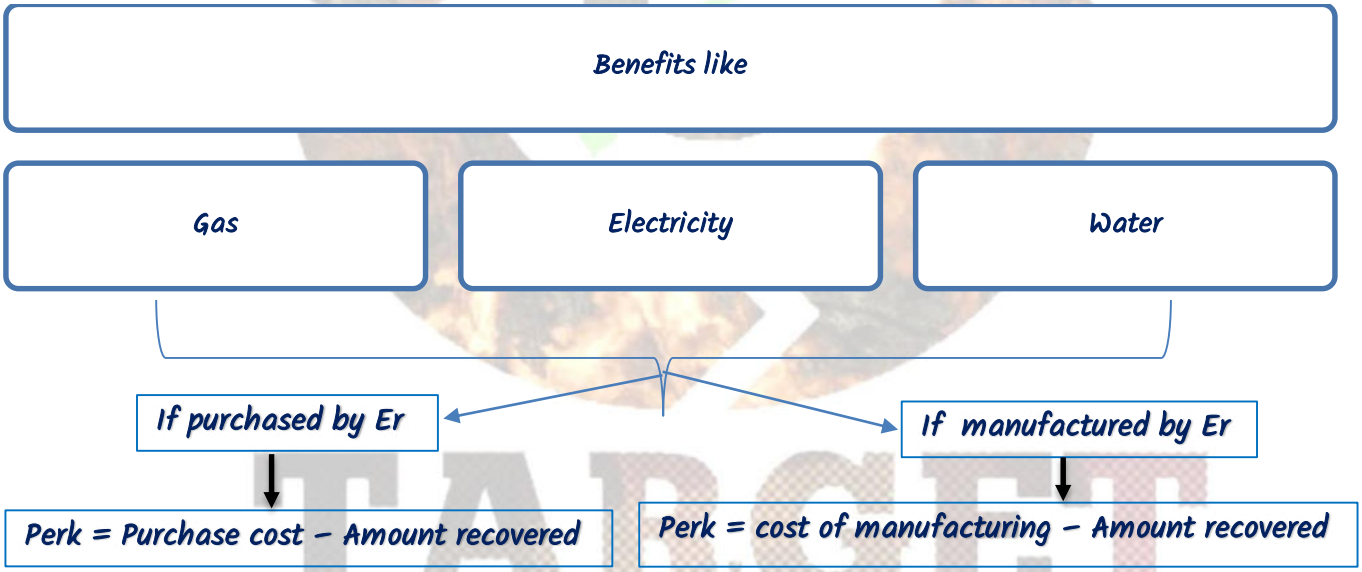


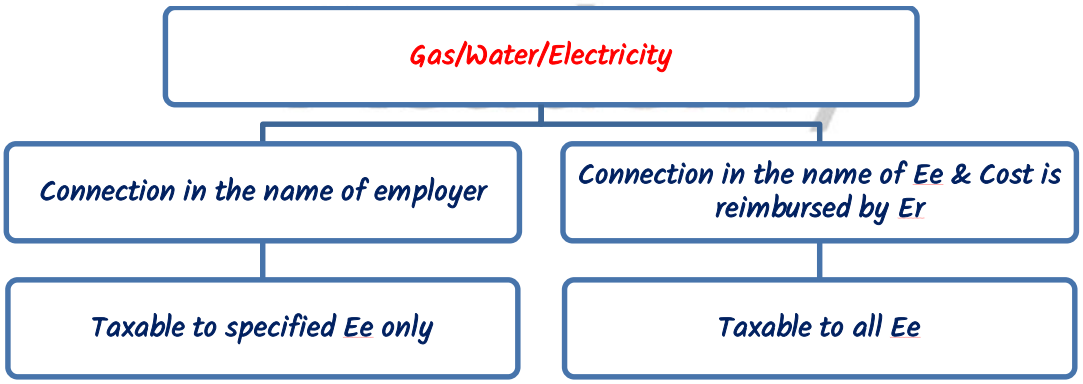


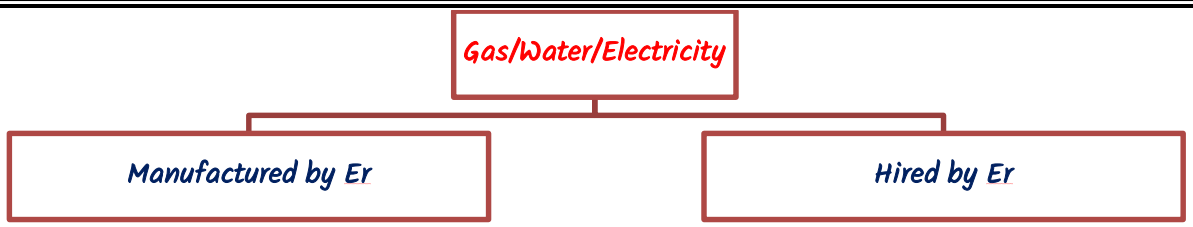


Member of house hold means any member at that house (even not only family)

Perk = Actual cost to employee

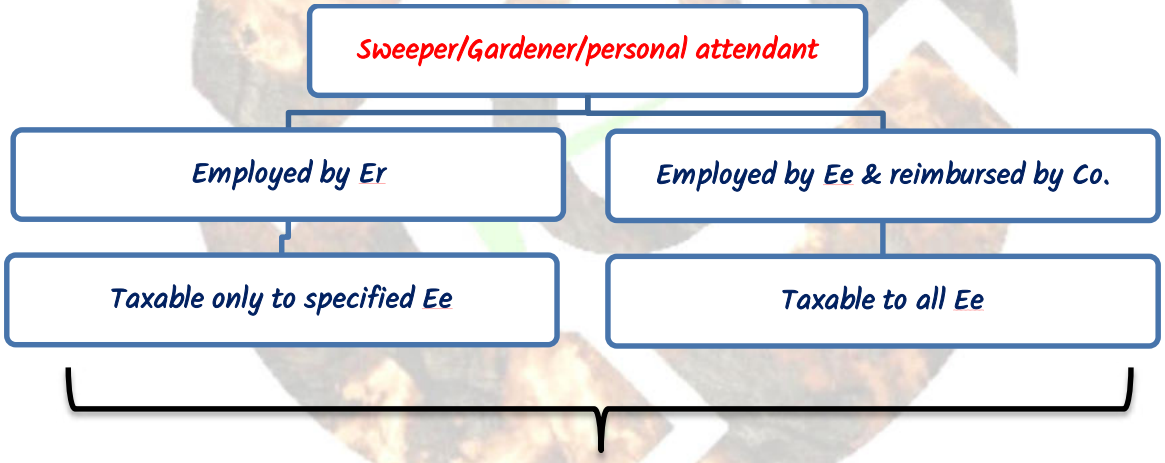




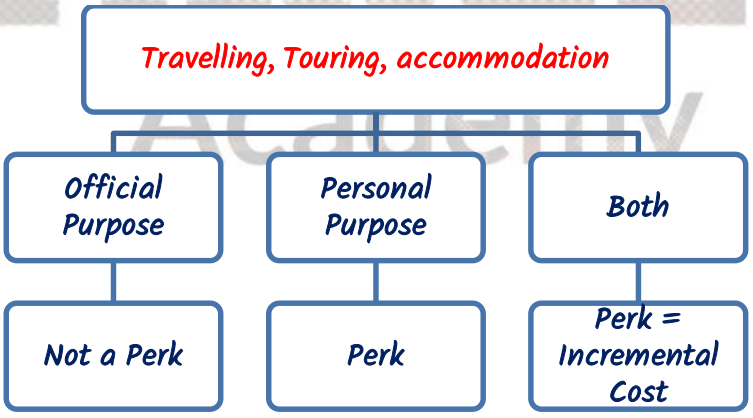


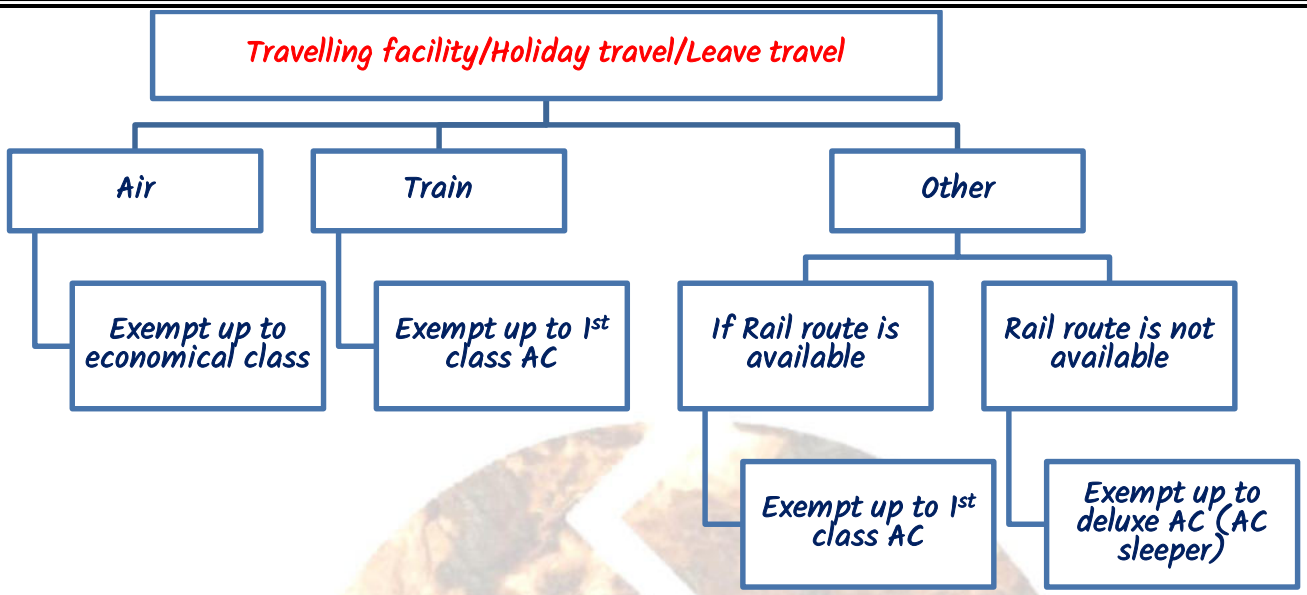
Particulars	Rs.
Manufacturing Cost	xxx
(-) Recovered	(xxx)
Balance	xxx
No. of products/units	xx
Taxable perk	xxx

Particulars	RS.
Actual cost to Er	xxx
(-) Recovered	(xxx)
Taxable	



Particulars	xxx
Actual cost to Er	xxx
(-) Recovered	
Taxable	





Note:

- Family =1) Spouse & Children,

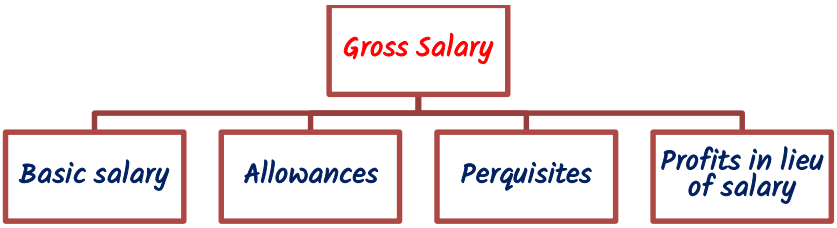
  2) Parents, Brother & Sister wholly or mainly dependent on the individual.
- Exemption available to Ee, spouse & any 2 children born after Oct 1998 (for children born before 1998 exemption is available for any of children.)
- Multiple birth after single birth is considered as one for the purpose of exemption. But single birth after multiple birth is not treated as one.
- This exemption is available twice in a Block of 4 years.
- Block = 2018,2019,2020,2021.; 2022, 2023, 2024, 2025
- Carried forward : only one travel during Ist FY of next subsequent block(4 years).
- Exemption available to Ee, spouse & any 2 children born after Oct 1998 (for children born before 1998 exemption is available for any of children.)
- Multiple birth after single birth is considered as one for the purpose of exemption. But single birth after multiple birth is not treated as one.
- This exemption is available twice in a span of 4 years.
- Carried forward: only one travel during Ist FY of next subsequent block (4 years).

EDUCATION FACILITY

Benefit to	Category of education institutions		
	Own	Tied up	Other
Employee	Not a perk	Not a perk	Not a perk
Children of Ee	FMV	FMV	Cost to the Er
Any other member of house hold	FMV	FMV	Cost to the Er

Note:

- FMV= Cost at similar school
- In case of Children Exempt if cost is less than 1000 per month.

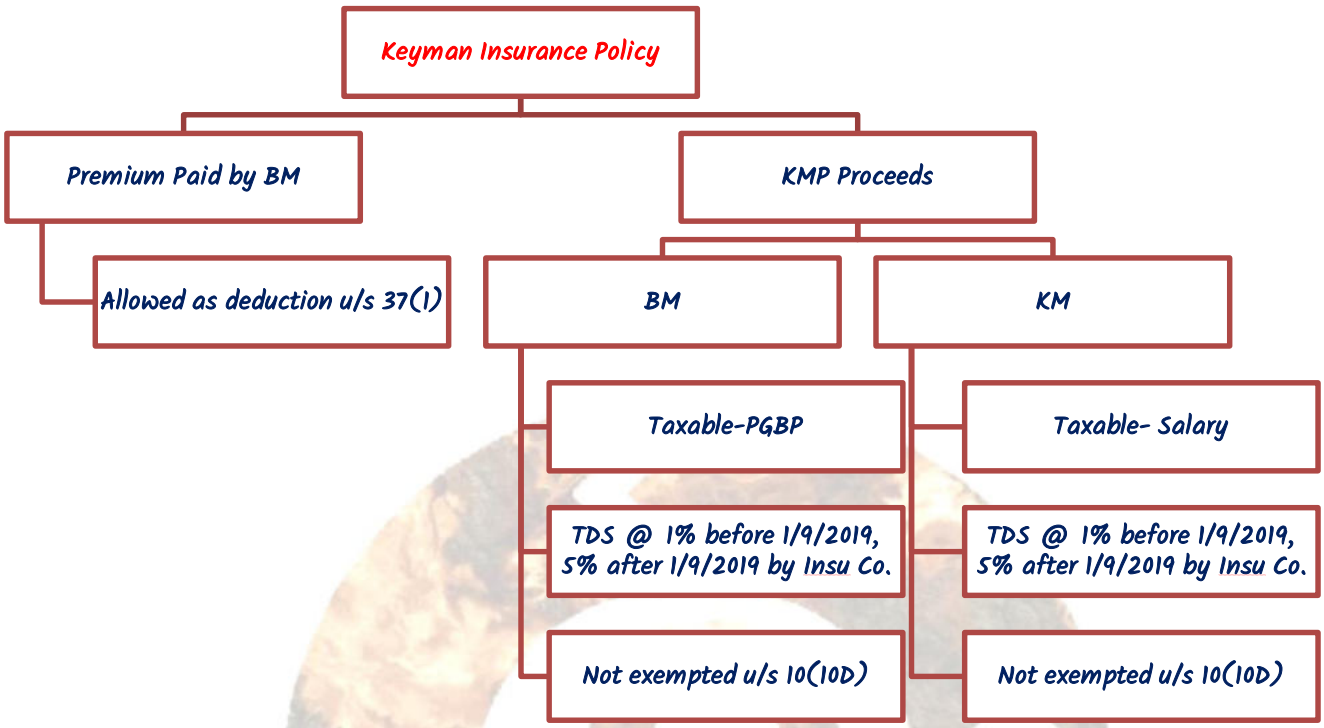


RELIEF U/S 89(1)

- It is the relief out of increase in slab rate due to receipt of arrears of salary/advance salary/retirement benefits, which in normal course it does not exceed.

Step -1	· Compute total income including arrears
Step-2	· Tax on step-1 (after surcharge and Cess)
Step-3	· Compute total income excluding arrears
Step-4	· Tax on Step-3 (after surcharge & Cess)
Step-5 (A)	· Difference on tax (step-2 – step4)
Step-6	· Total income of that year to which it pertains including arrears
Step-7	· Tax on step6 @ rate of that year(after surcharge & cess)
Step-8	· Total income of that year excluding arrears
Step-9	· Tax on step-8 @ rate of that year (after SC & Cess)
Step-10(B)	· Difference of tax step7- stpe9
Relief = A-B	

Academy

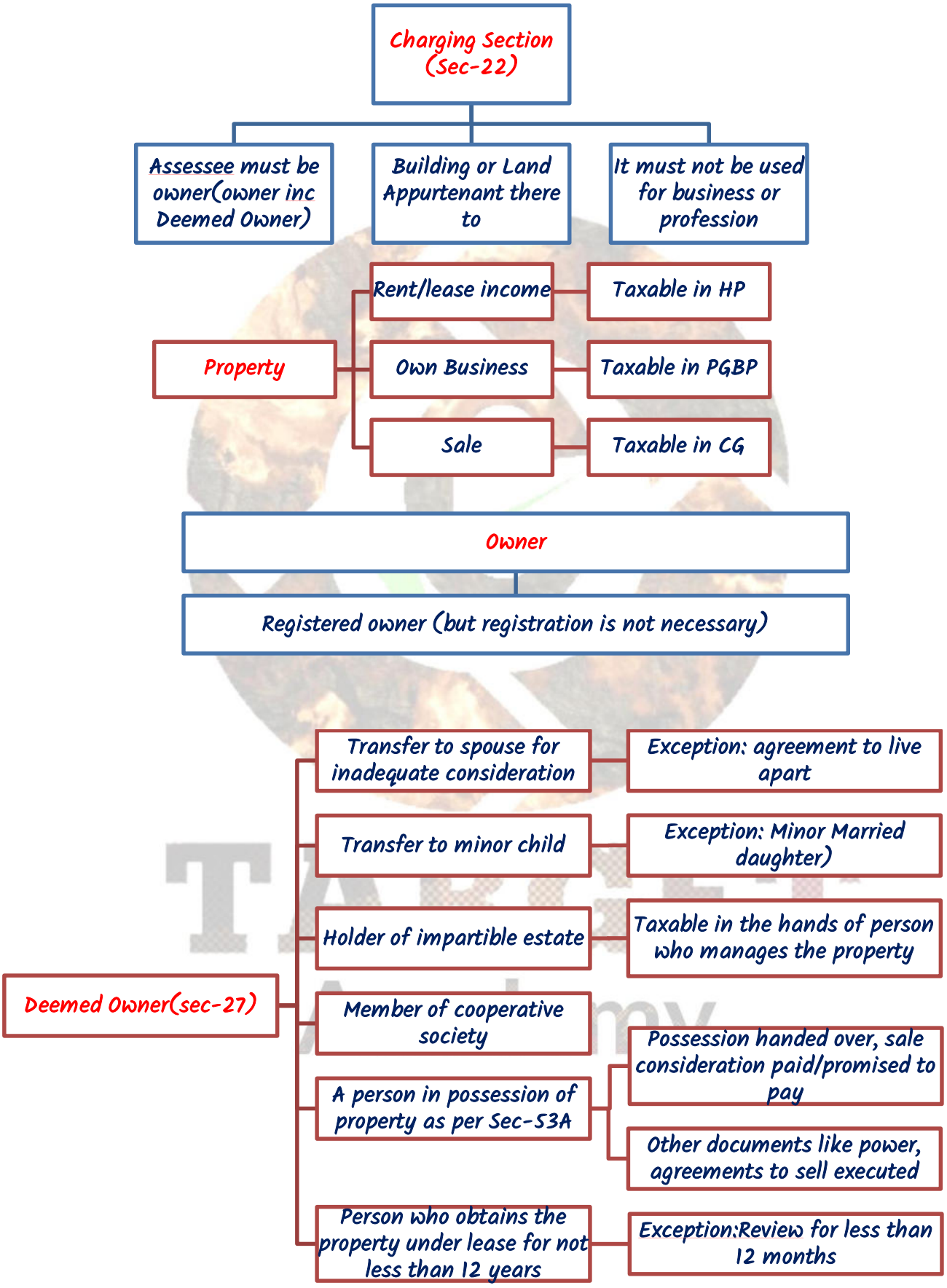


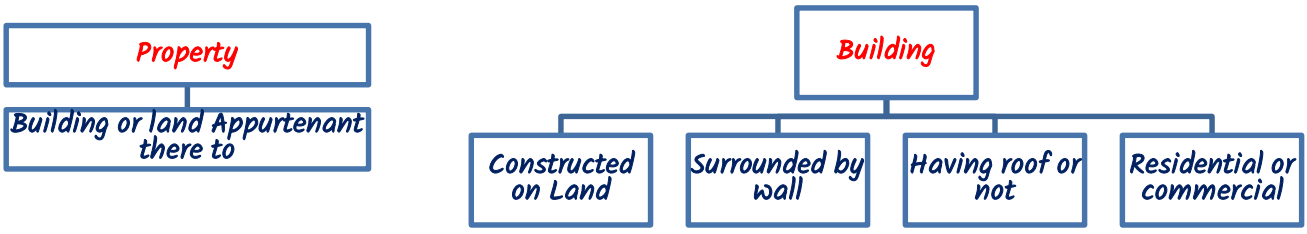
TIPS TO EMPLOYEES (ITC GURGAON)

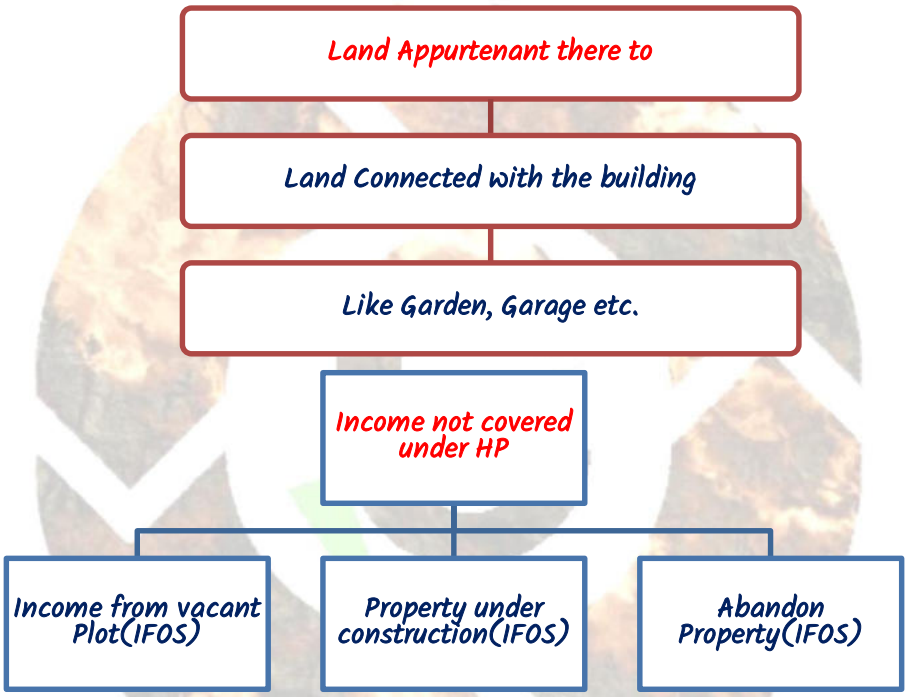
- Tips distributed by Hotel to Servers is not taxable under salary it taxable under IFOS
- It not salary because employee has no enforceable right over that tips
- Hotel has no obligation to deduct TDS

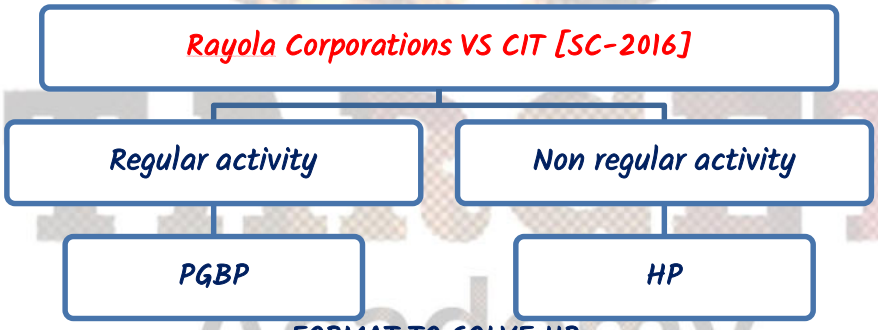
THE END

INCOME FROM HOUSE PROPERTY



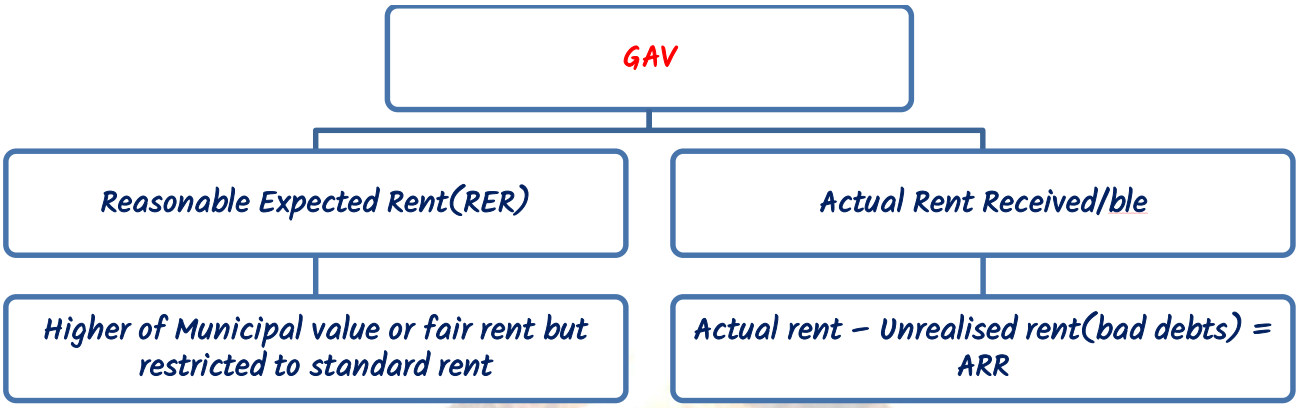






FORMAT TO SOLVE HP

PARTICULARS	RS.
GAV	XXX
(-)Municipal tax actually paid by the owner	(XXX)
NAV	xxx
(-) deductions u/s 24	
(a) standard deduction @ 30% of NAV	(XXX)
(b) interest on borrowed capital	(XXX)
Income from HP	(XXX)



REASONABLE EXPECTED RENT:

1. MUNICIPAL VALUE	XXX
2. FAIR RENT	XXX
3. EXPECTED RENT(HIGHER OF 1 OR 2)	XXX
4. STANDARD RENT	XXX
RER (LOWER OF 3 OR 4)	XXX

CALCULATE RER

Particulars	Rs.	RS.	Rs.	Rs.	Rs.	Rs.
MV	50	40	50	57	NA	NA
FR	56	51	56	NA	59	NA
ER						
SR	55	63	NA	55	NA	60
RER						

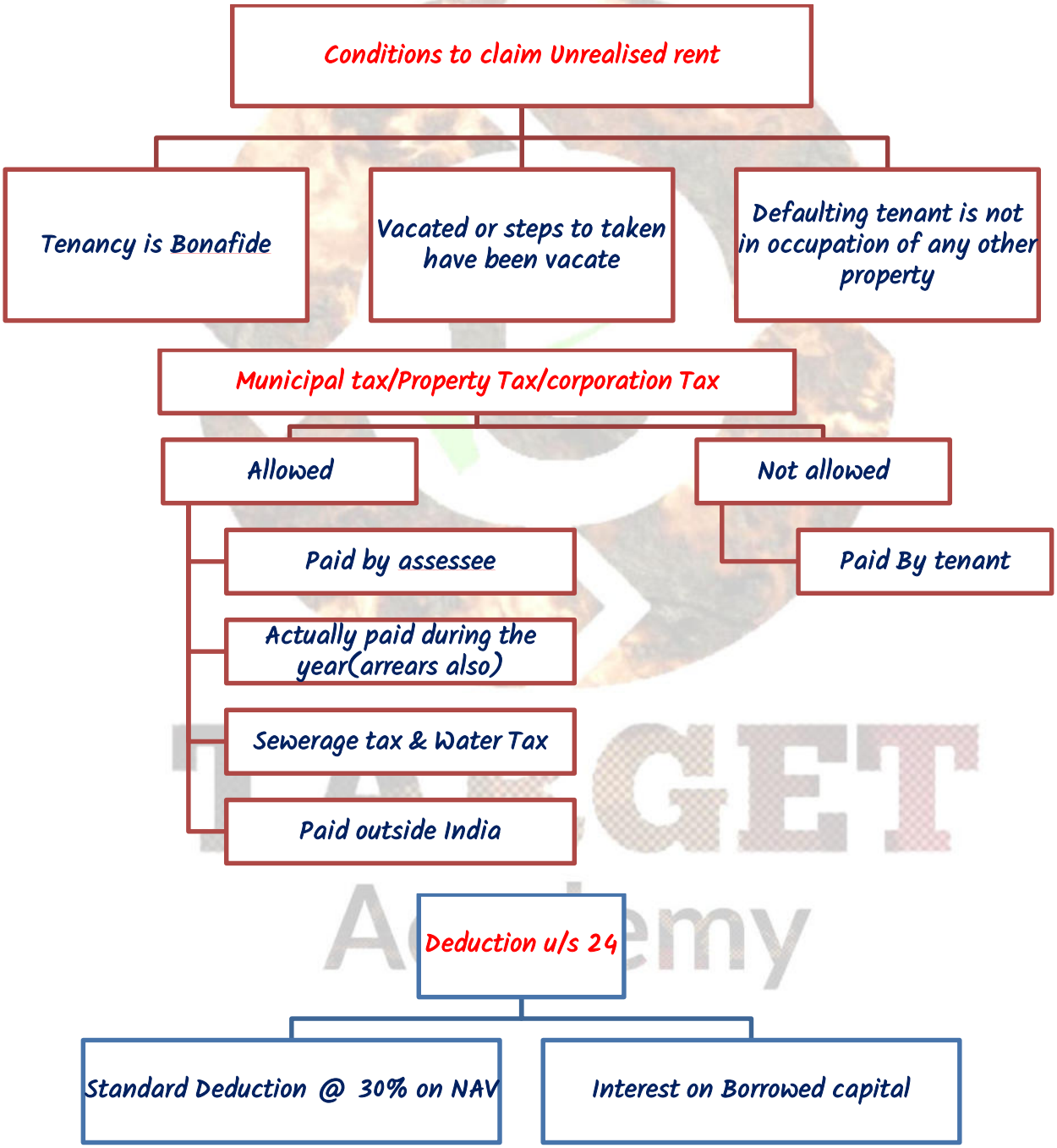
CALCULATION OF ARR

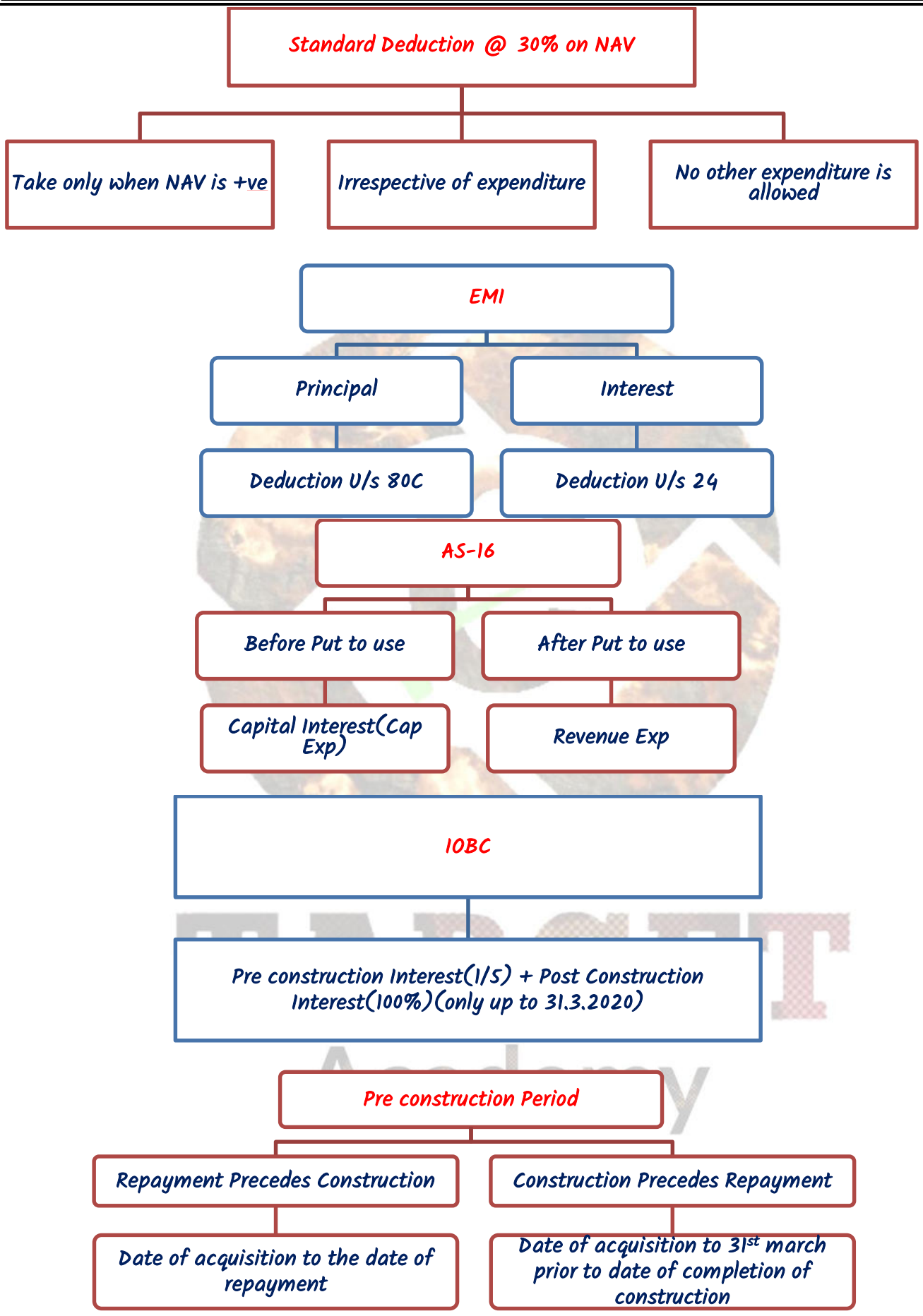
Particulars	Rs.	Rs.	Rs.
Actual Rent	105	112	113
Unrealised Rent	3	2	0
ARR			

NOTES:

- If Standard rent is not given then Expected rent will be RER.
- If Fair Rent or MV is not given then the other detail will be Expected Rent.

Municipal Value	· Value of the Property for the purpose of Municipal Tax
Fair Rent	· Rent of Similar Property with similar facility in similar location
Standard Rent	· Highest rent that could be recovered as per the Standard rent Control Act.




Standard Deduction @ 30% on NAV
Take only when NAV is +ve
Irrespective of expenditure
No other expenditure is allowed
EMI
Principal
Interest
Deduction U/s 80C
Deduction U/s 24
AS-16
Before Put to use
After Put to use
Capital Interest(Cap Exp)
Revenue Exp
IOBC
Pre construction Interest(1/5) + Post Construction Interest(100%)(only up to 31.3.2020)
Pre construction Period
Repayment Precedes Construction
Construction Precedes Repayment
Date of acquisition to the date of repayment
Date of acquisition to 31st march prior to date of completion of construction

NOTES:

- ✓ Loan may be taken from any one (not only from Bank/FI).
- ✓ If new loan is taken to repay the original loan it shall be treated as continuation of Original Loan and deduction will be allowed for interest paid on new loan(cir 29/69)
- ✓ Penal interest is not allowed as deduction
- ✓ Sec-25: If interest is paid outside India and TDS is not deducted then deduction is not allowed.
- ✓ No deduction is allowed for any Brokerage or commission for arraigning the loan.
- ✓ Interest on unpaid Interest is not deductible (Shew Kissen Bhatter)

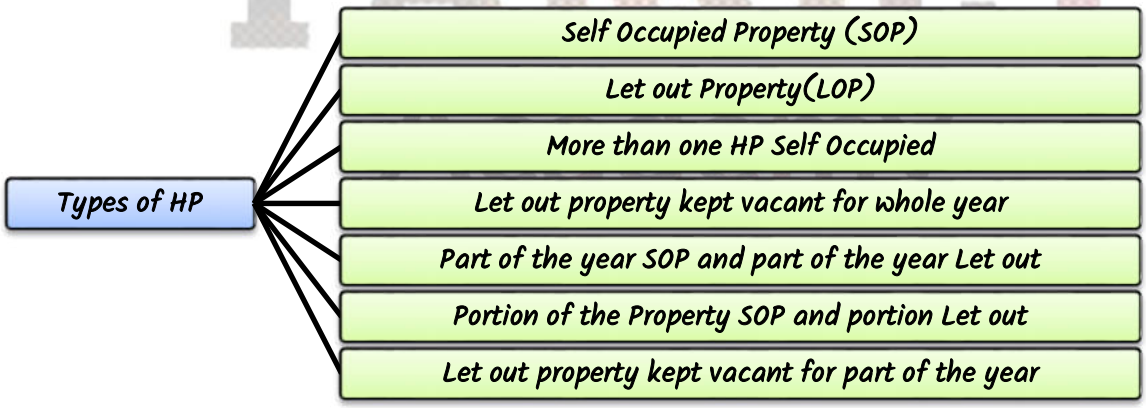
EXAMPLE-1

Property acquired	1/7/2022
Interest	
Period prior to 1/4/2022	Rs.49200
1/4/2020 to 30/06/2022	Rs. 50800
1/7/2022 to 31/3/2023	Rs. 131300

EXAMPLE-7

Calculate Income from HP

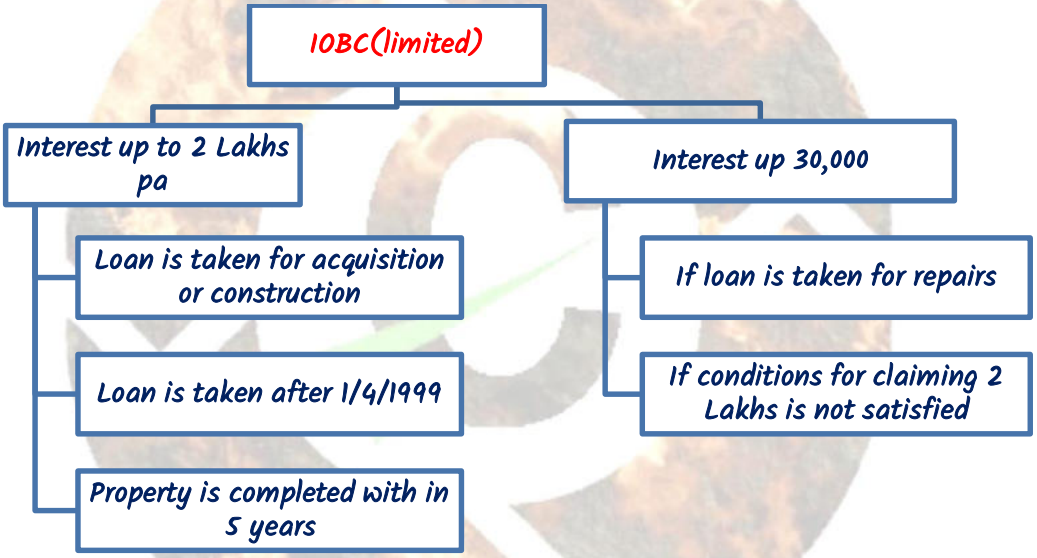
Particulars	Rs.
Municipal Rent	20000 pm
Fair Rent	18000 pm
Standard Rent	20000 pm
Actual Rent	22000 pm
Unrealised Rent	-
Municipal Tax	10%
10BC Pre – 10000 Post 2000	



- Conditions
  - The property was not let out for any part of the year.

- No other benefits has been derived from the property.

Particulars	Amount(Rs.)
Gross Annual Value (GAV)	-
(-) Municipal Tax actually paid by the owner	-
NAV	-
Less : Deduction u/s 24	
(a) Standard Deduction @ 30 % on NAV	-
(b) Interest on Borrowed Capital (limited)	(xxx)
Loss From HP	(xxx)



NOTE:

In case of two HP self occupied, 2,00,000/ 30,000 should be taken in aggregate.

EXAMPLE-8:

Calculate Income From HP (self occupied)

Particulars	Rs.
Municipal Rent	24000 pm
Fair Rent	19000 pm
Standard Rent	25000 pm
Actual Rent	-
Unrealised Rent	-
Municipal Tax	12000 pa
IOBC (Post – taken for construction)	180000 pa

LET PROPERTY

Particulars	Amount(Rs.)
Gross Annual Value (GAV)	xxx
(-) Municipal Tax actually paid by the owner	(xxx)
NAV	xxx
Less : Deduction u/s 24	
(a) Standard Deduction @ 30 % on NAV	(xxx)
(b) Interest on Borrowed Capital (unlimited) (whether for construction or for repairs)	(xxx)
Income/Loss From HP	xxx

EXAMPLE-10:

Calculate Income From HP (Let out)

Particulars	Rs.
Municipal Rent	20000 pm
Fair Rent	22000 pm
Standard Rent	24000 pm
Actual Rent	26000
Unrealised Rent	-
Municipal Tax	12000 pa
IOBC For construction – 2.5 lakhs For Repairs - 50000	

MORE THAN TWO HP SELF OCCUPIED SEC-23(4)

- ✓ Consider more than 2 HP self occupied as deemed let out.
- ✓ Choose the option which has lower taxable income or higher loss
- ✓ This option can be changed yearly in a manner beneficial to the Assessee.
- ✓ In case of deemed let out property reasonable expected rent shall be taken as GAV. However if Actual rent is higher then take GAV= Actual Rent.
- ✓ The entire IOBC w.r.t SOP should not exceed 2,00,000

Particulars	Option-1			Option-2			Option-3		
	HP1(SO)	HP2(SO)	HP3(LO)	HP1(SO)	HP2(LO)	HP3(SO)	HP1(LO)	HP2(SO)	HP3(SO)
GAV	Nil	Nil	xxx	Nil	xxx	Nil	xxx	Nil	Nil
Less: Municipal Tax actually paid	Nil	Nil	(xxx)	Nil	(xxx)	Nil	(xxx)	Nil	Nil
NAV	Nil	Nil	xxx	Nil	xxx	Nil	xxx	Nil	Nil
Less : Deduction U/s 24									
(a) Standard Deduction	Nil	Nil	(xxx)	Nil	(xxx)	Nil	(xxx)	Nil	Nil
(b) IOBC	(xxx) Limited	(xxx) Limited	(xxx) unlimited	(xxx) Limited	(xxx) unlimited	(xxx) Limited	(xxx) unlimited	(xxx) Limited	(xxx) Limited

EXAMPLE-11:

Mr. G has 3 HP all are self occupied (AY-2023-24)

Particulars	HP1	HP2	HP3
Municipal Value (pa)	3,00,000	3,60,000	3,30,000
Fair Rent (pa)	3,75,000	2,75,000	3,80,000
Standard Rent pa	3,50,000	3,70,000	3,75,000
Date of Completion/purchase	31.3.1999	31.3.2001	1.4.2014
Municipal taxes paid	12%	8%	6%
Interest on money borrowed for repair of property during the current year		55,000	
Interest for current year on money borrowed in July 2015 for purchase of property			1,75,000

Suggest better option for Mr. G to be assessed as self occupied, so that his tax liability is minimum

LET OUT PROPERTY KEPT VACANT FOR WHOLE YEAR:

Particulars	Amount (Rs.)
Gross Annual Value	Nil
Less: Municipal Tax actually paid by the owner	(xxx)
NAV	(xxx)

Less: Deduction U/s 24	
(a) Standard Deduction @ 30 % of NAV	Nil
(b) IOBC (unlimited)	(xxx)
Loss from House Property	(xxx)

As per Sachin Tendulkhar V/s ITAT, if Assessee has given the proof that he has used all the means to let out the property and still he can't let out the property then he can take GAV as Nil.

PORTION OF PROPERTY SELF OCCUPIED & PORTION IS LET OUT

There is no need to treat the whole property as a single unit for computation of income from house property. Hence calculation shall be different for each unit assuming them as a separate unit.

Particulars	Let out (%)	Self Occupied (%)
GAV	xxx	Nil
Less : M.T actually paid by the owner	(xxx)	Nil
NAV	xxx	Nil
Less: Deductions u/s 24		
(a) Standard Deduction @ 30%	(xxx)	Nil
(b) IOBC	(xxx) unlimited	(xxx) Limited
IFHP	xxx	(xxx)

EXAMPLE-12:

Mr. D Provides that he has House property 60% Self occupied & 40% Let Out

Particulars	Amount(Rs.)
Municipal Value	4,00,000
Fair Rent	6,00,000
Standard Rent	8,00,000
Municipal Tax	10,000
IOBC	1,00,000

LET OUT FOR PART OF THE YEAR AND SELF OCCUPIED FOR PART OF THE YEAR

Income is calculated as deemed let out property for whole year

Particulars	Amount (Rs.)
Gross Annual Value	xxx
Less : Municipal Tax actually paid by the owner	(xxx)
NAV	xxx

Less : Deductions u/s 24	
a) Standard Deduction @ 30 % of NAV	(xxx)
b) IOBC	(xxx)
IFHP	

EXAMPLE-13:

Mr. M Specifies that his property was self occupied for 10 months & let out for 2 Months

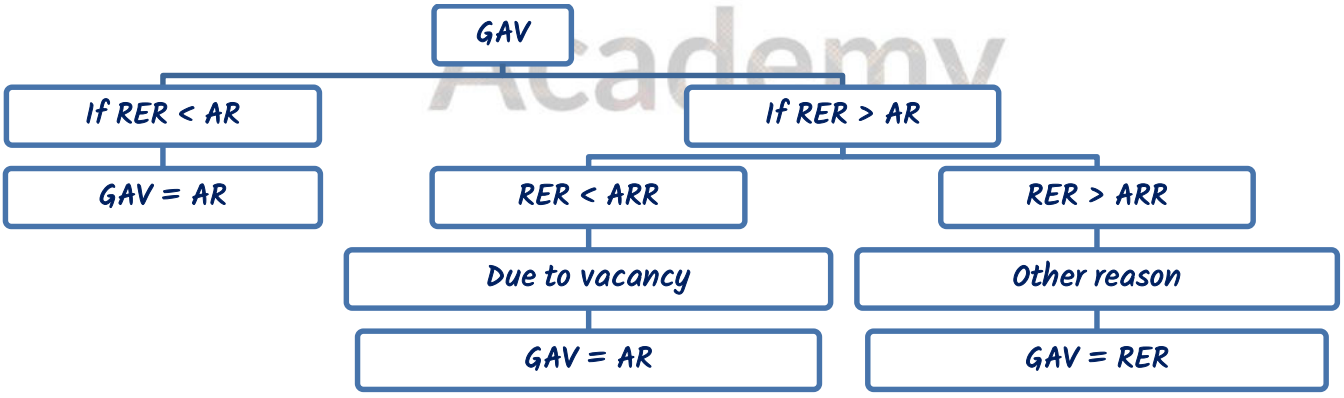
Particulars	Rs.
Municipal Rent	4,00,000 pa
Fair Rent	6,00,000 pa
Standard Rent	
Actual Rent	30,000 pm
Unrealised Rent	-
Municipal Tax	20,000 pa
IOBC Pre construction – 10,000 Post Construction – 5,000	

LET OUT FOR PART OF THE YEAR & PART OF THE YEAR VACANT

Particulars	Amount
GAV (different Calculation)	xxx
Less Municipal Tax actually paid by the owner	(xxx)
NAV	xxx
Less : Deductions u/s 24	
(a) Standard Deduction @ 30 % of NAV	(xxx)
(b) IOBC	(xxx)
IFHP	xxx

STEP WISE CALCULATION:

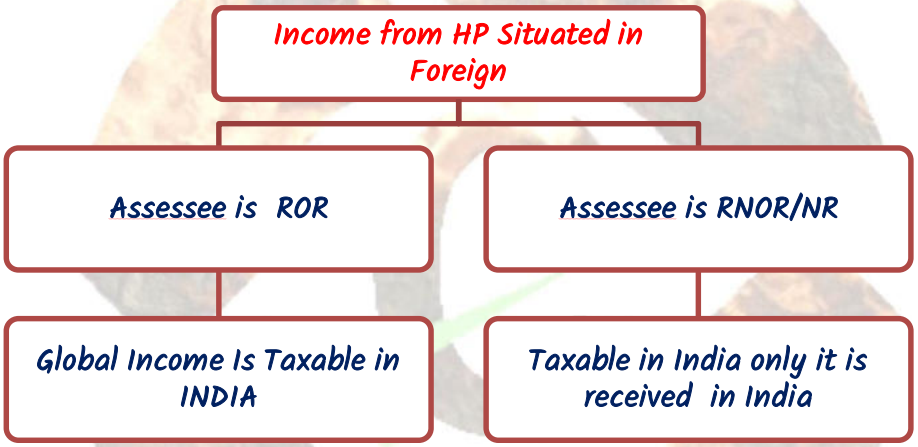
- ✓ Step-1 : Calculate RER
- ✓ Step-2: Calculate ARR as if there is no vacancy for the whole year.
- ✓ Step-3: Calculate actual rent for let out period.



EXAMPLE-14:

Calculate GAV

Particulars	Amount(Rs.)
Municipal Value	1,10,000
Fair rent	90,000
Standard Rent	1,00,000
Actual Rent	10,000 pm
Vacant	4 months



RECOVERY OF UNREALISED RENT (OR) ARREARS OF RENT SEC- 25AA & 25B

- Arrears of rent – due but not received
- Unrealised rent – Bad debts – Steps taken to recover but not recovered.
- If Both Arrears of rent & unrealised rent recovered then it is taxable in the year of receipt.
- It is irrespective whether assessee is owner or not in that year when it was recovered, it is taxable under HP head
- 30% deduction is allowed.

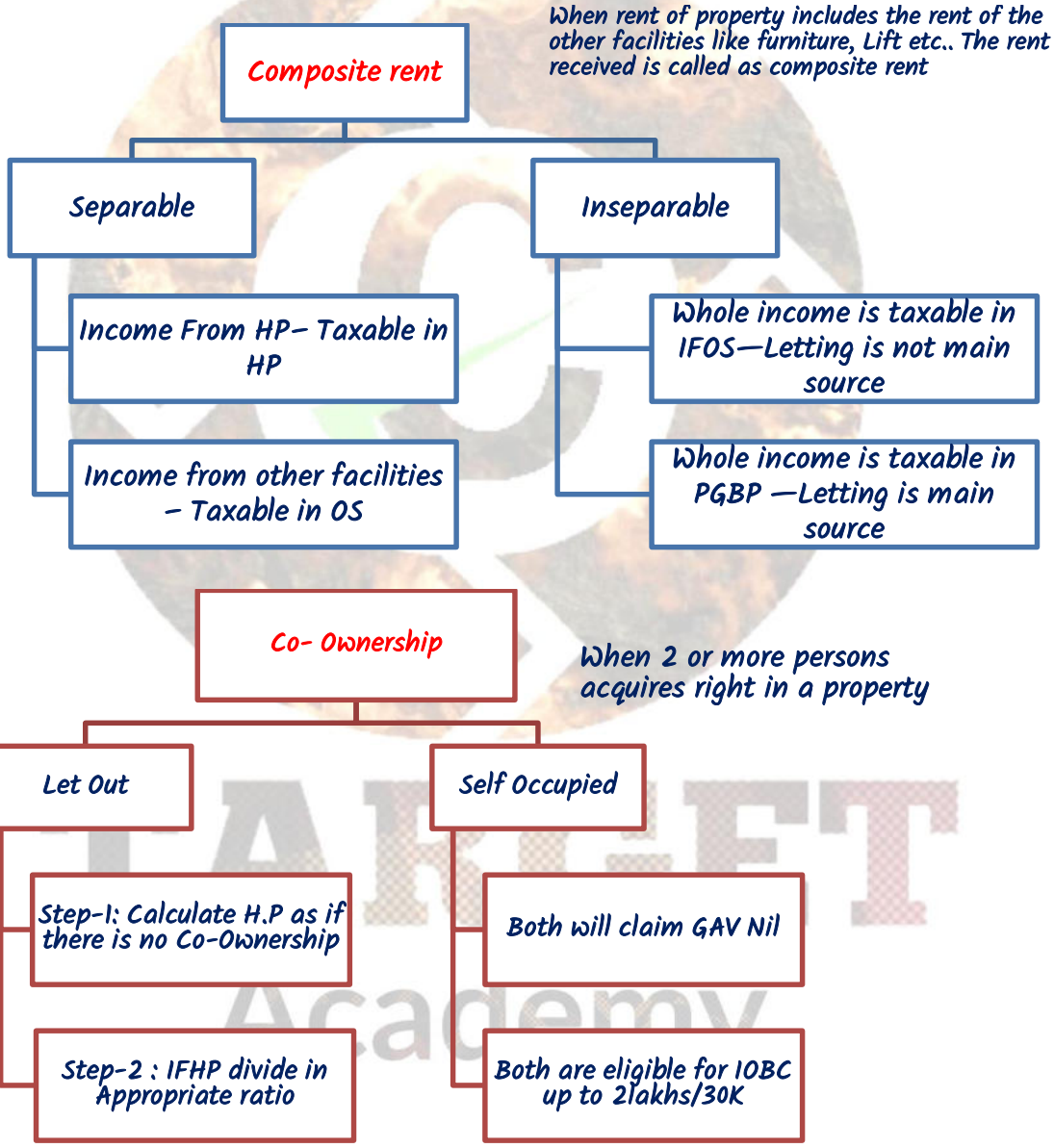
Particulars	Amount(Rs.)
IFHP	xxx
Unrealised rent or Arrears of rent recovered xxx	
Less Deduction @ 30 % (xxx)	xxx
IFHP	xxx

EXAMPLE-21:

Mr. A Purchased the Property on 01/04/2020. He let out that property for F.Y 2020-21 , F.Y 2019-20. He sold that property on 1/04/2022.

Particulars	Unrealised Rent	Recovered in F.Y 20122-23
F.Y 2019-20	2,00,000	1,50,000
F.Y 2020-21	1,80,000	1,00,000

Calculate IFHP for A.Y 2023-24



EXAMPLE-22:

Mr.A & Mr. B Co- Owners. Let out the property. Calculate IFHP for both A & B for A.Y 2023-24

Particulars	Amount(Rs.)
Municipal Value	1,60,000 pa

Fair Rent	1,50,000 pa
Standard Rent	1,70,000 pa
Rent received	15,000 pm
Loan jointly taken, Interest charged is 25K but paid only 21K, Interest on Interest 450.	
To repay the loan taken fresh loan, Interest paid is 5,000	
Municipal Tax (paid by tenant)	5,100

Note : If property is used for agriculture purpose Income there from is exempt U/s 10(1)

Disputed property

IT Dept will decide deemed owner

Sec-10(1)	· Income from any farm house forming part of agriculture
Sec-10(19A)	· Annual Value of any one palace in the occupation of an Ex-ruler
Sec-10(20)	· Income from HP of a Local Authority
Sec-10(21)	· Income from HP of an Approved scientific research organisation.
Sec-10(23C)	· Property income of university & education institutions.
Sec-10(24)	· Property income of any registered Trade union
Sec-11	· Income from HP held for charitable or religious purpose
Sec-13A	· Property income from any political property.

- Property used for Self occupied business.
- Two self occupied property of an Individual/ HUF.

HP held as stock in trade

The GAV can be taken as Nil for 2 years from the end of the year of certificate of completion

THE END

PGBP

Calculation of PGBP of Mr. – for AY -2023-24

Particulars	Amount (Rs.)	Amount (Rs.)
Net Profit as per P & l a/c		xxxx

Add:- Expenses disallowed

1. Not a business expense (like personal expenses) S-37
2. Illegal Expenses
3. Penalty S- 37
4. Capital Expenditure (subjected to conditions) S- 37
5. Provisions S- 37
6. Excess payment to relative 40A(2)
7. Cash payments in excess of 10k (or) 35k of GTA 40A (3)
8. Gratuity – unapproved gratuity
9. Un recognized PF
10. Depreciation as per accounts S- 32
11. VRS -4/5th disallow (only 1/5th allowed per year remaining disallowed)
12. Payables (like tax, gratuity, Interest, 43B, Bones, Commission, payment to Railways) – Allowed only payment basis.
13. Payment without TDS (Resident – 30 % Disallowed, NR – 100% Disallowed) – Sec- 40a(i), 40a(ii)
14. Rumination to sleeping partner
15. Interest to partner in excess of 12% P.A
16. Remuneration to working partners in excess of Max / limited (refer notes).

Add: Income not taken in to accounts

1. Sale of Scrap
2. Incomes come in PGBP, but not taken in P&L

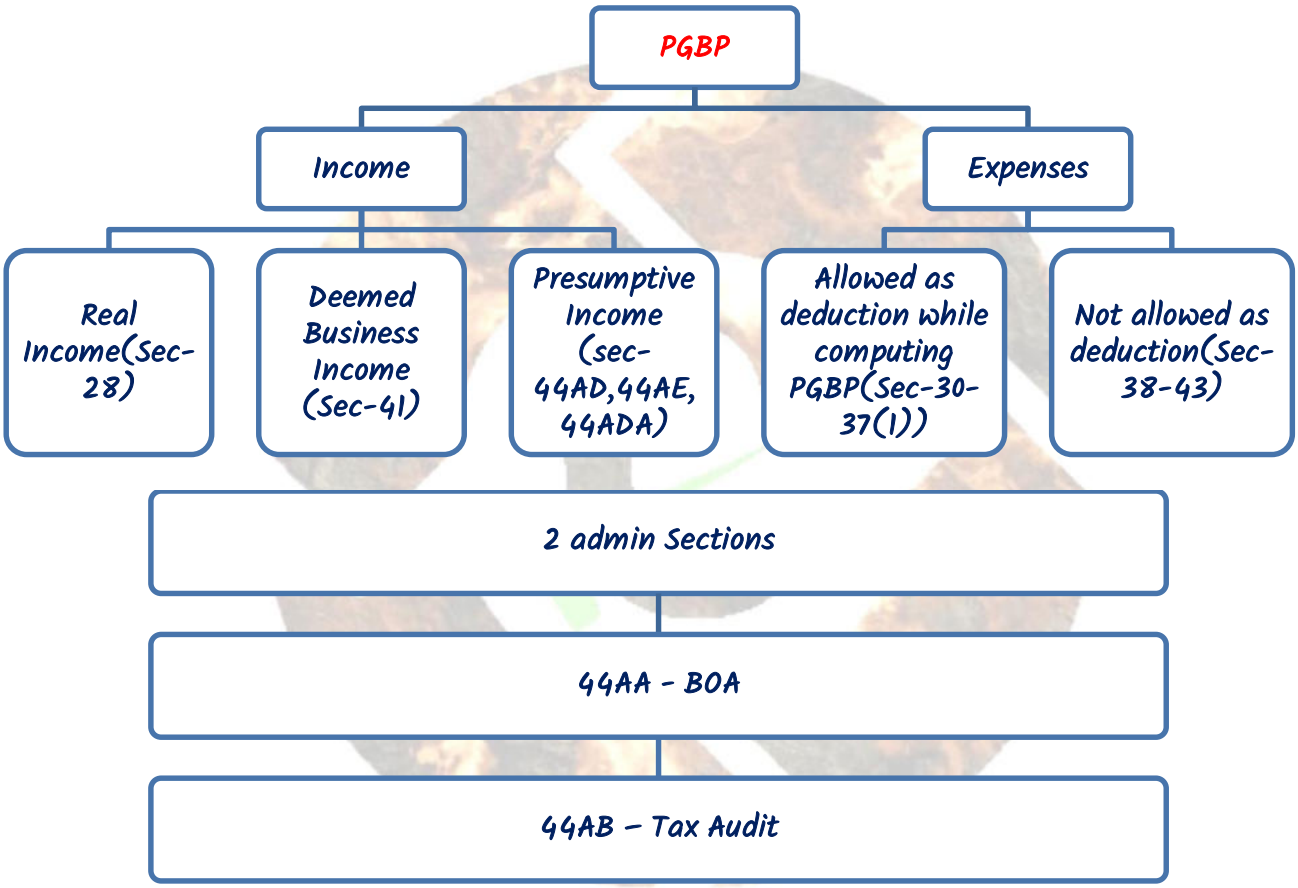
Less: Income Belongs to other head

1. Incomes belongs to other head (like Lottery, Gain on Sale of Land, Interest e.t.c)

Less: Business Expenses (not Taken in to account)

1. Depreciation as per (Sec 32 of I.T Act, 1961)
2. Additional depreciation

3. Capital expenditure (except land) in can of scientific research(in accounts it is not expenses)
4. Donation to approved scientific research
5. Agriculture extension project.
6. Capital expenditure (except land, G.W; F.I) W.R.T. Specified Business U/S 35 AD.



HOW TO COMPUTE PGBP (SEC-29)

Direct Method	
A/c are maintained in cash basis (generally)	
Gross receipt/ Turn over	xxx
(-) All expenses which are allowed	(xxx)
PGBP	xxx

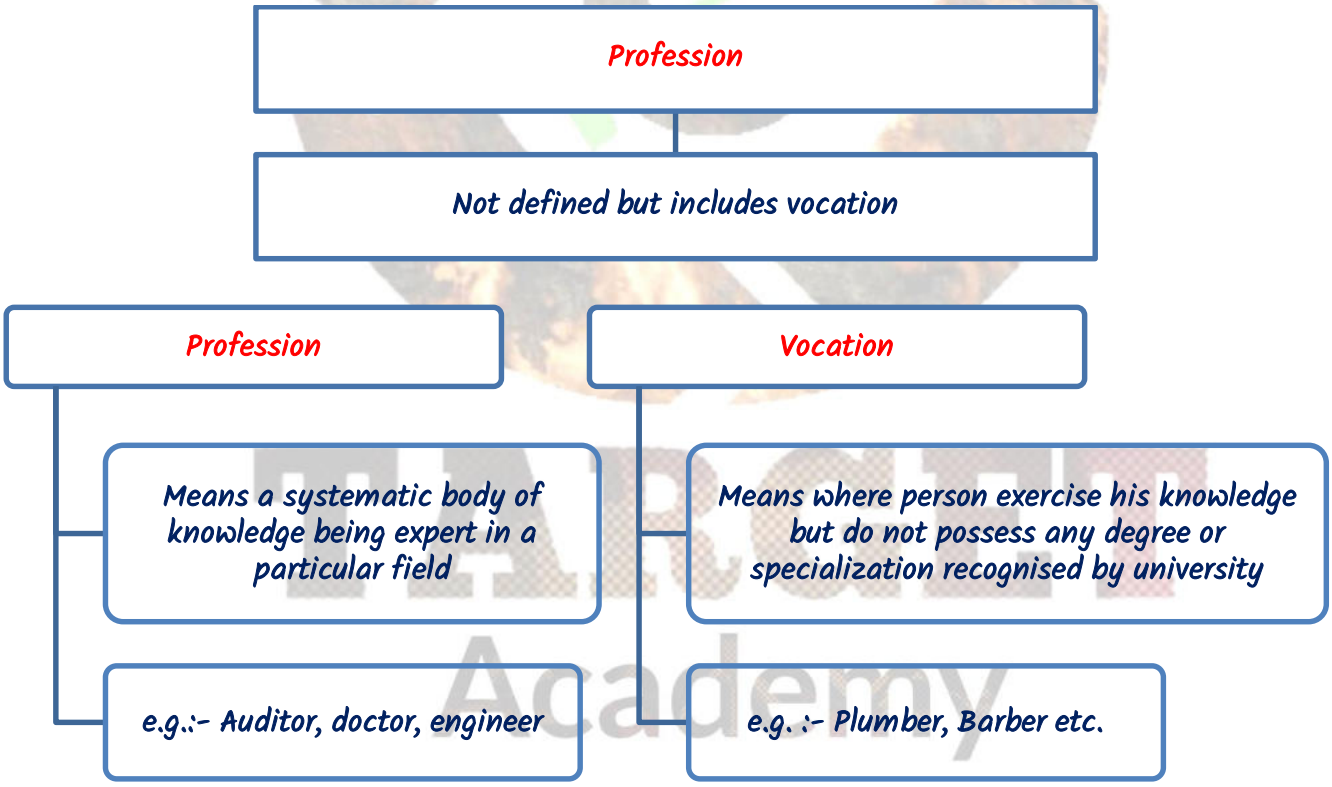
Indirect method	
A/c are maintained in accrual basis (generally)	
Net profit	xxx
(+) Expenses not allowed as deduction	xxx
(-) Income from different head	(xxx)
(-) Expenses allowed but not claimed/ weighted deduction	(xxx)
PGBP	xxx

- In A/c all incomes are credited, all expenses are debited.



Note:

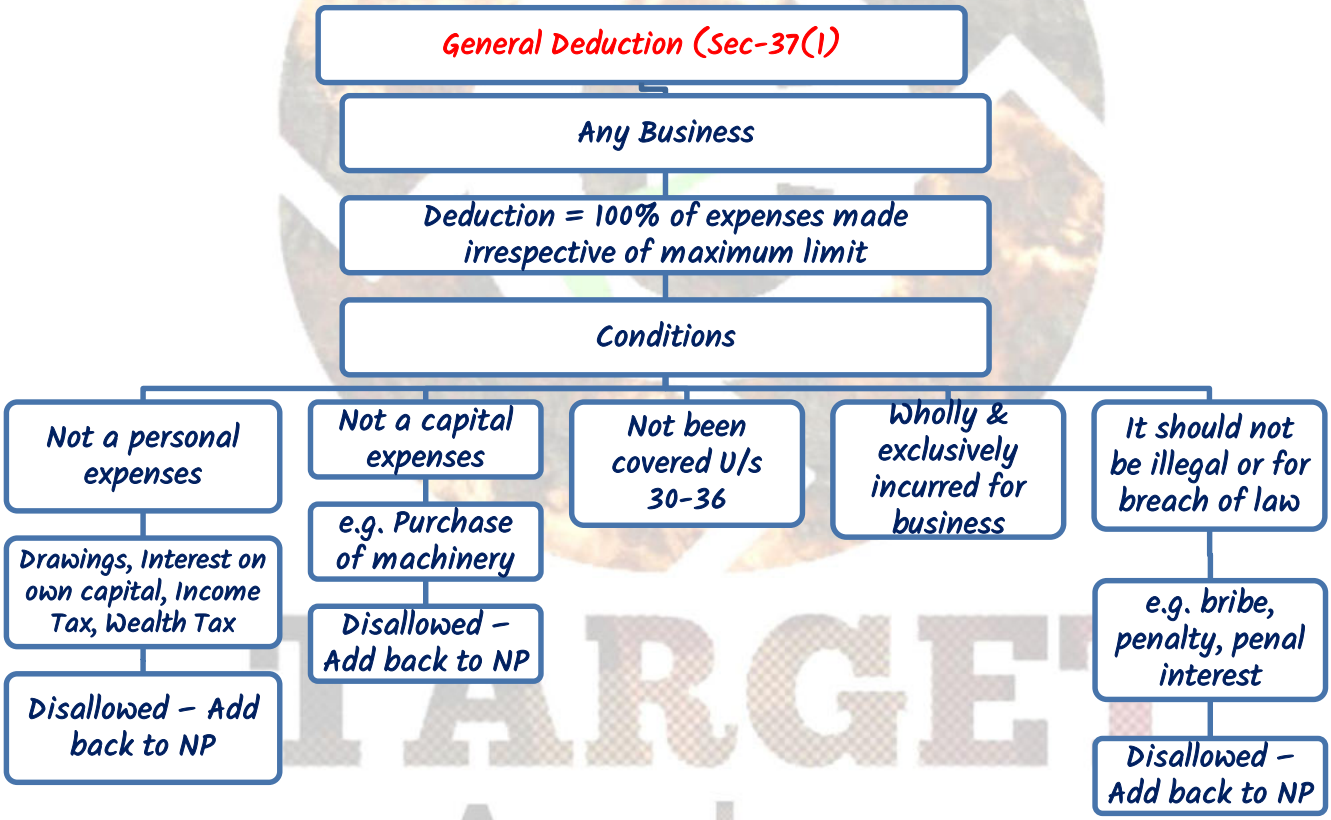
- Regular or irregular.
- Legal or illegal income (not expenses).
- Any business.



SEC-28 :- CHARGING SECTION

- Income from business or profession.
- Any benefit arising out of business whether convertible in to money or not.
    - E.g. :- USA tour on achieving target.

- Any subsidy, duty draw back benefit provided to business, however subsidy against assets is reduced from actual cost.
    - E.g. :- in case of export– pay duty first– later give refund of duty.
- Remuneration, interest, commission, received by partner of the Firm.
- Compensation received by Manager or Director of the Company.
- Sale of Assets on which whole deduction was allowed U/s 35 or 35 AD.
- FA, 2018. If business assets are converted in to capital assets, the fair market value shall be treated as PGBP.
- Amount received being non compensatory fee of business or profession.
- Sale of License/Duty entitlement pass book scheme.

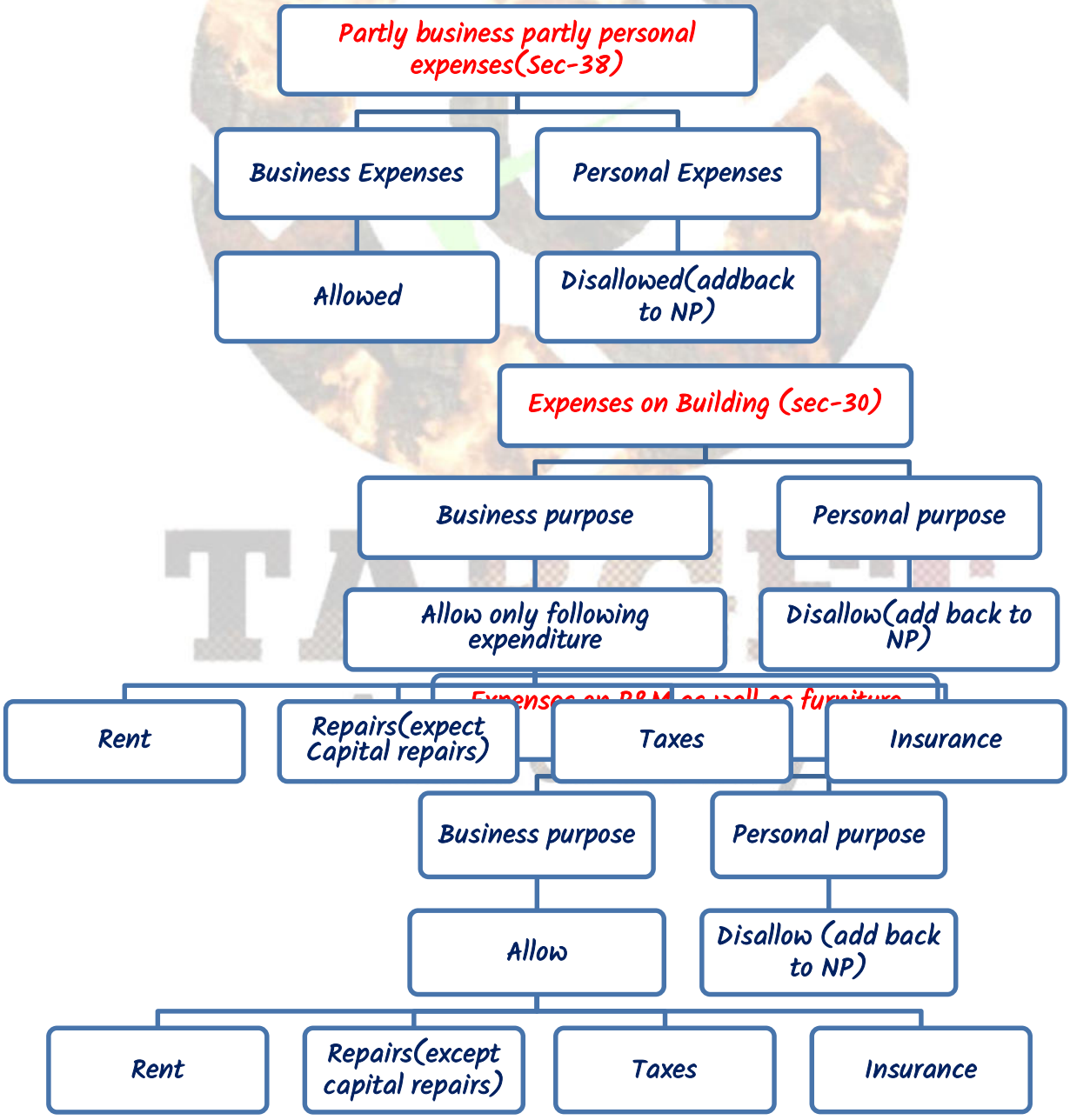


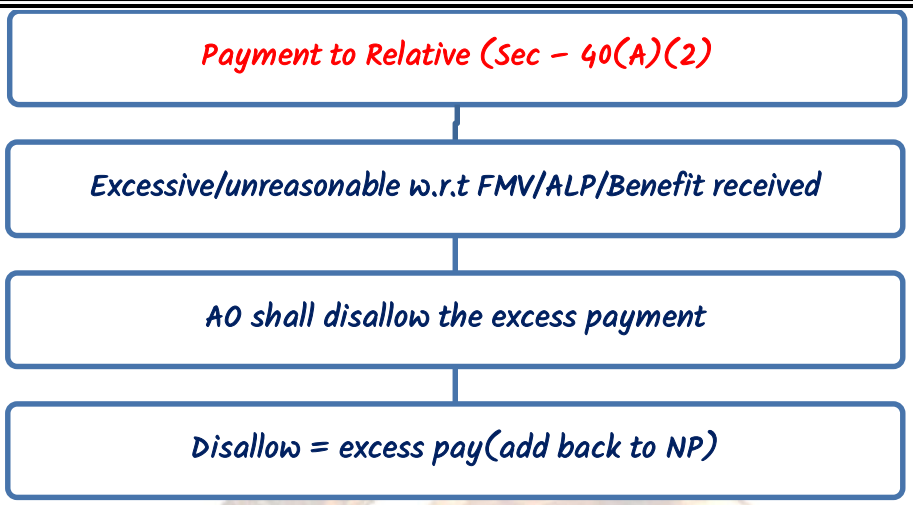
Advertisement expenses	· Allowed
Pooja/Archana Expenses	· Allowed
Listing Fee	· Allowed
ROC Fee Paid	· Allowed
Legal Expenses	· Allowed (Salmankhan V/s CIT)
Postage expenses	· Allowed
Salary Paid	· Allowed
Temple Infront of office	· Allowed (Atlas cycle V/s CIT)

Bribe Paid	· Disallowed
Protection money paid	· Disallowed
Donation/ Donation to political party	· Disallowed
Expenses on Heart surgery	· (I.T v/s Santhi bhusan)

EXAMPLE 1:

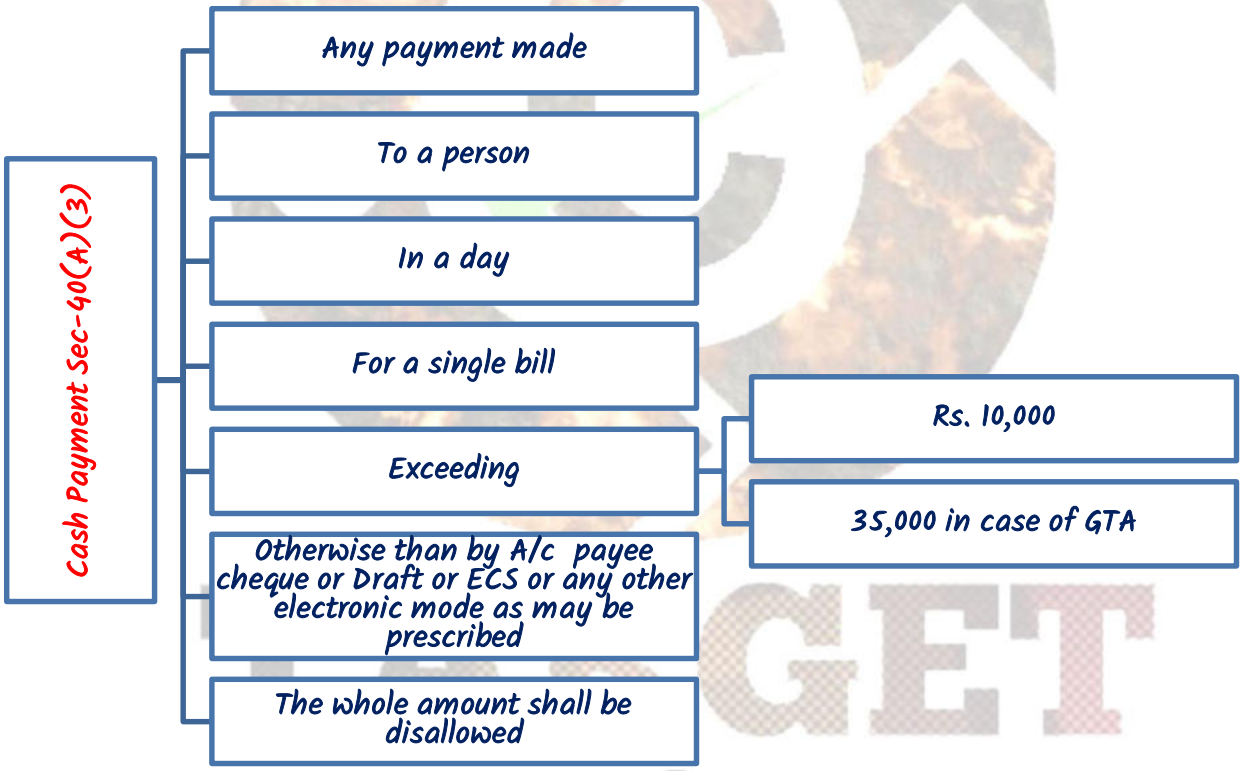
Specify the following Expenses allowed or not u/s 37 while computing PGBP





EXAMPLE 2:

Sec.40(a)(2) Mr. A paid salary to his relative Mr.B Rs.4,00,000 p.a. which is in excess of Rs.60,000 as per AO specify the amount to be disallowed u/s 40(a)(2)?



1. Mr. A paid to Mr. B Rs. 13,000 in cash in a day.

- Ans:

2. Mr. A paid Rs. 9,000 to Mr. B in cash; Rs. 19,000 to Mr. C in cash; Rs. 23,000 to Mr. D in cheque; Rs. 32,000 to Mr. E(who is GTA) in cash.

- Ans:

3. Mr. A settled Mr. B (Bill amount Rs. 18,000) as follows (a) Paid Rs. 9,000 on 3rd Apr in cash & (b) Rs. 9,000 on 4th Apr in cash.

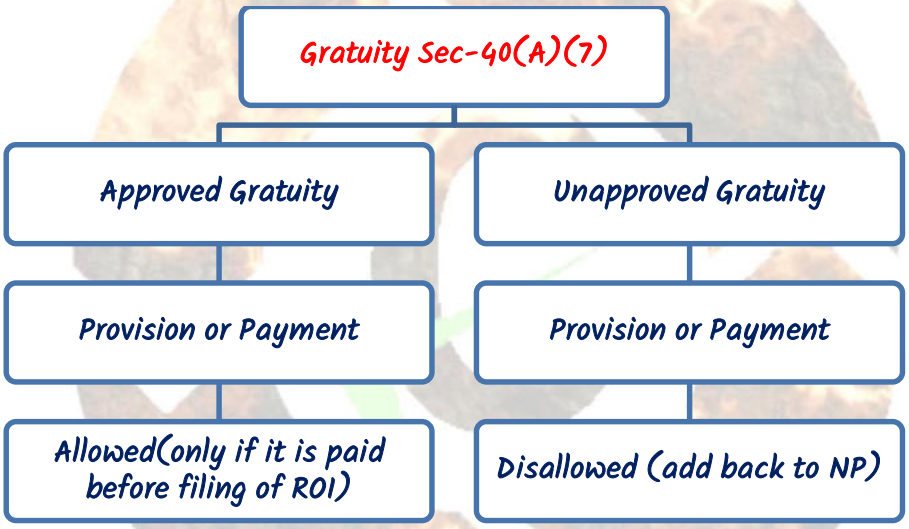
- Ans

(following expenses even if made in cash is allowed as deduction)

1. Payment to Bank, RBI, Government.
2. Payment made on a day when bank is closed.
3. Payment made at a place not served by Bank.
4. Payment of retirement benefits up to Rs. 50,000.
5. Payment made via Debit card/Credit card/ Cheque/ECS.
6. Payment made to farmers for agriculture produce.

EXAMPLE 3:

Sec.40(a)(3): Mr. V paid an amount of Rs.60,000 in cash to Mr. D with respect to Services provided specify the Amount Disallowed if any?

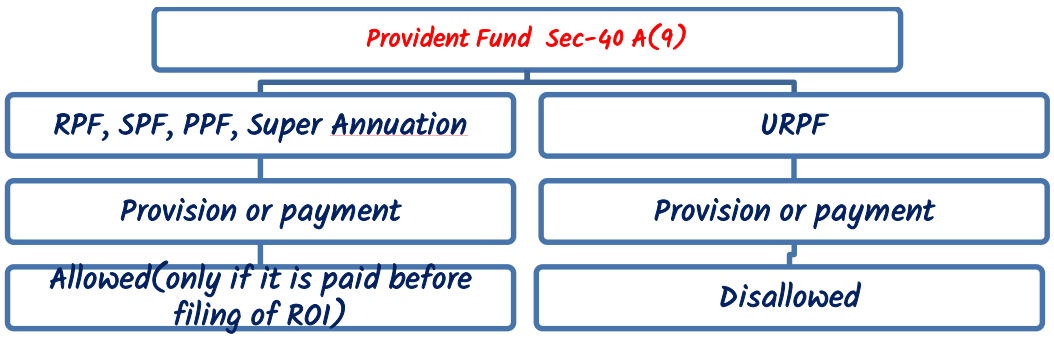


If problem do not specify the nature of gratuity always write both the angles.

EXAMPLE 6:

D Limited having a Turnover of 500 crore made the following

Particulars	Allowed / Not	Amount Disallowed
Provision for Approved Gratuity Rs.10,00,000		
Payment for Approved Gratuity Rs.50,00,000		
Provision for Unapproved Gratuity Rs.40,00,000		



Note:

If paid after ROI --- allowed in next year allowed.

If details of PF is not given we have to write both the angles.

EXAMPLE 7:

P Ltd engaged in Manufacturing of chocolate contributes to various fund specify the amount allowed / disallowed

Particulars	Allowed / Not	Amount Disallowed
Provision for Recognize Provident Fund Rs.60,000		
Payment for SPF Rs.5,00,000		
Provision & Payment for PPF Rs.90,000		
Provision for URPF RS.10,0000		

Notes:

a) Printing and Stationery Expenses are Paid in cash

b) Salaries include salary paid to relative Rs.20,000,excess amount of Rs.5,000.

c) Other Expenses include Payment for URPF Rs.40,000 and Payment to RPF Rs.60,000.

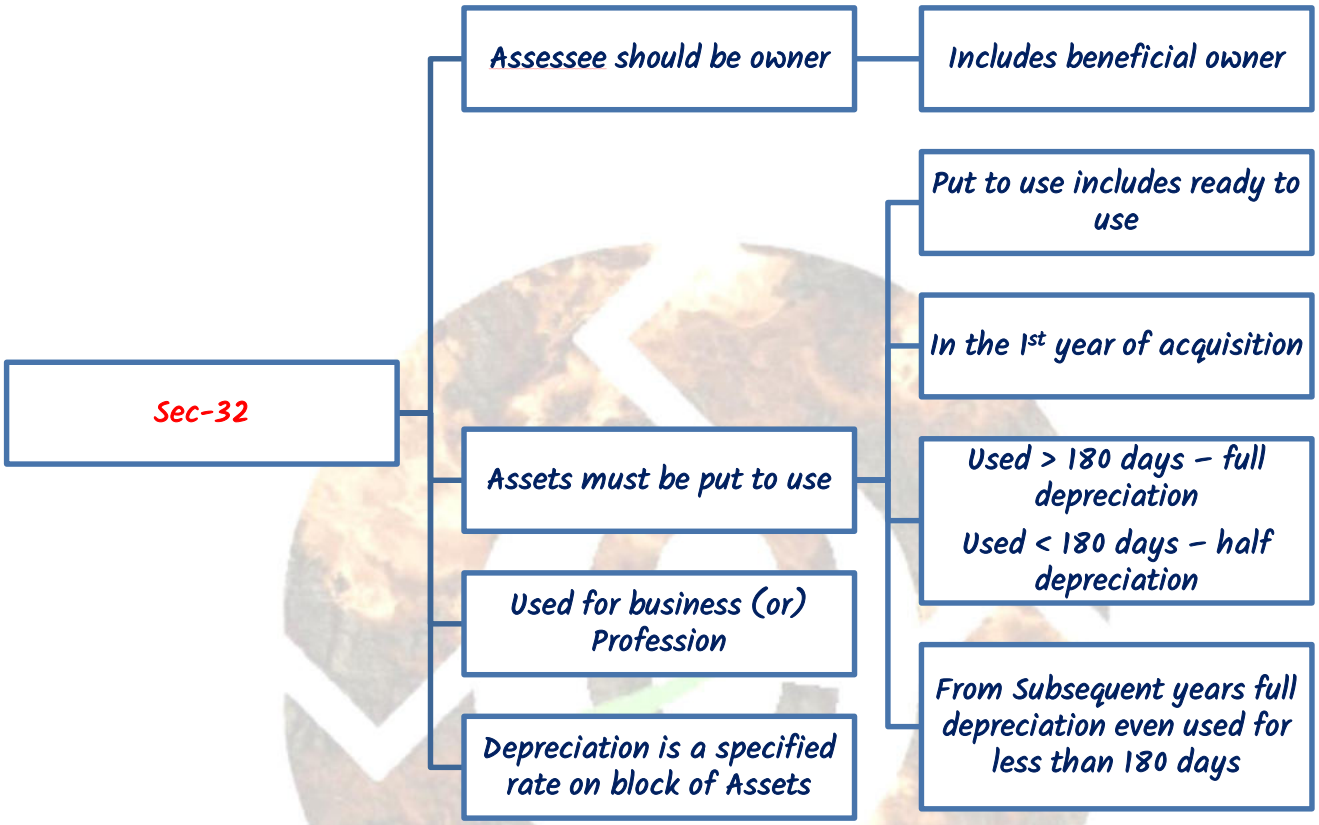
d) Other Expenses also Include Rs.10,000 as Donation to Various Funds and Political Party

Calculate the Income From PGBP?

DEPRECIATION SEC-32

Accounts	Tax
1. Depreciation Rate are not fixed	1. Depreciation rates are fixed
2. Depreciation are many	2. Depreciation method SLM– Power generation unit (optional) WDV – all other Assessee
3. Depreciation on day wise	3. Depreciation is not on day wise (> 180 days; < 180 days)
4. Depreciation is on individual assets	4. Depreciation is on block of Assets
5. Revaluation is considered	5. Revaluation is not considered, hence no depreciation on revaluation assets.
6. Actual Cost of asset not defined	6. Actual cost defined
7. No additional depreciation	7. Additional depreciation exists
8. Depreciation up to the date of sale is considered	8. Depreciation for the year of sale is not allowed
9. Depreciation is not mandatory	9. Depreciation is mandatory
10. Depreciation start from the date of acquisition	10. Depreciation is available from the date it is put to use.

II. AS-10 is followed	II. Depreciation is as per Sec-32, no AS complied.



Note:

Depreciation shall be available from the date it is put to use & in fact depreciation is available from the date of trial run itself.

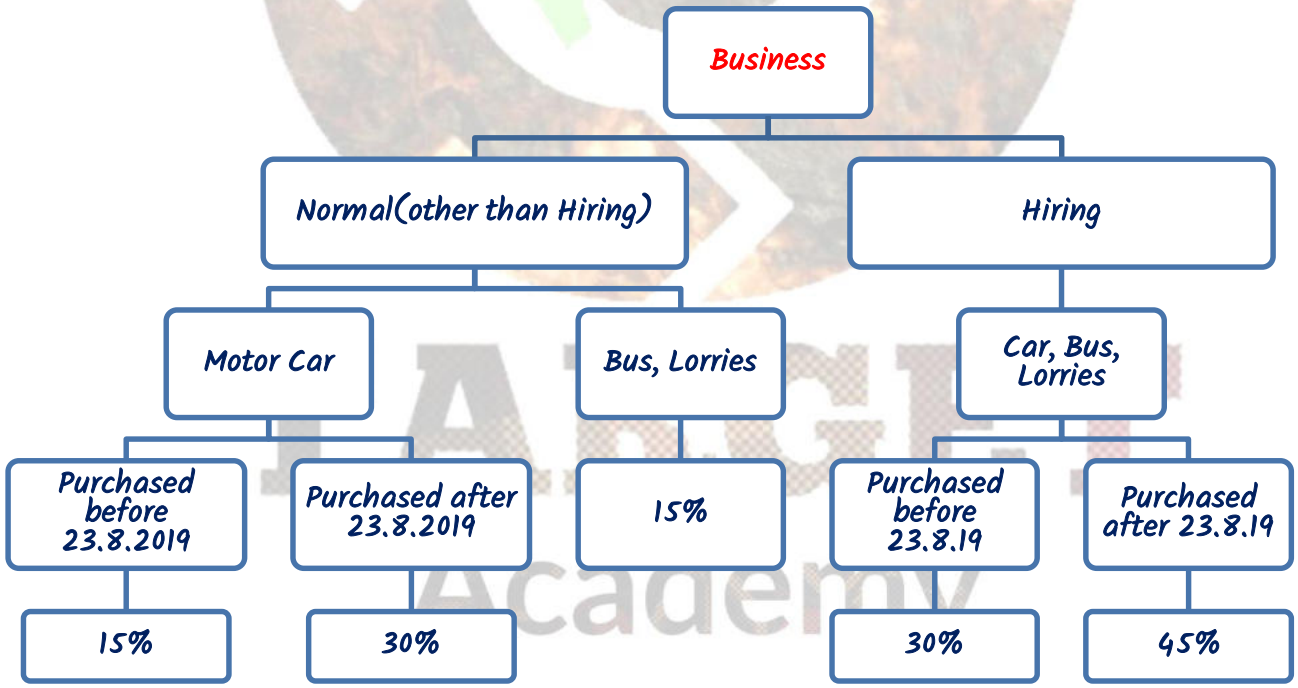
RATE OF DEPRECIATION

SEC- 32 – DEPRECIATION RATES:

Block	Particulars	Rate of Depreciation
Block-I	Building	
	Residential building other than hotels	5%
	Other like hotels, godown, office	10%
	Temporary structure, Water supply projects, Infrastructure facilities	40%

Block	Particulars	Rate of Depreciation
Block-2	Furniture & Fixtures (electronical fittings)	10%
Block-3	Intangible	25%
Block-4	P&M	

	(a) Normal	15%
	(b) Book	
	Normal	40%
	Annual Publications	40%
	(c) Computer & Software	40%
	(d) Wind Mill (before 1.4.2014= 15%)	40%
	(e) Life saving equipment, Renewable energy	40%
	(f) Energy saving device	40%
	(g) Oil Well	15%
	(h) Ships, Boats	20%
	(i)Motor Car used in business running them on hire from 23.8.2019 to 31.3.2020 (before that =15 %), moulds used in rubber and plastic factories, P&M in semiconductor industry	30%
	(j) Motor buses, lorries, taxies running them on hire from 23.8.2019 to 31.3.2020 (before = 30%)	45%



Particulars	Amount
Opening WDV of the Block	xxx
(+) actual cost of assets acquired	xxx
(-) Sale/discarded/demolished/subsidy received against asset	(xxx)
WDV	xxx

Depreciation on WDV	(xxx)
Closing WDV	xxx

Same kind of assets on which same rate of depreciation is applicable falls on the block of Asset

Note:

If assets are sold actual sale value is reduced from block of assets.

EXAMPLE 9:

M ltd provides you following calculate Depreciation u/s 32

- **Building**

✓ Opening WDV = 10 lakhs
✓ Purchase 6/6/22 = 8 lakhs

- P&M
  - ✓ Opening WDV = 12 lakhs
  - ✓ Purchase 6/6/22 = 6 lakhs
  - ✓ Purchase 9/12/22 = 5 lakhs
  - ✓ Sale 1/2/22 = 1 lakh
- Furniture
  - ✓ Opening WDV – Nil
  - ✓ Purchases on 1/1/23 = 2 lakhs
- Computer
  - ✓ Opening WDV = 6 lakhs
  - ✓ Purchases 4/4/22 = 6 lakhs
  - ✓ Sale = Nil

ADDITIONAL DEPRECIATION -- SEC-32(1)

- Assessee must be engaged in (a) Manufacturing or (b) Power generation/ Distribution/ Transmission (c) Printing & Publication.
- Acquire new P&M, but new P&M does not include.
  - (a) Second hand P&M.
  - (b) P&M installed in office / Guest house.
  - (c) P&M being office appliance/ Transport vehicle.
  - (d) Whose whole cost is allowed as deduction.

- (e) Any Ship or air craft

- Such P&M acquired on/ after 31/3/2005.
- Additional depreciation rate.
  - If unit is started in backward area of AP, Bihar, WB, Telangana = 35%
  - Other = 20%.

If used for less than 180 days then take half additional depreciation and balance addition depreciation is allowed in subsequent year.

EXAMPLE 10:

M/s. Dollar Ltd., a manufacturing concern, furnishes the following particulars:

- Opening writing down value of plant and machinery (15% block) - 5,00,000
- Purchase of plant and machinery (put to use before 01.10.2022) 2,00,000
- Sale proceeds of plant and machinery which became obsolete- the plant 5,000 and machinery was purchased on 01-04-2020 for Rs.5,00,000.
- Further, out of purchase of plant and machinery:
- Plant and machinery of Rs.20,000 has been installed in office.
- Plant and machinery of Rs.20,000 was used previously for the purpose of business by the seller.
- Compute depreciation and additional depreciation as per Income- tax Act, 1961 for the Assessment Year 2023-24.

Note:

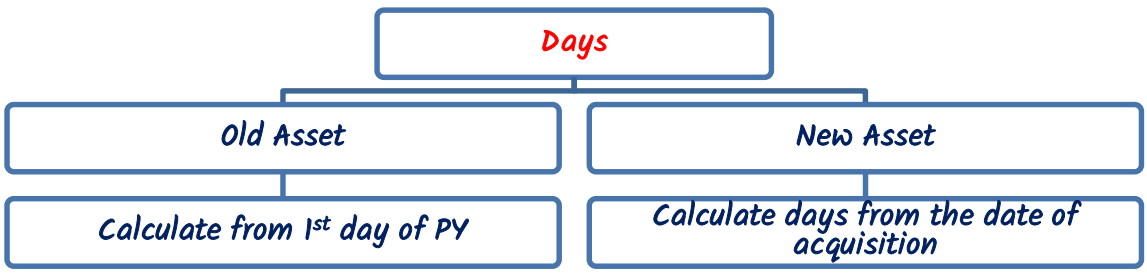
1. Additional depreciation is not available in case of P&M which is installed in office of the assessee or P&M which is previously used by the assessee (Second hand). However depreciation is available on the above given asset but no additional depreciation is available to the assessee.

2. While computing the depreciation deduct actual sale value.

DEPRECIATION IN CASE OF AMALGAMATION/DEMERGER/BUSINESS

Step-1 :- Calculate the total depreciation as if no amalgamation take place.

Step-2 :- Divide the total depreciation in to no. of days used by the each entity.



Step-3 :- Allocate Depreciation between two entities based on no. of days.

EXAMPLE 11:

Sai Ltd. has a block of assets carrying 15% rate of depreciation, whose written down value on 01.04.2022 was Rs.40 lacs. It purchased another asset (second-hand plant and machinery) of the same block on 01.11.2022 for Rs.14.40 lacs and put to use on the same day. Sai Ltd. Was amalgamated with Shirdi Ltd. with effect from 01.01.2023. You are required to compute the depreciation allowable to Sai Ltd. & Shirdi Ltd. For the previous year ended on 31.03.2023 assuming that the assets were transferred to Shirdi Ltd. at 60 lacs.

ACTUAL COST SEC-43(1)

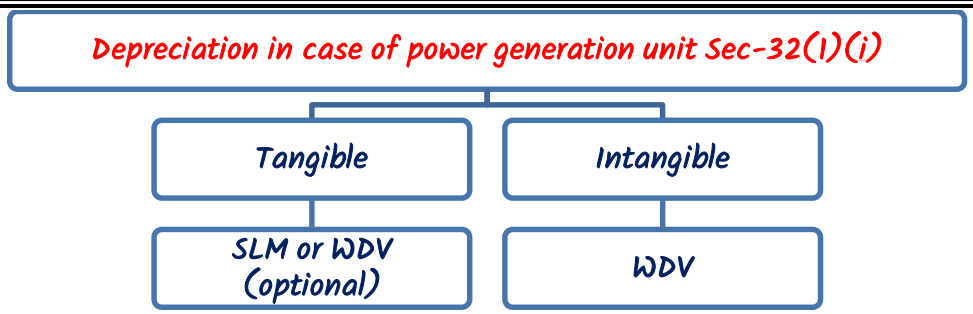
Purchase	
Purchase price	xxx
(+) Expenses	xxx
(-) Benefit against asset	(xxx)
Actual Cost	xxx

Purchase	
Opening WDV	xxx
(+) Purchases	xxx
(-) Sale/discard/subsidy	(xxx)
Actual Cost	xxx

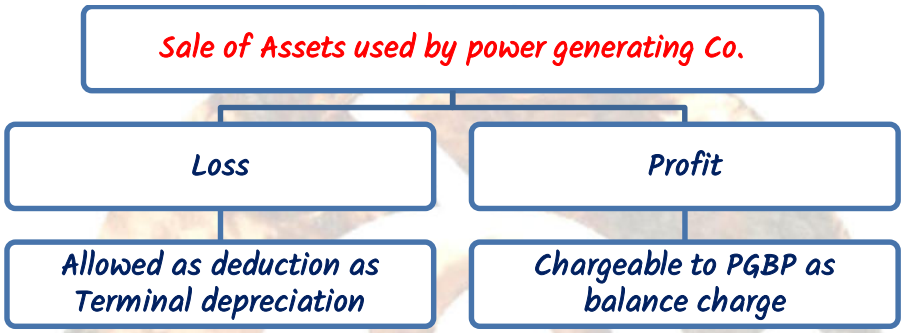
Gift/will/Inheritance	· Actual Cost = Cost to Previous owner
Personal assets converted in to business assets	· Building = Actual cost – Notional depreciation · Other Assets = Actual cost
If whole cost of asset is allowed as deduction	· Actual cost = Nil

EXAMPLE 12:

A car purchased by Dr. Soman on 10.08.2020 for Rs.5,25,000 for personal use is brought into professional use on 1.07.2022 by him, when its market value was Rs.2,50,000. Compute the actual cost of the car and the amount of depreciation for the assessment Year 2023-24 assuming the rate of depreciation to be 15%.



Depreciation calculation remain the same

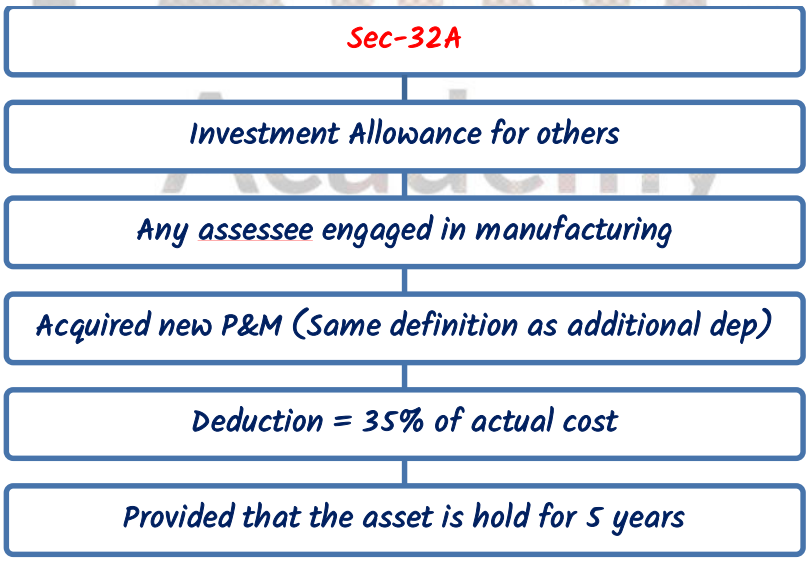


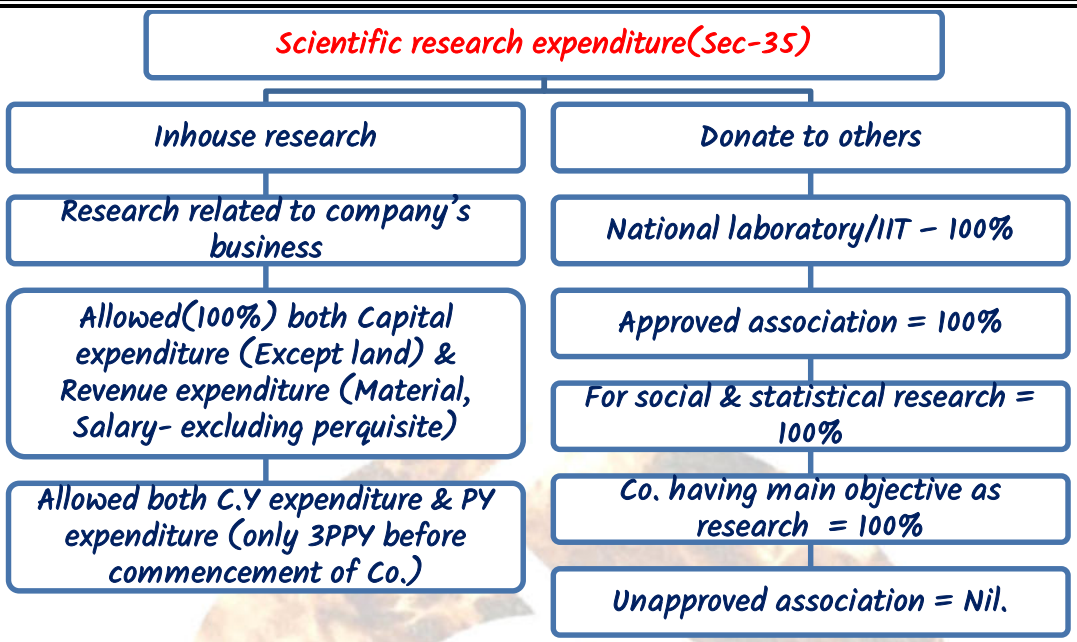
EXAMPLE 13:

R Ltd started a new unit in notified area of AP and acquired new P&M worth Rs. 28 lakhs out of which 2 lakhs worth of P&M were second hand. Compute over all benefit under Income Tax Act, 1961. Assets were acquired on June 2022, but put to used from Dec-2022. He is engaged in manufacturing of registers.

Note:

1. Depreciation is available from the date of put to use.
2. Additional depreciation is not allowed on second hand P&M.
3. If asset is put to use for less than 180 days only half of additional depreciation is allowed.
4. The balance additional depreciation will be available in the next year.
5. Sec-32 AD is available irrespective of the date assets is put to use.





Note:

- ✓ Inhouse Research
  - Building – allowed
  - Lab making expenses – allowed.
  - Making approach road – allowed.
  - Bus purchases for travelling of scientists – allowed.
  - Land – Disallowed.
- ✓ 150% deduction means weighted deduction

Format

Particulars	Amount	%	Deduction

EXAMPLE 14:

Mr. PK has furnished the following particulars relating to payments made towards scientific research for the year ended 31.03.2023:

S.N	Particulars	Rs.In Lacs
i)	Payments made to K Research Ltd.	20
ii)	Payment made to LMN College	15
iii)	Payment made to OPQ College	10
iv)	Payment made to National Laboratory	8
v)	Machinery purchased for in-house scientific research	25
vi)	Salaries to research staff engaged in in-house scientific research	12

Note: K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research. Compute the amount of deduction available under section 35 of the Income- tax Act, 1961 while arriving at the business income of the assessee. [May11]

Note:

1. If TDS made but paid after the due date of filing ROI, then deduction will be allowed in the next year when actual payment is made
2. If Assessee fails to deduct TDS but is not deemed to be an assessee in default u/s 201(1), then it shall be deemed that assessee has deducted that sum and paid

SEC- 35(2AB) – INHOUSE RESEARCH EXPENSES IN CASE OF SPECIAL BUSINESS

Assessee	· Company
Engaged in	· Manufacturing (any articles/ things except) or · Bio technology business
Inhouse research expenses	· Has an agreement with prescribed authorities for research & development
Deduction	· Land = Nil · Previous year expenditure = 100% · Previous preliminary expenditure = 100% (no limit in no. of PY's)

Agriculture extension project Sec-35CCC

Any assessee incur agriculture extension project as notified by the Board (CBDT)

Deduction = 100% of actual cost

Note:

- The word agriculture extension project is not defined.

Skill development expenses (Sec – 35 CCD)

If Company incurs expenditure on skill development other than expenditure on land & building as notified the Board.

Deduction = 100% of actual expenditure

Note:

Expenditure incurred on ITI (industrial Training Institute) is also eligible for deduction under this section.

Sec-35CCA

If any assessee incurs expenses or donate for

Rural Development or Poverty eradication Fund

Deduction = 100%

Note:

1. If already debited to P&L – do nothing.
2. If not debited tom P&L – Reduce from P&L

Eligible Projects Sec- 35AC

Any Assessee incurs any expenses or donate to any

Any eligible project notified by Board

Deduction = 100%

Note:

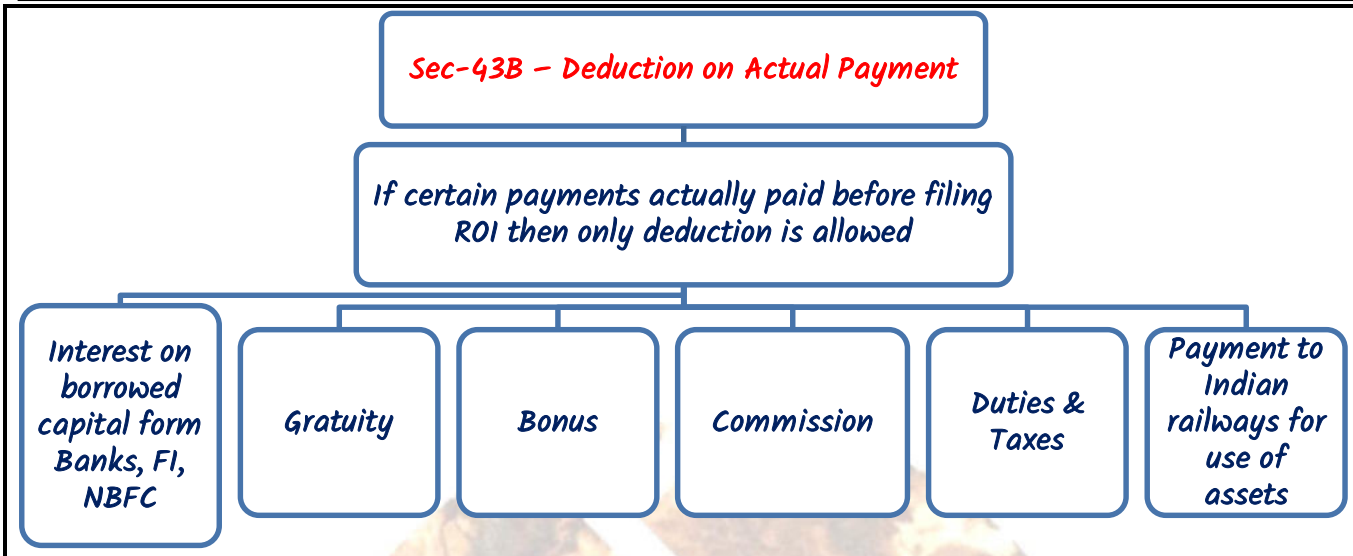
Eligible projects e.g. :- Clean Ganga, Clean Narmada e.tc.

VRS Expenditure- Sec-35DDA

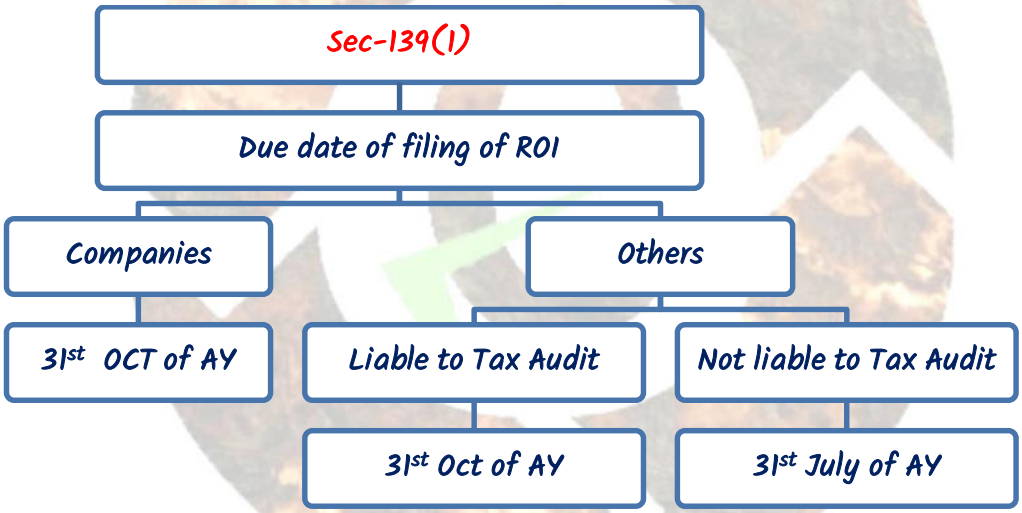
If any assessee

Incurs /Paid VRS payment

Deduction is allowed on 1/5th basis, over 5 years starting from the year of expenses(4/5th is dis allowed and allowed in subsequent years)



- Interest on Loan form NBFC (either Deposits taking NBFC or not)





Note:

- Bad debts allowed only they were write off in BOA
- Bad debts is not allowed if books were maintained in cash basis.
- Bad debts are not allowed for disc bus.
- Bad debts allowed to successor of business.
- Recovery of BD is treated as PGBP in the year of recovery. (whether business existed or not)

EXAMPLE IS:

State, with reasons, the allowability of the following expenses under the Income-tax Act, 1961, as deduction, while computing income from business or profession for -the Assessment Year:

- XYZ Credit Corporation, a non-banking finance company, made provision for bad and doubtful debts in the books of account for the year ended 31.03.2023.
- On 14.5.2023, ABC Ltd. paid Rs.45,000 to the Indian Railways for the use of railway assets pertaining to previous year.
- MNO Ltd. paid Rs.55,000 as tax on non-monetary perquisite provided to an employee.
- Rs.32,000 paid by S Ltd. in cash on 28.3.2023 to a transporter (owning 8 goods carriages throughout the previous year) for carriage of goods, without deduction of tax at source.

P Ltd. paid Rs.80,000 in cash for purchase of wheat from a farmer on a banking day [May-17 RTP]

This expenditure is not allowed

- As per Sec-36 provision for Bad debts is not allowed as deduction. However Bank can claim this deduction subjected to prescribed limit.
- Since Assessee is non Banking Co. these deduction is not allowed.

This expenditure is allowed

- As per Sec-43B if payment to Indian railways for use of its Assets is made before filing ROI, then expenditure would be allowed.
- Since payment is made before filing ROI deduction would be allowed.

This expenditure is not allowed

- As per Sec-40(a) any tax on non monetary perquisite is not allowed as deduction.

This expenditure is not allowed

- As per Sec- 40(A)(3) any payment made to a person, in a single day, for a single bill exceeding Rs. 10,000 or Rs. 35,000 in case of GTA, otherwise than by A/c payee cheque/Draft/ECS shall be disallowed.

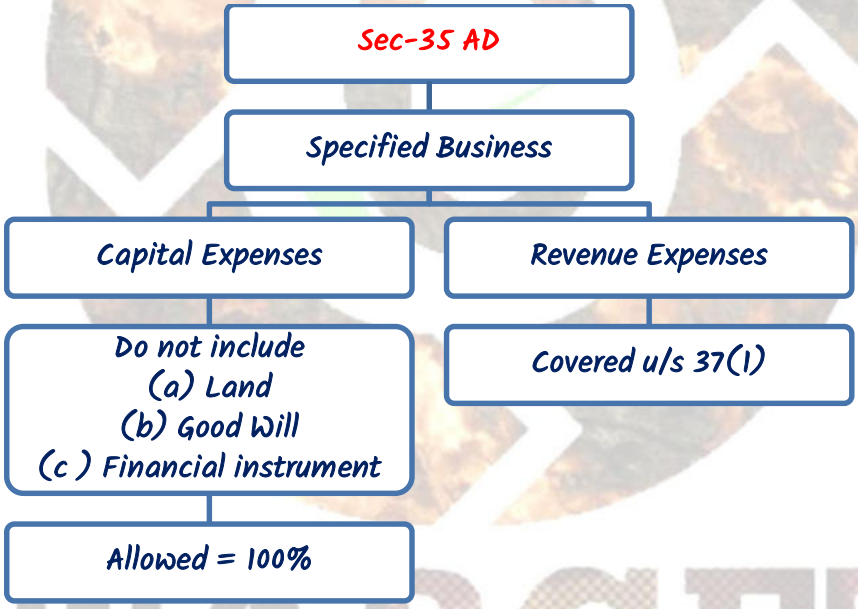
- Further as per Sec-40(a) (ia) any payment to resident without TDS shall be disallowed to the extent of 30%.

  - Disallowed = 32,000x30% = 9600.

- This expenditure is allowed

As per Sec- 40(A)(3) any payment made to a person, in a single day, for a single bill exceeding Rs. 10,000 or Rs. 35,000 in case of GTA, otherwise than by A/c payee cheque/Draft/ECS shall be disallowed.

- However as per rule 6DD, payment to farmer for agriculture produce shall be allowed as deduction.



Specified Business	Commencement	Deduction
Laying and operating a cross – country natural gas / crude / petroleum pipeline	On or after 1.4.2007	100%
Setting up and operating a cold chain facility	On or after 1.4.2009	100%
Setting up and operating a warehousing facility for storage of agriculture produce	On or after 1.4.2009	100%
The business of building and operating a new hotel of 2 star or above category anywhere in India	On or after 1.4.2010	100%
The business of building and operating of a new hospital anywhere in India with at least 100 beds for patients	On or after 1.4.2010	100%

The business of developing and building a housing project under a scheme for slum redevelopment ore rehabilitation framed by the Central Government of a State Government	On or after 1.4.2011	100%
Business in the nature of developing and building a housing project under a scheme for affordable housing framed by the Central / State Government and notified by the CBDT.	On or after 1.4.2011	100%
Capital expenditure for a new plant or newly installed capacity in any existing plant for production of fertilizers	On or after 1.4.2012	100%
Setting up and operating an Inland Container depot or container freight Station notified or approved under the Custom Act	On or after 1.4.2012	100%
Bee-keeping and production of Honey and Beewax	On or after 1.4.2012	100%
Setting up and operating warehouse facility for Storage of Sugar	On or after 1.4.2012	100%
Laying and operating a slurry pipeline for the transportation iron ore	On or after 1.4.2015	100%
Setting up and operating Semi-condutor water fabrication manufacturing unit notified by CBDT	On or after 1.4.2015	100%
Developing or maintaining and operating or developing maintaining and operating new infrastructure facility	On or after 1.4.2017	100%

Note:

1. Losses of these business can be set off only against income of these business, and balance loss shall be carried forward for indefinite period.
2. No deduction u/s 80C to 80U allowed out of these business.
3. No deduction is allowed if capital expenditure is acquired for cash more than 10,000.
4. If assets are claimed as deduction u/s 35 AD its actual cost would be nil- Hence no depreciation is allowed on these assets. Further if these assets are sold it shall be PGBP.
5. P.Y means any number of PY for the purpose of this section.

EXAMPLE 16:

Win Limited commenced the business of operating a three star hotel in Tirupati on 1-4-2022.

It furnishes you the following information:

i) Cost of land (acquired in June 2021)	60
i) Cost of construction of hotel building	
Financial year 2021-22	30
Financial year 2022-23	150

Plant and Machineries (all new) acquired during financial year 2022-23	30
i) [All the above expenditures were capitalized in the books of the company]	
Net profit before depreciation for the financial year 2022-23	80

Determine the amount eligible for deduction under section 35AD of the Income-tax Act, 1961, for the assessment year 2023-24. [May-11] Loss = 1,30,00,000

SOLUTION:

Note:

1. The above loss is eligible to set off with the specified income only.
2. Land is not eligible for deduction.

Note:

1. Income from UTI is exempt & taxable under the head of other sources.
2. Advice:- Since Sivam is individual and T.O does not exceed 2 cr. He can offer presumptive income

SEC-44AD – PRESUMPTIVE INCOME

Assessee	• Individual • HUF • Firm (not LLP)
Any Business	• Except • Commission • GTA • Agency • Profession
Turnover	• Not exceeding 2 crores

PRESUMPTIVE INCOME

8% of TO or Actual profit (w.e.h)	6% of TO or actual Profit (w.e.h)	Lower profit (conditions)
· Payments not received out of cheque/Draft/ECS	· Payments received out of Cheque/Draft/ECS	· Maintain Accounts & · Tax Audit

Note:

- No deductions U/s 30-37(I) are allowed.
- Deductions U/s 80C to 80U are allowed.
- Set off of losses = allowed.
- Partners remuneration u/s 40(b) = not allowed.
- Advance Tax = Mandatory = 15th March of PY = 100%.
- If benefit of this section is taken, it shall be continuous for 5 years, if chain broke, then the benefit is not available for 5 years.
- If not given any thing regarding mode of receipt then give answer in both the angles.
- If TO received in both the modes (i.e. cheque and cash) then PI should be calculated on proportionate basis.

SEC-44ADA – PRESUMPTIVE INCOME FOR PROFESSION

Assessee	· Individual/HUF(R) or Firm (not LLP)
Engaged in profession	· Specified u/s 44AA
Gross Receipts	· Not exceeding 50Lakhs

Presumptive income	If lower profit shown (conditions)
· 50% of Gross receipts or · Actual Profit (w.e.h)	· Maintenance of BOA · Tax Audit

Note:

1. Advance Tax = Mandatory = 15th March = 100%.
2. 5 years condition NA.
3. Deduction u/s 80C to 80U = allowed.
4. Set off of losses = allowed.

Mr. D profession has a TO of 40 lakhs. Compute Presumption.

Ans

PI=

SEC-44AE – PRESUMPTIVE INCOME IN CASE OF GTA	
Assessee	· Any Assessee
Engaged in	· GTA owns not more than 10 goods carriage

PRESUMPTIVE INCOME		
Heavy goods vehicle	Other vehicle	Lower Profit (conditions)
· Rs. 1000 per ton of Gross vehicle weight per month during the period for which assets was owned (1000*p.t*p.m*No. of vehicle)	· Rs. 7,500 p.m per vehicle during the period for which assets is owned (7,500*p.m*no. of vehicle)	· Maintain BOA & · Tax Audit

Note:

- Advance tax = only if estimated tax liability exceeds Rs. 10,000.
- Deductions u/s 80C to 80U = allowed.
- Losses setoff = Allowed.
- Heavy goods vehicle means where the net weight exceeds 12,000 kg (12 ton).
- Presumptive income will start from the day asset is owned and not from the day it is put to used.

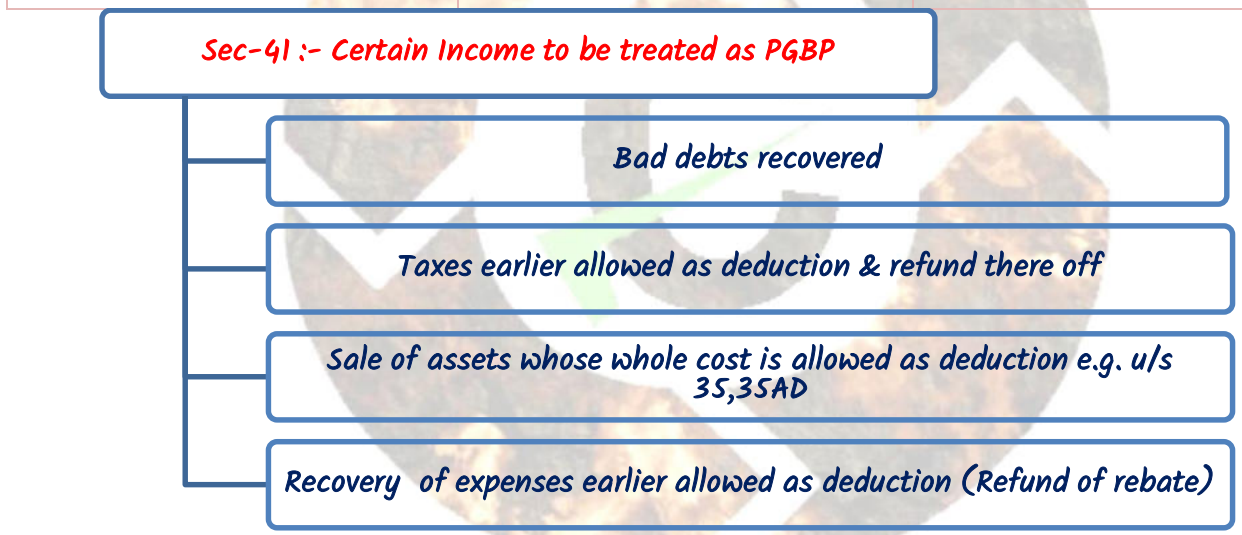
K transport have 4 heavy goods vehicle (Gross weight of vehicle = 15,000 kg), 3 light goods vehicle. Compute presumptive income.

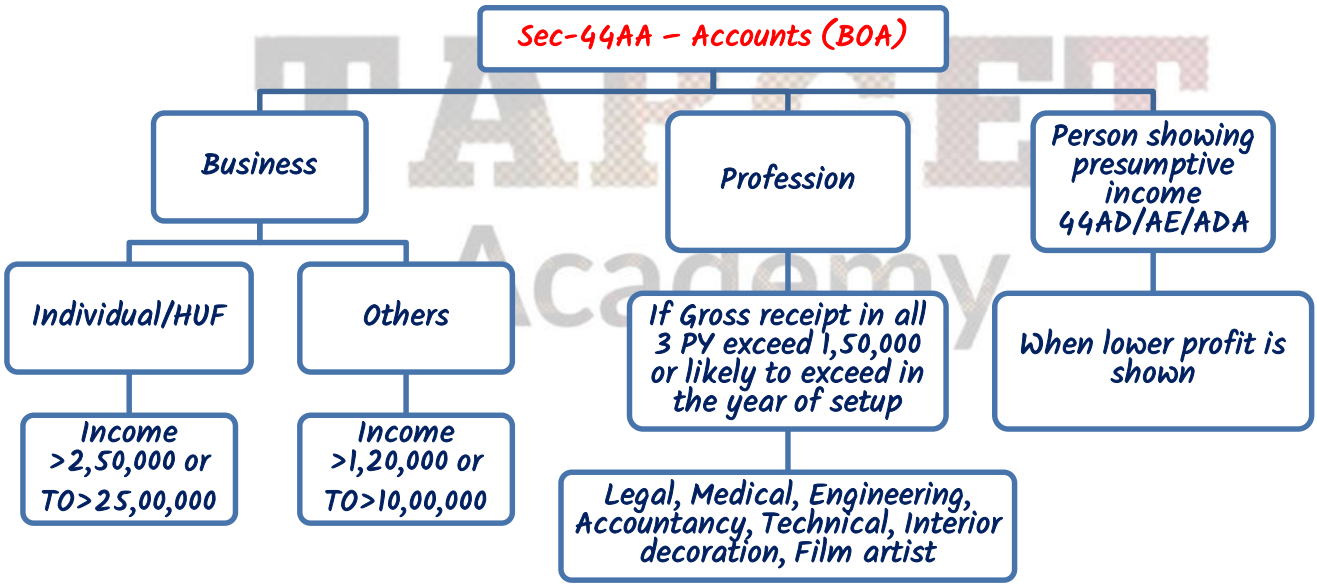
- Ans
- PI=

EXAMPLE 19:

X started GTA business on 1/4/22. compute income u/s 44AE.

Gross weight of vehicle	Number	Date of purchase
7,000	2	10.4.22
6,500	1	15.3.23
10,000	3	16.7.22
11,000	1	2.1.23
15,000	2	29.8.22
15,000	1	23.2.23



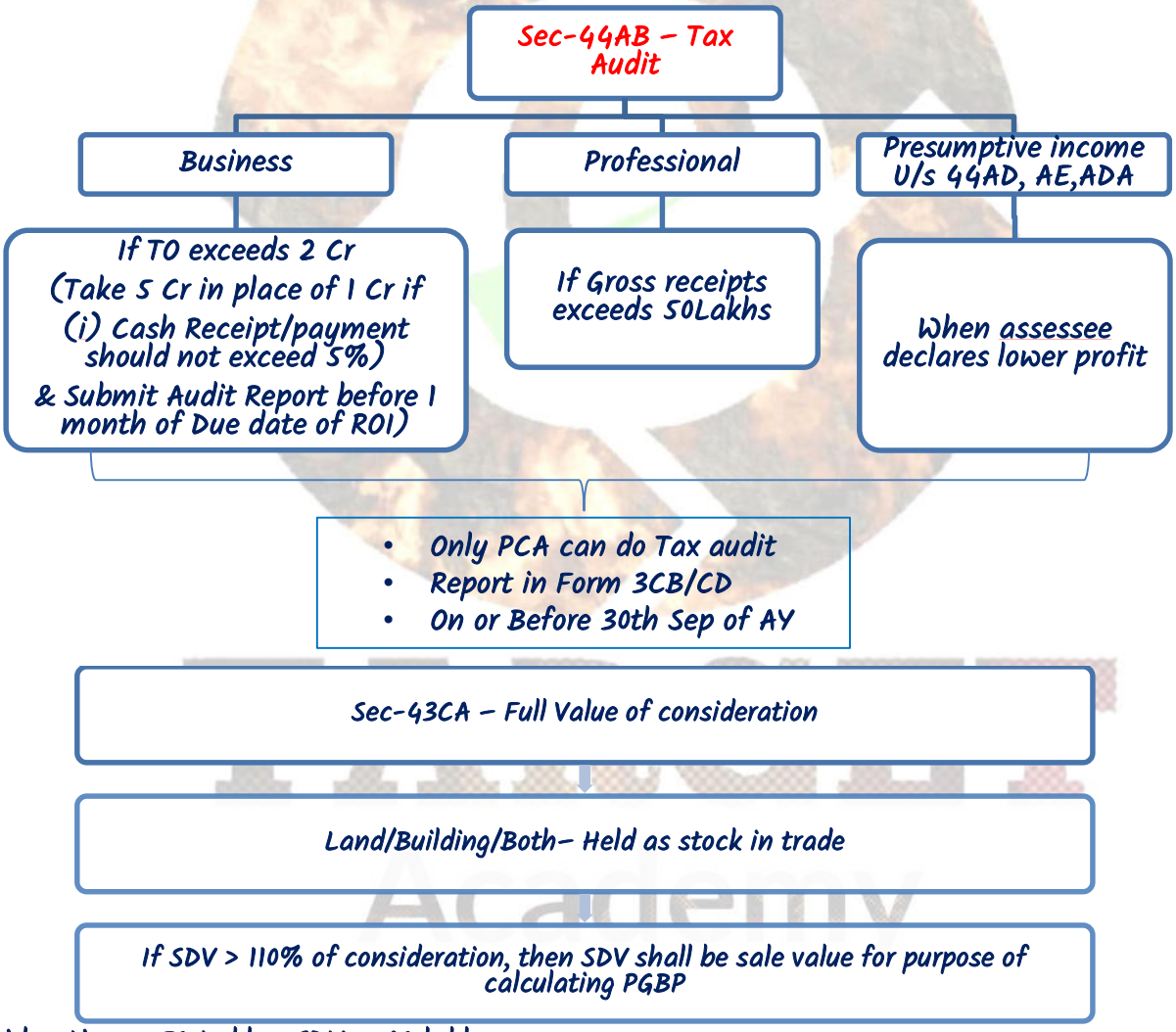


Books
· Cash books · Journals, ledgers · Details of assets & liabilities · Details of Income & Expenditure · All original bills for an expenditure exceeding Rs. 25/-

Note:

As per section – 271 A if assessee do not maintain BOA penalty up to Rs. 25,000.

Penalty = 0.5 % of TO or 1,50,000 (w.e.l)



Consideration = 50 Lakhs; SDV = 60 lakhs.

- Ans
- PGBP = 60 lakhs.

Sec-43AA

Foreign Currency Loan taken and loan has not been settled till year end

Foreign exchange gain/Loss

Allowed

Sec-35AB – Tea, Coffee, Rubber Development expenses

Assessee engaged in growing & manufacturing Tea, Coffee, rubber will get deduction while computing PGBP

(a) Amount deposited in NABAD
(b) 40% of PGBP

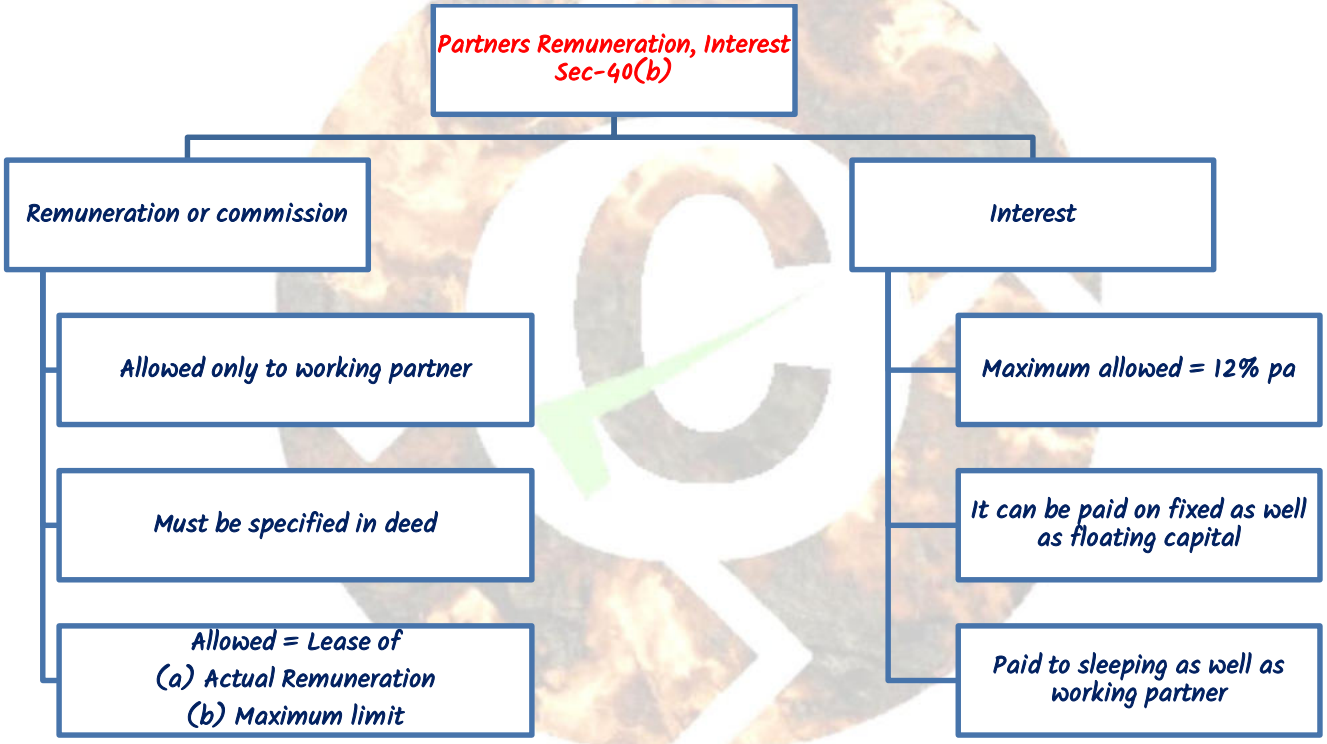
AGGREGATION

Particulars	Agriculture Income	Business Income
Rubbers	65%	35%
Coffee grown, cured	75%	25%
Coffee grown, cured, Roasted	60%	40%
Tea	60%	40%

SEC-35D :- PRELIMINARY EXPENDITURE

Deduction	· 1/5th of lower of · (a) Actual expenditure · (b) Maximum Limit
Maximum Limit	· Co. = 5% of cost of project or 5% of Capital employed (w.e.h) · Other = 5% Cost of Project
Cost of Project	· Cost of fixed Assets
Capital employed	· Share Capital + Debenture + Long term borrowings

Preliminary Expenses
· Project Expenses · Legal Expenses · Feasibility report · Engineering services · Fee for registration Co. · Expenditure connected with public issue



MAXIMUM LIMIT

Book Profit	Max Limit
Up to 3 lakhs book profit	90% of Book Profit or 1,50,000 (w.e.h)
Balance Book Profit	60% of Book Profit

MAXIMUM LIMIT

Particulars	Amount
Profit as computed under PGBP	xxx
(+) Interest (if any debited to P&L)	xxx

(+) Remuneration (if any) Dr to P&L	xxx
(-) Interest actually allowed	(xxx)
Book Profit	xxx

Note:

We have not add back interest on salary bcz they had not been debited to P&L.

Note:

- Family planning expenditure is available to Co.
- No TDS is required on repayment of bank loan.
- Employee contribution not paid also forms part of income

THE END

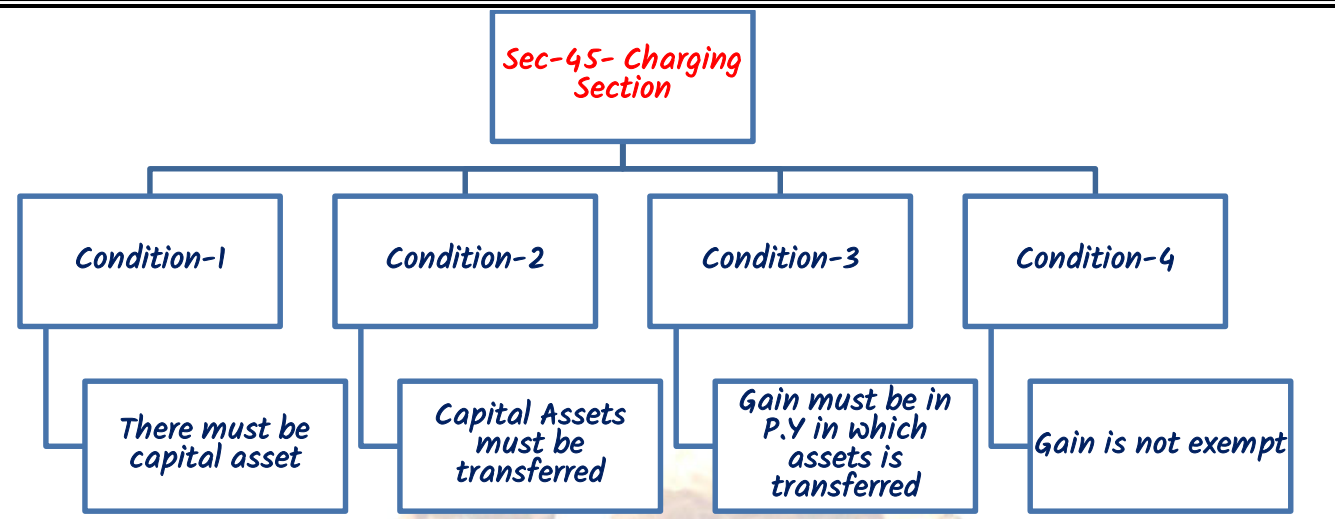
CAPITAL GAIN

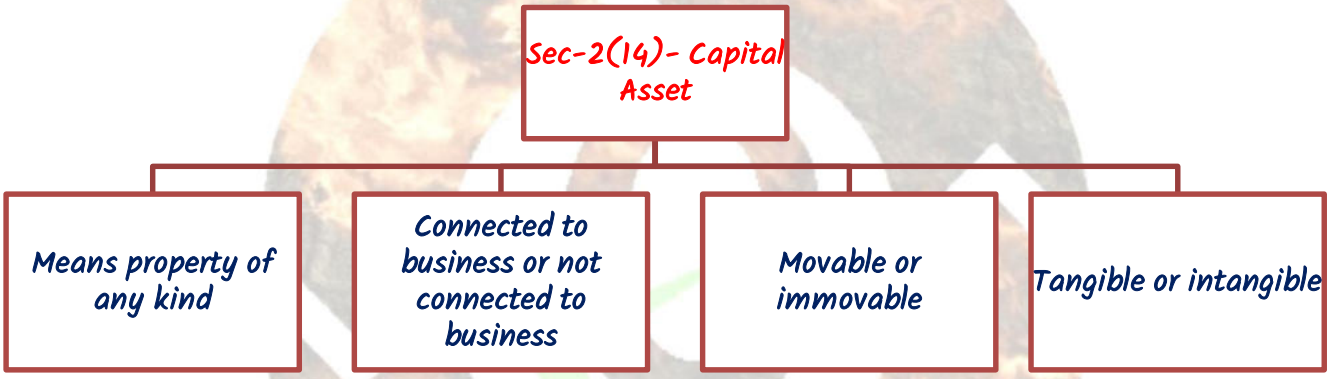
Transfer of every capital asset is not subject to capital gain tax

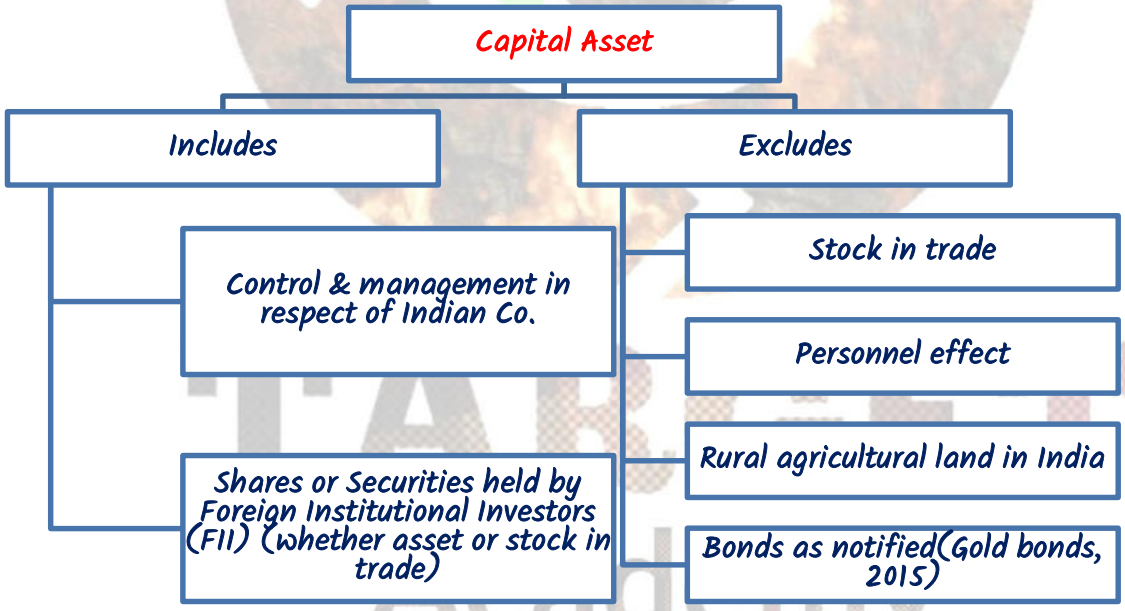
Sec.45
Charging section of capital gain

- Transfer of a capital asset
- During the P.Y
- Gains arising from such transfer shall be Subject to capital gains tax

Sec-45	· Charging Section
Sec-46	· Transaction not regarded as transfer
Sec-47	· Transaction not regarded as transfer
Sec-48	· Capital gain computation
Sec-49	· Cost of acquisition
Sec-50	· Special cases in capital gain
Sec-51	· Forfeiture of advance
Sec-54	· Exemption


Sec-45- Charging Section
Condition-1
Condition-2
Condition-3
Condition-4
There must be capital asset
Capital Assets must be transferred
Gain must be in P.Y in which assets is transferred
Gain is not exempt


Sec-2(14)- Capital Asset
Means property of any kind
Connected to business or not connected to business
Movable or immovable
Tangible or intangible


Capital Asset
Includes
Excludes
Control & management in respect of Indian Co.
Shares or Securities held by Foreign Institutional Investors (FII) (whether asset or stock in trade)
Stock in trade
Personnel effect
Rural agricultural land in India
Bonds as notified(Gold bonds, 2015)

section 2(14),
But does not include

- ✓ stock-in-trade
- ✓ Goods used for personal use
- ✓ Rural agricultural land
- ✓ 6½% Gold Bonds issued by the Central Government
- ✓ Special Bearer Bonds, 1991 issued by the Central Government
- ✓ Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999
- ✓ Deposit certificates issued under the Gold Monetisation Scheme, 2015



Stock in trade ?
Or
Fixed asset?

Stock in trade

- Sell at profit
- Develop and sell in piece
- Build flats on it

or

Fixed asset

- Hold for long term
- investment
- Build a office on it

Based on intension we have to decide

intention at the time of acquiring

→ Stock in trade: Not a capital asset

→ Not Stock in trade: capital asset

Personnel effects means assets held for personal use but excludes

- Jewelry
- Archlogical collection
- Drawings
- Painting
- Any work of any art
- Sculpture.
- Immovable property

These assets even if used for personal purpose up on transfer they are liable to CG.

Business Man

Share: Capital Assets

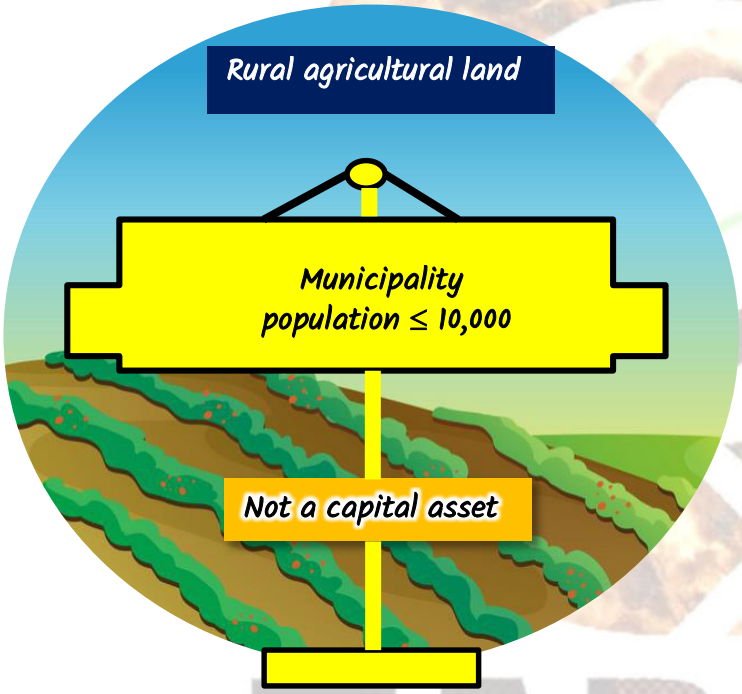


Ali

He has a jewellery shop

Share: Not Capital Assets





Should be atleast 2 Kms away from any municipality

Population : > 10,000 ≤ 1,00,000

Should be atleast 6 Kms away from any municipality

Population : > 1,00,000 ≤ 10,00,000

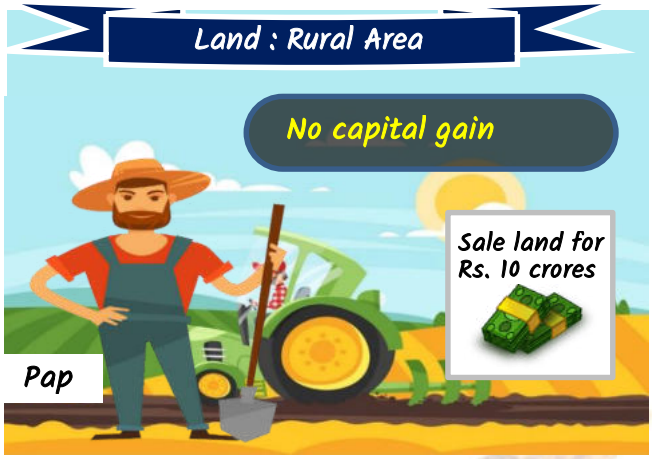
Should be atleast 8 Kms away from any municipality

Population : >10,00,000

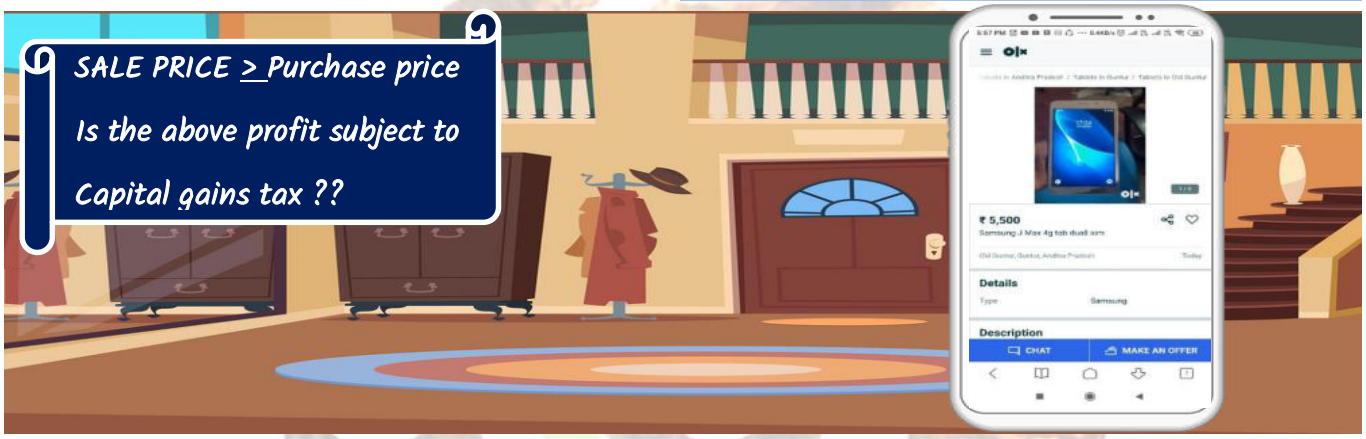
Note

- Immovable property even if for personal use liable to CG.
- Urban agriculture property liable to CG

TARGET Academy



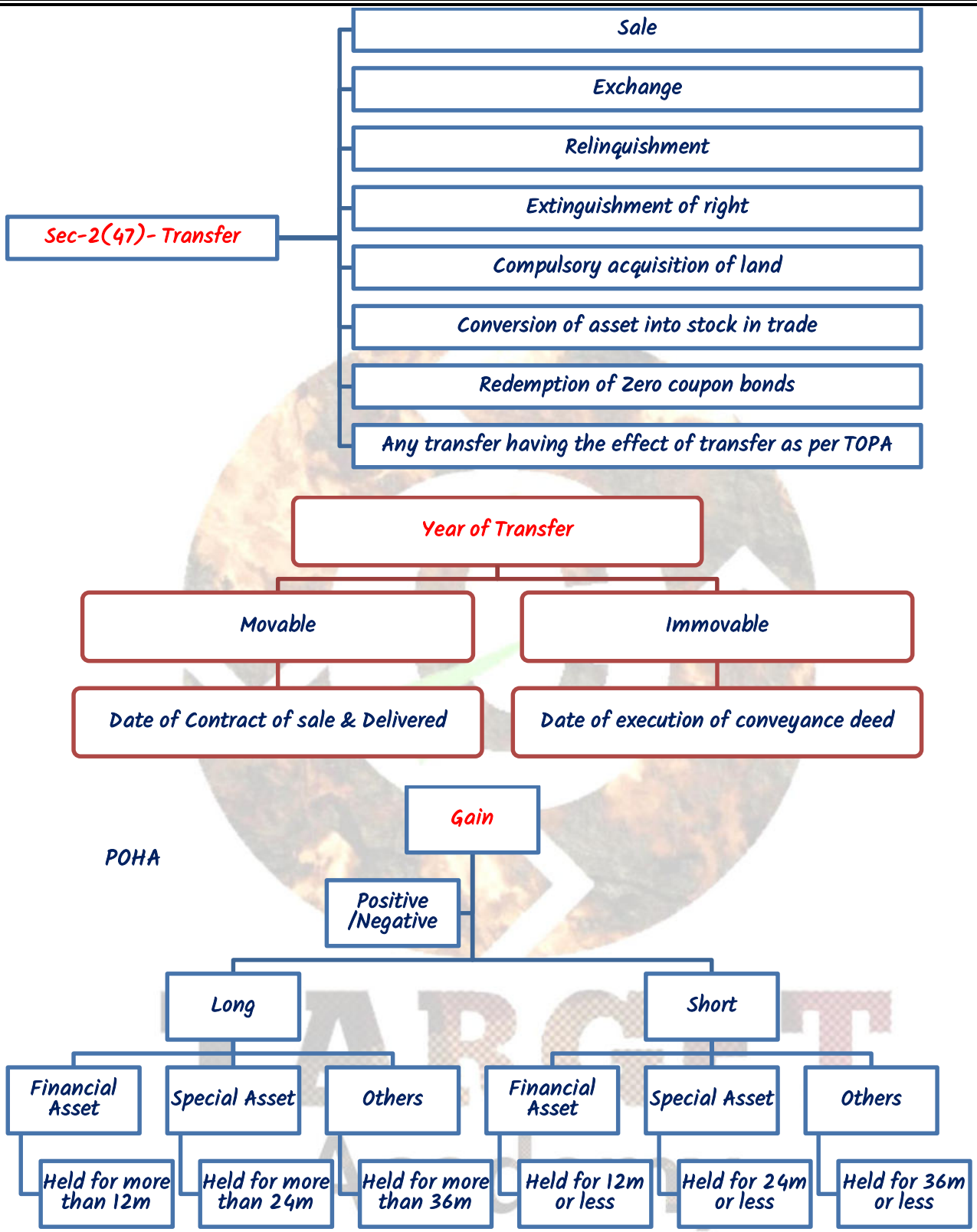


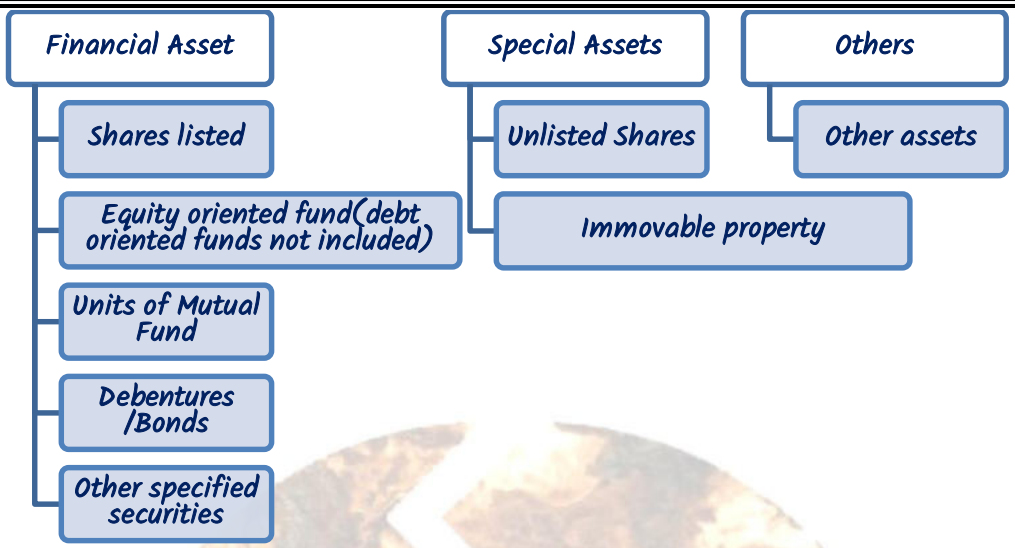


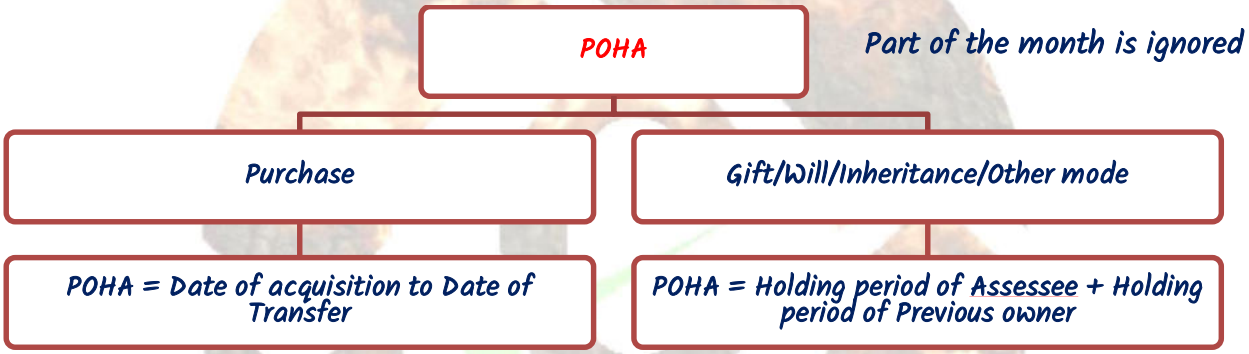
Explanation 1:
For this purpose of this sub-clause , "jewellery" includes:

a) *Ornaments made of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals, whether or not containing any precious or semi-precious stones and whether or not worked or sewn into any wearing apparel*

b) *Precious or semi-precious stones, whether or not set in any furniture, utensil or other article or worked or sewn into any wearing apparel.*


Sec-2(47)- Transfer
Sale
Exchange
Relinquishment
Extinguishment of right
Compulsory acquisition of land
Conversion of asset into stock in trade
Redemption of Zero coupon bonds
Any transfer having the effect of transfer as per TOPA
Year of Transfer
Movable
Immovable
Date of Contract of sale & Delivered
Date of execution of conveyance deed
POHA
Gain
Positive /Negative
Long
Short
Financial Asset
Special Asset
Others
Financial Asset
Special Asset
Others
Held for more than 12m
Held for more than 24m
Held for more than 36m
Held for 12m or less
Held for 24m or less
Held for 36m or less

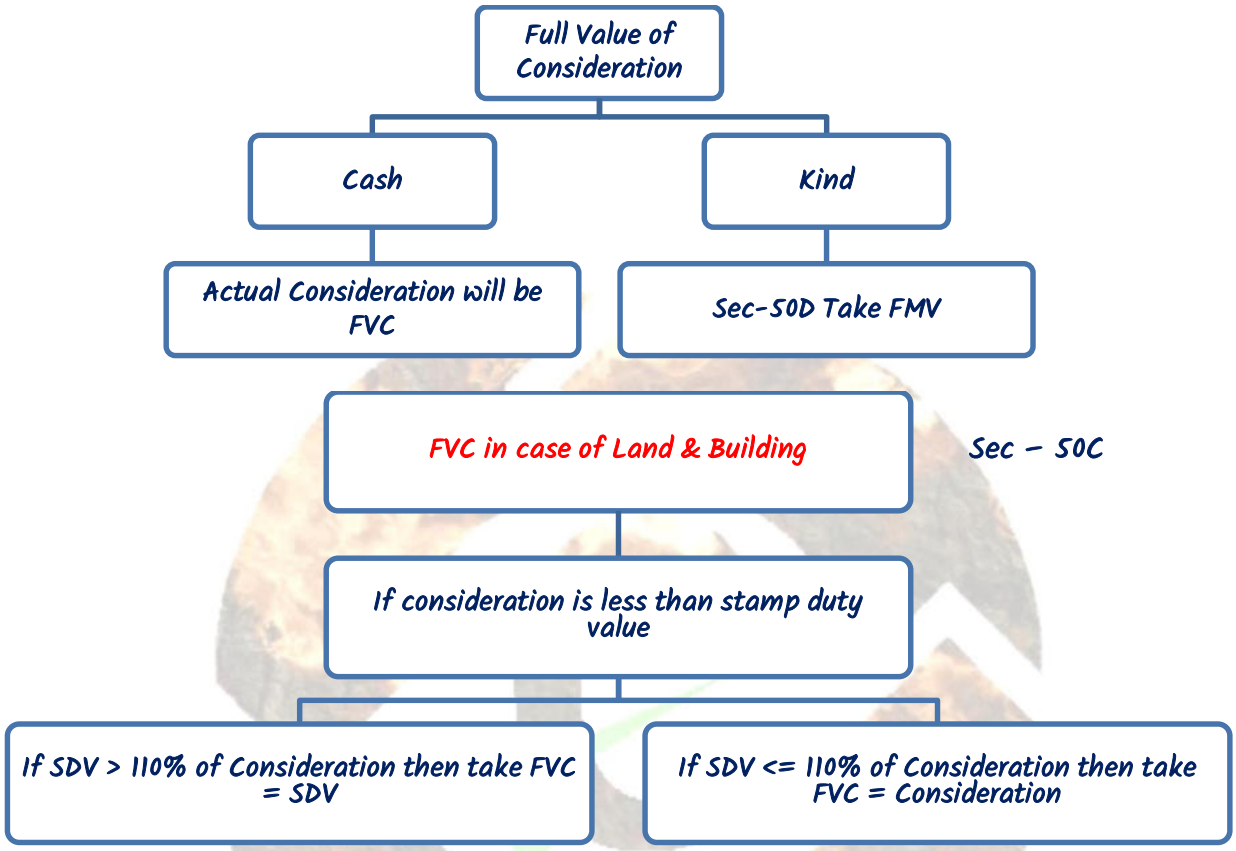




SEC-48 FORMAT TO COMPUTE CAPITAL GAIN

Long Term CG	Rs.
Full Value of Consideration	xxx
(-) Expenses on Transfer	(xxx)
Net Consideration	xxx
(-) Indexed Cost of Acquisition	(xxx)
(-) Indexed Cost of Improvement	(xxx)
LTCG	xxx
(-) Exemptions u/s 54 to 54 GB	(xxx)
LTCG	xxx

Short Term CG	Rs.
Full Value of Consideration	xxx
(-) Expenses on Transfer	(xxx)
Net Consideration	xxx
(-) Cost of Acquisition	(xxx)
(-) Cost of Improvement	(xxx)
STCG	xxx
(-) Exemptions u/s 54 B/D/G/GA	(xxx)
STCG	xxx

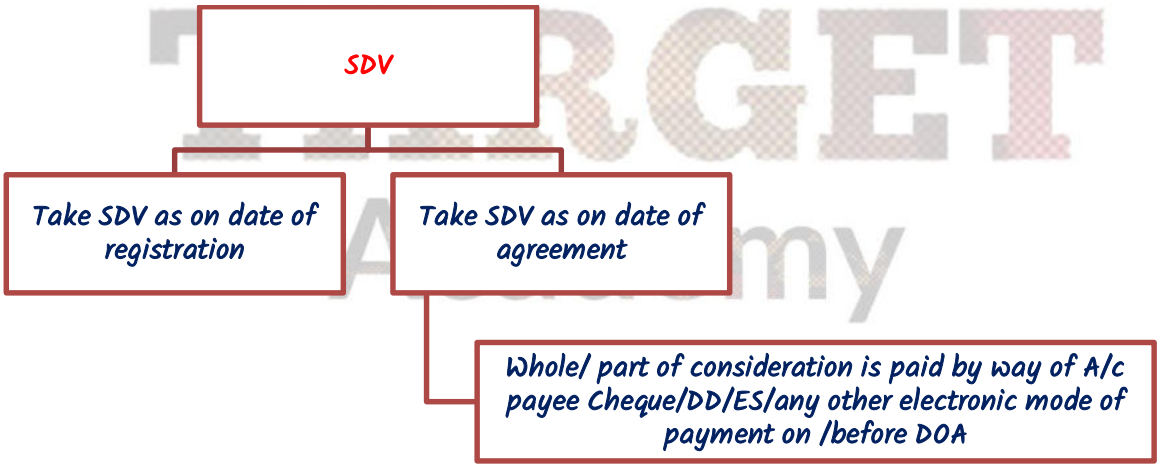


Particulars	Rs.
SDV	65l
Consideration	55l
FVC	

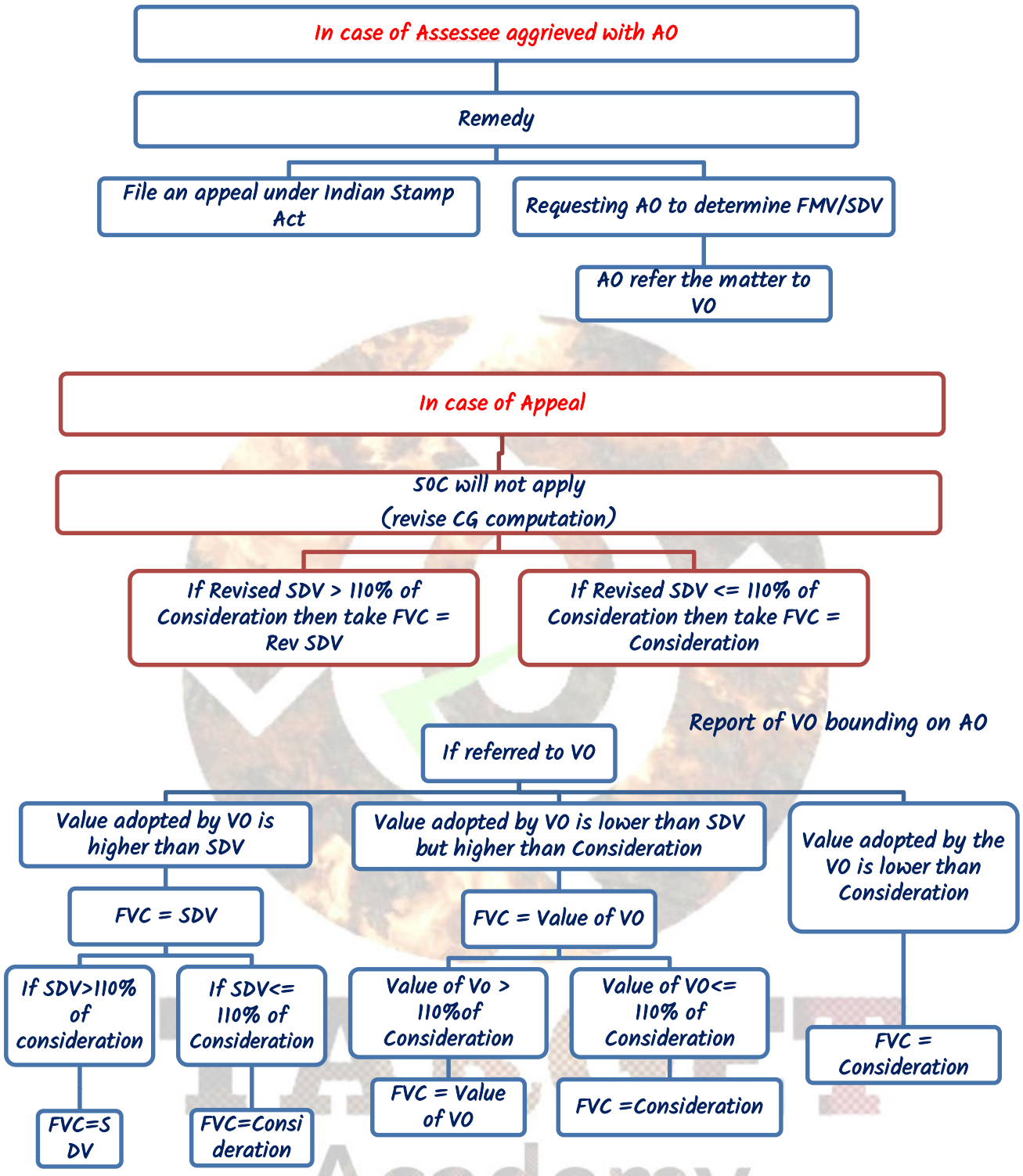
Since SDV> C by 110%

Particulars	Rs.
SDV	60 l
Consideration	50 l
FVC	

Since SDV> C by 110%



- Most of the times Assessee dispute the stamp duty value in that case Assessee can refer to Valuation Officer



Note

- In case of transfer of immovable property if Total Consideration >= 50 lakhs then TDS(194IA) @ 1% is to be deducted by Transferee

Particulars	Rs.
Consideration	551
SDV	591
VO	621
FVC	

Particulars	Rs.
Consideration	601
SDV	681
VO	671
FVC	

FVC in case of unlisted securities Sec- 50CA

If FMV of unlisted securities is greater than Consideration

Then FVC = FMV(This Provision is not applicable to Certain class of persons as specified by CG)

Particulars	Rs.
Consideration	4 l
FMV	6 l
FVC	

Particulars	Rs.
Consideration	4.9 l
FMV	5 l
FVC	

If referred to VO

- Value adopted by VO is higher than FMV → FVC = FMV
- Value adopted by VO is lower than FMV but higher than Consideration → FVC = Value adopted by VO
- Value adopted by the VO is lower than Consideration → FVC = Consideration

2. Expenses on Transfer

Expenses on Transfer

- Cash → Actual Expenses
- Percentage(%) → Take % on sale consideration but not on FVC

- STT (security transaction Tax) is not allowed as deduction.
- All other expenses incurred by seller are allowed as deduction

Example

Mr.R Sold a house property in PY for Rs. 98 Lakhs stamp value of the said property if Rs. 99 lakhs. Expenses on transfer is 4 lakhs this property was acquired 1 year before for 82 lakhs. Compute Capital gain.

Hint:

Example

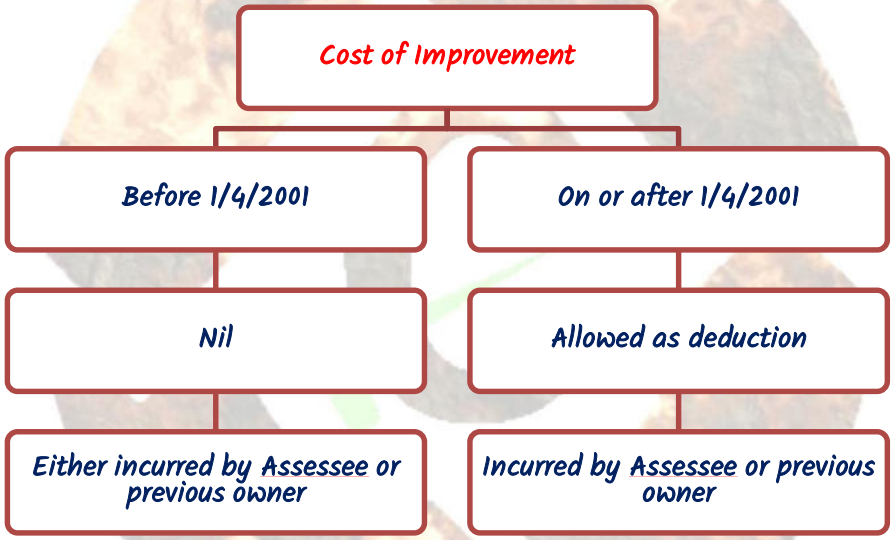
Mr. S Sold a house property in PY for Rs. 50 Lakhs stamp value of the said property if Rs. 70 lakhs. Value adopted by VO is 60 lakhs. Expenses on transfer is 12%. The indexed COA is Rs. 43 Lakhs and Indexed COI is Rs. 3 lakhs Compute Capital gain.

Hint:

COST OF ACQUISITION (SEC – 49 & 55)

Situation	Nature		COA
Purchase	Before 1/4/2001		COA or FMV as on 1/4/2001 w.e.h
	On or after 1/4/2001		COA
Gift/Will/Inheritance	Before 1/4/2001		Cost to previous owner/ FMV as on 1/4/2001 w.e.h
	On or after 1/4/2001		Cost to previous owner.
Shares	Original shares		Actual COA
	Right Shares		Actual COA
	Bonus Shares	Before 2001	FMV
		After 2001	Nil
	Right Shares Purchased under renouncement		Actual Cost + Price paid to renouncer
	Sweat Equity Shares		Actual COA
	Conversion of P.S in to E.S		Actual Cost of P.S

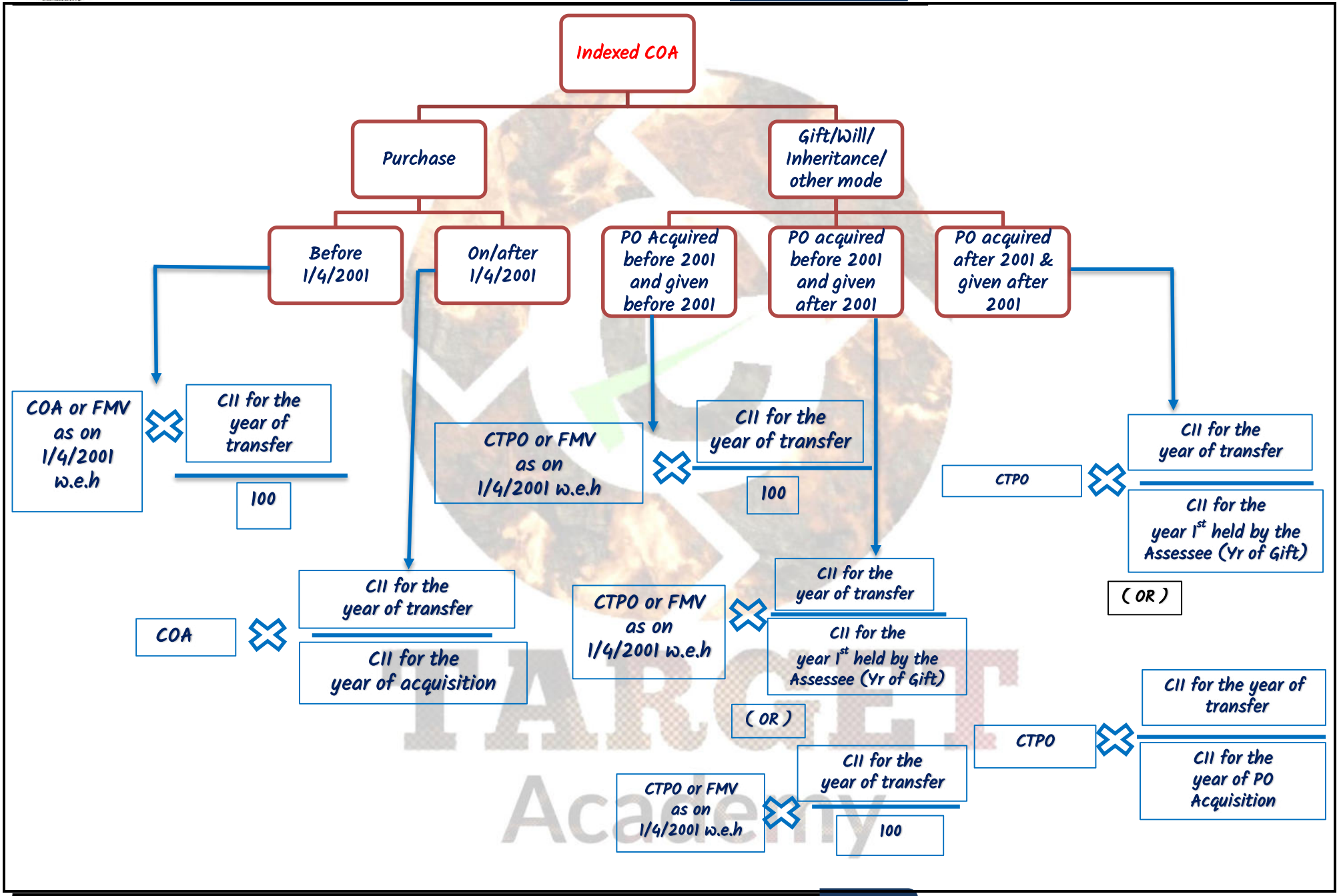
Intangible	Self Generated	Nil (B.C Srinivasa Shetty)
	Purchased/ Acquired	Actual COA
LTCG(FA, 2018) Sec – 112A	Equity Shares (or) Units of Equity oriented Fund (or) Units of Business Trust	If Acquired Before 1/2/2018 then COA shall be higher of (A) COA. (B) Lower of (a) FMV of such Asset. (b) FVC of Consideration received as a result of transfer.



INDEXATION

- We do indexation because if the cost were shown at historical cost it will be a calculation mismatch and the realised gain will not be the actual gain, hence in order to make a proper calculation the indexation is done

TARGET Academy


Indexed COA
Purchase
Gift/Will/ Inheritance/ other mode
Before 1/4/2001
On/after 1/4/2001
PO Acquired before 2001 and given before 2001
PO acquired before 2001 and given after 2001
PO acquired after 2001 & given after 2001
COA or FMV as on 1/4/2001 w.e.h
CII for the year of transfer
100
COA
CII for the year of transfer
CII for the year of acquisition
CTPO or FMV as on 1/4/2001 w.e.h
CII for the year of transfer
100
CTPO or FMV as on 1/4/2001 w.e.h
CII for the year of transfer
CII for the year 1st held by the Assessee (Yr of Gift)
(OR)
CTPO
CII for the year of transfer
CII for the year 1st held by the Assessee (Yr of Gift)
(OR)
CTPO
CII for the year of transfer
CII for the year of PO Acquisition
CTPO or FMV as on 1/4/2001 w.e.h
CII for the year of transfer
100

PO ACQUIRED BEFORE 2001 AND GIVEN AFTER 2001

CTPO or FMV w.e.h × CII for the year of transfer / CII for the year 1st held by the Assessee (Yr of Gift

or

Manjula Shah VS CIT(HC)

CTPO or FMV w.e.h × CII for the year of transfer / 100

When Cost means cost to PO Holding period means HP to PO, So indexation should also be available from the date of PO

PO ACQUIRED AFTER 2001 & GIVEN AFTER 2001

CTPO × CII for the yr of transfer / CII for yr of Ist held by Assessee (i.e. yr of gift)

or

Manjula Shah VS CIT(HC)

CTPO × CII for the year of transfer / CII for the year of PO Acquisition

- Indexed Cost of Improvement
  - Before 1/4/2001
    - Nil
  - On/after 1/4/2001
    - Incurred by Assessee or PO

$$COI \times \frac{CII \text{ for the yr of transfer}}{CII \text{ for the yr of improvement}}$$

Benefit of indexation is not available in the following cases

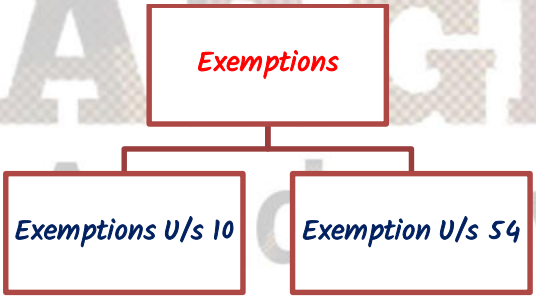
- Depreciable Assets (always STCG)
- Slump Sale.
- Shares/Debentures acquired using Foreign currency.
- No deductions u/s 80C to 80U are allowed while computing CG.

Setoff of losses

- LTCL can be set off only against LTCG.
- STCL can be set off against any CG.
- Loss of any head an be set off against CG, but loss of CG can't be setoff against other head.
- Loss can be carried forward up to 8 years.
- In the question, if values for land and Building are given separately, then ICOA should be calculated separately.

CR SUBRAMMANAM CASE

- Here the question was, whether the gain is long term or short term because the land is denoting long term and the building is denoting short term.
- It was held by the court that the calculation has to be made separately and the consideration shall be the FMV.



Exemptions u/s 54 to 54GB

Particulars	Sec-54	Sec-54EC	Sec-54EE

Assets transferred	Residential house property(i.e. building or land appurtenant thereto) whose income is taxable under the head "house property"	Any long term Capital Asset.	Any Long term Capital Asset
Whose can claim exemption	Individual/HUF	Any Assessee	Any Assessee
Period of use/ Possession of asset how long	The asset so transferred should be a LT capital Asset	Any Long term capital asset.	Any Long term capital asset.
Nature of CG eligible for exemption	Long term	Long term	Long term
Eligible New Asset	One residential HP (whether Constructed/Acquired);(If CG <= 2 Cr-- 2 residential HP in India can be claimed– only once in life)	Bonds of NHAI/ REC/PFC/IRFC, or Any bond notified by CG(redeemable after 3 yr) issued on or after 1.4.2007 but before 1.4.2018 form 1.4.2018 redeemable in 5 yr	1 year for listed Shares, listed securities, Units of UTI/ Mutual Fund specified U/s 10(23D), Zero-coupon bonds, 2 years for unlisted shares, 3 years for other capital assets.
Maximum period allowed for investment	If Purchased – 1 year before or 2 years after the DOT. If constructed – 3 years the DOT	Within 6 months from the date of such transfer.(FA 2018 Max Rs. 50 Lac during any FY	Within 6 months from the date of such transfer.(FA 2018 Max Rs. 50 Lac during any FY

Particulars	Sec-54	Sec-54EC	Sec-54EE
Amount of exemption	Amount invested or capital gain which ever is lower	Amount invested or capital gain which ever is lower	Amount invested or capital gain which ever is lower
Treatment of unutilised amount	Up to the date of furnishing of ITR the unutilised amount of such CG should be deposited in to Capital deposit account scheme.	NA	NA

Where such new asset is transferred – Tax treatment	Where such new asset is transfer with in the period 3 years from the date ofacquisition/ construction the COA of such Asset will be reduced by the amt of exemption with drawn.	Amount of Capital gain exempted earlier will now be taxable as LTCG in the year of such transfer. Note: transfer includes conversion into money	Amount of Capital gain exempted earlier will now be taxable as LTCG in the year of such transfer. Note: transfer includes conversion into money

Note

- The new investment can be in the name of different assessee also.
- Amount if any unutilized shall be taxable.
- Sec-54+ 54 EC+54EE. Can be claimed together.
- Flat with common entrance would be regarded as single flat.
- As per Sec-56(2)(x) gift received on the occasion of marriage is exempted. However as per Sec-45 if capital Asset is transferred the assessee shall be liable to C.G.
- As per sec-2(4) jewelry is a Capital Assets.
- As per above provision sale of jewelry will be liable to CG.

Particulars	Sec-54B	Sec-54D	Sec-54F
Assets transferred	Urban agriculture land (because rural agriculture land is not a capital asset	Land or building of industrial undertaking which is transferred in compulsory acquisition under any law	Any Long term capital Asset other than residential house
Whose can claim exemption	Individual/HUF	Any assessee	Individual/HUF
Period of use/ Profession of asset how long	The agriculture land should be used by him/parents for agriculture purpose for at least 2 years before such transfer.	Such land or building should be used by the assessee for the purpose of industrial undertaking for at least 2 years before such transfer	Any long term capital asset
Nature of CG eligible for exemption	Long term/short term	Long term/short term	Long Term

Eligible New Asset	Agriculture land (whether in rural area or in urban area)	Land or building for industrial purpose	One residential house property(whether acquired or constructed) Note: But on the date of tranfer, the assessee should not own more than one residential HP (other than this new house
Maximum period allowed for investment	Within 2 years from the date of such transfer	Within 3 years from the date of receipts of amounts of compensation in respect of such transfer	If Purchased – 1 year before or 2 years after the DOT. If acquired – 3 years the DOT

Particulars	Sec-54B	Sec-54D	Sec-54F
Amount of exemption	Amount invested or capital gain which ever is lower	Amount invested or capital gain which ever is lower	
Treatment of unutilised amount	Up to the date of furnishing of ITR the unutilised amount of such CG should be deposited in to Capital deposit account scheme.	Up to the date of furnishing of ITR the unutilised amount of such CG should be deposited in to Capital deposit account scheme.	Up to the date of furnishing of ITR the unutilised amount of proportionate CG should be deposited in to Capital deposit account scheme.
Where such new asset ids transferred – Tax treatment	Where such new asset is transfer with in the period 3 years from the date of acquisition/ construction the COA of such Asset will be reduced by the amt of exemption with drawn.	Where such new asset is transfer with in the period 3 years from the date of acquisition/ construction the COA of such Asset will be reduced by the amt of exemption with drawn.	Where such new asset is transfer with in the period 3 years (i) capital gain on such transfer will be STCG. (ii) CG exempted under this section will be taxable as LTCG

- With 2 houses in hand assessee purchases constructs another house with in 2/3 years as the case may be. CG exempted taxable under this section will be taxable as LTCG.

SECTION 54G, 54GA, 54GB FINAL SYLLABUS

Particulars	Sec-54	Sec-54GB
Assets transferred	Residential house property(i.e. building or land appurtenant thereto) whose income is taxable under the head "house property"	Residential house property(i.e. building or land appurtenant thereto) whose income is taxable under the head "house property".
Whose can claim	Individual/HUF	Any Assessee

exemption		
Period of use/ Profession of asset how long	The asset so transferred should be a LT capital Asset	Long term capital asset.
Nature of CG eligible for exemption	Long term	Long term
Eligible New Asset	One residential HP (whether Constructed/Acquired);(If CG <= 2 Cr-- 2 residential HP in India can be claimed- only once in life)	Equity Shares of eligible Co. Eligible = Indian CO.; MSME; Manufacturing; Min =25% holding
Maximum period allowed for investment	If Purchased – 1 year before or 2 years after the DOT. If acquired – 3 years the DOT	Before the Due date of ITR

Particulars	Sec-54	Sec-54GB
Amount of exemption	Amount invested or capital gain which ever is lower	
Treatment of unutilised amount	Up to the date of furnishing of ITR the unutilised amount of such CG should be deposited in to Capital deposit account scheme.	Extended this provision up to 1/4/2021
Where such new asset ids transferred – Tax treatment	Where such new asset is transfer with in the period 3 years from the date of acquisition/ construction the COA of such Asset will be reduced by the amt of exemption with drawn.	Company Should invest such amount in P&M or S/w and should hold such assets for at least 3 years

SECTION 54G, 54GA, 54GB FINAL SYLLABUS

- Sec- 10(37) :-compulsory acquisition of urban agriculture land provided (conditions).
  - ✓ Land must be used for agriculture purpose at least for 2 years before the date of transfer either by him or parents.
  - ✓ Compensation is received after 1/4/2004.
  - ✓ Assessee is Individual/HUF
- Sec-10(37A) :- Transfer of land/ Building on after 2/6/2014 under Andhra Pradesh Capital City land pooling Scheme provided.
  - ✓ Assessee is Individual/ HUF.
  - ✓ He owns ownership certificate.
  - ✓ Transfer is under APLPS

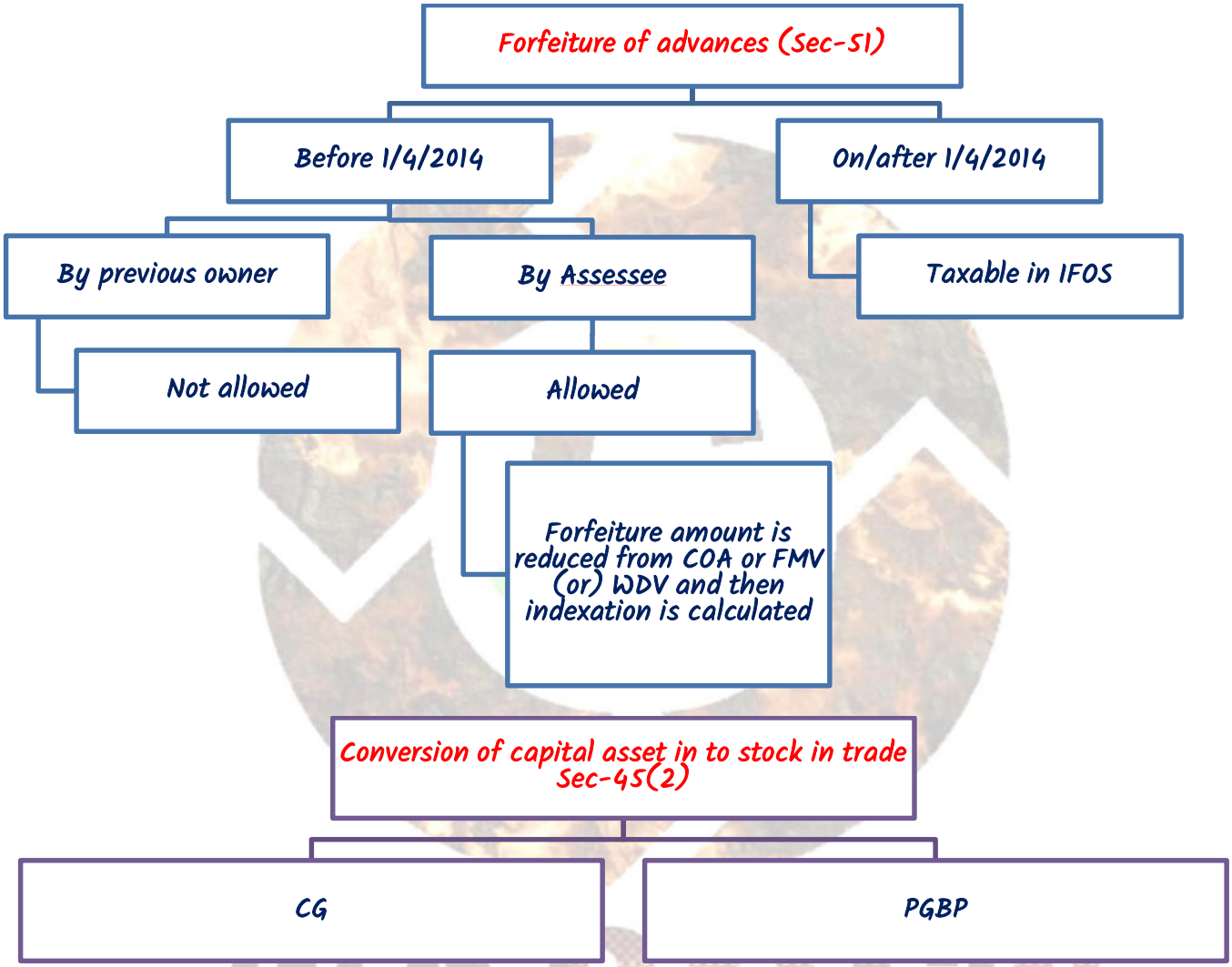
- Sec-10(43) :- Any transfer or amount received under reverse mortgage scheme (refer sec-42).
- Sec-(38) :- LTCG on which STT is paid exempt upto Rs. 1,00,000 (sec-112A).
- As per Sec- 10(37) :-compulsory acquisition of urban agriculture land provided (conditions).
    - ✓ Land must be used for agriculture purpose at least for 2 years before the date of transfer either by him or parents.
    - ✓ Compensation is received after 1/4/2004.
    - ✓ Assessee is Individual/HUF.
- Since all the above conditions are satisfied whole amount is exempt u/s 10(37). Since whole amount is exempt. It is irrelevant whether investment is made or not.
- If BEL is not exhausted then special income shall be first utilised towards BEL & balance if any shall be chargeable at special rate.

TRANSACTION NOT REGARDED AS TRANSFER SEC-47

1. Any transfer of capital asset under gift/will other then ESOP.
2. Any distribution of capital assets on the total or partial partition of a HUF.
3. Any transfer of a capital asset by a holding company to its 100% subsidiary company, provided that such transferee company is an Indian company.
4. Any transfer of a capital asset by a subsidiary company to its 100% Holding company, provided that such Transferee company is an Indian company.
5. Any transfer, in a scheme of amalgamation, provided that such Amalgamated company is an Indian company.
6. Shares received by S.H in case of amalgamation is not subjected to C.G
7. Any transfer, in a demerger.
8. Transfer of Rupee denominated bonds outside India by NRI to another.
9. Conversion of debentures/bonds into Equity.
10. Conversion of PS into Equity.
11. Any transfer under notified reverse mortgage scheme(Sec 47 (xvi)).
12. Such other securities as may be prescribed by CG
13. Transfer by are foreign Co. to another foreign Co. However if control is transferred then it shall be liable to C.G.
14. Consolidation of mutual fund scheme.(i.e. units of MF2 given instead of MF1)
15. Conversion of proprietor to co.

- Conditions
  - ✓ All assets & liabilities are transferred.
  - ✓ In consideration only receive shares.
  - ✓ Share holding min 50%.

17. Transfer of capital assets being the work of Art book, drawing to Govt, Museum, National Art Gallery.



Particulars	Amount(Rs.)
FVC =FMV as on the date of conversion	xxx
Less : EOT	(xxx)
Net consideration	xxx
Less : COA/ICOA	(xxx)
Less: COI/ICOI	(xxx)
C.G	xxx
Less : Exemption	(xxx)
C.G	xxx

Particulars	Amount(Rs.)
Sale Value	xxx
Less: FMV as on the date of conversion	(xxx)
PGBP	xxx

Note

1. Both C.G & PGBP will arise in the year when converted stock is sold if only part of the stock is sold C.G will be taxable proportionately.

2. Indexation will be available up to the year of conversion.

$$\text{COA/CTPO/FMV} \times \frac{\text{CII for yr of conversion}}{\text{100/CII for acq/CII for I}^{st} \text{ held by assessee}}$$

3. As per FA 2018 if stock in trade is converted in to Capital Asset then only PGBP will arise

(whenever these type of problems are given, solve first PGBP then solve CG.)

Compulsory acquisition Sec-45(5)

- Initial compensation
- Enhanced compensation
- Interest compensation & enhanced comapnsation

Particulars	Amt(Rs.)
FVC = Amt decided by authority	xxx
Less : EOT	(xxx)
Net consideration	xxx
Less : COA/ICOA	(xxx)
Less: COI/ICOI	(xxx)
C.G	xxx
Less : Exemption	(xxx)
C.G	xxx

Taxable in IFOS & 50% is allowed as deduction

Particulars	Amt(Rs.)
FVC = Amt received	xxx
Less : EOT	(xxx)
Net consideration	xxx
Less : COA/ICOA	Nil
Less: COI/ICOI	Nil
C.G	xxx
Less : Exemption	(xxx)
C.G	xxx

Note

- Even if part consideration is received whole consideration is taxable. CG arise in the year when whole/part consideration is Ist received.

$$\text{COA/CTPO/FMV} \times \frac{\text{CII for yr of conversion}}{\text{100/CII for acq/CII for I}^{st} \text{ held by assessee}}$$

- If compensation is reduced in future C.G is recomputed.

Insurance Compensation Sec-45(1A)

Insurance Compensation

Floods, typhoons, War, Action of enemy, Fire

Taxable in the year of receipt

Other Assets	Depreciable assets

Particulars	Amt(Rs.)
FVC = Compensation	xxx
Less : EOT	(xxx)
Net consideration	xxx
Less : COA/ICOA	(xxx)
Less: COI/ICOI	(xxx)
C.G	xxx
Less : Exemption	(xxx)
C.G	xxx

Particulars	Amt (Rs.)
Compensation	xxx
Less:- WDV	(xxx)
STCG	xxx

Note

- Indexation is available only up to the year of distribution

$$\text{COA/CTPO/FMV} \times \frac{\text{CII for yr of compulsory distribution}}{\text{100/CII for acq/CII for 1st held by assessee}}$$

- Stock is not a capital assets hence compensation received if any would be taxable in PGBP.
- As per Sec-45(1A), Insurance compensation against capital Asset on account of flood, typhoons, War etc. shall be taxable under CG as under.
- (i) Compensation against stock :- Taxable in PGBP, bcz stack is not a capital Asset u/s 2(14).
- (ii) Compensation against Machinery :- Since machine is a capital Assets compensation would be liable to CG but is reduced from the compensation.
- (iii) Compensation against chain :- Gold chain is also a capital Assets as per Sec-2(14). Hence compensation is taxable in C.G.

Sec-45(3)

Transfer of CA by partners to his Firm/AOP/BOI

CG will arise bcz it is relinquishment of right

Particulars	Amt(Rs.)
FVC = Amount recorded in Books of Firm	xxx
Less : EOT	(xxx)
Net consideration	xxx
Less : COA/ICOA	(xxx)
Less: COI/ICOI	(xxx)
C.G	xxx
Less : Exemption	(xxx)
C.G	xxx

Sec-45(4)

Distribution of CA up on dissolution of Firm or otherwise

Particulars	Amt(Rs.)
FVC = FMV as on the date of distribution	xxx
Less : EOT	(xxx)
Net consideration	xxx
Less : COA/ICOA	(xxx)
Less: COI/ICOI	(xxx)
C.G	xxx
Less : Exemption	(xxx)
C.G	xxx

SLUMP SALE SEC-50B

- When the whole unit is transferred under a single consideration it is called as slump sale i.e. without individually valuing the Asset.

Particulars	Amount(Rs.)
Net consideration	xxx
Less:- Net worth	(xxx)
C.G	xxx

NOTE

1. Net consideration --- Sale consideration(FMV1 or FMV2 whichever is higher) – EOT.
2. Net Worth – Total Assets- current liabilities.
3. Assets
   - Depreciable assets @ WDV.
   - Non depreciable assets @ Book Value.
   - Ignore revaluation of Assets.
   - Assets on which Deprecation allowed but not taken---- Take after depreciation.
   - Depreciation Rates.
     - ✓ Building = 10%
     - ✓ P&M = 15%
     - ✓ Intangible = 25%
     - ✓ Furniture = 10%
     - ✓ Computer = 40%

NOTE

Gain Long/Short term shall be decided upon whether the unit is holding the asset for more than 36 months or less than 36 months.

Sec-45(5A)

Registered Developer agreement

Particulars	Amt(Rs.)
FVC = SDV as on the date of issue of certificate of completion of his share + other consideration received if any	xxx
Less : EOT	(xxx)
Net consideration	xxx
Less : COA/ICOA	(xxx)
Less: COI/ICOI	(xxx)
C.G	xxx
Less : Exemption	(xxx)
C.G	xxx

NOTE

- Indexation is available only up to the year of RDA

$$\text{COA/CTPO/FMV} \times \frac{\text{CII for yr of RDA}}{\text{100/CII for acq/CII for 1st held by assessee}}$$

- Exemption u/s 54 is available in this case also.
- If rights are transferred before certificate of completion then CG will arise in the year when rights are sold.
- In future if these Asset are sold the FVC as per 45(5A) shall be the COA.

NOTE

- The maximum exemption u/s 54EC is restricted to 50 lakhs.

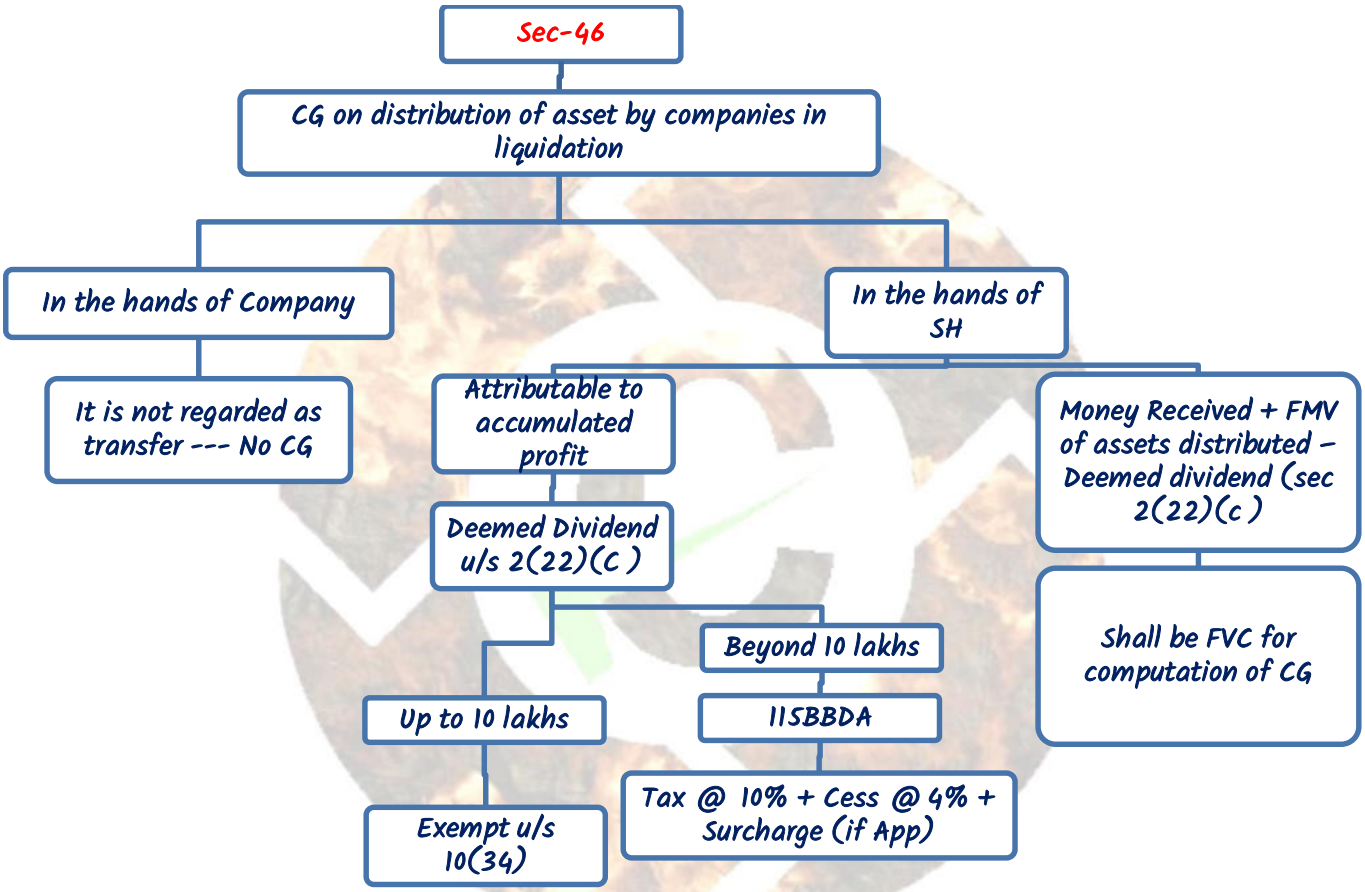
NOTE

- As per C.R Subramanayam case, if consideration for land and building given separately the calculation of CG shall be made separately.

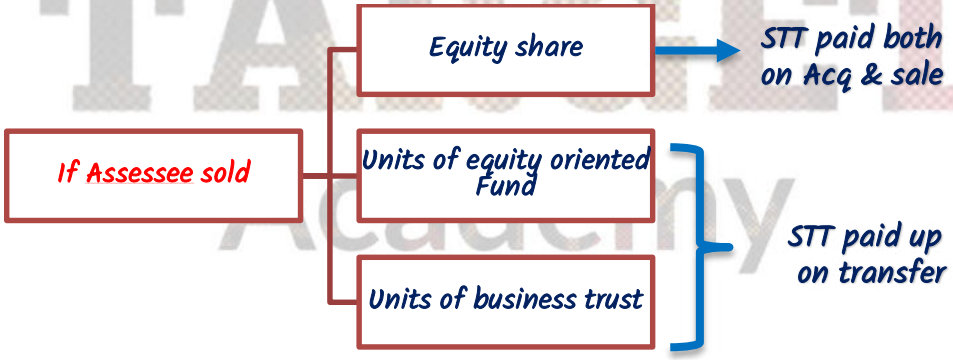
- LTCL can be set off against LTCG

NOTE

- STCL can be set off against STCG, further loss under the head CG can't be set off against other head.
- POHA for an unlisted shares is 24 months.



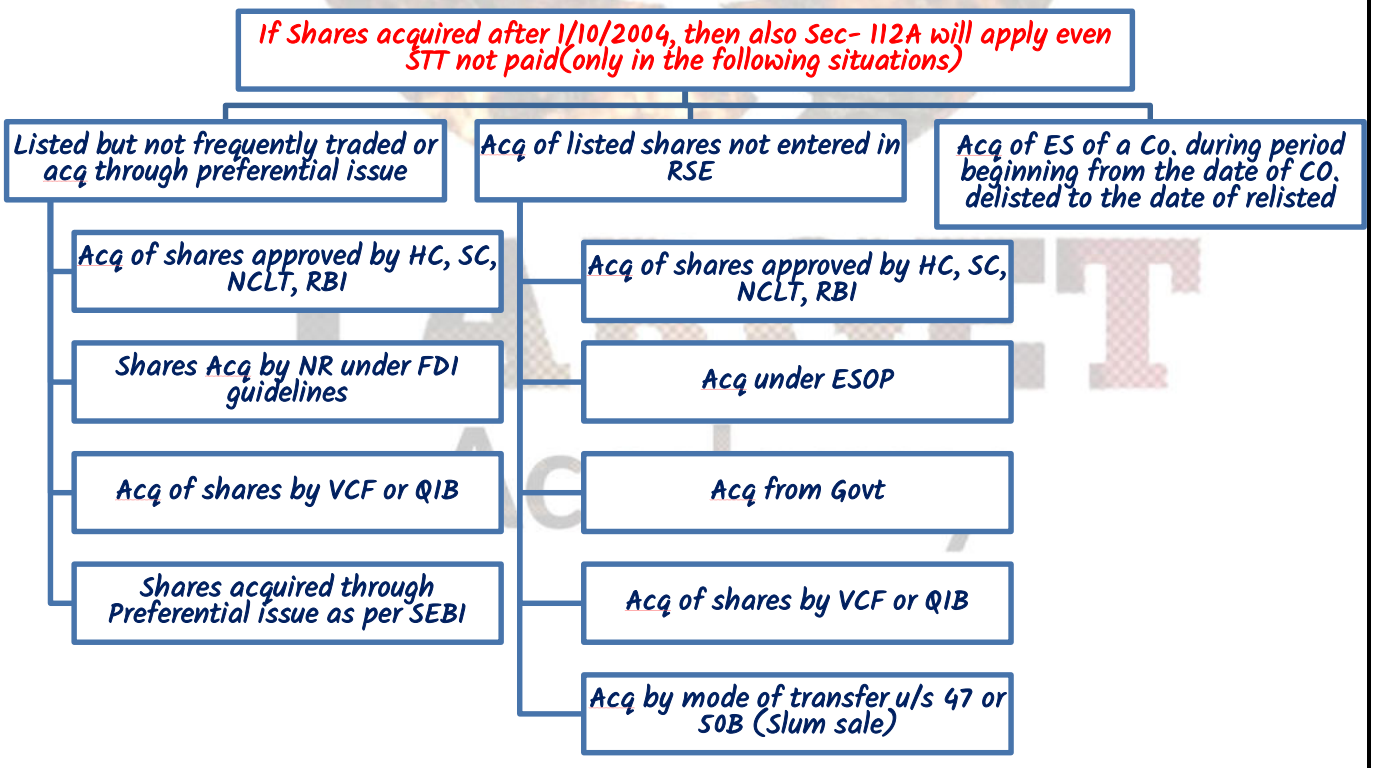
SEC-112A LTCG ON CERTAIN ASSETS



Any gain being LTCG beyond 1lakh would be taxable @ 10%

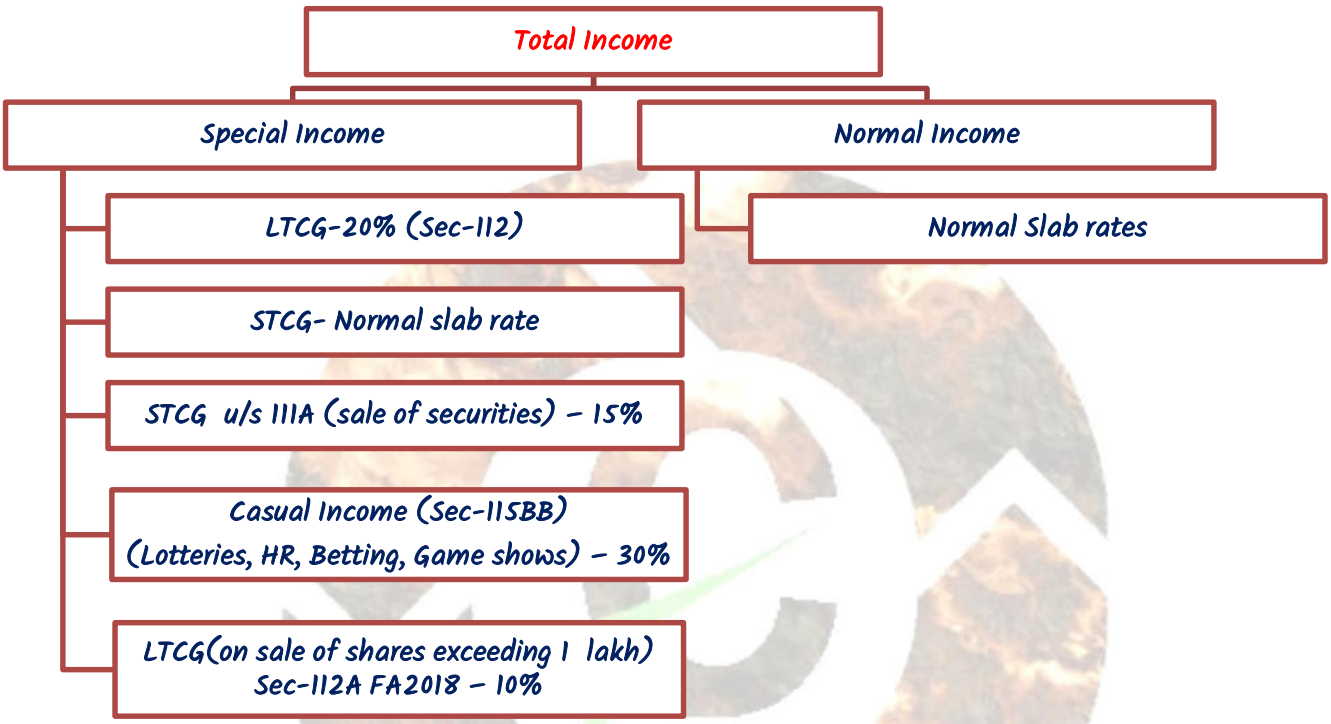
SPECIAL POINTS

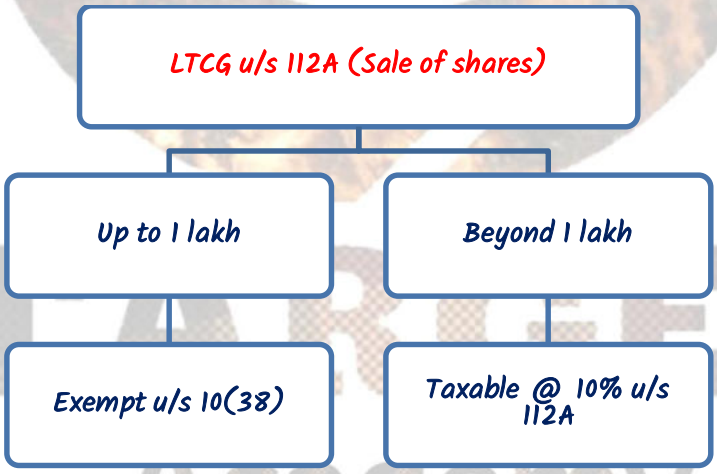
- This gain can't be adjusted against unexhausted Basic Exemption Limit up to 1 lakh but beyond 1 lakh can be adjusted against BEL – But not available to NR.
- No deduction u/s 80 C to 80U.
- No rebate u/s 87A available.
- Tax is applicable only if LTCG is transferred after 1/4/2018.
- Benefits of Indexation is not available.
- No CG if transfer up to 31st Jan 2018.
- No TDS is required to be deducted.
- If Bonus shares is received before 31st Jan 2018, FMV will be taken, However if transfer is made before 31st Jan 2018 whole Gain is exempt.
- Set off (or) any carry forward normal provision applies.
- Not applicable to PS/Debentures/Bonds/Deb oriented fund.
- If on E.S STT paid only on Acq – Sec NA -- Tax rate 20%.



HOW TO COMPUTE TAX ON CG

SPECIAL RATE OF TAX



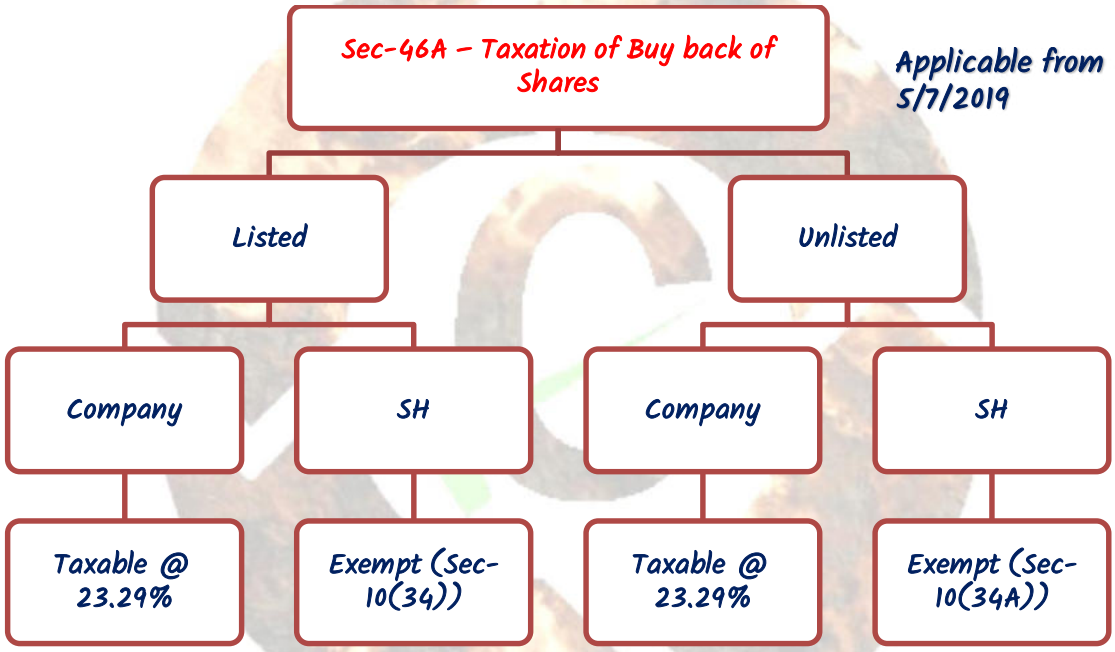


REBATE U/S 87A

- Applicability
  - ✓ Individual (Resident)
  - ✓ Total Income (All heads after deductions) (NI+SI) (Excluding Agricultural Income & Exempted Income).
- Conditions

- ✓ TI Not Exceeding 5,00,000.
- ✓ Rebate is not available to
  - ➢ LTCG on sale of securities (LTCG u/s 112A)

- Rebate(least of)
  - ✓ 100% of Tax (or)
  - ✓ 12,500.



TARGET Academy

THE END

INCOME FROM OTHER SOURCES

Sec No.	Particulars
Sec-56	Charging Section
Sec-57	Deduction allowed from other sources
Sec-58	Deduction not allowed



GIFT





INTEREST



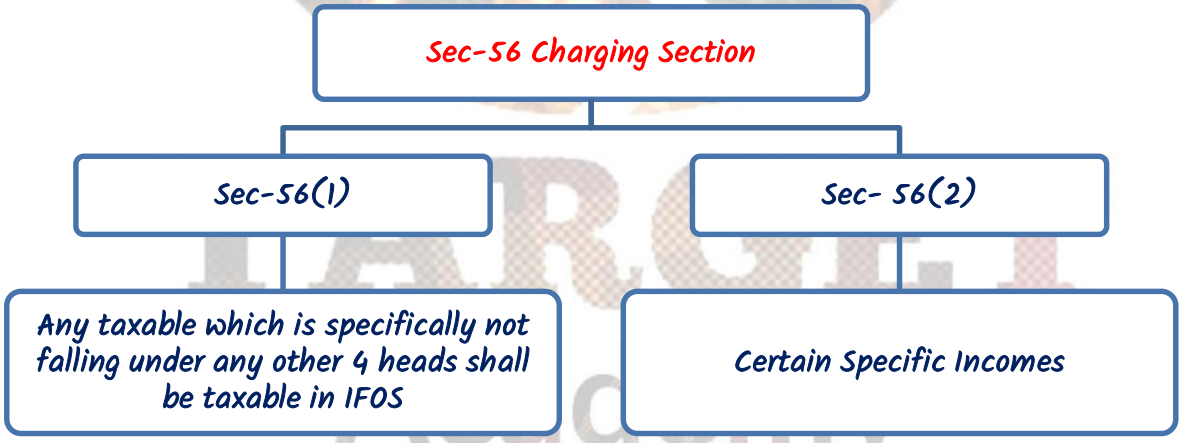
AGRICULTURE INCOME



CASUAL INCOME



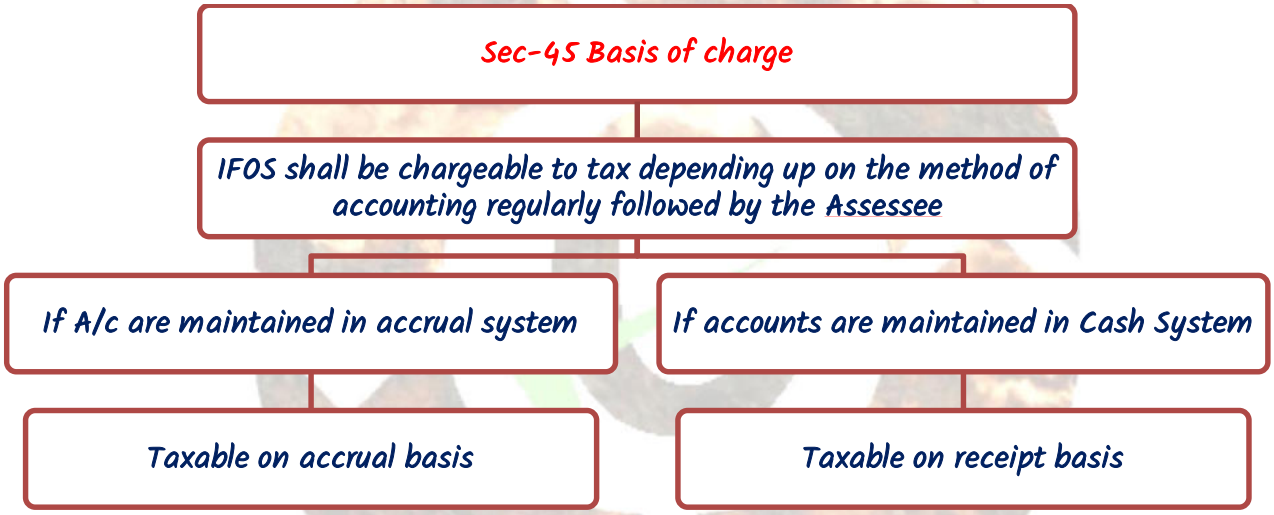
DIVIDEND INCOME

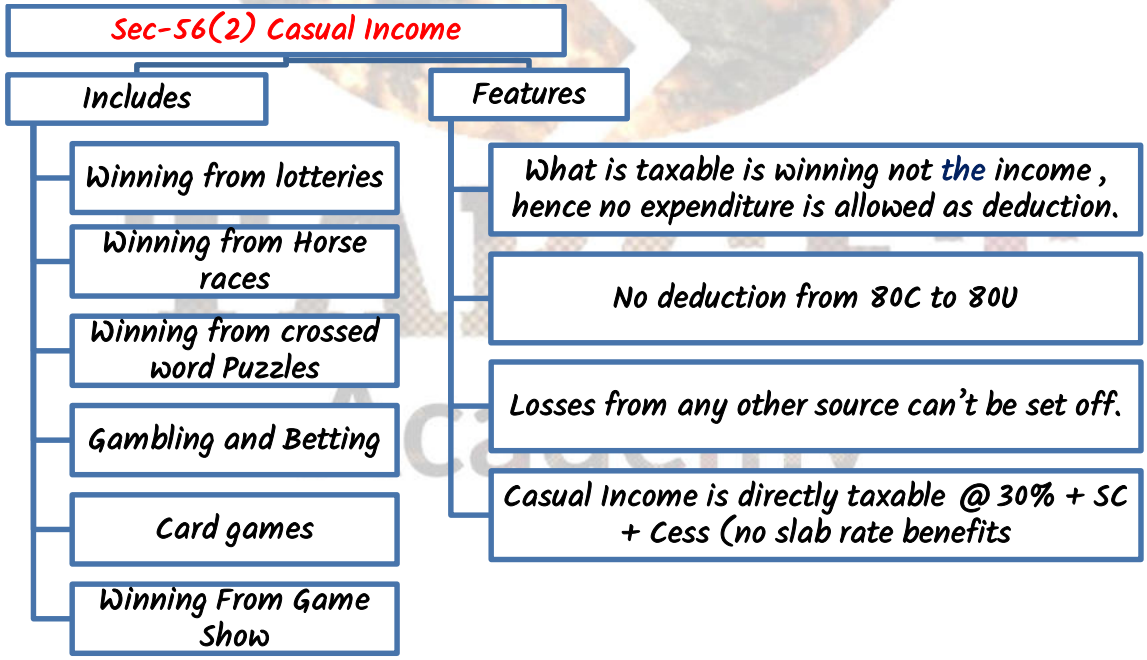


CERTAIN SPECIFIC INCOMES WHICH ARE TAXABLE IN IFOS

1. Dividend
2. Casual Income
3. Gift
4. Interest on securities if not taxable as PGBP.

5. Composite rent if inseparable.
6. Income from letting out of P&M if not taxable as PGBP.
7. Amount received from KIP if not taxable in salary or PGBP.
8. Sum received by Assessee from employee if not taxable in PGBP.
9. Interest on enhanced compensation.
10. Rent from vacant plot.
11. IAny compensation or other payment received by any person in connection with termination of his employment or modification of terms related there to(FA 2018)











Note:

1. Winning from Lottery ticket held as stock in trade is taxable under PGBP. (Directory of state Lottery v/s CIT).
2. Income of Jockey is taxable in PGBP.
3. TDS on casual income --- Sec-194B --- Lottery /Horse Race – exceed Rs. 10,000 TDS @ 30% + cess.

- Take gross amount while calculating TI.
- If net amount (i.e after deducting TDS) is given then make it as Gross by using this formula.
  - Gross = Amount received/(100-TDS rate)
  - (If not given any thing in question assume it as gross)

Problem no : 1

Mr. Y has received net lottery income Rs. 35,000. What is the income included in his TI.

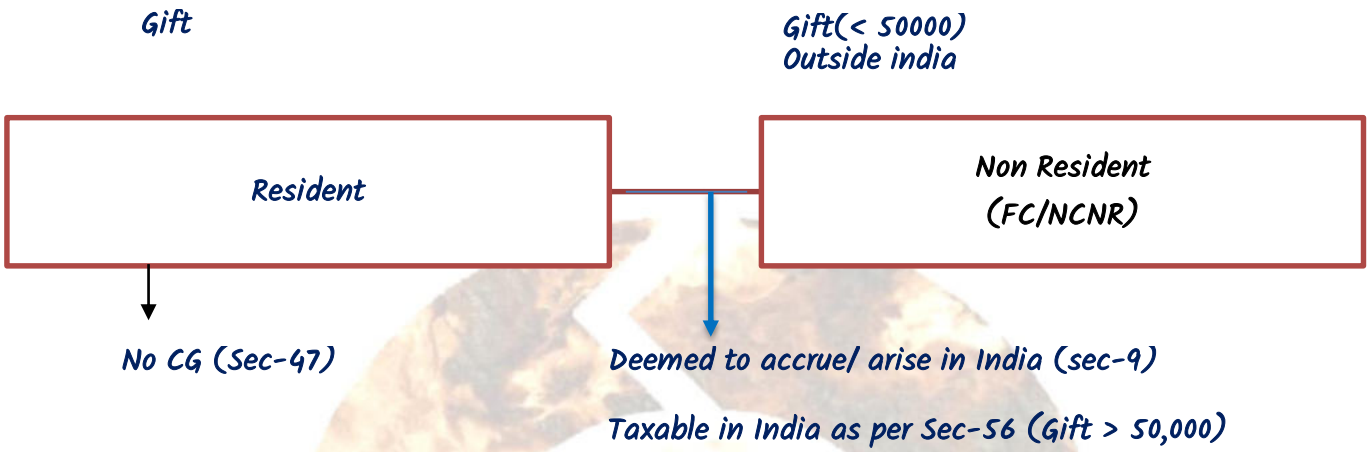
Ans

50,000

Gift

Cash			Immovable Property(CA)		Movable property(CA)	
Received from person/persons in aggregate exceeds Rs.50,000 in a P.Y	The whole of such Sum is taxable	Cash includes Bank, cheque, ECS	With out consideration	Inadequate consideration	With out consideration	Inadequate consideration
			If SDV exceeds Rs.50,000 (each) the value of such SDV is taxable	If consideration is less than SDV& the difference b/w SDV & consideration is more than higher of (a) 50,000 (b) 10% of actual consideration.	If aggregate FMV exceeds Rs. 50,000 The whole FMV is taxable	If the diff b/w aggregate FMV & consideration exceeds Rs. 50,000 The whole difference is taxable

SCOPE OF THE INCOME(SEC-9)



IN CASE OF IMMOVABLE PROPERTY

- SDV as on the DOR is to be taken generally
- SDV as on the DOA is to be taken on if following conditions is satisfied
    - Whole/ part of consideration is paid by way of A/c payee Cheque/DD/ES/any other electronic mode of payment on /before DOA

Movable Property (AA PS DJ SI)

- A= Arche logical collection.
- A= Any work of art.
- P= Painting.
- S = Shares & securities.
- D= Drawings.
- J= Jewellery or bullion.
- S= Sculpture.
- I = Immovable property being Land, Building or both.

Cash

- Cash aggregate of Rs. 60K
- Ans
- Cash Aggregate of Rs. 50K
- Ans
- Cash aggregate of Rs.51K
- Ans

Immovable property (with out consideration)

- SDV = 40K
- Ans
- SDV = 50K
- Ans
- SDV = 59K
- Ans

Immovable property (Inadequate consideration)

- SDV = 23 Lakhs C= 20 Lakhs
- Ans
- SDV = 25 Lakhs ; C= 20 Lakhs
- Ans
- SDV = 30 Lakhs; C= 29 Lakhs
- Ans
- SDV = 40 Lakhs; C= 39 Lakhs
- Ans

Movable property (with out consideration)

- FMV = 49K
- Ans
- FMV = 50K
- Ans
- FMV = 59K
- Ans

Movable property (Inadequate consideration)

- FMV = 49K; C= 47K
- Ans
- FMV = 1,40,000 ; C= 1,20,000
- Ans
- FMV = 1,70,000; C= 1,10,000.
- Ans
- FMV = 1,50,000; C= 1,00,000
- Ans

Note:

If date of agreement & date of registration is different then, SDV is to be taken as on the date of agreement

Q No. 1:Mr. A dealer in shares received cash gift from friend of Rs. 75,000 on his anniversary on 15.4.2022 is that amount taxable.

Ans: As per Sec-56(2) (x) if cash gift from person (or) person exceeds Rs. 50,000, the whole amount is taxable. (taxable =75,000).

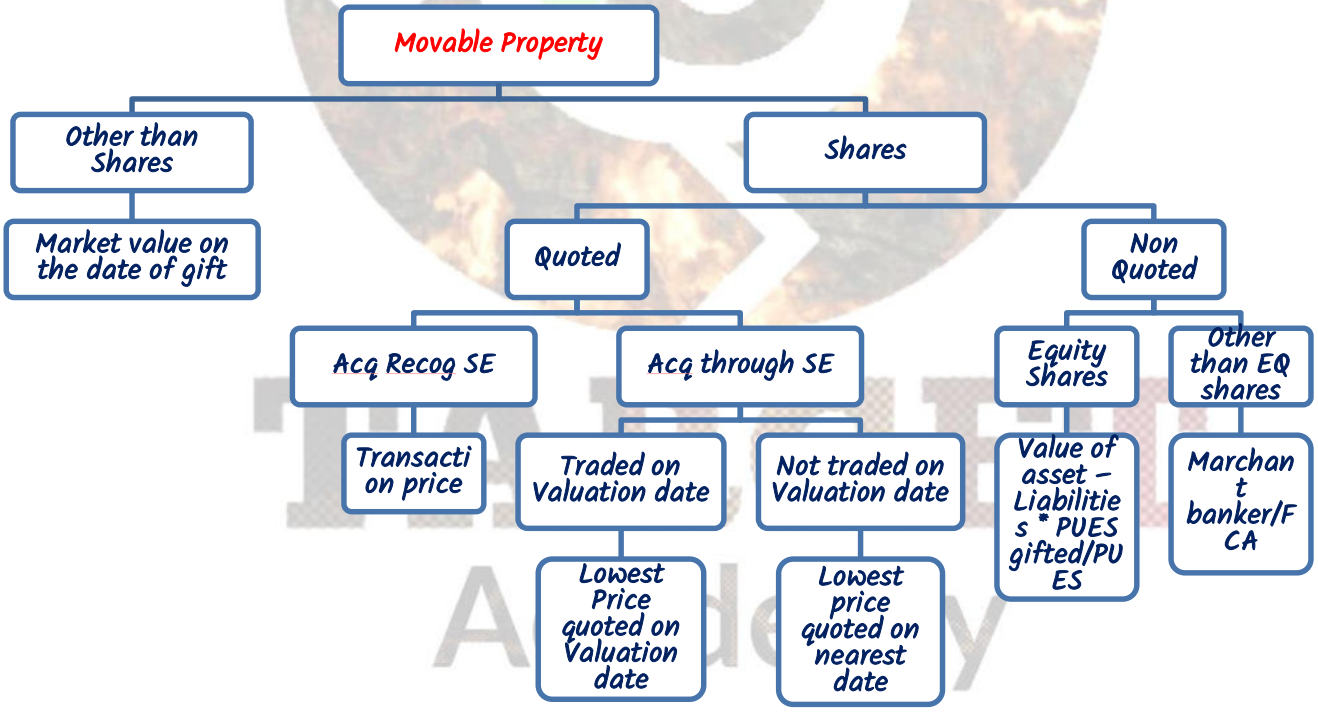
Q No.2:Mr. S a cricketer received Ferrari car as gift from friend FMV of car is Rs. 72 Lakhs on 15th May 2022 is the amount taxable?

Ans: Since car is not covered under the definition of property it is not taxable as gift.

EXCEPTION TO GIFT SEC-56(2)(X) (FOLLOWING RECEIPTS ARE NOT TAXABLE AS GIFT)

1. Gift received from relative (on occasion or not).
2. Gift received on the occasion of marriage (own marriage)(from relative or not).
3. Under a will/ inheritance
4. Inheritance or in contemplation of dearth.
5. Gift from a trust or institute registered u/s 12AA or 10(23)(c).
6. Gift from Local Authority.
7. Transaction of money/ Property b/w wholly owned Subsidiary & its Holding or from Holding to 100 % Subsidiary not treated as Gift (FA 2018)

- Gift from class of person/es as may be prescribed by CG.
- Gift to Trust for the benefit of relative.



IN CASE OF NON QUOTED SHARES

- Bullion, Jewellery, Sculpture, Drawings, Paintainings = FMV
- Shares = FMV

- Imm prop = SDV
- Other Assets = Book Value

Board shall prescribe transactions undertaken by class of persons such that provisions of Sec-56(2)(x) & Sec- 50CA shall not apply w.r.t determination of FMV on shares.

Relative

1. Spouse of individual
2. Brother or sister of individual.
3. Brother or sister of spouse.
4. Brother or sister of either of the parents.
5. Linear ascendant or descendent of individual.
6. Linear ascendant or descendent of Spouse.
7. Spouse of persons referred from 1 to 6
8. In case of HUF == Any Member.

Not a relative

1. Friend
2. Cousins.
3. Mother's cousin
4. Father's Cousin
5. Brother of Father in law.
6. Brothers & sisters of grand parents
7. Linear descendent of brothers/sister & their spouse (son or daughter of brothers)

Note:

Marriage is different marriage anniversary is different

Section	Dividend Includes	Notes
2(22)(a)	Any distribution of Assets of Co. to its SH (only up to the extent of accumulated profits)	Dividend = MV of property
2(22)(b)	Any distribution of Debentures to its SH/Bonus to its PS of Co. (only up to the extent of accumulated profits)	Bonus shares to ES not amounts to dividend
2(22)(c)	Any distribution of Co. to its SH (only up to the extent of accumulated profits)	Refer Capital gain chapter
2(22)(d)	Any distribution of Co. to its Shon account of reduction of capital (only up to the extent of accumulated profits)	
2(22)(e)	Loans & Advances ; Applicable only to Private Co./closely held co./ Co. in which public are not interested to its SH having significant interest(10%) and to the concern on which such SH is a partner having 20% share.	Such Loan or advance is treated as dividend

Forfeiture of advances (Sec-51)

- Before 1/4/2014
  - By previous owner
    - Not allowed
  - By Assessee
    - Allowed
      - Forfeiture amount is reduced from COA or FMV (or) WDV and then indexation is calculated
- On/after 1/4/2014
  - Taxable in IFOS as per Sec-56(2)

Compulsory acquisition Sec-45(5)

- Initial compensation
- Enhanced compensation
- Interest compensation & enhanced comapnsation

Particulars	Amt(Rs.)
FVC = Amt decided by authority	xxx
Less : EOT	(xxx)
Net consideration	xxx
Less : COA/ICOA	(xxx)
Less: COI/ICOI	(xxx)
C.G	xxx
Less : Exemption	(xxx)
C.G	xxx

Particulars	Amt(Rs.)
FVC = Amt received	xxx
Less : EOT	(xxx)
Net consideration	xxx
Less : COA/ICOA	Nil
Less: COI/ICOI	Nil
C.G	xxx
Less : Exemption	(xxx)
C.G	xxx

Taxable in IFOS & 50% is allowed asdeduction

As per Sec-57 only 50 % of such interest shall be allowed as deduction, irrespective of PY it pertains, If 50 % is allowed as deduction no other expenses related to above is allowed.

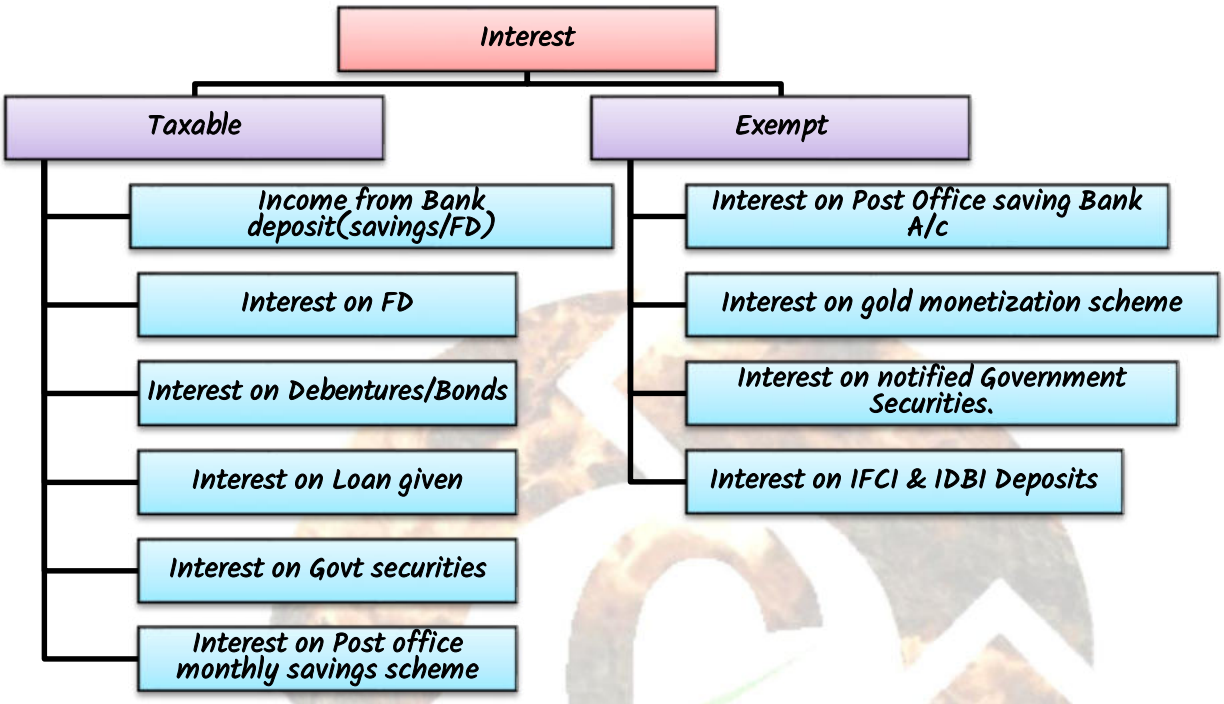
Issue of shares at premium

Applicable only to private Co.

IFOS = (Issue price-FMV)*No of shares

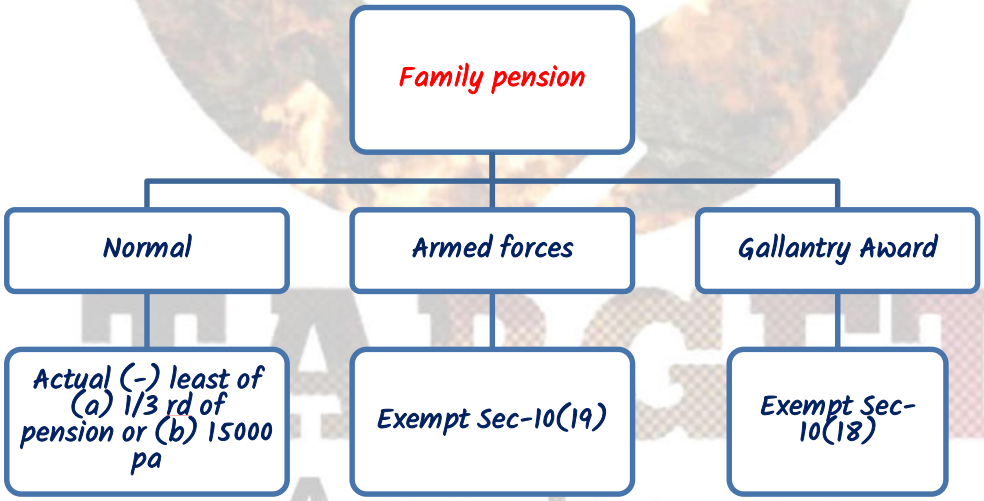
FV	FMV	IP	App of Sec	IFOS
100	120	130		
100	120	110		
100	90	110		

100	90	98		



Note:

As per Sec-193 if interest payment on Debenture exceeds Rs. 5000 TDS @ 10%



SEC-56(2)(VIIB)

Issue of shares at premium

By a Pvt Co./ unlisted Co. (closed held company)

Such premium is taxable

Taxable premium = (Consideration – FMV)x No. of Shares

Exception:

Premium received by Venture Capital Fund

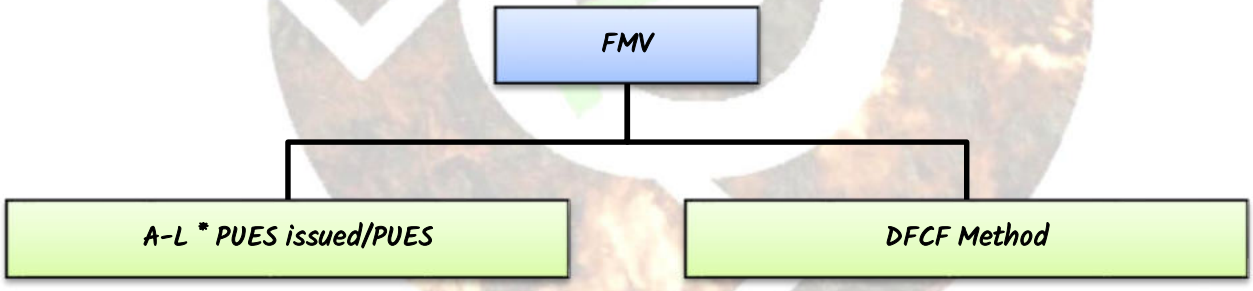
Persons specified by CG

(i) Cat -I AIF

(ii) Cat –II AIF

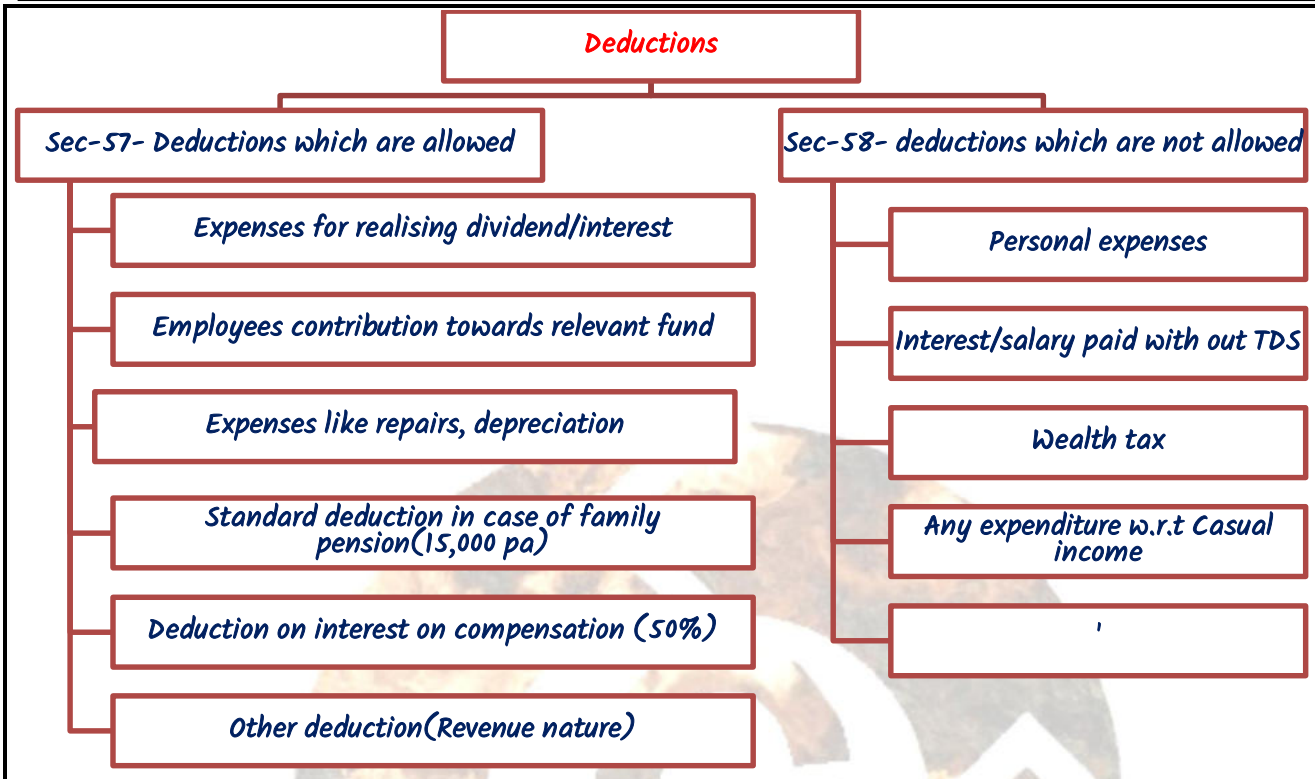
(iii) Start Up Co. – closed held co., Employment creation, TO>/ 100 Cr, SC>/ 25 cr, not inv in sp assets

Persons prescribed by CG/CBDT



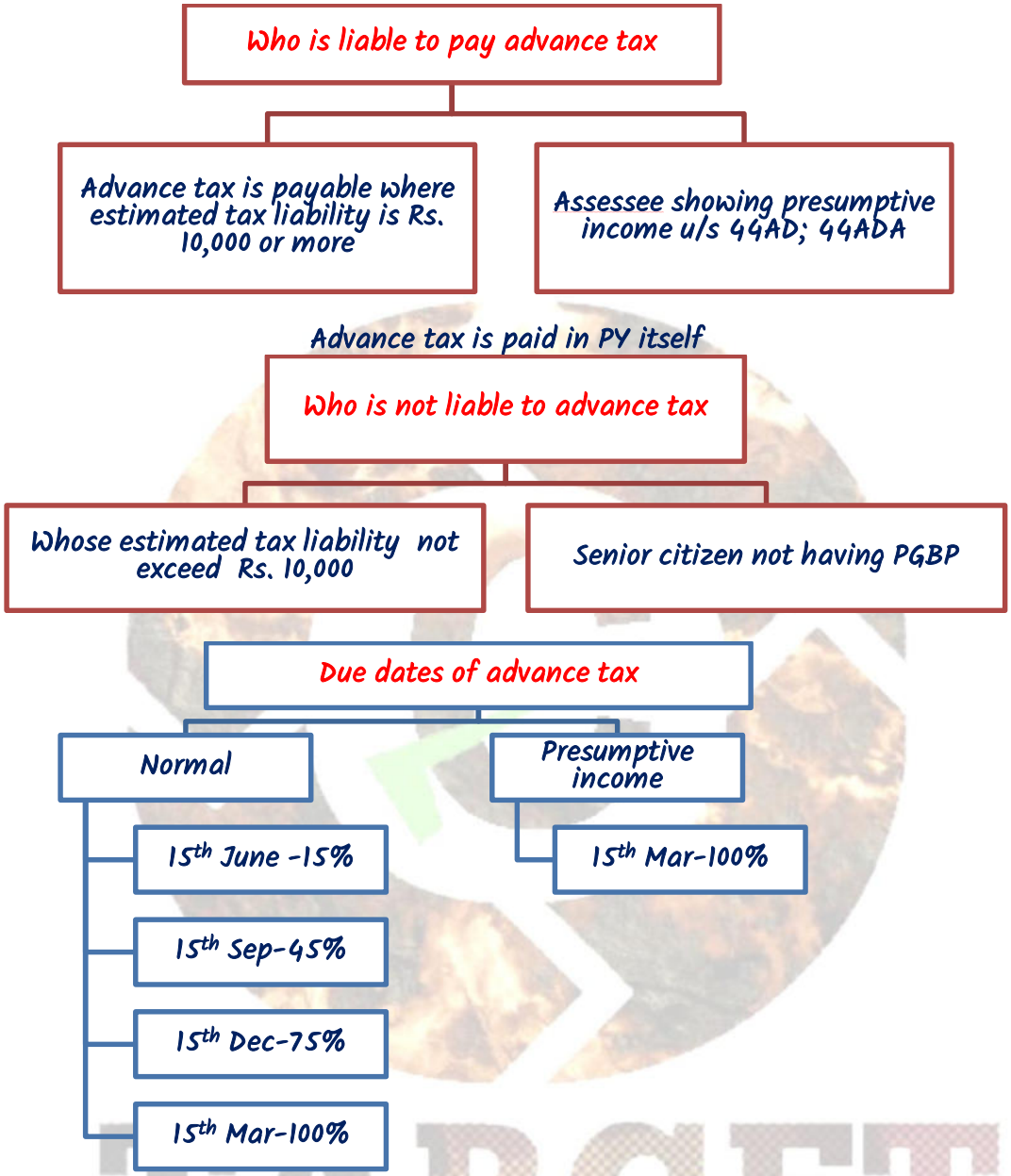
TAXABLE UNDER IFOS:

- Income from undisclosed income
- Remuneration received by member of parliament.
- Agriculture income of land situated outside India.
- Interest on Income Tax Refund.


Deductions
Sec-57- Deductions which are allowed
Expenses for realising dividend/interest
Employees contribution towards relevant fund
Expenses like repairs, depreciation
Standard deduction in case of family pension(15,000 pa)
Deduction on interest on compensation (50%)
Other deduction(Revenue nature)
Sec-58- deductions which are not allowed
Personal expenses
Interest/salary paid with out TDS
Wealth tax
Any expenditure w.r.t Casual income

THE END

ADVANCE TAX



Note:

- Any tax paid b/w 15th mar to 31st Mar will also be treated as advance tax.
- Agriculture income is also counted.
- It is paid in challan no. 280
- If on any date bank is closed on due date Advance tax is paid on next working day.
- As per Sec-219, Advance tax paid shall be treated as Income tax paid on behalf of assessee.

HOW TO COMPUTE ESTIMATED TAX LIABILITY:

Particulars	Amount
Normal Tax liability	xxx
Less :- Relief U/s 89/9/91 (if any)	(xxx)
Advance Tax paid (if any)	(xxx)
TDS/TCS(if any)	(xxx)
MAT/AMT(if any)	(xxx)
Estimated Tax liability	xxx

If such estimated tax liability exceeds Rs.10,000 or more then Assessee is liable to pay Advance tax

Consequence of not paying Advance Tax

Sec-234B	Sec- 234C
Assessee will be treated as Assessee in default	Wrong deferment of Advance Tax
If advance tax is not paid (or) Advance tax paid but less than 90% of Assessed Tax	Q1 – 3% Q2- 3% Q3-3% Q4-1%
Interest @ 1% p.m. or part there off from 1st day of A.Y till date of Assessment.	It is not applicable to person showing presumptive income u/s 44AD/ADA Bcz, there is no deferment

Interest u/s 234C is applicable on 44AD/ADA, If they fail to pay AT on 15th March & such interest will be 1% of 1 month.

No 234C interest in following cases

- CG
- Casual Income
- Income under PGBP arisen for 1st time
- Dividend income beyond 10 Lakhs

Advance Tax in case of capital Gain and casual Income

AT is payable on all type of income including CG & casual Income

But, These income can't be estimated, hence AT is paid on next due date after there income actually arise

If no due date is pending then on or before 31st March

THE END

SEC- 139:- COMPULSORY ROI

Applicable	• I/HUF/AOP/BOI/AJP • If GTI(before Ded u/s Ch-VIA & exception U/s 54)) exceeds BEL
Applicable (irrespective of GTI)	• Individuals/HUF/AOP/BOI/AJP • ROR having Financial Assets, Signing authority outside India • Deposit aggregate of the amt exceeding Rs. 1 Cr in one or more accounts. • Expenditure on foreign travel exceeds 2 lakhs • Expenditure on electricity consumption exceeds 1 lakhs • CO.; Firm/LLP;

Sec- 139(1C) :- CG to exempt class of persons to file ROI

- NR(Not a Co.)
- Foreign CO.
- Income from Investment fund setup in IFSC located in India

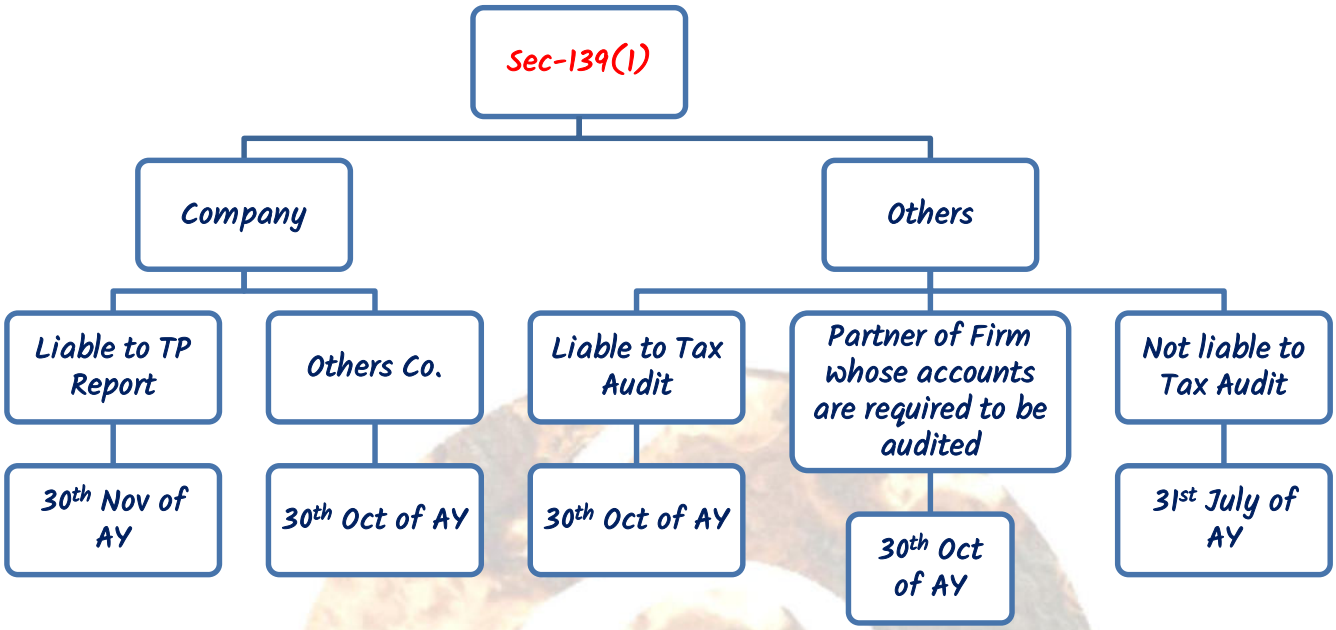
CONDITIONS:

(a) TDS has been deducted

(b) No other tax liability

(c) No Assessment notice

- GTI = 3,00,000
- Deductions = (1,00,000)
- TI = 2,00,000.
- Ans
- ROI =
- Tax =



SEC-139(3) LOSS RETURN

- If Assessee wants to C/F the loss, Assessee should file loss return u/s 139(1).
- If loss return is not filed then loss can't be C/f.
- Two losses can be c/f even ROI is not filed on time.
  - (a) HP
  - (b) Unabsorbed depreciation.
- 2019-20 →Bus Loss = (5lakhs) → ROI = filed on time.
- 2020-21 → Loss can't set off → ROI = Not Filed.
- 2021-22 → ?

SEC-139(4) BELATED RETURN

- If a person fails to file ROI u/s 139(1) he can file a belated return.
  - (a) By the 31st DEC of AY. (or)
  - (b) Before completion of Assessment.

} Which ever of earlier

Mr. M for PY 19-20 could not file ROI by 31st July 2023. Specify the maximum time up to which he can file ROI.

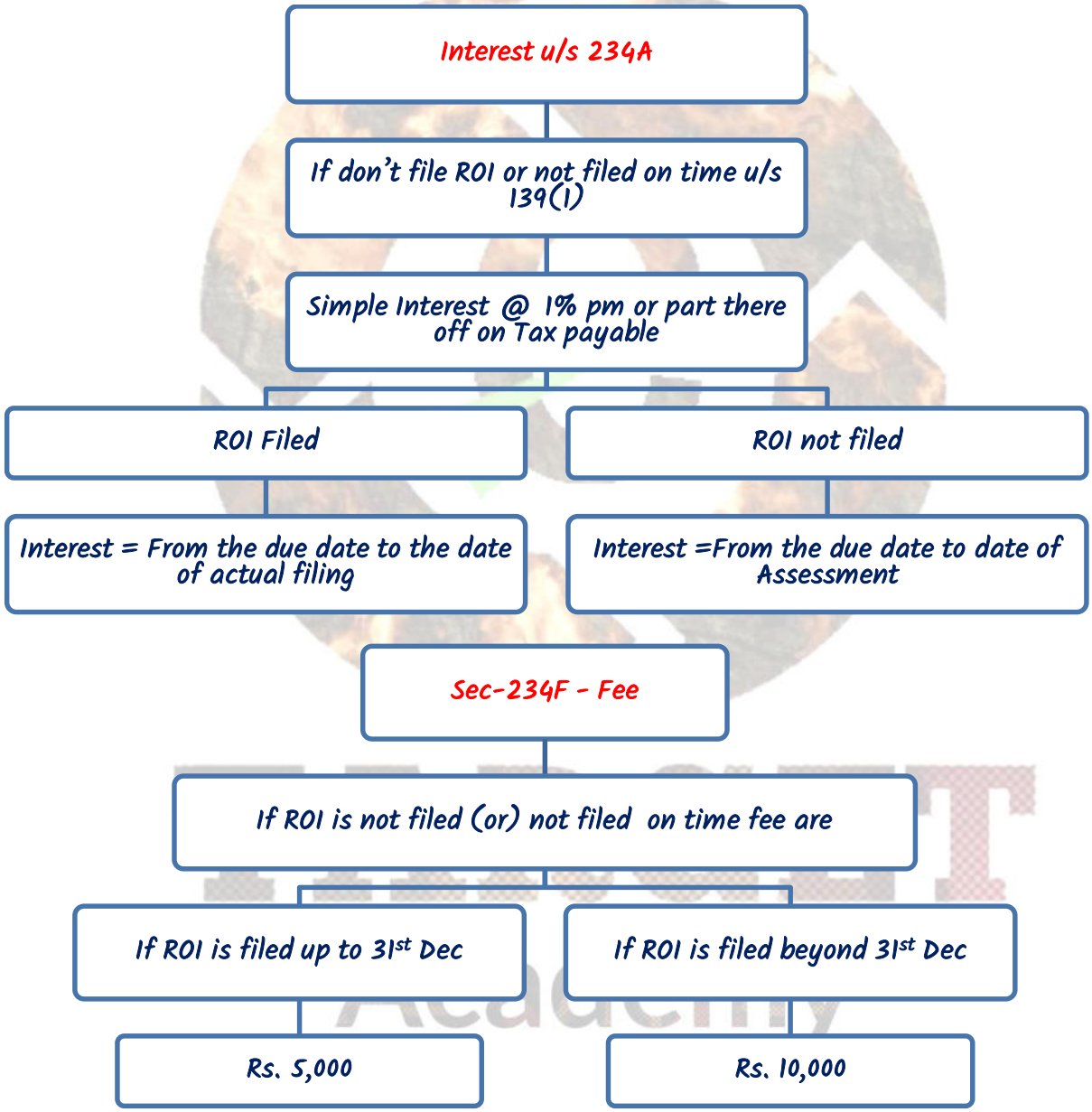
Ans

2. Suppose in above example if assessment is completed on 31/1/2023. What will be your answer.

Ans

CONSEQUENT OF NOT FILING ROI OR LATE FILING OF ROI

- Interest u/s 234A.
- Fees u/s 234F.
- Penalty u/s 234F.
- But judgement assessment u/s 144.
- Loss can't be C/F.



However, If IT does not exceed 5 lakhs then fee is Rs. 1,000 only

SEC-139(5) REVISED RETURN

✓ If Assessee find error or omission in return filed u/s 139(1) or 139(4) he can file revise return

- (a) By the 31st DEC of A.Y
- (b) Before completion of Assessment.

✓ Original return → Can be revised.

✓ Belated Return → Can be revised.

✓ Loss Return → Can be revised.

✓ Revised Return → Can be revised. (unlimited times)

✓ A return can be revised for any no. of time with in time limit.

SEC-139(9) DEFECTIVE RETURN

✓ If AO finds the return as defective he will communicate the defect to assessee.

✓ Assessee needs to rectify the defect with in 15 days AO can also extend the time limit.

- Rectified → ROI Valid
- Not rectified → ROI not valid.

Sec- 89 :- Relief

Income after Assessment V/s Income of self Assessment

Relief u/s is allowed w.r.t additional Income taxable after assessment

SEC-139AA - AADHAAR

✓ From 1st July 2017 Aadhaar no. shall be provided at the time of

- Apply for PAN
- Filing ROI.

✓ If Aadhaar not available then assessee can provide enrolment ID of Aadhaar.

✓ If Aadhaar is not submitted PAN would deemed to be invalid and all consequences of not having PAN shall apply.

✓ Aadhaar is not required by

- (a) NR
- (b) Non citizen of Indian.
- (c) Person whose age → 80 year or more.

- (d) Person resident of Assam, Meghalaya, J&K.

Sec-139AA :- Furnishing Aadhaar

If Aadhaar is not linked with PAN then PAN will be invalid

Due Date:- 31.3.2020.(Extended)

SEC-139A :- PAN

- ✓ Application for PAN be made to AO in form 49A.
- ✓ (a) If income > BEL.
- ✓ (b) Turn over / Gross receipt > 5 lakhs.
- ✓ (c) Every person being resident other than individual which enters a financial transaction of 2,50,000 or more in FY.
- ✓ (d) Every person being
  - 1) Director
  - 2) Trustee
  - 3) CEO
  - 4) MD
  - 5) Partner
  - 6) Karta
  - 7) Founder
  - 8) Principal Officer.
- ✓ (of 'c' above)

PAN IS REQUIRED TO BE QUOTED

- All filing of return.
- ✓ Challan payment.
- ✓ Sale/purchase of vehicle.
- ✓ Opening Bank/Demat a/c.
- ✓ Hotel bill > 50,000 in cash
- ✓ Foreign travel > 2,00,000 in cash.
- ✓ Mutual Fund/ Debentures/ Bond > 50,000.
- ✓ Deposit in bank/FD > 50,000.
- ✓ Deposits in current accounts > 1 cr
- ✓ Credit Card application.
- ✓ Purchased of securities exceeding 1,00,000.

- ✓ Life insurance > 50,000 as premium
- ✓ Immovable property transaction SDV > 10 lakhs.
- ✓ Electricity consumption > 1 lakhs
- ✓ Every person who GTI exceeds BEL.
- ✓ TO > 5 lakhs.
- ✓ Person financial transaction > 2,50,000.
- ✓ Every person who is partner, Director, Trustee, Author, Founder, Kartha, CEO, Principal, officer

THE END

TARGET Academy

CLUBBING

RULE:

1. It is done before computation of GTI.
2. It is done in the same head of Income.
3. It is done when assessment is open.
4. This is mandatory.

Transfer of income with out transfer of asset
(Sec-60)

If any person transfer of income(rent) with out transfer of Asset to any person then such income will be clubbed in the hands of transferor

EXAMPLE NO: 1

Mr. Watson has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?[M 08]

SOLUTION:

Provision of law :- As per sec-60 if any person transfer income with out transfer of assets, such income would be clubbed in the hands of transferor.

Facts :- Watson transferred the income without transfer of assets.

Conclusion :- Income is taxed in the hands of Watson.

NOTE:

1. Minor is a person who has not completed the age of 18 years.
2. If minor income is clubbed exemption of Rs. 1500 per minor child clubbed u/s 10(32).
3. There is no restriction on No. of child.
4. Minor includes step child & adopted child.
5. If minor do not have parents or they cease to exist clubbing in the hands of legal guardian.
6. In case of minor married daughter clubbing will be made in the hands of own parents.
7. Losses is also clubbed.

FORMAT

Particulars	Father	Mother
Income	xxx	xxx
Income before clubbing	xxx	xxx
Clubbing(to parent to highest income)		

Income after clubbing	xxx	xxx

EXAMPLE NO: 2

1. Mr. chaval and his wife Mrs. Dal furnish the following information:
   - i) Salary income (computed) of Mrs. Dal - 4,60,000
   - ii) Income of minor son 'B' who suffers from disability specified in Section 80U - 1,08,000
   - iii) Income of minor daughter 'C from singing - 86,000
   - iv) Income from profession of Mr. Chaval-7,50,000
   - v) Cash gift received by 'C' on 2.10.2022 from friend of Mrs. Dal on winning of singing competition - 48,000
   - vi) Income of minor married daughter 'A' from company deposit - 30,000
2. Compute the total income of Mr. Chaval & Mrs. Dal for the AY 23-24.[M08]

SOLUTION:

NOTE:

1. If minor is handicap income can't be clubbed.
2. If minor receives the income from talent income can't be clubbed.
3. Since gift does not exceed 50,000 it is not taxable.

- Income from special talent can't be clubbed.

Revocable transfer of asset(Sec-61)

If a person transfer property under revocable transfer it shall be clubbed in the hands of transferor.

Transfer to Spouse for inadequate consideration Sec-64(I)

- If a person transfer to spouse for inadequate consideration income will be clubbed in the hands of Transferor.
- If a person transfer to Son's Wife for inadequate consideration income will be clubbed in the hands of Transferor.
- If a person transfer to Third Party for the benefit of Spouse/Son's Wife for inadequate consideration income will be clubbed in the hands of Transferor.

However this section is not applicable when transfer is out of adequate consideration or gift.

EXAMPLE NO: 8

Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of 36,000 per annum shall be utilized for the benefit of her son's wife. Mrs. Kasturi claims that the amount of 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property. State with reasons whether the contention of Mrs. Kastun is valid in law.[N10]

SOLUTION:

Provision :- As per Sec-64(I) if any person transferred to third party for benefit of wife or son's wife income shall be clubbed in the hands of transferor.

Facts :- Kasturi transferred property for the benefit of son's wife.

Conclusion :- The Kasturi contention is not correct in law.

Business out of gifted money to spouse

The profit attributable to gifted money is clubbed in the hands of transferor

Clubbing = Profit x (Gifted Amount/Total capital employed)

Eg.I:

Profit = 50,000

Gift = 2,00,000.

Own capital = 4,00,000.

Ans

16,667.

NOTE:

Profit is not transferred to transferor only t is clubbed for taxation purpose. Actually that profit is with transferee business only.

In the subsequent years while allocation of profit only the amount actually gifted is taken in to account not along with clubbed profit bcz, the profit was not actually transferred it is invested in business of transferee by transferee.

If the amount is given as loan instead of gift this provision is not applicable.

Remuneration to spouse of person having significant interest without any professional or technical qualification

↓

Remuneration should be clubbed in the hands of person

NOTE:

1. This provision is not applicable if remuneration/ commission is received out of Professional/ technical qualification.
2. The word professional or technical qualification is not defined.
3. If relations is not wife and husband this section is not applicable.
4. If the holding is along with relative this provision will applicable.
5. Relative = spouse, brother, sister.
6. If both husband and wife having SI & both are getting remuneration with of having technical and professional qualification then clubbing will be in the hands of person having greater income before this clubbing.

EXAMPLE NO: 10

Mr. A is an employee of Larsen Limited and has substantial interest in the company. His salary is Rs. 25000 p.m. Mrs. A is also working in that company at a salary(computed) of 10000 p.m. without any professional qualification. Mr. A also receives Rs. 30000 as Income from Securities, Mrs. A owns a House Property which she has let out. Rent Received from such house property is Rs. 12000 p.m.

Mr. and Mrs. A have 3 minor children- two twin daughter and one son, Income of twin daughter is Rs. 2000 p.a. and that of his son is Rs, 1200 p.a. Compute the total income of Mr. and Mrs. A. [M13]

SOLUTION:

NOTE: Exemption is Rs. 1500 per child, hence in case of twin daughter it was Rs. 3000 (so we have taken 2000 as exemption)

NOTE:

- Income out of skill & talent will not be clubbed.

Crossed transfers

↓

Clubbing should be made in the hands of person who has started the cross transfer, if specific section not applicable

EXAMPLE NO: 12

Mr. Ramesh gifted a sum of Rs. 500000 to his brother's minor son on 16.04.2022. On 18.04.2022, his brother gifted debentures worth Rs. 600000 to Mrs. Ramesh. Son of Mr. Ramesh's Brother invested the amount in FD with Bank of India @) 9% p.a. Interest and Mrs. Ramesh received Interest of Rs. 45000 on debentures received by her. Discuss the implications under the provisions of Income Tax Act 1961. [MIS]

SOLUTION:

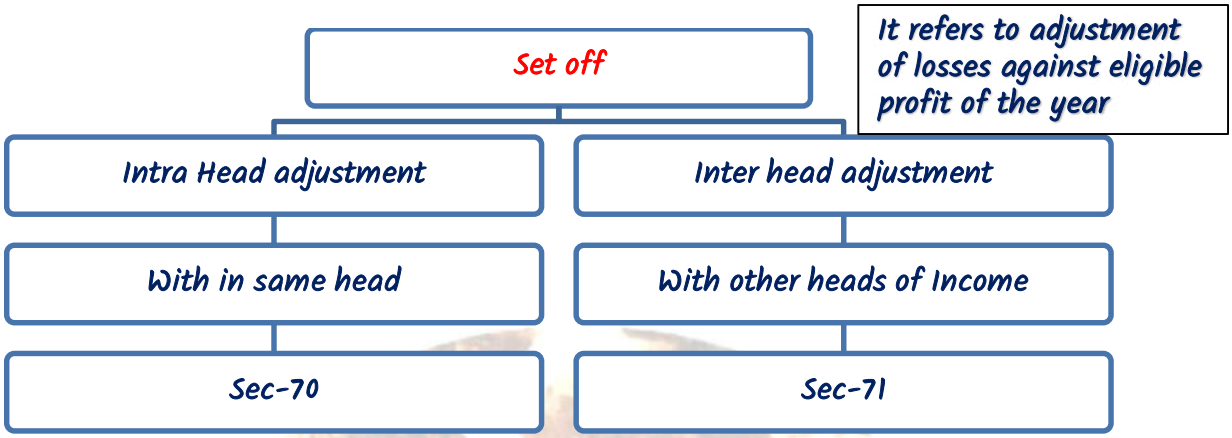
Provision :- The above case fall under cross transfer, hence the income would be assessed in the hands of deemed transferor who has initiated the transaction except where specific section is applicable.

Conclusion :- In this case

1. Minor income would be clubbed as per Sec-64(1) (i.e. in the hands of Suresh)
2. Income from debentures would be clubbed in the hands of Mr. Ramesh (transferor initiated the cross transfer).

THE END

SET OFF AND CARRY FOEWARD



SET OFF

Head	Sec-70		Sec-71	
Salary	There can't be any loss under salary		Any loss can be set off against salary except PGBP, CG, Casual Income & Horse races	
House Property	Loss of HP can be set off against income of another House.		Loss of any head can be set off against HP but max set off is restricted to 2 lakhs.	
PGBP	Normal business	Can be set off against any bus income	Normal business	Can be set off against any head except salary
	Speculative business	Can be set off against only against speculative income	Speculative business	Can be set off against only against speculative income
	Specified business u/s 35 AD	Can be set off only against Specified income	Specified business u/s 35 AD	Can be set off only against Specified income

CG	LTCL	Can be set off only against LTCG	Loss of any head can be set off against CG but loss of CG can't be set off against other head	
	STCL	Can be set off only against any capital gain		
Other sources	Horse Races	Can be set off only against income from HR	Horse Races	Can be set of only against income from HR
	Others	Can be set off against OS. However no set off against casual income	Others	Can be set off against OS. However no set off against casual income.

NOTE:

- No loss can be set off against exempted Income.(CIT v/s Tyagarajan)

I. Normal Business Loss = (4 lakhs)

✓ Normal Business Gain = 6 lakhs

- ✓ Ans
- ✓ Set off allowed.

2. Speculative Loss = (4 lakhs)

- ✓ Speculative Gain = 6 Lakhs.
- ✓ Ans
- ✓ Set off allowed.

3. Specified Business Loss = (5Lakhs)

- ✓ Specified Business Gain = 7 lakhs
- ✓ Ans
- ✓ Set off Allowed

4. Specified Business Loss = (5 lakhs)

- ✓ Normal Business Gain = 7 lakhs.
- ✓ Ans
- ✓ NA

5. Normal Business Loss = (7 lakhs)

- ✓ Specified Business Gain = 9 lakhs
- ✓ Ans
- ✓ Set off Allowed.

6. Specified Business Loss = (5 Lakhs)

- ✓ Speculative Gain = 6 lakhs.
- ✓ Ans
- ✓ NA.

7. LTCL = (8 lakhs)

- ✓ STCG = 9 lakhs.
- ✓ Ans
- ✓ NA

8. STCL = (9lakhs)

- ✓ LTCG = 11 lakhs
- ✓ Ans

- ✓ Set Off allowed.

9. Salary = 5 lakhs

- ✓ HP Loss = (3lakhs)
- ✓ Ans
- ✓ Set off allowed.

10. Salary = 5 lakhs

- ✓ PGBP loss = (4 lakhs).
- ✓ Ans
- ✓ NA.

11. Salary = 5 lakhs.

- ✓ LTCL = (3 lakhs)
- ✓ Ans
- ✓ NA

12. HP Gain = 5 lakhs

- ✓ PGBP loss = (1 lakhs)
- ✓ Set off allowed.

13. HP Gain = 5 lakhs

- ✓ STCL = (1 lakh)
- ✓ Ans
- ✓ NA

14. LTCG = 8 lakhs

- ✓ HP loss = (1 lakh)
- ✓ Ans
- ✓ Set off allowed.

15. HP gain = 8 lakhs

- ✓ LTCG = (3 lakhs)
- ✓ Ans
- ✓ NA

16. PGBP loss = (8 lakhs)

- ✓ AI = 10 lakhs
- ✓ Ans
- ✓ NA

17. Agri Loss = (10 lakhs)

- ✓ PGBP = 12 lakhs
- ✓ Ans
- ✓ NA

ORDER OF SET OFF IN CASE OF PGBP

CY Depreciation/CY Capital expenditure on scientific research/CY family planning expenditure (to the extent allowed)

↓

Brought forward losses of PGBP

↓

Unabsorbed depreciation

↓

Unabsorbed Capital expenditure on scientific research

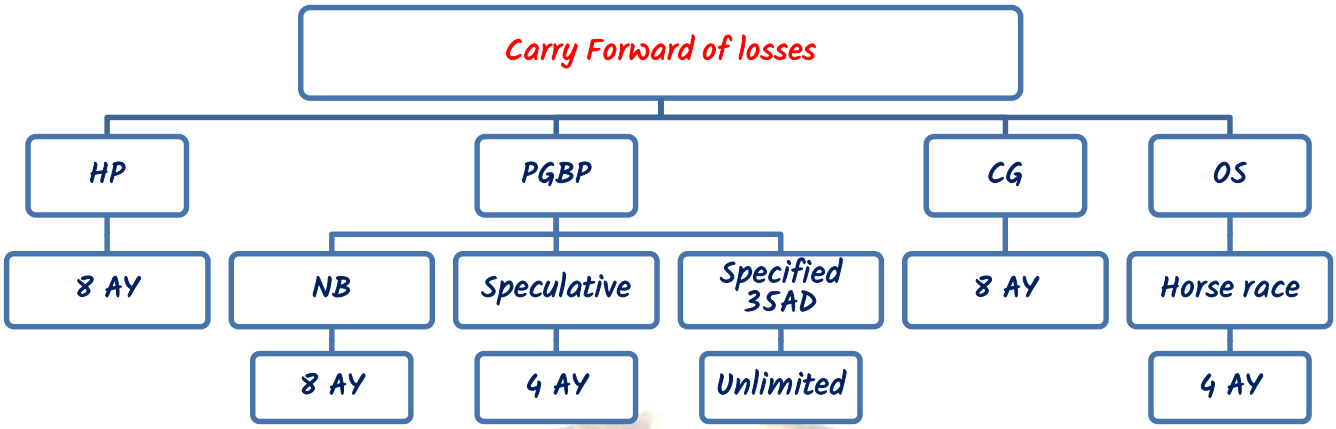
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Unabsorbed Family planning expenditure

- NOTE:
- Unabsorbed depreciation can be set off against any head including salary

STEPS TO SOLVE THE PROBLEM

Step-1	· First find out the Head of income given and write down all incomes and leave some space below
Step-2	· Apply the rule of set off as per Sec-70&71 and net off the balance & try to find out any other head where loss could be set off
Step-3	· Losses that can't be set off shall be carried forward and a note to that effect must be given.



NOTE:

Once loss is carry forward it can be set off against same head only.

Loss on Horse Race = Stake money – maintenance expenses of horses

LOSS FORM OTHER SOURCE IS NOT CARRY FORWARD (OTHER THAN HOURSE RACE) – SO GIVE FIRST PRIORITY WHILE ADJUSTING INTER HEAD AJUSTMENT

NOTE:

1. Income from share of Firm is exempt U/s 10(2A). Hence loss from an exempted source can't be set off (CIT v/s Tyagarajan).
2. HR loss can be set off only against HR income. Hence it shall be C/F

NOTE:

1. Loss of HR can be set off only against income from HR. Hence it shall be carry forward.
2. Loss from gambling can't be set off nor can be carry forward.
3. Loss from speculative business can be set off only against income of speculative business. Hence it shall be carried forward.
4. It is assumed that salary is computed.

NOTE:

1. Loss from HR can be set off only against income from HR. Hence the loss shall be carried forward.
2. Loss from gambling can't be set off nor carried forward.
3. The balance speculative loss can be carried forward.
4. It is assumed that salary is computed.

NOTE:

1. POHA for immovable property shall be 24 months.
2. Unabsorbed depreciation can be set off against any head.
3. Dividend whether hold as stock or otherwise shall be exempted u/s 10(34).

THE END

RULES

- These deductions are available from GTI.
- Deductions Can't exceed GTI (Sec- 80A).
- Deduction is not available from (Sec-80B)
  - CG (LT&ST)
  - Casual Income
  - Specified business u/s 35 AD
- Deductions are covered U/s 80C to 80 U.

Sections	Income Tax Deduction for FY 2019-20 (AY 2020-21)	Who can Invest?	Limit for FY 2019-20 (AY 2020-21)
Sec 80C	Specified Investments (Refer material) (not necessary form taxable income) (Deduction on payment basis)	Individual(R/NR) Or HUF(R/NR)	Upto Rs 1,50,000 (Sec-80CCE)
Sec 80CCC	Investment in Pension Funds	Individuals	
Sec 80CCD (1)	Atal Pension Yojana and National Pension Scheme Contribution by employee(restricted to 10% of salary or 20% of GTI)	Individuals	
Sec 80CCD(1B)	Atal Pension Yojana and National Pension Scheme Contribution by employee(outside the limit of 1,50,000)	Individuals	Upto Rs 50,000
Sec 80CCD(2)	National Pension Scheme Contribution by Employer	Individuals	Amount Contributed or 14% of Salary (in case the employer is CG) 10% of Salary(in case of any other employer) 20% of GTI (in case of other Individual) - Whichever is lower Salary = BS+DA

Sec 80D	Medical Insurance Premium and Medical Expenditure on super senor citizen. CG health scheme or approved health Scheme, Health scheme of department of atomic energy, Preventive health check up	Individual Or HUF (R/NR)	• Paid cheque/ Draft
			• Limit
			  • Assessee + Spouse + Dependent children = 25,000 or actual (w.e.l).
			  • Parents = Actual or 25,000 (w.e.l)
			  • (If Senior citizen parents = actual or 50,000 (w.e.l))
			• Preventive Health Check up
			  • Max limit = 5,000 covered in over all limit
			  • May be paid in cash

Sec 80DD	Medical Treatment of a Dependent with Disability (Medical treatment or Deposit in approved scheme)	Individual(R) – Parents, Brother, sister, spouse, Children. Or HUF (R)- Any member	Normal Disability: Rs 75000/- Severe Disability(>80%): Rs 125000/- (Irrespective of expenditure)
Sec 80DDB	Specified Diseases	Individual(R) – Parents, Brother, sister, spouse, Children. Or HUF (R)- Any member	Senior Citizens & Super Senior: Upto Rs 1,00,000 Normal: Upto Rs 40,000

Sec 80E	Interest paid on Loan taken for Higher Education(after SSC). (Paid out of income chargeable to tax)	Individual (R/NR) (Assessee, Spouse, Children(any no.), to whom Assessee is legal gradian)	100% of the interest paid upto 8 assessment years Loan form approved FI only
Sec 80EE	Interest paid on Housing Loan (SOP)	Individual	Upto Rs 50,000 Conditions (a) Loan <= 35 lakhs (b) Property <= 50 lakhs (c) No other house (d) Loan sanctioned from 1.4.16 to 31.3.2017
Sec 80EEA	Interest paid on Housing Loan (certain Property-SOP) (Loan From Bank/HFC) Loan does not exceed 35 Lakhs Stamp Duty of House does not exceed 45 L	Individual	Up to Rs 1,50,000/- (in addition to Sec-24B) (loan sanctioned period 1.4.19 to 31.3.2023)
Sec 80EEB	Interest paid on Electric Vehicle Loan (Loan from Banks/FI/NBFC/Other specified Ins)	Individual	Up to Rs 1,50,000 (loan sanctioned period 1.4.19 to 31.3.2023)

Sec 80G	Donation to Charitable Institutions(Refer Material)	All Assessee (Individual, HUF, Company etc)	• (a) Covered in qualified limit = (Least of Actual or Max Limit)* 100/50% • Max limit = 10% of ATI • ATI= GTI-LTCG-STCG u/s 111A-Deductions U/s 80C to 80U except 80 G or 80 GG • (b) Not covered under Qualified limit = Actual * 100/50% • (c)Allowed donation in cash up to Rs.2000/- • (d) In kind = Nil
Sec 80GG	House Rent Paid (Not in receipt of HRA) (Not having own house at place of employment) (Have not claimed SOP) (Declaration in 10B)	Individual (R/NR)	(a) Rs. 5,000 pm (Rs.60,000/-) (b) 25% of ATI. (c) Rent paid - 10% of Total Income - whichever is lower. (ATI= GTI-LTCG-STCG u/s 111A-Deductions U/s 80C to 80U except 80 G or 80 GG)
Sec 80GGA	Donation to Scientific Research & Rural Development, Approved association.	All assessees except those who have an income (or loss) from a business and/or a profession	100% of the amount donated. Allowed donation in cash upto Rs.10,000/-
Sec 80GGB	Contribution to Political Parties(Expenses on behalf of party, Advertisement in soviner)	Companies(Indian)	100% of the amount contributed(not in cash)

Sec 80GGC	Contribution to Political Parties/Electoral trust	All Assessee (except Indian Co.)	100% of the amount contributed. No deduction available for contribution made in cash
Sec 80JJAA	Employment of New Employees	Employer who was subject to tax audit u/s 44AB	30% of additional employee cost for 3 years including the year in which employment is provided
Sec 80RRB	Royalty on Patents	Individuals (Indian citizen or foreign citizen being resident in India)	Rs.3,00,000/- Or Specified Income - whichever is lower
Sec 80QQB	Royalty Income of Authors	Individuals (Indian citizen or foreign citizen being resident in India)	Rs.3,00,000/- Or Specified Income - whichever is lower

Sec 80TTA	Interest earned on Savings Accounts(Not FD) form Bank, Post office, Co operative society.	Individual Or HUF (except senior citizen)	Actual or Rs 10,000/- (w.e.l) First add in IFOS and then take deduction. Limit is for all account
Sec 80TTB	Interest Income earned on deposits(Savings/FDs)	Individual (60 yrs or above)	Upto Rs 50,000/-
Sec 80U	Disabled Individuals	Individuals (R) Being Handicap	Normal Disability: Rs. 75,000/- Severe Disability(80% or more): Rs. 1,25,000/- (irrespective of expenses)

Sec 80IBA	Income from Housing projects (builders). -Approved by Authority (if approved 1/9/19, then no units allowed to I/Spouse/His minor Children) -Completed with in 5 Y -Carpet area does not exceed 3% of Total space. -Plots size in specified limits	Assessee	Total Income is exempted

1	Sec- 80CCD(2) NPS – Er contribution –Deduction 14% of Salary (CG Ee)
2	Sec- 80EEA – Interest paid on Housing Loan – Limit 1,50,000
3	Sec- 80EEB – Interest paid on Electric vehicle loan – Limit 1,50,000
4	Sec- 80IBA – Income form Housing projects - not taxable

80C INVESTMENTS

- Public Provident Fund
- National Savings Certificate
- National Pension Scheme
- Employees' Provident Fund
- Tuition fees (full time course) in India
- Equity Linked Saving Schemes
- Principal repayment of home loan
- Sukanya Samriddhi Account Deposit Scheme
- Post Office Senior Citizens Savings Scheme
- Stamp Duty paid for house
- (No deduction is available for tax saver deposit scheme)
- Approved Mutual Fund/FD for 5 years in bank/Post office/NABARD.
- LIC Premium.

LIP = Life Insurance Policy

Up to 2012	From 2012 to 2013	From 2014
20% of Sum assured (or) actual (w.e.l)	10% of sum assured (or) actual (w.e.l)	10% of sum assured(15% in case Handicap) (or) Actual (w.e.l)

Problems on 80TTA

1. Interest from savings bank account Rs. 9,000. Find the amount of deduction.

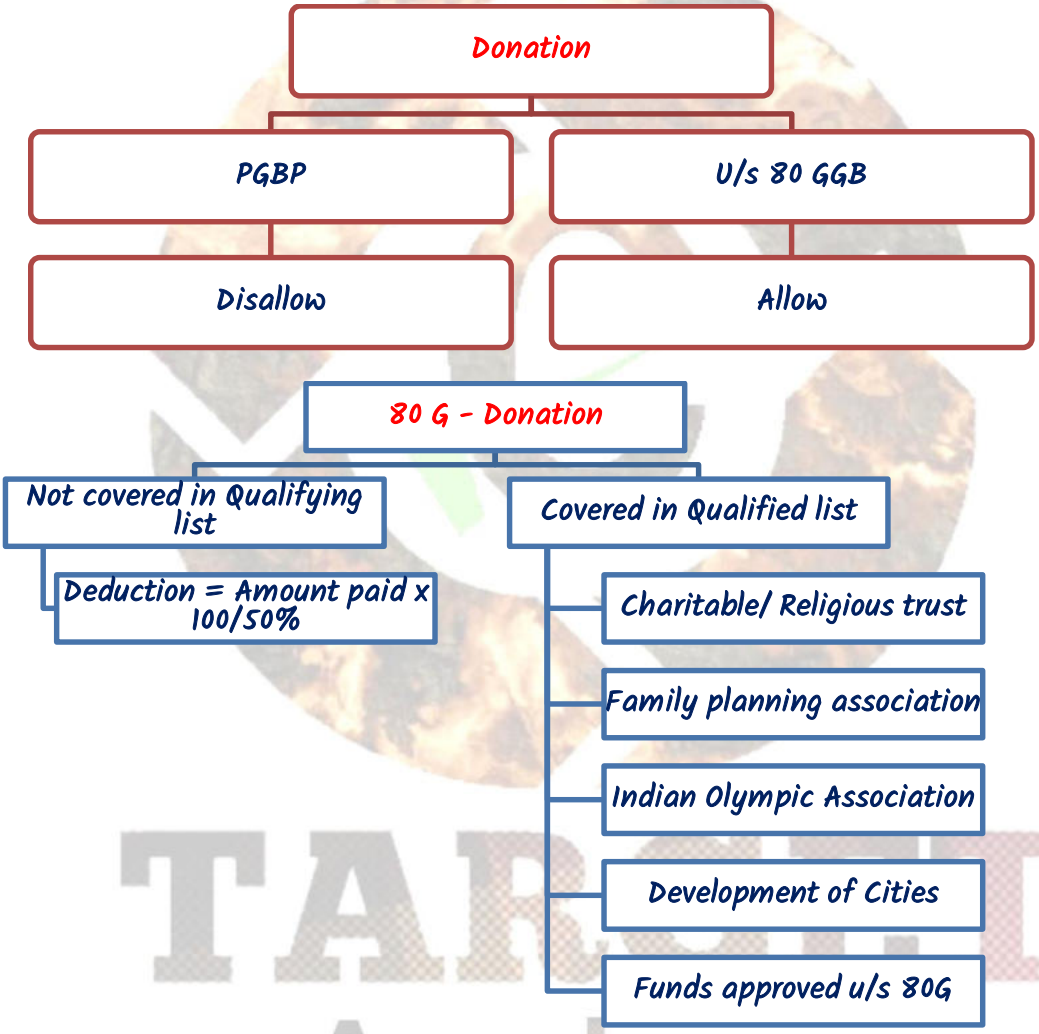
Ans

- 9000

2. Interest from savings bank account Rs. 12,000. Find the amount of deduction.

Ans

- 10,000.

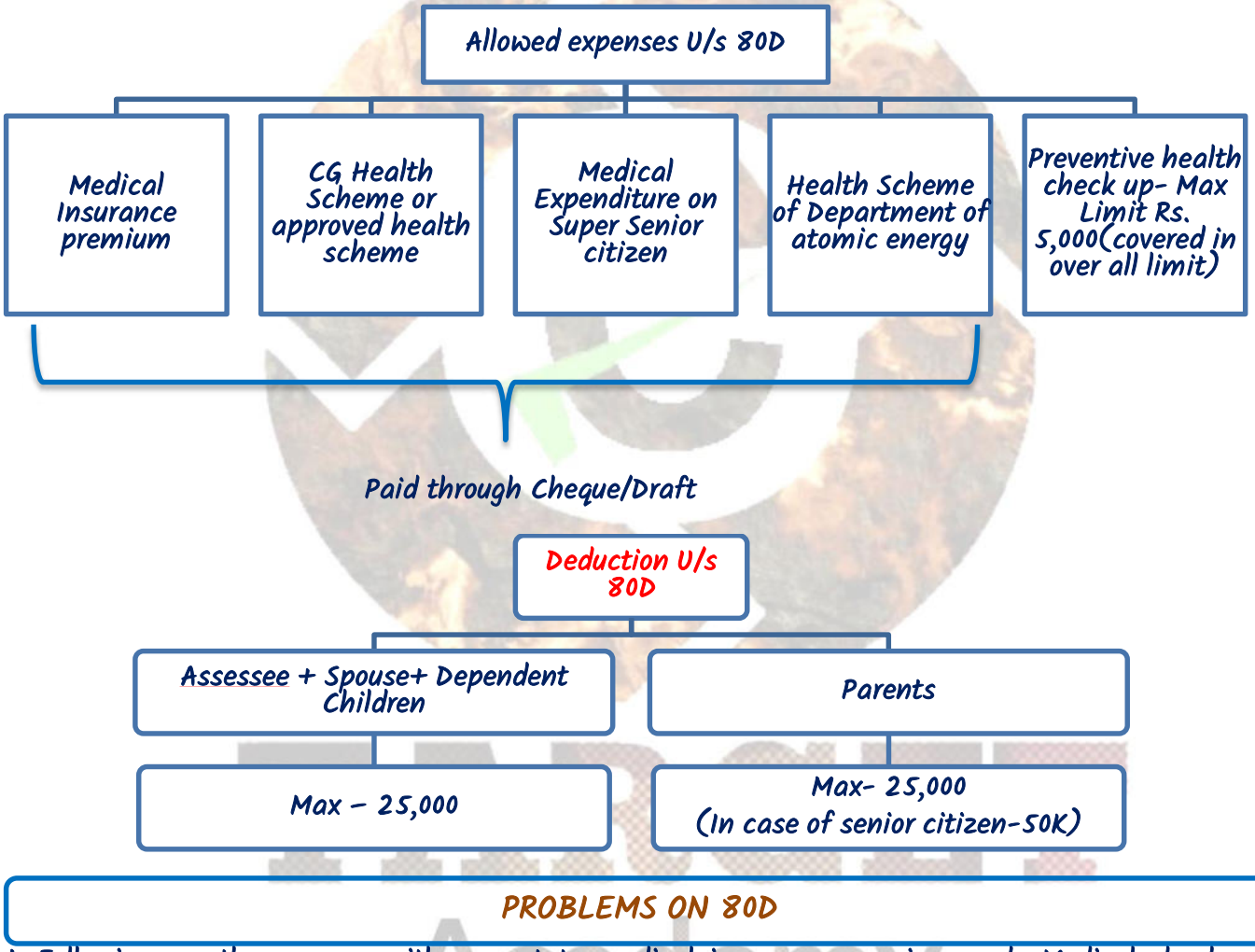


IN CASE OF QUALIFYING LIST - 80G:

- Step -1 :- Actual donation.
- Step-2 :- Maximum Limit (10% of ATI).
- Step-3 :- Deduction = Least of following x 100/50%
  - (a) Actual
  - (b) Max

ABSTRACT OF LIST- 80G:

- National/ International/PM/State/University/CG/SG = 100%.
- Gandhi/ Nehru = 50%.
- Trust = 50%.
- National Drug Control = 100%.
- Swatch Bharat kosh = 100%.
- Clean Ganga Project = 100 %



PROBLEMS ON 80D

1. Following are the expense with respect to medical insurance premium and Medical check up. Calculate the amount of deduction u/s 80D.

- Him self = 18,000
- Spouse + Child = 9,000.
- Preventive check up = 6,000.

2. Following are the expense with respect to medical insurance premium and Medical check up. Calculate the amount of deduction u/s 80D.

- Him self + Spouse + Children = 27,000

- Parents (senior citizen) = 26,000
- Preventive check up = 6,000.

PROBLEM ON 80EE:

Mr. X has taken self occupied property of loan of Rs. 20 lakhs interest @ 13% p.a. What is the overall benefit under Income Tax Act for Interest paid?

Ans.

- Total Interest = 2,60,000 (13% of 20 lakhs)
- U/s 24(b) = 2,00,000.
- U/s 80EE = 50,000.
- Maximum deduction = 2,50,000.
- Excess Rs. 10,000 is not allowed.

EXAMPLE NO: 5

Discuss the allowability of the following:

- Rajan has to pay to a hospital for treatment 42,000 and spent nothing for life insuranceor for maintenance of handicapped dependent.
- Raja, a resident Indian, has spent nothing for treatment in the previous year anddeposited 25,000 with LIC for maintenance of handicapped dependant.
- Rajan has incurred 20,000 for treatment and 25,000 was deposited with LIC formaintenance of handicapped dependant.
- Payment of 50,000 by cheque to an electoral trust by an Indian company. [N-02]

SOLUTION:

(a) As per Sec-80DD, If assessee expend on handicap relative then deduction

- Rs. 75,000 for non severe disabilities.
- Rs. 1,25,000 for severe disabilities.
- In this case expenses is incurred, the deduction would be Rs. 75,000.

(b) As per Sec-80DD, If assessee expend on handicap relative then deduction

- Rs. 75,000 for non severe disabilities.
- Rs. 1,25,000 for severe disabilities.
- In this case expenses is incurred, the deduction would be Rs. 75,000.

(c) As per Sec-80DD, If assessee expend on handicap relative then deduction

- Rs. 75,000 for non severe disabilities.

- Rs. 1,25,000 for severe disabilities.
- In this case expenses is incurred, the deduction would be Rs. 75,000.

(d) As per Sec-80GGB, if an Indian company incurred expenses on behalf of political party or donate to political party or eletroral trust deduction would be 100% of amount expended.

- Deduction = 50,000

EXAMPLE NO: 8

State with proper reasons whether the following statements are True/False with regard to the provisions of the Income-tax Act, 1961:

During the financial year 2022-23, Mr. Amit paid interest on loan availed by him for hisson's higher education. His son is already employed in a firm. Mr. Amit will get thededuction under section 80E.

Subscription to notified bonds of NABARD woilld qualify for deduction under section 80C.

In order to be eligible to claim deduction under section 80C, investment / contribution / subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.

Where an individual repays a sum of 30,000 towards principal and 14;000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is 44,000.[RTP]

SOLUTION:

(a) This statement is True

- As per Sec-80E interest on educational loan shall be allowed as deduction. It is irrelevant whether he is employed or not.

(b) This statement is true.

- As per Sec-80C bond of NABARD would qualified for deduction under 80C.

(c) This statement is False.

- As per Sec-80C does not mandate any condition for payment to be made income chargeable to tax.

(d) This statement is False

- Sec-80E only interest is allowed as deduction up on education loan.

TDS

Basic	
Who Shall deduct	Payer
On What & When Benefit to Assessee	On Specified payments at the time of Payment or credit If Tax is deducted at the time of Payment or credit it will be allowed as deduction otherwise it will be disallowed u/s 40(a) and be treated as income of the Assessee u/s 198.
Benefit to the Deductee	Tax deducted and paid to CG by Deductor shall be treated as payment of tax on behalf of Assessee-Sec. 199
Clubbing & TDS	Where the income is assessable is assessable (partly or fully) in the hands of a person other than the deductee (ex:- minor income) credit of TDS shall be given to such other person and not to deductee- Rule 37BA
Sec.206AA	Any deductee who is entitle to receive any sum on which tax is deductible shall furnish his PAN to Deductor otherwise Tax shall be deducted at the higher rate of following a) Rate Specified. b) Rate in Force. c) 20%

Sec.	Natural of payment	Person responsible to deduct tax	Person who's tax needs to be deducted	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194A	Interest other than interest on securities	All Assessee (except those individual & HUF whose TO exceeds 1cr or Gross Receipts 25 Lakhs in the preceding PY)	Any resident in India	Rs.5,000 (Rs.40,000- Normal, Senior citizen - Rs. 50,000 in case the payer is a banking co /cooperative bank/ post office)	At the time payment or credit whichever is earlier	10%	1. Co-operative society is not liable to TDS If last years TO not more than 50 cr. 2. No TDS on compensation awarded by motor accidental tribunal 3. Interest payable on Zero coupon Bond 4. Interest Income credit to Business trust, by special purpose vehicle. 5. No TDS on compensation

							amount awarded by the Motor Accidents Claims Tribunal.

SEC- 194A – INTEREST OTHER THAN INTEREST ON SECURITIES

Particulars	Requirement
I/HUF	whose TO exceeds Icr or Gross Receipts 25 Lakhs in the preceding PY& exceed limit
Other	Exceed limit

SEC- 194A – INTEREST OTHER THAN INTEREST ON SECURITIES

Individual	Individual	Individual	Firm	Bank
TO not exceeds Icr or Gross Receipts not exceeding 25 Lakhs in the preceding PY	TO exceeds Icr or Gross Receipts exceeding 25 Lakhs in the preceding PY	TO exceeds Icr or Gross Receipts exceeding 25 Lakhs in the preceding PY	TO not exceeds Icr or Gross Receipts not exceeding 25 Lakhs in the preceding PY	TO exceeds Icr or Gross Receipts exceeding 25 Lakhs in the preceding PY
Pay Interest = 2,000	Pay interest = 4,000	Payment of interest = 12,000	Pay Interest = 42,000	Payment of interest = 42,000 to senior citizen

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194B	Winnings from any lottery, crossword puzzle or card game or other game of any sort	The person responsible for paying income by way of such winnings	Any Person	> Rs.10,000	At the time of payment	30%	Condition If Prize is won in Kind the assessee shall first collect the cash and then disburse the prize Provisions apply to each payment.

SEC-194B - LOTTERY

Particulars	I	II	III
Winning	7,000	10,000	12,000

TDS			

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194BB	Winnings from horse race	Book Maker or a person holding licence for horse racing or for arranging for wagering or betting in any race course.	Any Person	> Rs.10,000	At the time of payment	30%	Provision apply to each payment (Royal Turf Club)

SEC-194BB – HORSE RACE WINNING

Particulars	I	II	III
Winning	9,500	10,000	13,000
TDS			

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194 C	Payments to Contractors	Specified persons / all assessees except those individuals and HUF whose TO not exceeds 1cr or Gross Receipts 25 Lakhs in the preceding PY	Any Resident contractor for carrying out any work (including supply of labour)	Single sum credited or paid > Rs.30,000 (or) The aggregate of sums credited or paid to a contractor during the F.Y. > Rs.1,00,000 Individual/HUF need not deduct tax where sum is credited or paid exclusively	At the time of credit of such sum to the account of the contractor or at the time of payment, whichever is earlier.	1% of sum paid or credited, if the payee is an Individual or HUF 2% of sum paid or credited, if the payee is any other person.	Exemptions 1. No TDS is required in case of contracts of personal In Nature 2. W.e.f 01.06.2015 No TDS is required in Goods transport Business which owns less than 10 goods vehicle. 3. Contract for sale of goods.

				for personal purposes			Works:- • Advertisement • Broadcasting • Catering • Carriage of goods or passenger by any mode other than railway • Manufacturing of Product out of client requirement out of material supplied by client or associate of client (not by Third Party-)

SEC-194C - CONTRACT

Individual	Individual
Whose TO not exceeds Icr or Gross Receipts 25 Lakhs in the preceding PY	Whose TO not exceeds Icr or Gross Receipts 25 Lakhs in the preceding PY
Pays = 40,000	Pays = 29,000; 29,000; 29,000; 29,000

Sec.	Natural of payment	Person responsible to deduct tax	Person who's tax needs to be deducted	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194M	Contract/ Commission/Brokerage/ Fee to professional Services – Personal In nature	Individual & HUF	Resident Assessee	Aggregate payment Exceeds Rs.50, 00,000	At the time of payment or credit	5 %	194C _- Business 194H- Business 195 -- NR

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194D	Insurance Commission	Any person responsible for paying any income by way of remuneration or reward for soliciting or procuring insurance business	Any Resident	> Rs.15,000 in a financial year	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.	5%	

SEC-194D – INSURANCE COMMISSION

Particulars	I	II	III	IV
Commission	12,000	17,000	April = 6,000 May = 6,000 June = 1,000	April = 6,000 Dec = 6,000 Mar = 6,000
TDS				

Sec.	Natural of payment	Person responsible to deduct tax	Person who's tax needs to be deducted	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194DA	Life Insurance Payment	Insurance Companies	Resident Assessee	1,00,000	At the time of payment	5% on Net Amount (from 1/9/2019)	Conditions Amount should not be exempt u/s 10 (10D)

SEC-194D – INSURANCE COMMISSION

Particulars	I	II	III
Final Amount	90,000	1,00,000	1,20,000
TDS			

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
1941	Rent	All Assessee (except those individual & HUF who are not covered u/s 44AB(a) or 44AB(b) in the preceding PY)	Any person resident in India	Exceeds Rs.2,40,000 in a financial year	At the time of payment or credit whichever earlier	For use of P & M: 2% --other assets: 10%	Exemption w.e.f. 01.06.2015 not TDS on Rent credited or paid to a business Trust.

SEC – 1941 – RENT

1. Company pays rent for P&M = 2,00,000

Ans

TDS = Nil

2. Trust --- rent for building = 4,00,000

Ans

TDS = 4,00,000 x 10% = 40,000.

3. Individual (liable to tax Audit) – 10,000 pm up to December, 18000 pm from Jan.

Ans

TDS = Nil.

Sec.	Natural of payment	Person responsible to deduct tax	Person who's tax needs to be deducted	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194IA	Total Consideration for transfer of Land other than URBAN Agricultural land or Building	Any Assessee	Resident Assessee	≥ Rs.50 lakh (Consideration for transfer)	Transfer of assets on or after 01.07.2013	1%	The Deductor shall remit the TDS to CG in form 26QB and issue form 16B as certificate to payee.

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194-IB	Payment of rent by certain individuals or HUF	Individual/ HUF (other than Individual/HUF whose total sales, gross receipts or turnover from business or profession carried on by him exceed the limits specified u/s 44AB in the immediately preceding F.Y.) responsible for paying rent.	Any resident	> Rs.50, 000 for a month or part of a month	At the time of credit of rent, for the last month of the previous year or the last month of tenancy, if the property is vacated during the year, as the case may be, to the account of the payee or at the time of payment, whichever is earlier	5%	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194-IC	Payment under specified agreement referred to in section 45(5A)	Any person responsible for paying any sum by way of consideration, not being consideration in kind, under a registered agreement, wherein L or B or both are handed over by the owner for development of real estate project, for a consideration, being a share in L or B or both in such project, with payment of part consideration in cash.	Any resident	No threshold specified	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier	10%	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions

194 J	Fees for professional or technical services / Royalty / Non – compete fees / Director's	Any person, other than an individual or HUF; However, in case of fees for professional or technical services paid or credited, individual/HUF whose total sales, gross receipts or turnover from business or profession exceed the limits specified u/s 44AB in the immediately preceding F.Y. is liable to deduct Tax u/s 194J, except where fees for professional services is credited or paid exclusively for his personal purposes.	Any resident	> Rs.30,000 in a financial year, for each category of income. (However, this limit does not apply in case of payment made to director of a company).	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.	10% (2% - Payee engaged only in the business of operation of call centre, FTS being technical service not being professional service, Royalty w.r.t sale/exhibition/ distribution of Film autograph Film)	

SEC-194J- REMUNERATION/ROYALTY/DIRECTORS SITTING FEE

Individual	Individual	Individual	Firm	Company
Liable to Tax audit	Liable to Tax Audit	Liable to Tax Audit	Not Liable to tax audit	Liable to tax audit
Pays 29,000 pa	Pays 45,000 pa	Pays = 29,000 & 12,000.	Pays = 80,000	Pays directors sitting fee = 19000

SEC-194J- REMUNERATION/ROYALTY/DIRECTORS SITTING FEE

Individual	Individual	Individual	Firm	Company
Liable to Tax audit	Liable to Tax Audit	Liable to Tax Audit	Not Liable to tax audit	Liable to tax audit
Pays 29,000 pa	Pays 45,000 pa	Pays = 29,000 & 12,000.	Pays = 80,000	Pays directors sitting fee = 19000

TDS = Nil	TDS = 45,000x10% = 4,500	TDS = 41,000 x 10% =4100 2nd pay = 12000-4100=7900	TDS = 80,000 x 10% = 8000	TDS = 19000 x 10% =1900

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194E	Payment to non-resident sportsmen or sports associations of income referred to in section 115BBA	Any person responsible for making the payment	Non-resident sportsman (including an athelete) or entertainer who is not a citizen of India or non-resident sports association or institution	Any amount	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.	20%	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194EE	Payment of deposit under National Saving Scheme	Post Office	Individual or HUF	≥ Rs.2,500 in a financial year	At the time of payment	10%	Exemption If payment is made to legal heir of deceased.

Sec.	Natural of payment	Person responsible to deduct tax	Person who's tax needs to be deducted	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions

194N	Cash Withdrawal (aggregate) exceeding 1 Cr (1/9/19)	Banking/ PO/ Co. Society	Resident Assessee	Aggregate payment Exceeds Rs. 1 Cr	At the time of withdrawal	2 %	<u>Exception</u> 1. Govt 2. Bank 3. CO. Op Bank Or PO 4. White Label ATM 5. Banking Correspondence. 6. Any other person specified.

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions/Special Points
192	Salary	Employer -Any person responsible for paying any income chargeable under the head "Salaries	Individual (Employee)	Basic exemption limit (Rs.2,50,000 / Rs.3,00,000,5,00,000) as the case may be). This is taken care of in computation of the average rate of income-tax.	At the time of payment	Average rate of income-tax computed on the basis of the rates in force.	Employer can also consider the other income of Employee W.e.f 01.06.2015 he has to obtain the proof of particulars prescribe.

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions

192A	Premature withdrawal from Employee Provident Fund	Trustees of the EPF Scheme or any authorised person under the Scheme	Individual (Employee)- receiving payment	Payment or aggregate payment ≥ Rs.50,000.	At the time of payment	10% [In case of failure to furnish PAN, TDS @ Maximum Marginal Rate]	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
192A	Premature withdrawal from Employee Provident Fund	Trustees of the EPF Scheme or any authorised person under the Scheme	Individual (Employee)- receiving payment	Payment or aggregate payment ≥ Rs.50,000.	At the time of payment	10% [In case of failure to furnish PAN, TDS @ Maximum Marginal Rate]	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194G	Commission on sale of lottery tickets	Any person responsible for paying any income by way of commission, remuneration or prize (by whatever name called) on lottery tickets	Any person stocking, distributing, purchasing or selling lottery tickets	> Rs.15,000 in a financial year	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier	5%	

SEC-194J- REMUNERATION/ROYALTY/DIRECTORS SITTING FEE

Particulars	I	II	III
Commission	12,000	17,000	April = 7,000 May = 6,000 June = 1000 July = 5000
TDS	NA	TDS = 17,000 x 5% = 850	TDS = 19,000 x5% = 950

			Pay = 5,000-950 = 4050.

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194H	Commission or brokerage	Any person (other than an individual or HUF whose total sales, gross receipts or turnover from business or profession do not exceed the limits specified u/s 44AB in the immediately preceding F.Y.) responsible for paying commission or brokerage.	Any resident	> Rs.15,000 in a financial year	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier	5%	

SEC-194H- OTHER COMMISSION OR BROKERAGE

Individual	Individual	Firm	Assessee pays to NR
Not liable to Tax Audit	Liable to Tax audit	Not liable to Tax audit	Liable to Tax audit
Commission = 20K	Commission = 20K	Commission = 25K	Commission = 26K
TDS =	TDS =	TDS =	TDS =

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions

194LA	Compensation on acquisition of certain Immovable property other than agricultural land	Any person responsible for paying any sum in the nature of compensation or enhanced compensation on compulsory acquisition of immovable property	Any resident	> Rs.2,50,000 in a financial year	At the time of payment	10%	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194LB	Interest on Infrastructure Debt Fund	Any Person	Non Resident	Any Amount	At the time of payment or credit whichever is earlier	5%	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194LBA	Interest payment on Units of a Business Trust	Issuer	Unit Holder (R/NR	Any Amount	At the time of payment or credit whichever is earlier	Payee is R-10% NR – 5%	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions

194 LBB	Income distributed by Alternative Investment Fund	Issuer	Unit Holder	Any Amount	At the time of payment or credit whichever is earlier	10%	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194LC	Interest on foreign Currency Loan paid by India Company	Indian Company or business trust	NR / Foreign Company	Any Amount	At the time of payment or credit whichever is earlier	5%	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194LD	Interest on Rupee Denominated Bond	Any person	FII/QFI	Any Amount	At the time of payment or credit whichever is earlier	5%	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194	Dividend other than the dividend as referred to in Sec.115-O	Company	Shareholder	> 5000	At the time of making payment	10%	
194 K	UTI Mutual Fund	Company	Resident Individual	> 5000	At the time of making payment	10%	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
193	Interest on Securities	Any person responsible for paying any income by way of interest on securities	Any resident)	> Rs.10,000 in a F.Y., in case of interest on 8% Savings (Taxable) Bonds, 2003 / 7.75% Savings (Taxable) Bonds, 2018. ➢ Rs.5,000 in a F.Y., in case of interest on debentures issued by a Co. in which the public are substantially interested, paid or credited to a resident individual or HUF by an A/c payee cheque. ➢ No threshold specified in any other case.	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.	10%	Exemption • Interest payable to LIC/GIC • Interest on Provident Fund

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194	Dividend other than the dividend as referred to in Sec.115-O	Company	Shareholder	> 25000	At the time of making payment	10%	

Sec.	Natural of payment	Person responsible to deduct tax (Payer)	Person who's tax needs to be deducted (Payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
195	Payment to NR being Interest other than covered in (194LB/LD/LC) including interest on securities or any other sum chargeable to Income tax in India not being Salary	Any person	Nr/Foreign Company	Any payment	At the time of payment or credit whichever is earlier	1. Rate given in Finance Act 2. Rate given in DTAA 3. Rate given in agreement notified by CG 4. Whichever is more beneficial to assessee.	

Sec.	Natural of payment	Person responsible to deduct tax	Person who's tax needs to be deducted (payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194 N	Cash Withdrawal (aggregate) exceeding 1 Cr (1/9/19)	Banking/ PO/ Co. Society	Any Person	Aggregate payment Exceeds Rs. 1 Cr	At the time of withdrawal	2 % on exceeding amount	<u>Exception</u> 1. Govt 2. Bank 3. CO. Op Bank Or PO 4. White Label ATM 5. Banking Correspondence. 6. Any other person specified.

							(Money Changer, Agent in APMC, MTSS)

Sec.	Natural of payment	Person responsible to deduct tax	Person who's tax needs to be deducted (payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194 O	E-Commerce Transaction (1/10/20 to 31/03/21)	Any Person (E-Commerce Operator)	Resident Person (E-Commerce Participant)	No limit	At the time of payment	1% (on gross Amount of Sale even payment is directly received by Participant)	Exception No TDS if satisfied 3 conditions 1. Individual/HUF 2. Gross amount of Sale up to 5 Lakhs in PY 3. PAN/ Aadhaar is submitted)

NOTE:

1. Due to COVID the Rate is 0.75%

2. Sec-206AA – TDS rate 20 % if PAN number is not submitted (in case of 194 O take 5%instead of 20%

3. If TDS deducted under this section no TDS u/s other section

4. If TDS is deducted one Operator then Other operator no need to deducted TDS

5. In case of online Insurance. If Insurance premium is directly paid to insurance Co. instead of online agent then no TDS

Note:

Sec- 197B – If TDS is required to deducted 14/05/20 to 31/03/2021 – TDS Rate = 75%of TDS Rate.

Example 1:

Alap ltd has made payment on various dates in financial year 2019-20 to vilambit ltd

Contract no	1	2	3	4	5
Date of payment	20.08.2019	21.09.2019	08.10.2019	11.11.2019	12.01.2020
Amount	13000	115000	20000	20000	10000

Example :

Date	Payment
10.10.2019	Rent paid for hire of machinery by B Ltd. to Mr. Raman Rs. 3,10,000.
31.12.2019	Fee paid to Dr. Srivatsan by Sundtr (HUF) Rs.35,000 for surgery performed to a member of the family
01.01.2020	ABC and Co. Ltd. paid Rs. 19,000 to one of its Directors as sitting fees
01.02.2020	Mr. X sold his house to Mr. Y on 01-02-2020 for Rs. 60 lacs?
01.03.2020	Winning by way of jackpot in a horse race Rs. 1,00,000.
01.07.2019	Rent paid for plant and machinery Rs. 1,50,000 by a partnership firm having sales turnover of Rs. 20,00,000 and net loss of Rs. 15,000.

Particulars	TDS	Reason
Rent Paid (194I)	3,10,000 x 2% =	Since rent paid exceeds Rs. 2,40,000 So TDS @ 2% on P&M
Professional Pay (194J)	No TDS	Since payment made is for surgery of one of the family member it is a personal payment, No TDS shall be deducted.
Director Sitting Fee (194J)	19000 x 10% = 1900	Since professional pay being directors sitting fee TDS is to be deducted on any amount with out limit @ 10%
Sale of property (194IA)	60Lakhs x 1% = 60,000	Since sale consideration exceeds 50 lakhs . So, TDS @ 1%
Horse Race Winning (194BB)	30,000	Since Winning exceed Rs. 10,000
Rent(194I)	No TDS	Since rent does not exceed Rs. 2,40,000

NOTES:

No TDS on Following		
Sec.196n	Any person	To any:- Government RBI
Sec.197	Any Person	Any person who given certificate for no deduction or lower deduction obtained from AO
Sec.197A	Any Person	A person who gives self Declaration in form no.15G or 15H quoting his PAN.
Sec.197A(1E)	Any Person	New Pension System Trust u/s 10(44)

1. E-filing of statements is mandatory in case of:
   a) Office of the Government, or
   b) A company, or
   c) A person required to get his accounts audited under section 44AB in the immediate preceding financial year or
   d) If the number of deductees in an immediate preceding quarter is 50 or more, and optional for other assesses.

IMPORTANT FORMS AND DATES

Due Date for payment of TDS Sec-200	
For the month of March	30th April
Between April to February	7th of the month Succeeding the month in which:- Tax is deducted or Tax is due u/s 192(1A)
TDS Return Sec.200(3)	E Filling of TDS Return: • Deductor / Collector is responsible for e filling of quarterly returns. • As per Sec.200A(2) CBDT has notified Centralized processing of statement of TDS scheme, 2013 being TRACES- TDS reconciliation analysis and correction enabling system. {www.Tdscpc.gov.in}, it is 100% mandatory to quote PAN.
	Due Dates

Quarter Ending	Due date
30th June	31th July
30th Sep	31th October
30th December	31st January
31st March	31st May
	• The below given form shall be accompanied by form 27A.
	• Forms of TDS to submitted by Deductor
For Salary u/s 192	24Q
Other Than Salary	26Q
NR	27
For resident transferor of Land	26QB- Furnished within 7 days of deduction

TDS CERTIFICATE TO BE ISSUED TO DEDUCTEE SEC.203

TDS certificate to be issued to deductee Sec.203

TDS deducted	Form no	Periodicity	Due date
Under 192	16	Annual	31st May of following year
Any Section except 192	16A	Quarterly	Within 15days of due date of filling TDS return
	16B	Within 7days with 26qB	7 days of deduction Due dates

Quarter Ending	Due date
30th June	15 days from the date Return.
30th Sep	
30th December	
31st March	

FAILURE TO DEDUCT TDS OR FURNISH RETURN ON TIME

Consequences of failure to deduct Tax:

1. Assessee in default :- If a person responsible to deduct tax or an employer referred u/s 192(1A) fails to deduct, then he shall be deemed as assessee in default
2. W.e.f. 1/4/2012 Such person is not treated as assessee in default if:-
   a. No TDS is deducted on such sum

b. Such sum was paid or credited to a resident

c. Such resident has furnished his ROI u/s 139

d. Such sum is included in his Income in such ROI

e. Tax due on Income declared in such ROI has been paid.

INTEREST

interest			
Condition	Rate	Period of Interest	Amount on which interest is payable
Tax is not deducted by any other person (except assessee in default)	1% p.m	From the date on which such tax had to be deducted to the date of actual deduction	Amount of such tax not deducted.
Tax deducted but not paid	1.5% p.m.	From the date of deduction of such tax to the actual date of payment of such tax.	Amount of Such tax not paid

SURCHARGE ON TDS INTRODUCED BY FINANCE BILL, 2013

Sr no	Cumulative conditions	Rate of Surcharging
I.	a. Income or aggregate of such income (subject to TDS) exceeds Rs. 1 crore and b. Where the payee is a NR and may be any other person other than body corporate	10%
I.	➢ Where payee is a foreign company ➢ Income or aggregate income exceeds Rs.1 crore but does not exceeds Rs.10 crore	2%
I.	Where payee is a foreign company Income or aggregate income exceeds Rs. 10 crore	5%

PENALTIES FOR DEFAULT

Sec	Nature of default	Penalty	Levy by
271C	Failure to deduct TDS	Sum equal to the amount of TDS	JCIT
271H	Failure to file Return TDS	Rs.10000 to Rs.100000	AO
272A	Failure to issue TDS certificate	Rs.100 for every day of default maximum default = tax deductible	JCIT

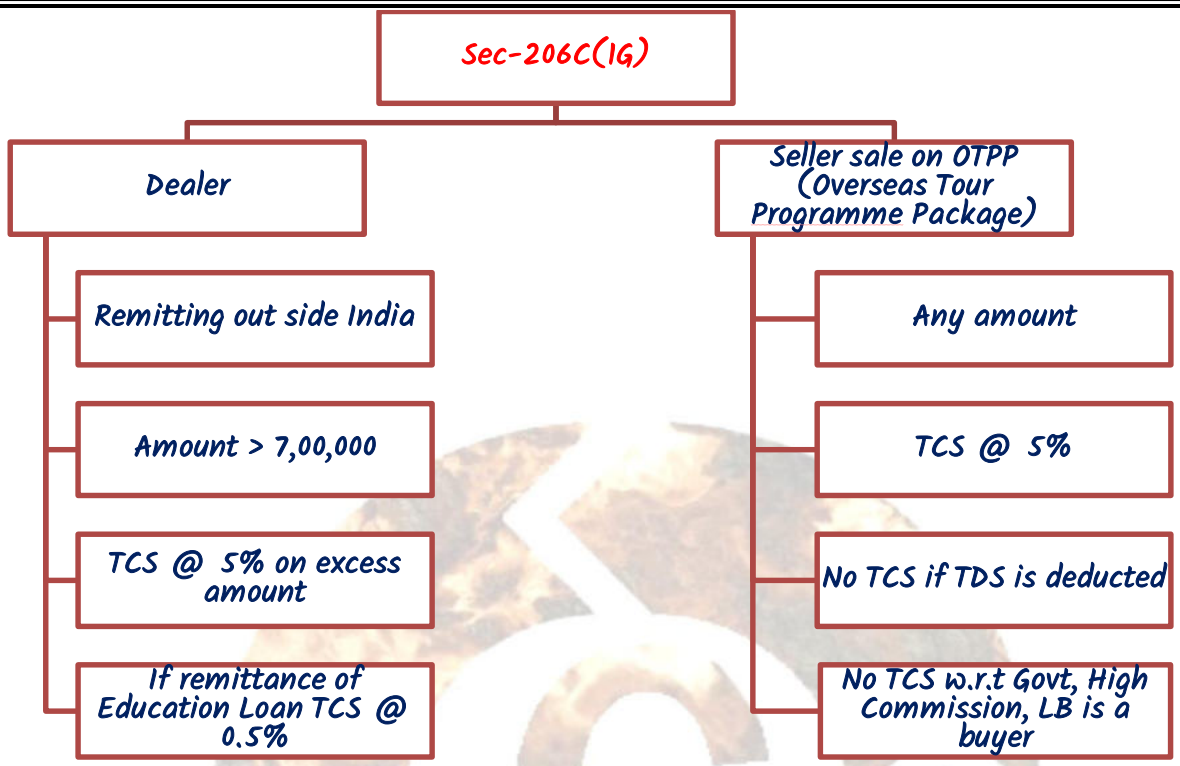
TCS

TCS – TAX COLLECTED AT SOURCE:

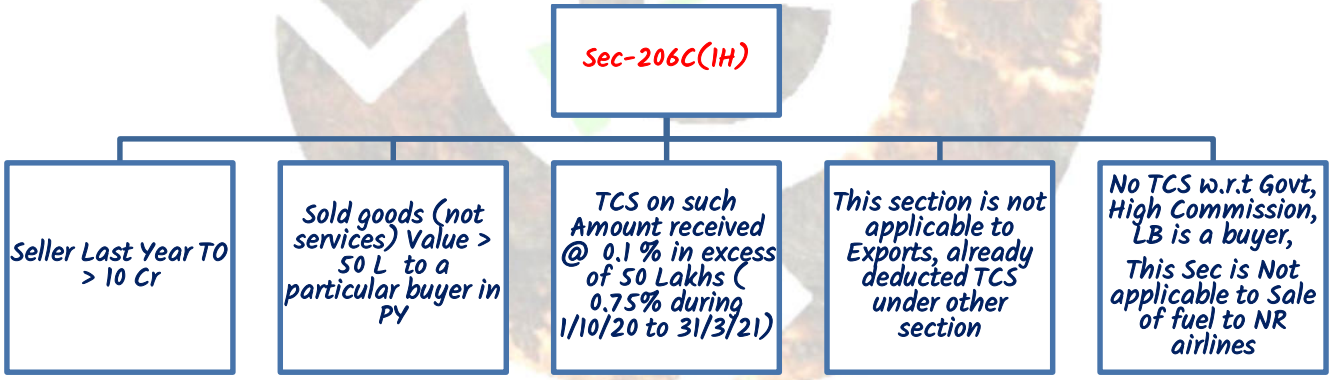
Who is responsible	Seller collects it from Buyer Seller include: • CG/SG/LA • Company • Firm /LLP • Individual liable to Tax audit u/s 44AB Buyer Include : Every person other than ➢ Public sector co ➢ CG / SG / LA ➢ Club ➢ Buyer in Retail sale of such goods for personal consumption.
Due date to Deposit	Deposited on the last day of the month in which collection is made
Issue of TCS Certificate	Seller shall issue TCS certificate within month from the end of month in which TCS was collected in form 27Ds
Filling quarterly return by seller	In form 26EQ on 15th July, Sep, Jan, 30th April.

	For Sale transaction – seller shall collect TCS from buyer	
1.	Alcoholic liquor for human Consumption	1%
	Tendu leaves	5%
	Timber Obtained under forest lease	2.5%
	Timber obtained by any mode other than a forest lease	2.5%
	Any other forest produce not being timber or tendu leaves	2.5%
	Scrap	1%
	Parking lot	2%
	Toll plaza	2%
	Mining & Quarrying	2%
	Minerals, being coal or lignite or iron ore	1%
	Bullion or Jewellery (if the sale consideration is paid in cash exceeding INR 5 lakhs in Jewellery and two lakh in case of Bullion)	1%
	Motor Vehicle under retail sale not whole sale (Value exceeding 10,00,000) (in case of Whole sale S-206C(1H) is applicable)	1%

If PAN not given = TCS Rate = double the Rate or 5% which ever is higher



If PAN not given = TCS Rate = double the Rate or 5% which ever is higher



Note: Sale of Motor Vehicle is covered u/s 206C(1H) if TCS not deducted u/s 206C(1F)

If PAN not given = TCS Rate = double the Rate or 1% which ever is higher

Note

If Shares traded trough Recognized Stock Exchange then 1940, 206C(1H) is not applicable.

If transaction in electricity, renewable energy certificates and energy saving certificates traded through Registered power exchanges then 194-O and 206C(1H) is not applicable.

Sec.	Natural of payment	Person responsible to deduct tax	Person who's tax needs to be deducted (payee)	Maximum limit on which TDS is not deductible	Time of deduction of TDS	Rates of TDS*	Exemption / Conditions
194 P	Pension	Specified Banker	Individual(senior citizen age 75 y or more) having only pension	No limit	At the time of payment	Slab Rate	Exception No other income excludes interest income received/ble from such bank if declaration is provided

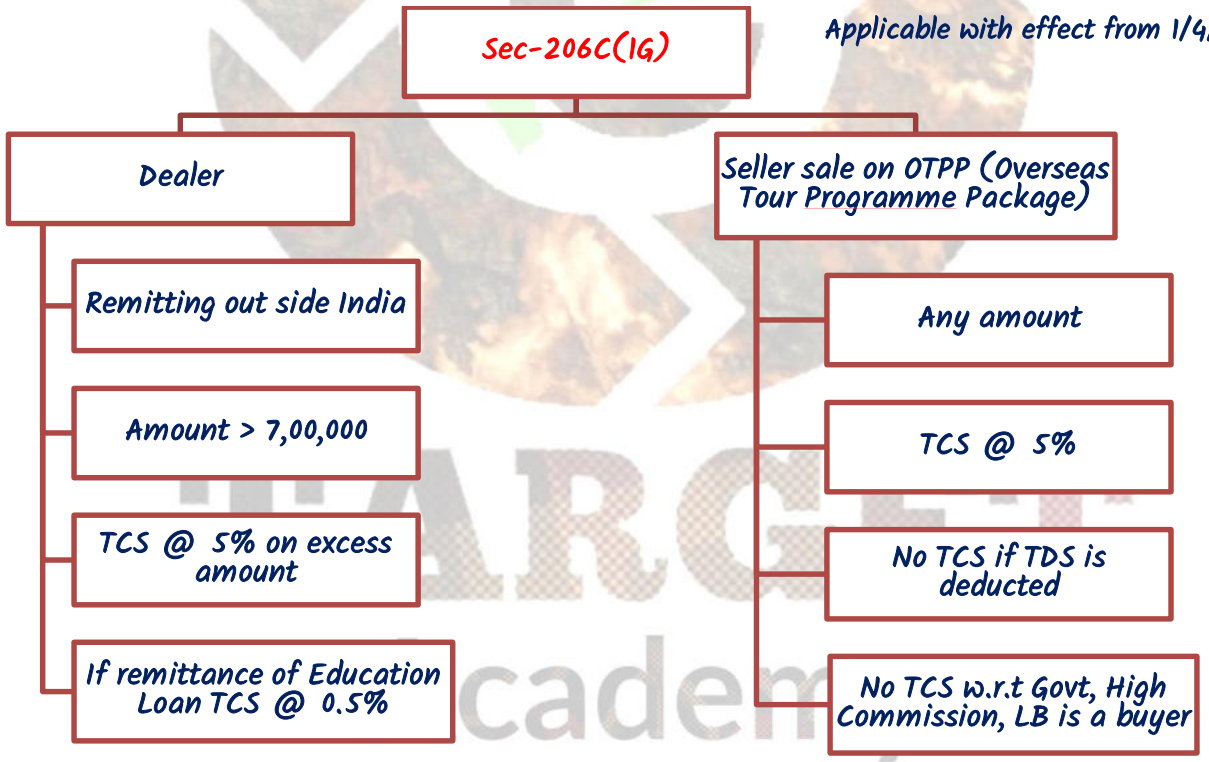
Note:
1. Deductions under Chapter VIA and Rebate u/s 87A is allowed under declaration

SEC-194Q

Particulars	194Q	206C(1H)
Purpose	Tax to be *DEDUCTED*	Tax to be *COLLECTED*
Applicable to	Buyer/Purchaser	Seller
With effect from	01/07/2021	01/10/2020
When Deducted or collected	Payment or credit, whichever is earlier	At the time of receipt
Advances	TDS shall be deducted on advance payments made	TCS shall be collected on advance receipts
Rate of TDS/TCS	0.1%	0.1% (0.075% for FY 2020-21)
PAN not available	5%	1%
Triggering point	Turnover/Gross Receipts/Sales from the business of BUYER should exceed Rs.10cr during previous year (Excluding GST) Purchase of goods of aggregate value exceeding Rs.50Lakhs in P.Y. (The value of goods includes GST)	Turnover/Gross Receipts/Sales from the business of SELLER should exceed Rs.10cr during previous year (Excluding GST) Sale consideration received exceeds Rs.50Lakhs in P.Y. (The value of goods includes GST)
Exclusions	Yet to be notified by government	If Buyer is- Importer of goods Central/State Government, Local Authority An embassy, High Commission, legation, commission, consulate and trade representation of a foreign state.
When to deposit/collect	Tax so deducted shall be deposited with government by 7th day of subsequent month	Tax so collected shall be deposited with government by 7th day of subsequent month
Quarterly statement to be filed	26Q	27EQ
Certificate to be issued to seller/buyer	FORM 16A	FORM 27D

SEC-194Q

Applicability of TDS on Purchase U/S 194Q and TCS on Sales U/S 206C(1H)					
Buyer's Turnover P.Y	Seller's Turnover P.Y	Purchase/ Sale of Goods in C.Y	Chargeable amount for TDS/TCS	Applicability of TDS	Applicability of TCS
12 Crore	9 Crore	58 Lakh	8 Lakh	**Yes.** @0.10% on 8 Lakh	**NA.**Turnover below 10 Cr.
8 Crore	11 Crore	53 Lakh	3 Lakh	**NA.**Turnover below 10 Cr.	**Yes.**@0.10% on 3 Lakh
9 Crore	9 Crore	55 Lakh	0	**NA.**Turnover below 10 Cr.	**NA.**Turnover below 10 Cr.
12 Crore	15 Crore	62 Lakh	12 Lakh	**Yes.** @0.10% on 12 Lakh	**NA.** As TDS deducted U/S 194Q. So, TCS need not be collected U/S 206C(1H)

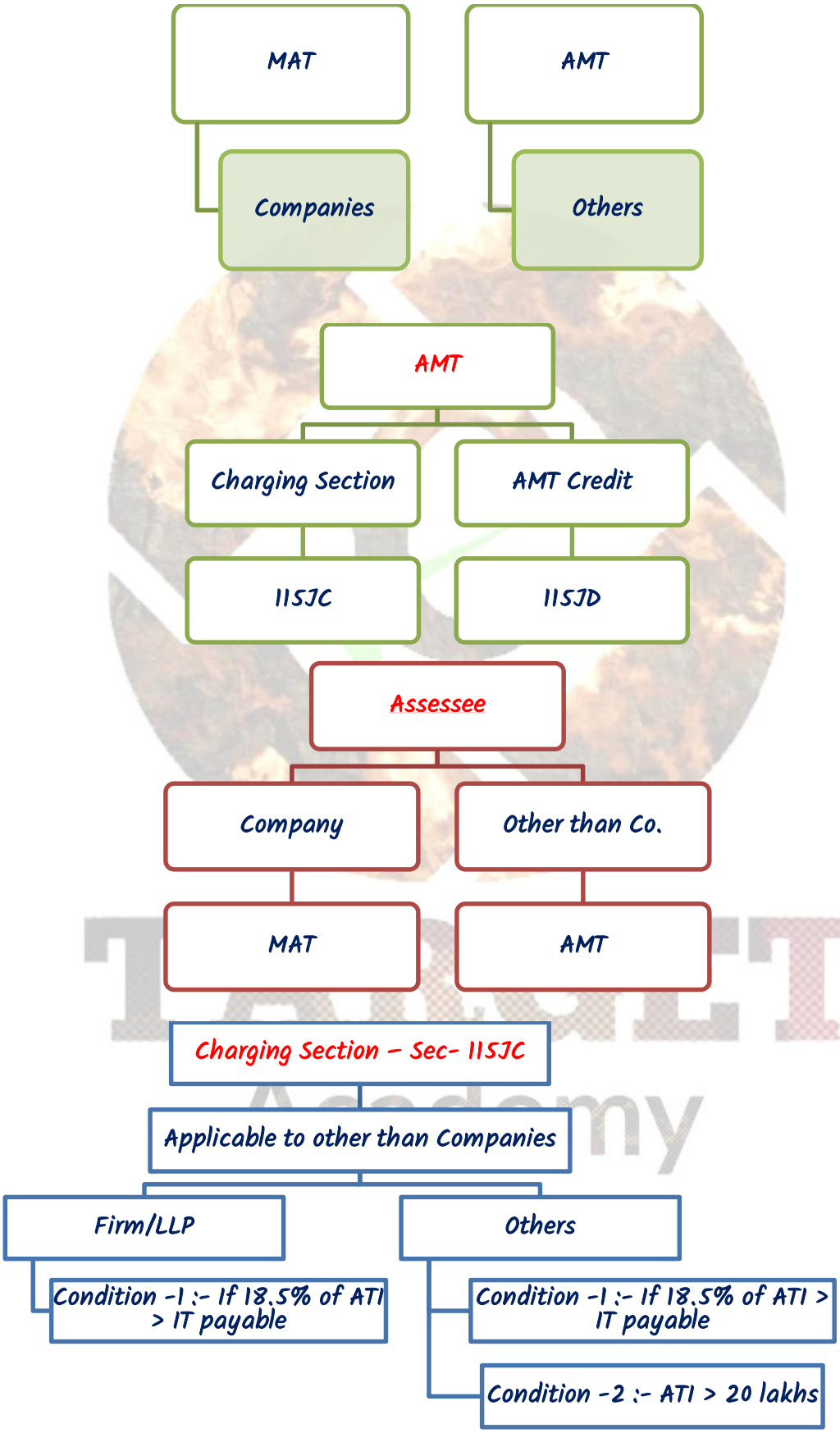


NOTE

- If PAN not given = TCS Rate = double the Rate or 5% which ever is higher
- This section is not applicable to NR visiting to India

THE END

AMT


MAT
AMT
Companies
Others
AMT
Charging Section
AMT Credit
115JC
115JD
Assessee
Company
Other than Co.
MAT
AMT
Charging Section – Sec- 115JC
Applicable to other than Companies
Firm/LLP
Others
Condition -1 :- If 18.5% of ATI > IT payable
Condition -1 :- If 18.5% of ATI > IT payable
Condition -2 :- ATI > 20 lakhs

Note

- Take 9% in case of IFSC

AMT Format

Particulars	Amount (Rs.)
18.5% of ATI	xxx
Add : SC (if any – based on ATI amount) (10%/15%/25%/37% as the case may be)	xxx
Total	xxx
Cess @ 4%	xxx
AMT Payable	xxx

How to calculate ATI

Particulars	Amount(Rs.)
Total Income	xxx
Add :- Deductions under Ch-VIA (except 80 IA to RRB)	xxx
Add:- Deduction U/s 35AD	xxx
Add :- Deduction U/s 10AA (SEZ)	xxx
Less :- Depreciation w.r.t to Assets on which deduction U/s 35 AD is claimed (Notional Depreciation)	(xxx)
ATI	xxx

Note :- 80IA to 80IE; 80QQB; 80RRB; 80CA; 80P; 80JJA; 80JJAA

Procedure to compute AMT

Step-1	· Who is Assessee
Step-2	· Compute Tax
Step-3	· Calculate ATI
Step-4	· Compute AMT
Step-5	· Compare AMT and Tax
Step-6	· Pay higher of AMT or Tax

Note

Assessee for whom AMT is applicable then obtain report from CA in Form 29C on or before filing the date of filing of return

Procedure to adjust AMT Credit

Year	AMT	IT	Pay	AMT Credit
Y-1	43L	40L	43L	3L
Y-2	45L	41L	45L	3L+4L = 7L
Y-3	35L	37L	37L-2L = 35L	7L-2L = 5L
Y-4	32L	40L	40L-5L = 35L	0

Note

- AMT credit = AMT > IT ==> AMT-IT
- AMT Credit shall be carried forward to 15 AY.
- AMT Credit shall be utilised when IT is more than AMT.

Note

- If Company is converted into LLP then MAT credit can not be C/F to LLP.
- Relief u/s 90/91 should be adjusted to AMT credit also.

Problem

- PGBP = 45,00,000
- Deduction U/s 80IB = 20,00,000.
- Ans
- IT = 5,85,000.
- ATI = 45,00,000.
- AMT payable = 8,62,800.
- AMT Credit = 8,62,800-5,85,000 = 2,80,800

THE END

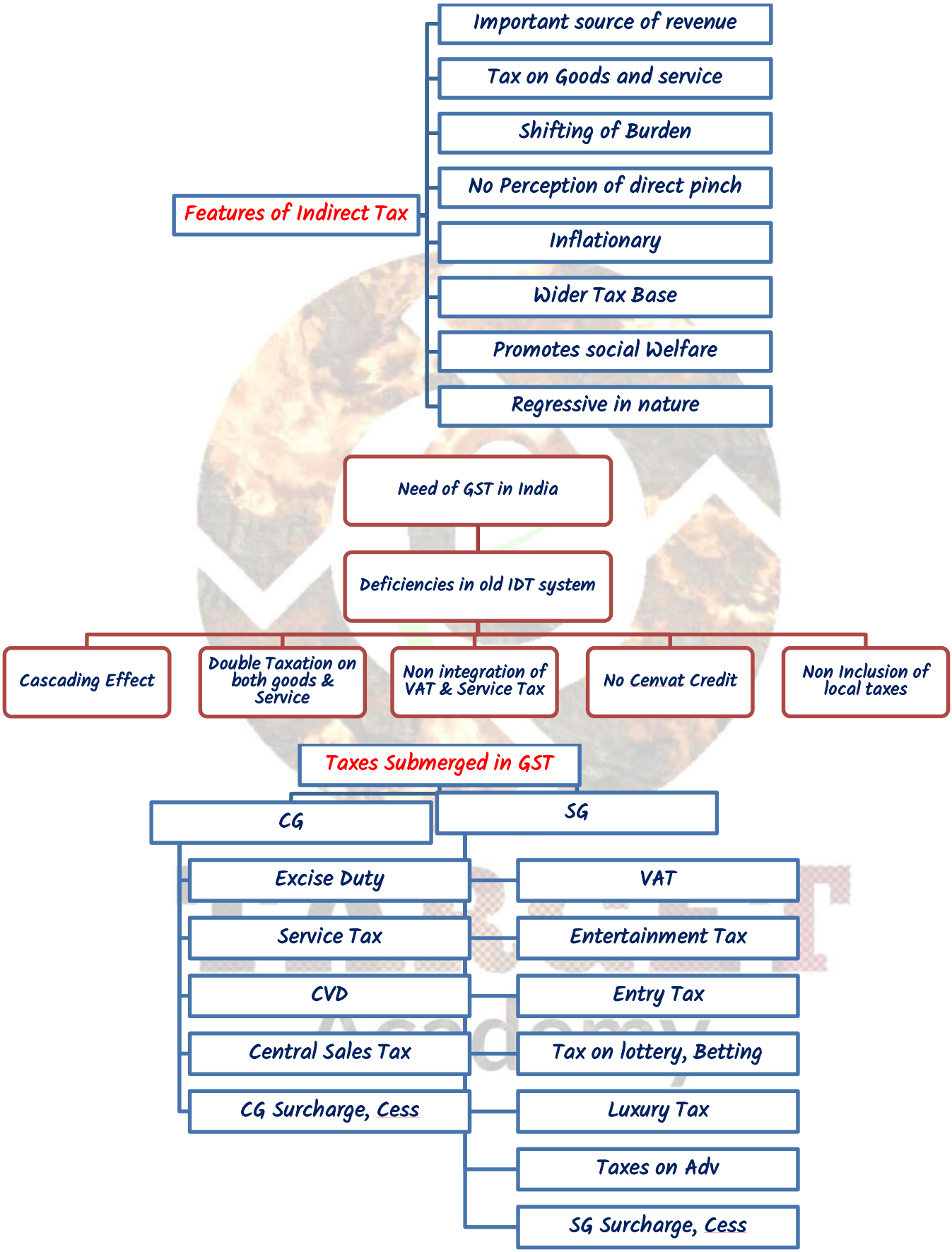
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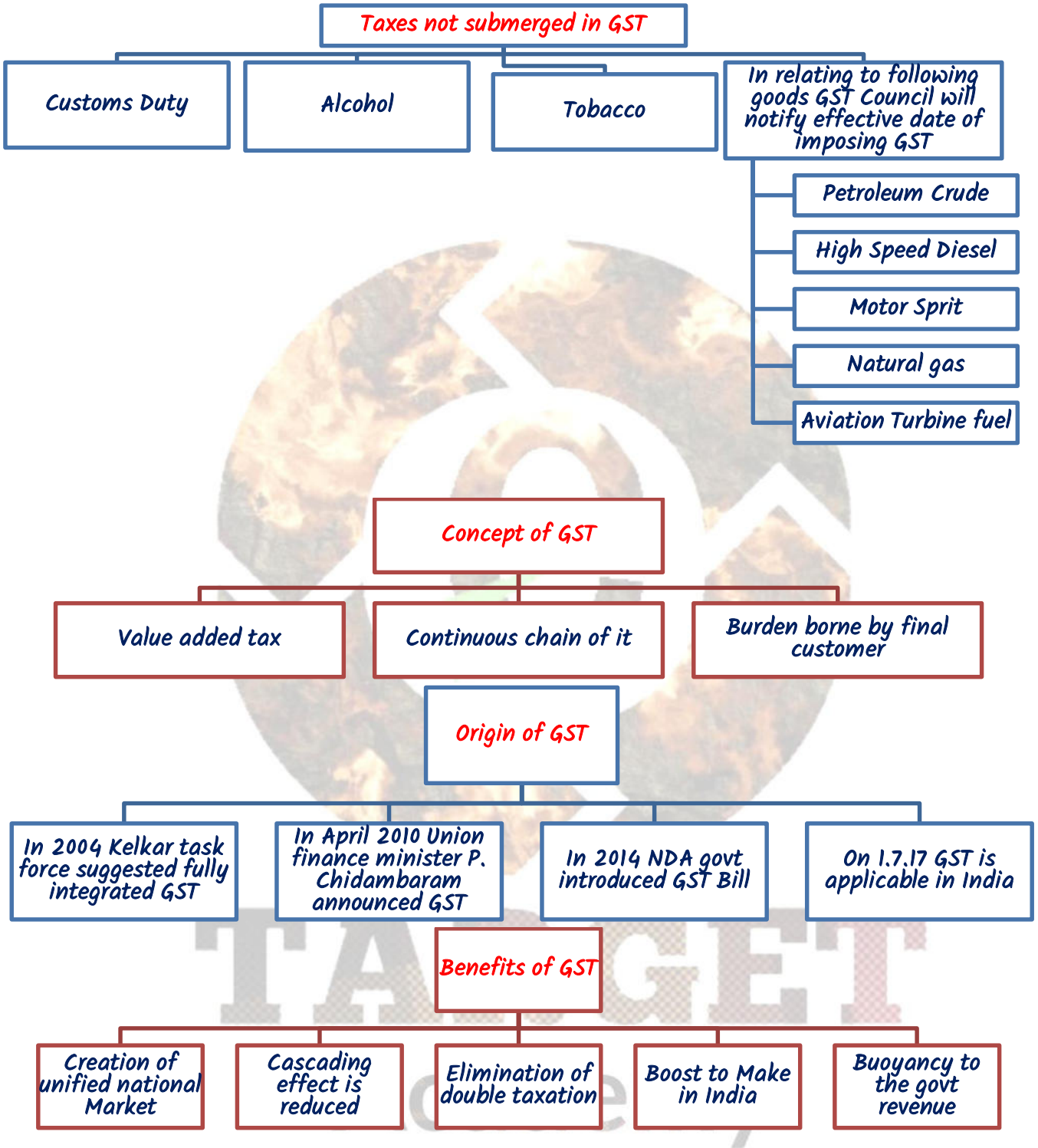
INTRODUCTION TO GST

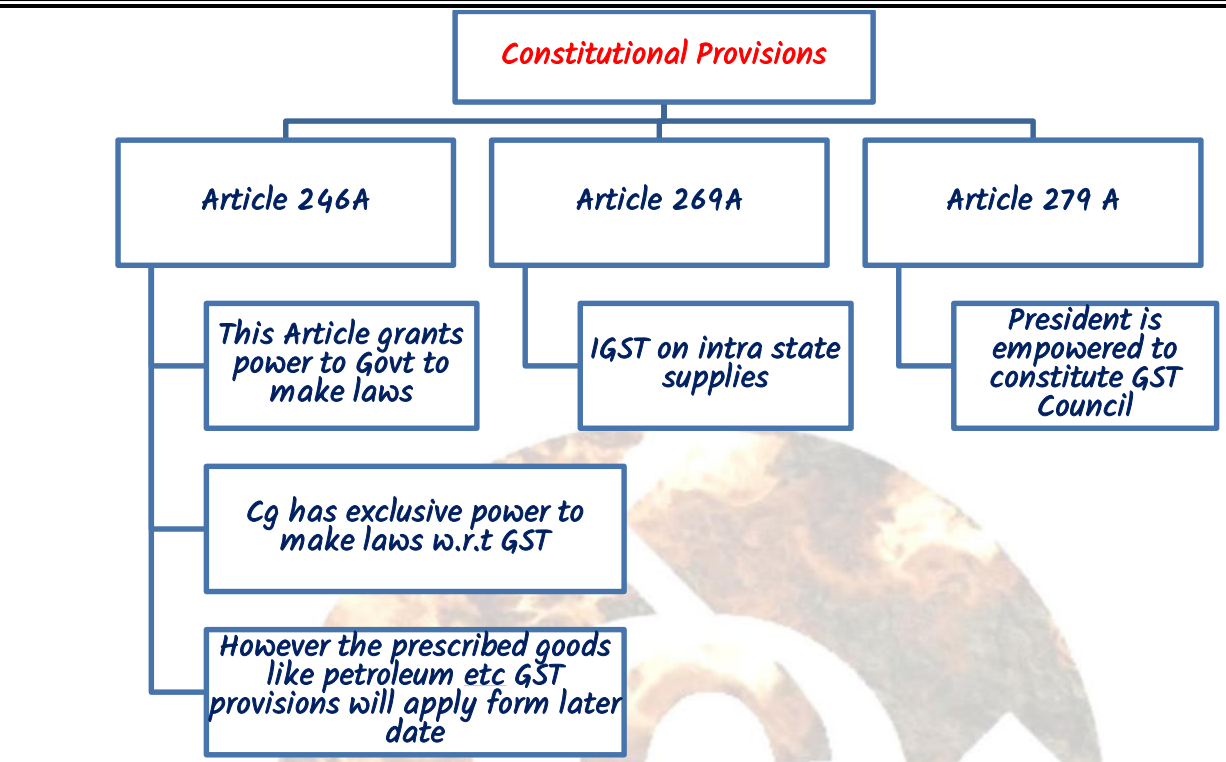


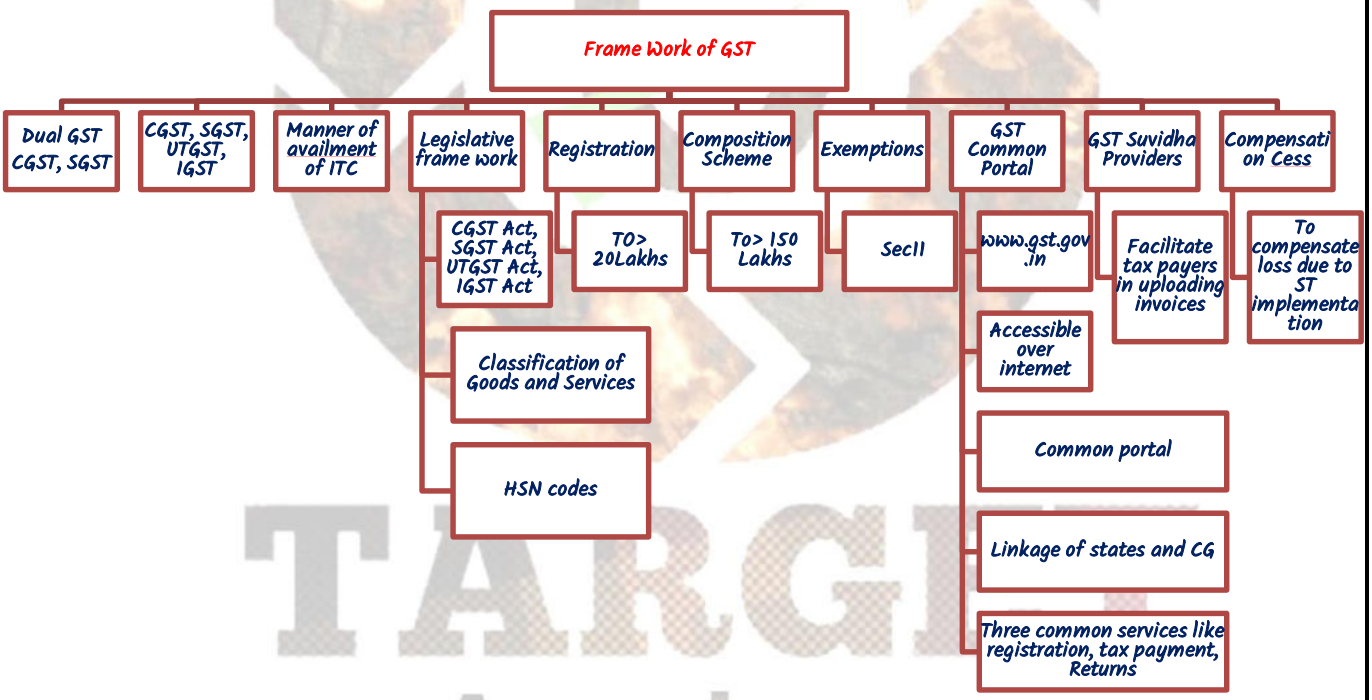
DIRECT TAX V/S INDIRECT TAX

Direct Tax	Indirect Tax
Incidence and Impact will be on same person	Incidence will be on one person and impact will be on another person
Progressive nature	Regressive nature
Income tax	GST


Features of Indirect Tax
Important source of revenue
Tax on Goods and service
Shifting of Burden
No Perception of direct pinch
Inflationary
Wider Tax Base
Promotes social Welfare
Regressive in nature
Need of GST in India
Deficiencies in old IDT system
Cascading Effect
Double Taxation on both goods & Service
Non integration of VAT & Service Tax
No Cenvat Credit
Non Inclusion of local taxes
Taxes Submerged in GST
CG
SG
Excise Duty
Service Tax
CVD
Central Sales Tax
CG Surcharge, Cess
VAT
Entertainment Tax
Entry Tax
Tax on lottery, Betting
Luxury Tax
Taxes on Adv
SG Surcharge, Cess

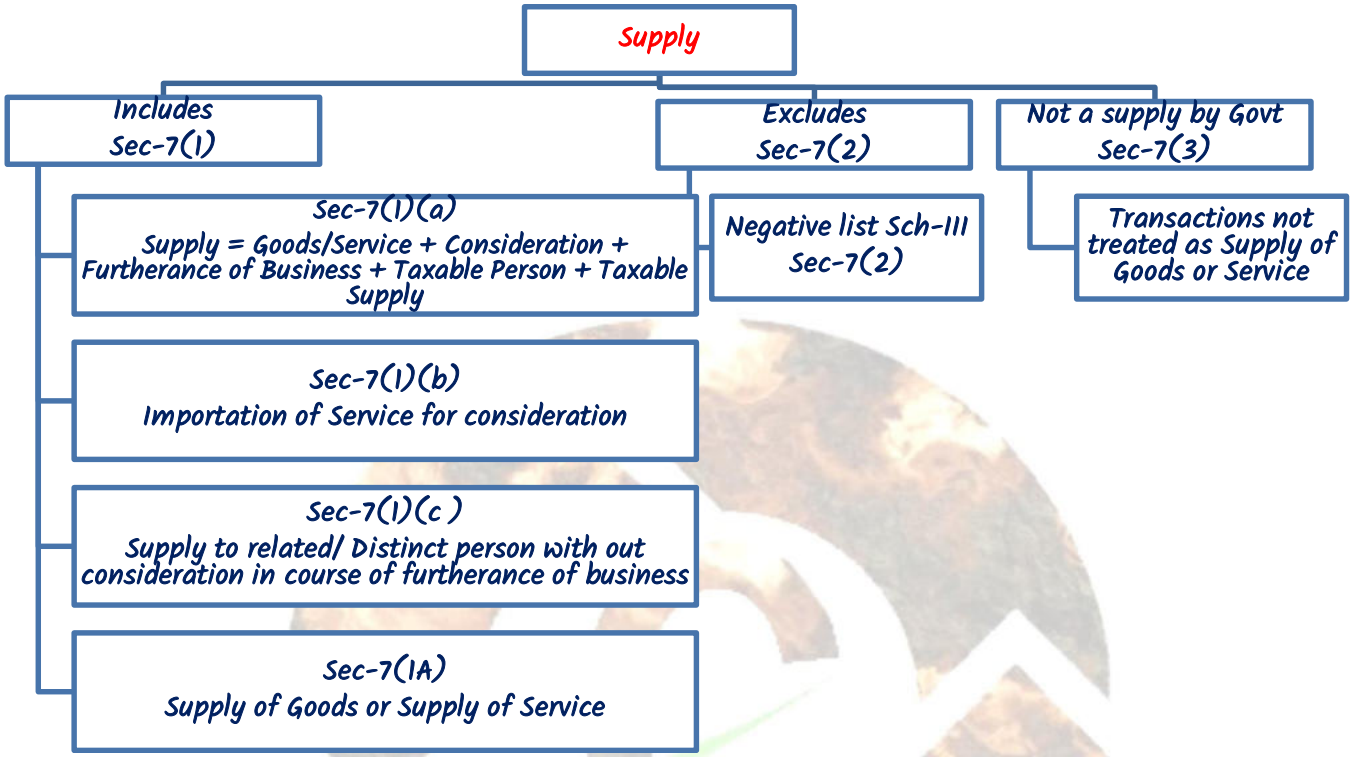

Taxes not submerged in GST
Customs Duty
Alcohol
Tobacco
In relating to following goods GST Council will notify effective date of imposing GST
Petroleum Crude
High Speed Diesel
Motor Sprit
Natural gas
Aviation Turbine fuel
Concept of GST
Value added tax
Continuous chain of it
Burden borne by final customer
Origin of GST
In 2004 Kelkar task force suggested fully integrated GST
In April 2010 Union finance minister P. Chidambaram announced GST
In 2014 NDA govt introduced GST Bill
On 1.7.17 GST is applicable in India
Benefits of GST
Creation of unified national Market
Cascading effect is reduced
Elimination of double taxation
Boost to Make in India
Buoyancy to the govt revenue


Constitutional Provisions
Article 246A
Article 269A
Article 279 A
This Article grants power to Govt to make laws
IGST on intra state supplies
President is empowered to constitute GST Council
Cg has exclusive power to make laws w.r.t GST
However the prescribed goods like petroleum etc GST provisions will apply form later date


Frame Work of GST
Dual GST CGST, SGST
CGST, SGST, UTGST, IGST
Manner of availment of ITC
Legislative frame work
Registration
Composition Scheme
Exemptions
GST Common Portal
GST Suvidha Providers
Compensation Cess
CGST Act, SGST Act, UTGST Act, IGST Act
Classification of Goods and Services
HSN codes
TO> 20Lakhs
To> 150 Lakhs
Sec11
www.gst.gov.in
Accessible over internet
Common portal
Linkage of states and CG
Three common services like registration, tax payment, Returns
Facilitate tax payers in uploading invoices
To compensate loss due to ST implementation

THE END

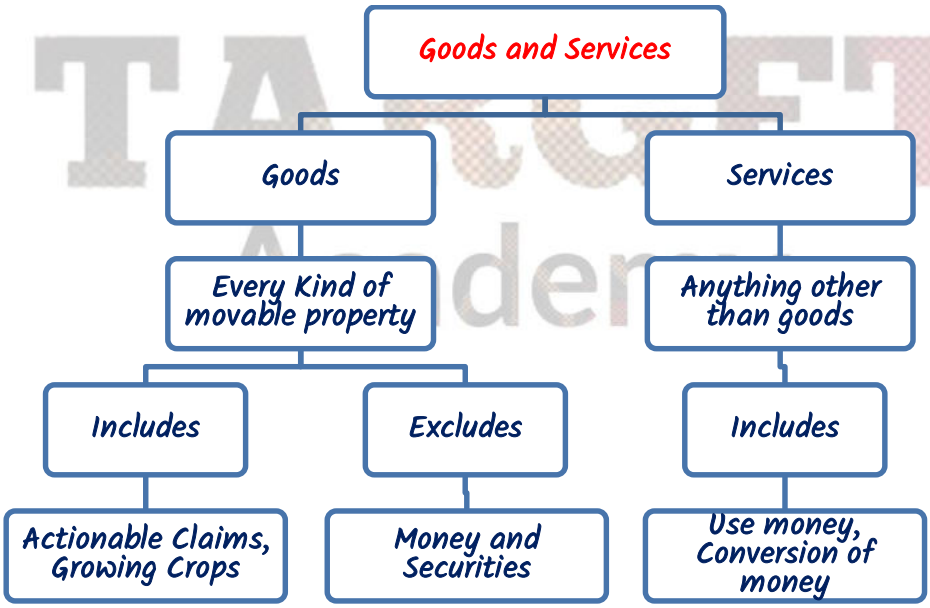
SUPPLY



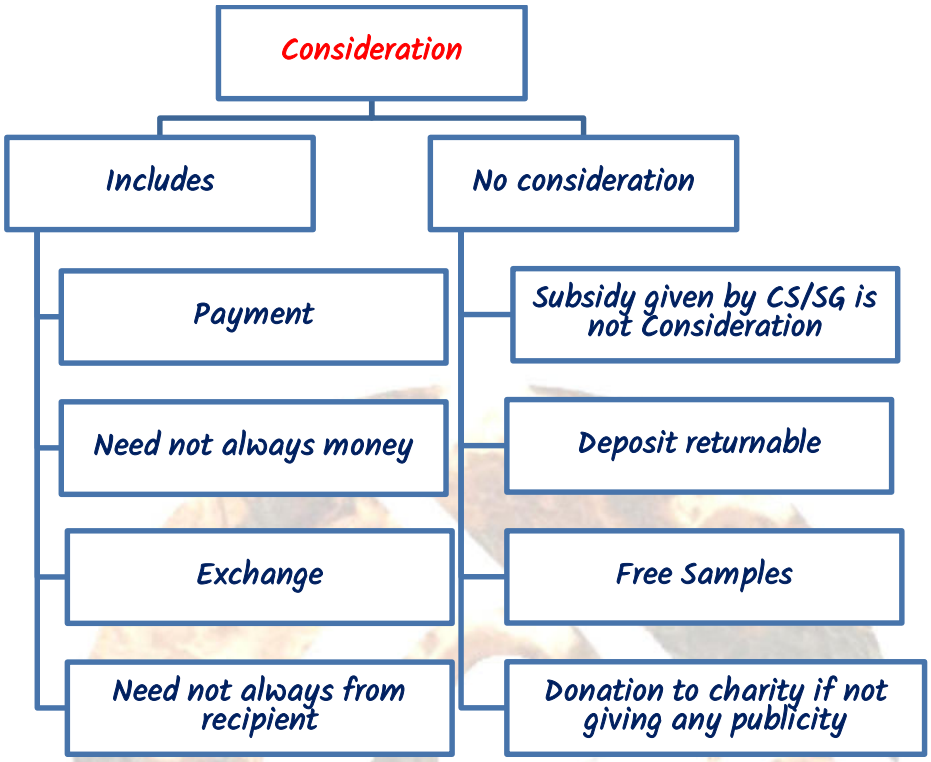
SEC-7(1)(A)



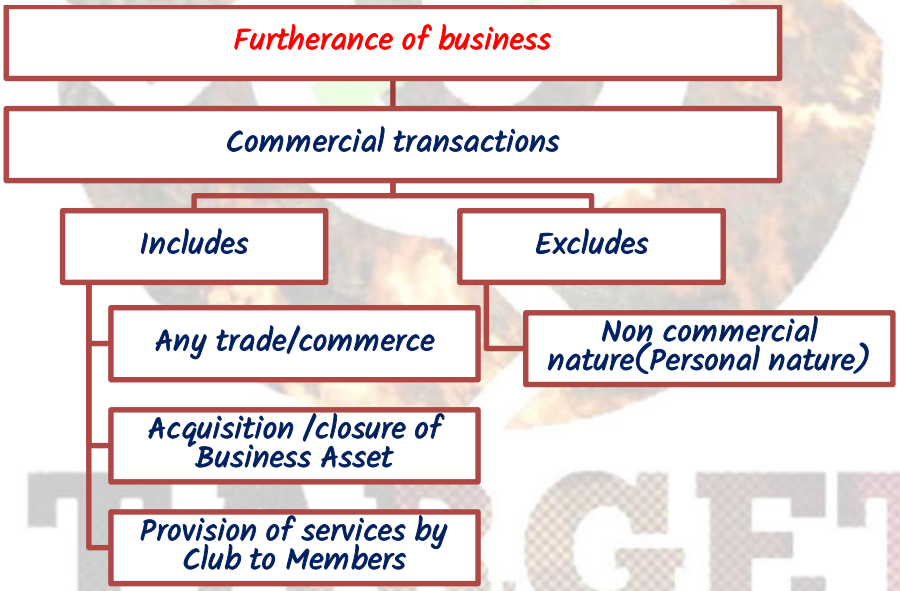
I



2


Consideration
Includes
No consideration
Payment
Need not always money
Exchange
Need not always from recipient
Subsidy given by CS/SG is not Consideration
Deposit returnable
Free Samples
Donation to charity if not giving any publicity

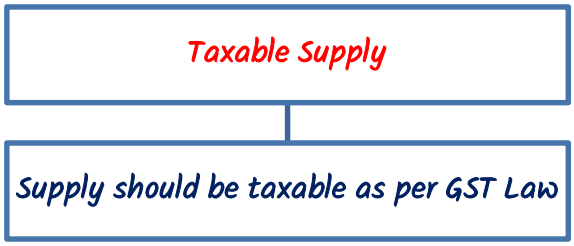
3.


Furtherance of business
Commercial transactions
Includes
Excludes
Any trade/commerce
Acquisition /closure of Business Asset
Provision of services by Club to Members
Non commercial nature(Personal nature)

4.


Taxable Person
Registered/Liable to registered

5.


Taxable Supply
Supply should be taxable as per GST Law

SEC-7(1)(B)

Sec-7(1)(b)
Importation of Services
Treated as Supply even without Furtherance of Business

- Is treated as supply
- Even if no furtherance of business
- Only if consideration is there

SEC-7(1)(C)

Sec-7(1)(c)
Treated as Supply even without consideration

- Supply of G/s to Related/Distinct person
- Furtherance of business should be there
- Exception:- Gift exceeding 50,000

Examples

- Removal of Business Asset
  - Reversal of GST
- Principle to Agent
  - If Invoice is on Principle- Not a supply

SEC-7(1A)

SEC-7(1A)
ACTIVITIES TO BE TREATED AS SUPPLY OF GOODS OR SUPPLY OF SERVICE

Activity	Nature
Transfer of Goods	Supply of Goods
Transfer of right to use goods	Supply of Service
Hire Purchase	Supply of Goods
Land and Building	Not a supply
Right to use Land and Building	Supply of Service

Treatment	Supply of Service
Transfer/Removal of Business Asset	Supply of Goods
Transfer of right to use Business Asset	Supply of Service

SEC-7(2) SCHEDULE-III NEGATIVE LIST

- Negative List
  - Employment services
  - Services by court or tribunal
  - Service by MP/MLA/Panchayat
  - Services of funeral
  - Sale of Land
  - Actionable claims other than lottery, betting and gambling

SEC-7(3)

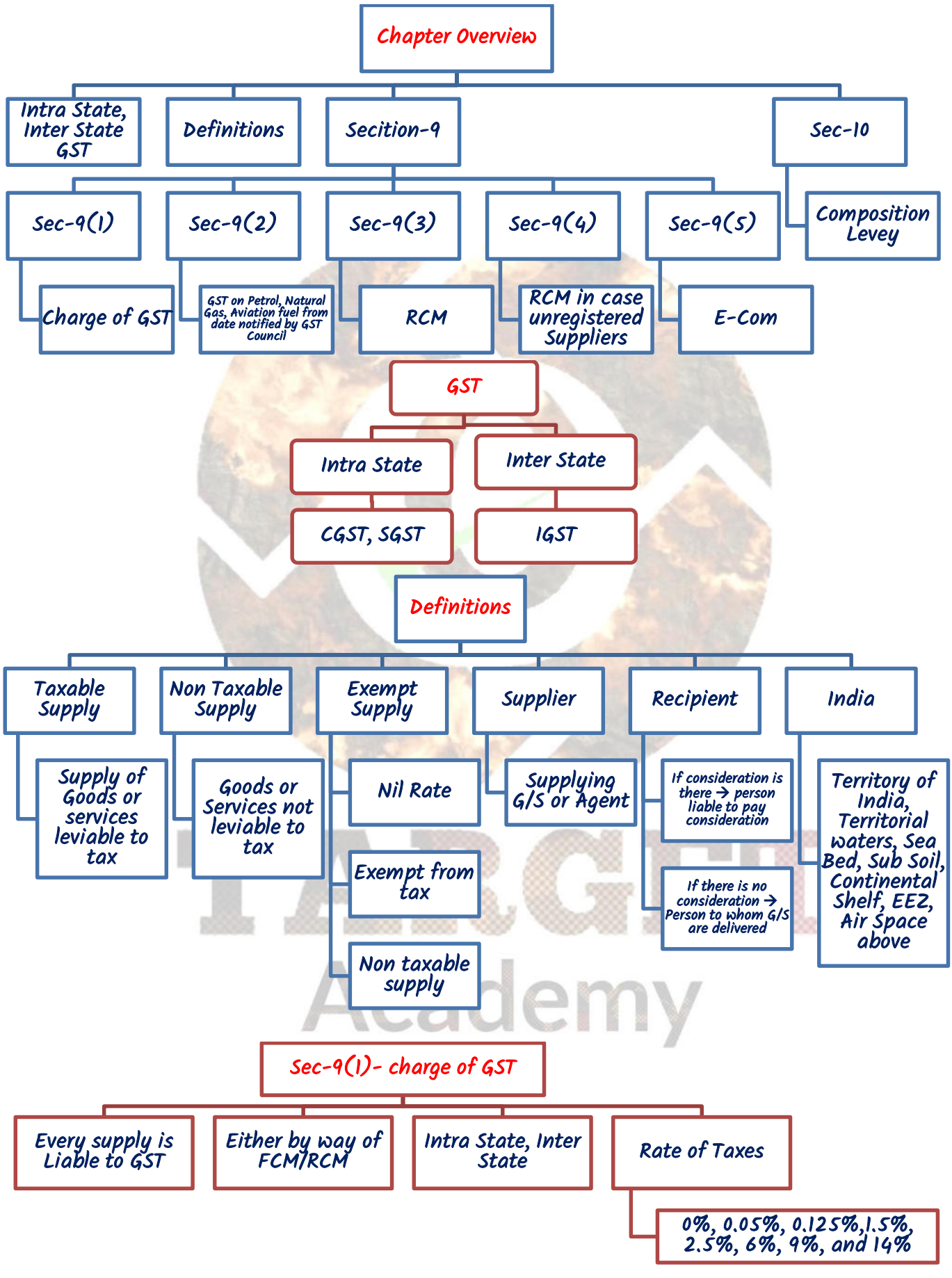
- Sec-7(3)
  - Transactions notified by Govt not treated as Supply

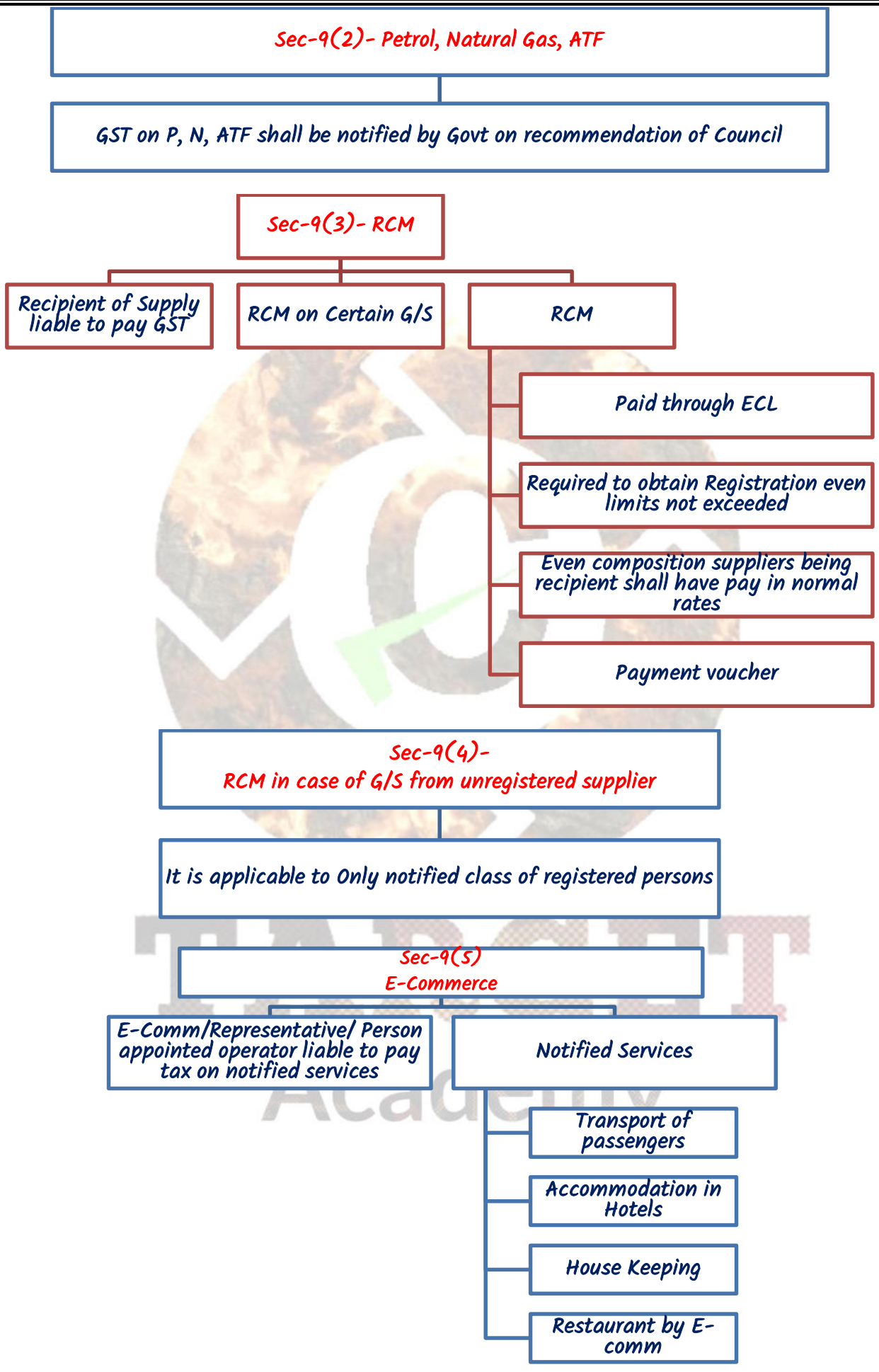
SEC-8

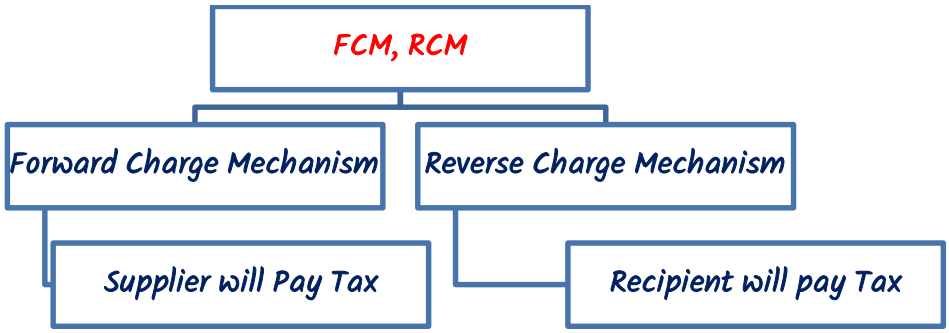
- Sec-8 Taxability of Composite & Mixed Supply
  - Composite Supply
    - Naturally bundled
      - Rate of Principal Supply is applicable
  - Mixed Supply
    - Artificially bundled
      - Highest Rate will apply

THE END

CHARGE OF GST



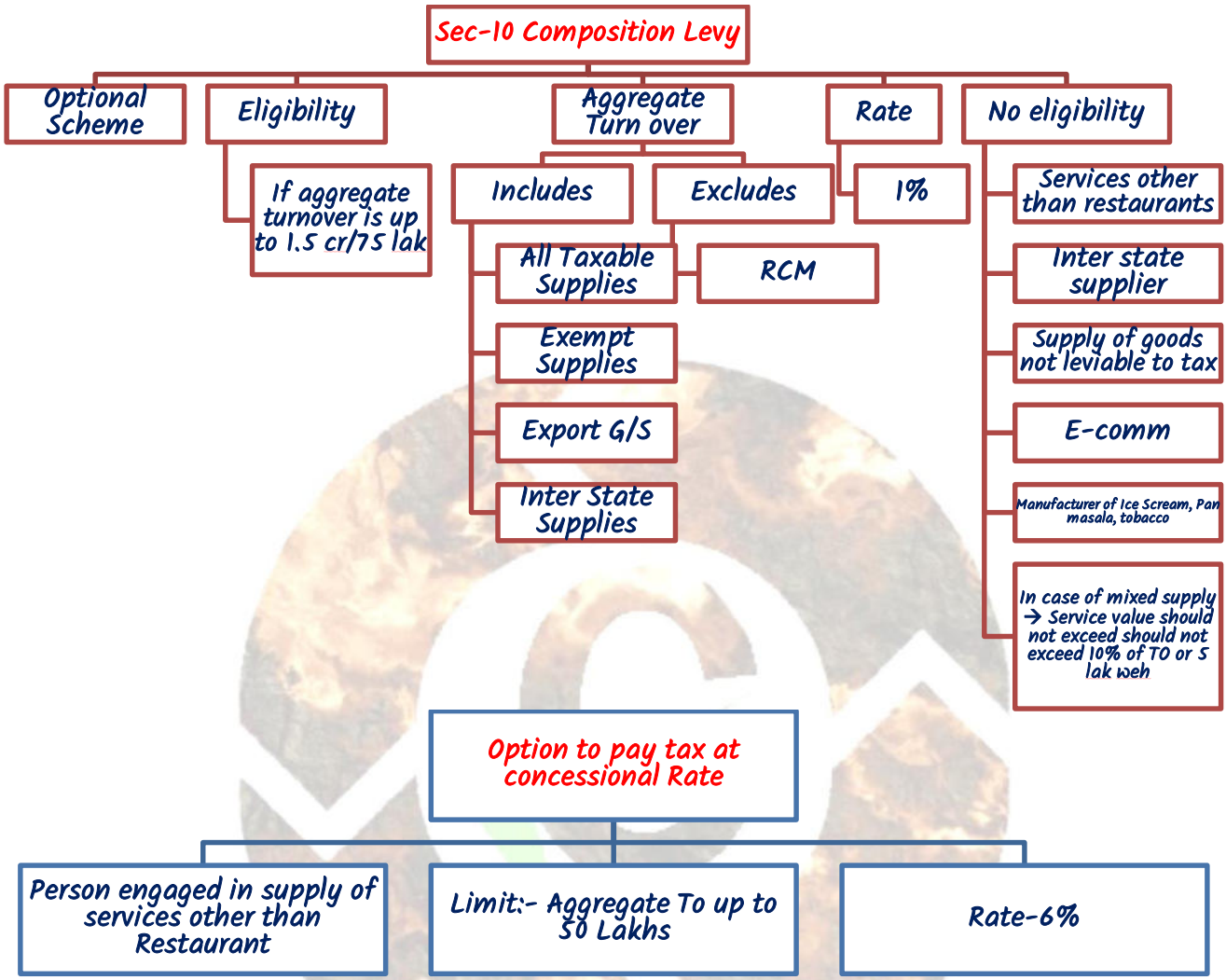

Sec-9(2)- Petrol, Natural Gas, ATF
GST on P, N, ATF shall be notified by Govt on recommendation of Council
Sec-9(3)- RCM
Recipient of Supply liable to pay GST
RCM on Certain G/S
RCM
Paid through ECL
Required to obtain Registration even limits not exceeded
Even composition suppliers being recipient shall have pay in normal rates
Payment voucher
Sec-9(4)-
RCM in case of G/S from unregistered supplier
It is applicable to Only notified class of registered persons
Sec-9(5)
E-Commerce
E-Comm/Representative/ Person appointed operator liable to pay tax on notified services
Notified Services
Transport of passengers
Accommodation in Hotels
House Keeping
Restaurant by E-comm



NOTIFIED SERVICES FOR RCM:

Category of Supply	Supplier	Recipient
GTA	All GTA other than CG/SG/UT; Local Authority, Govt Agency	Factory registered, Society registered, Co-operative society, Registered Person, Body Corporate, PF, Casual Taxable Person
Advocate Services	Advocate	Business Entity
Arbitral Tribunal Services	Arbitral Tribunal	Business Entity
Sponsorship Services	Any Person	Body Corporate
Services by CG, SG, LA other than Post dept, Life Insurance, Air craft, Vessel, Transport of Goods/ Passengers	CG, SG, UT, LA	Business Entity
Renting of Immovable properties by CG/ SG/ UT/LA	CG/SG/UT/LA	Any registered person
Transfer of Development rights	Any Person	Promoter
Long term lease	Any Person	Promoter
Services by Director	Director	Body Corporate

Category of Supply	Supplier	Recipient
Services by Insurance Agent	Insurance Agent	Person carrying Insurance business
Recovery services	Recovery Agent	Banking Company/FI/NBFC
Services by Music Composer, Photographer, Artist	Music Composer, Photographer, artist	Music Company, Producer
Services by Author(however author can choose to pay tax on FCM)	Author	Publisher
Services by the members of Overseeing Committee	Members of Overseeing Committee	RBI
Services by DSA	DSA	Banking Company
Services by Business Facilitator	Business Facilitator	Business Correspondent
Security services by any person other than BC, CG, SG, UT, LA	any person other than BC, CG, SG, UT, LA	Registered Person
Renting of Motor vehicle	Any person other than BC	Any BC
Lending of Securities	Lender	Borrower

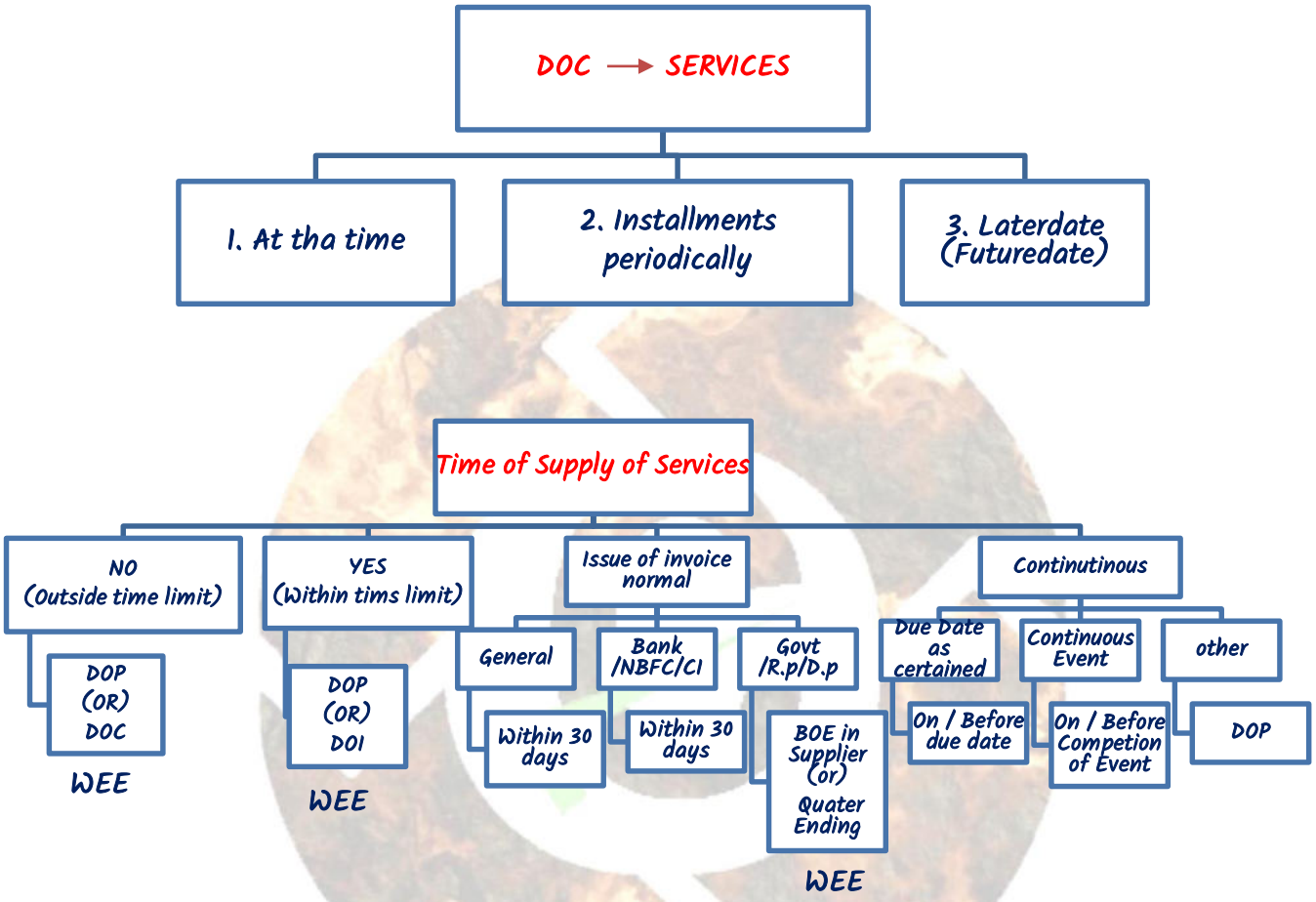


TARGET Academy

THE END

GOODS AND SERVICES TAX

TIME OF SUPPLY

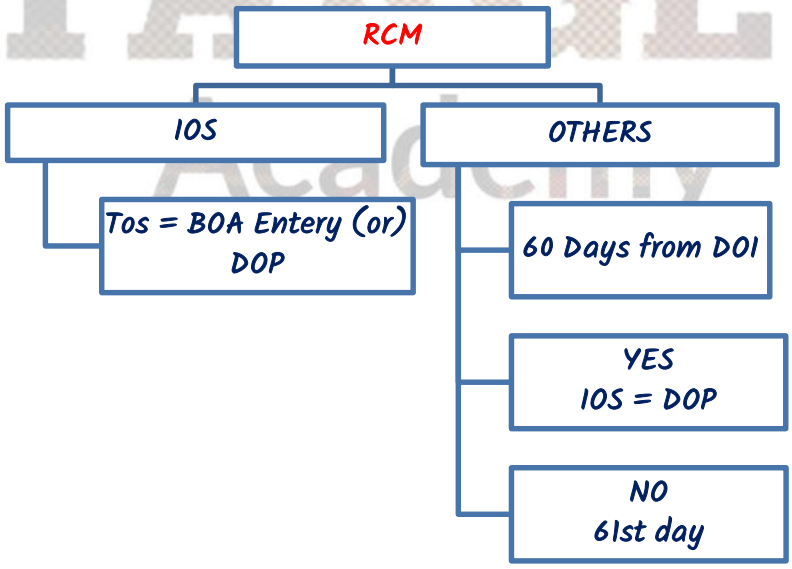


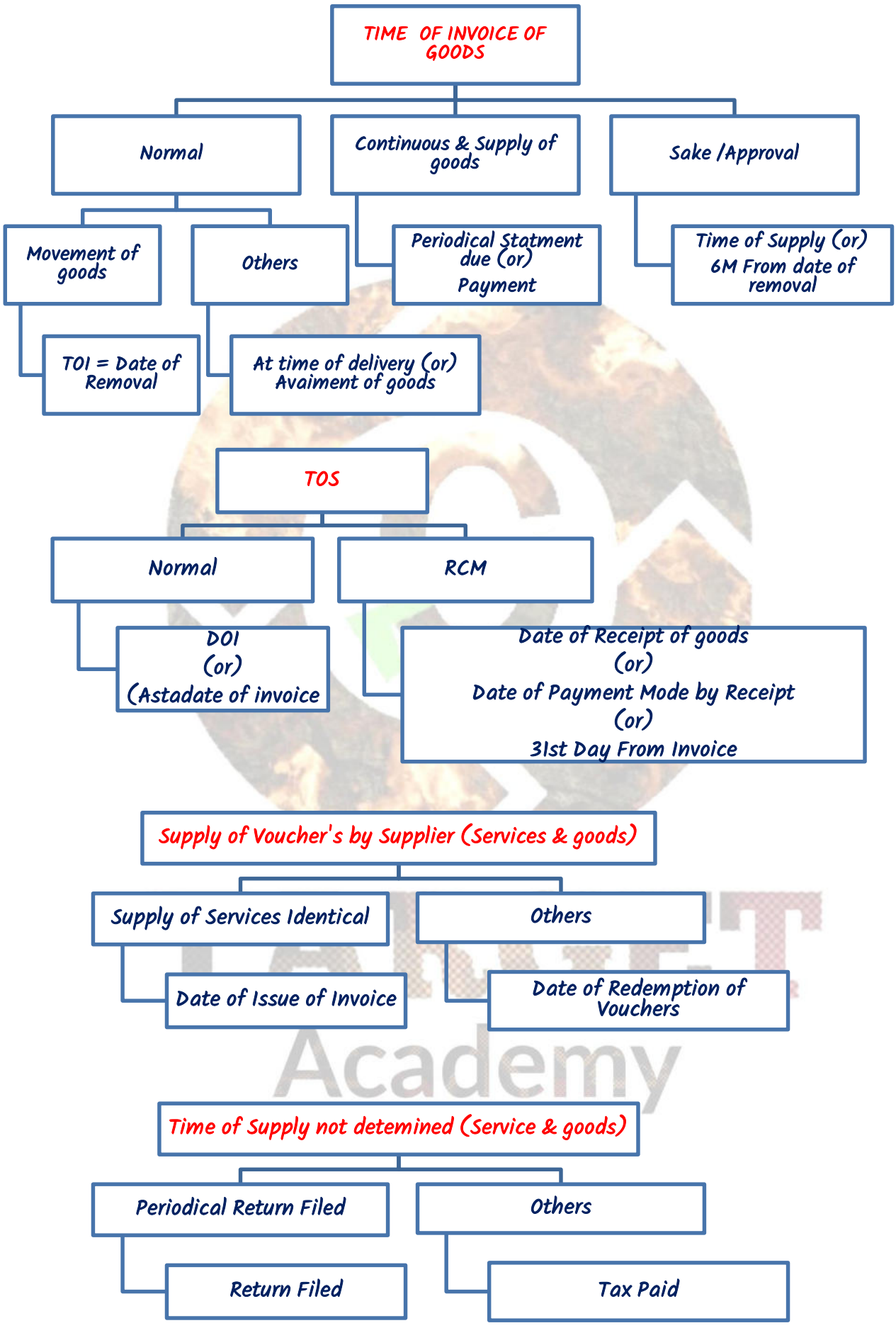
- DOP = Payment recorded in supplier books

  (or)

  Amount Credited in bank A/C

- Exception: Date in Recipient books of Accounts & R



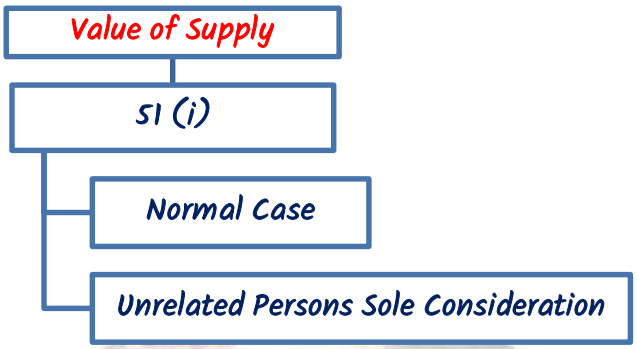

TIME OF INVOICE OF GOODS
Normal
Continuous & Supply of goods
Sake /Approval
Movement of goods
Others
Periodical Statment due (or) Payment
Time of Supply (or) 6M From date of removal
TOI = Date of Removal
At time of delivery (or) Avaiment of goods
TOS
Normal
RCM
DOI (or) (Astadate of invoice
Date of Receipt of goods (or) Date of Payment Mode by Receipt (or) 31st Day From Invoice
Supply of Voucher's by Supplier (Services & goods)
Supply of Services Identical
Others
Date of Issue of Invoice
Date of Redemption of Vouchers
Time of Supply not detemined (Service & goods)
Periodical Return Filed
Others
Return Filed
Tax Paid

- Any additions in value of supply (interest, penalties, delay in payments)
- TOS = Supplies receives addition in values.



TARGET Academy

VALUE OF SUPPLY



VOS = Transaction Value Includes IS (1)

i. T - Taxes (Total)

ii. O - Obligation of Supplier

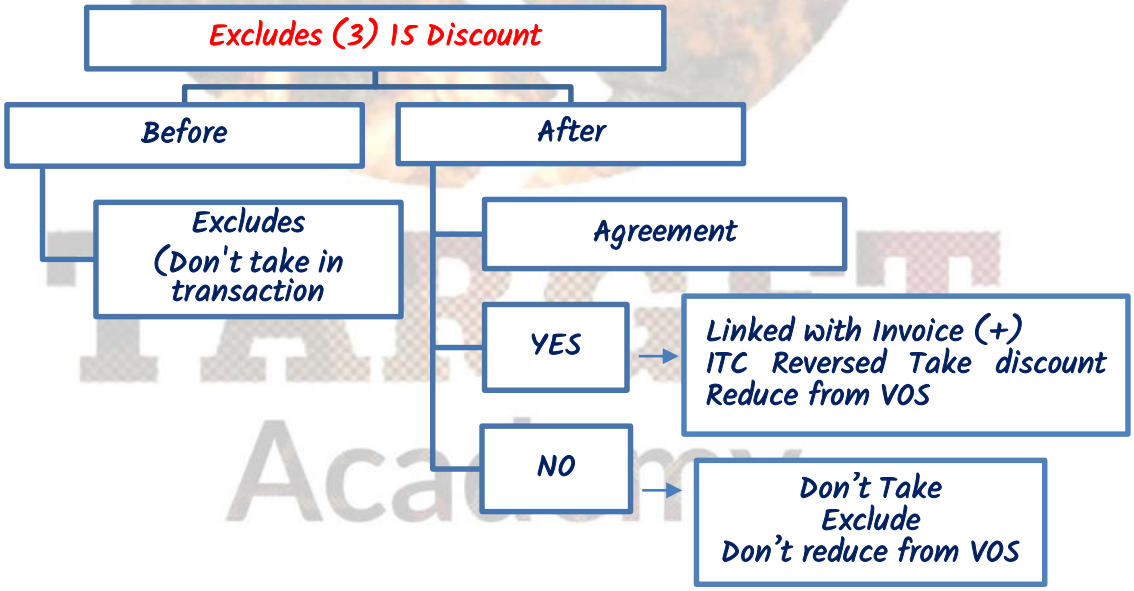
iii. P - Packing Charges

iv. I - Incidental Charges - Thanks port ins tallation

v. I - Interest, Penalty, late fees

vi. C - Commission

vii. S - Subsidies (Linked to Price not CG (or) SG)



Special Cases

If VOS not determined U/S IS (i)

Then apply valuation Rule 27-3

VR 27 - Money is not sole consideration

VOS - MV of supply AC Exchange with furniture
↓
No

Money + M.V of consideration
↓
No (M.V Consideration)
↓
Apply VR 30
↓
VOS = 110% of cost of aquisition

(or)

Cost of purchase
↓
No
↓
Apply VR 31

VOS = Residual Method (Best judgment)
↓
Reasonable

VR = 28

Supply between Related parts distinct part

VOS = Value of like kind & quality

VR = 29

Incase supply to agent

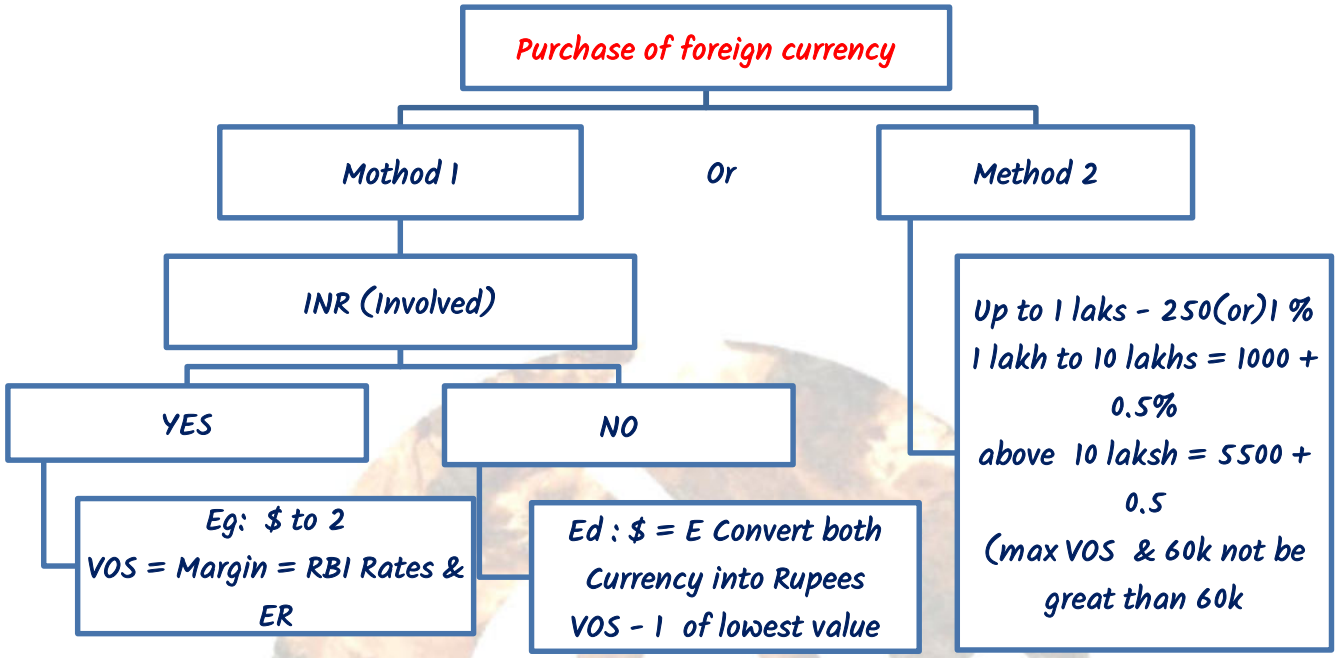
Mr. (No) = 90% of value of like kinds quality

VR = 31 A (Lottery, /Betting /Gammbling)

Lottery - VOS = Price Paid → Fare Value
Price Value ↑ Highest

Betting / gambling = Amount Paid

VR = 32 (1) = Option Valuation Methods



VR = 32 (3)

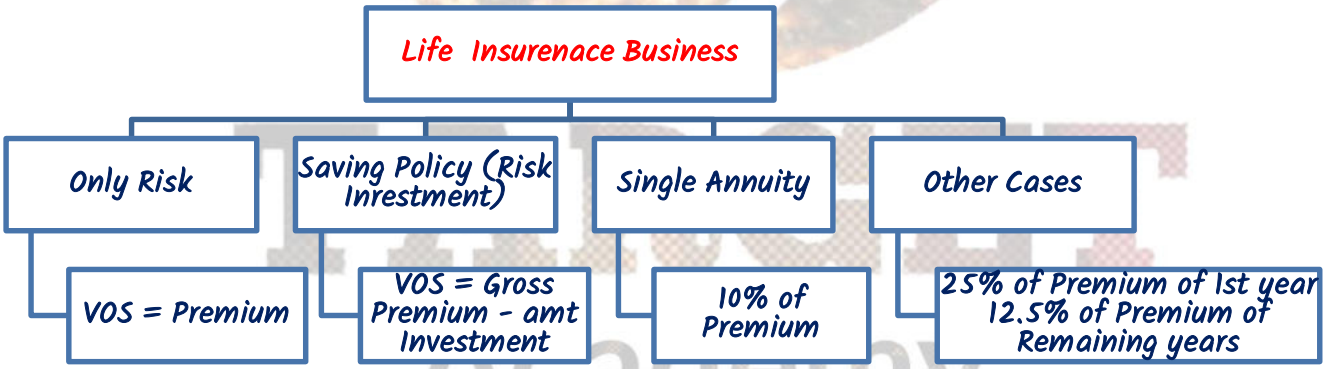
Air travel aent

Domestic = VOS = 5% on Basic Fare

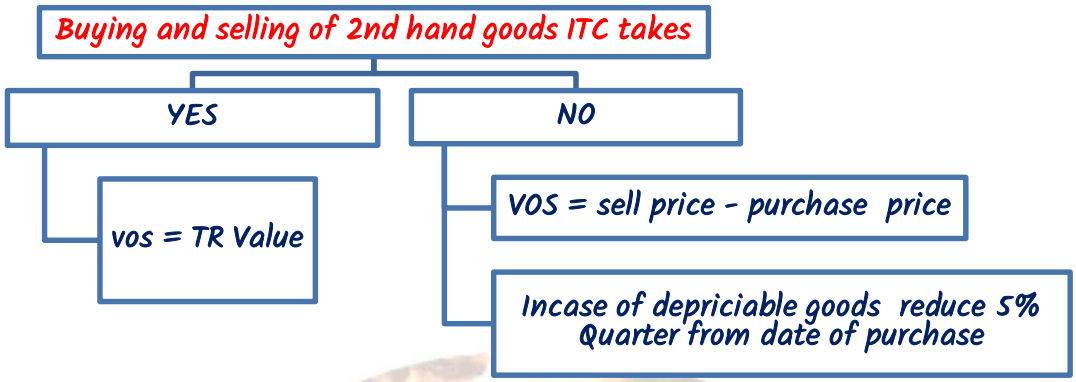
International = VOS = 10% on Basic Fare.

Basic fare = Amount on which airline pay commission.

VR = 32 (4)



VR = 32 (5)



VR = 32 (6)

Value of Taken / Voucher / Coupon

VOS = MV of Goods / Service Redeemed

VR = 32 (7)

Value of Supply to Distinct person

VOS = Amount Notified

VR = 33

Expenditure by Pure Agent

Reduce

VR = 34

Rate of Exchange for imports

Amount Notified by CBIC

VR = 35

Value of Supply in case of inclusive of GST

Exclude Value = Include Value x $\frac{100}{100+GST\ rate}$

PSF & UDF

Passengers Service Fees & Usess Development Fees

Collected by Airlines

↓ Paid to

Airport operator

Business Facilitator

- GST on Commission Charged

Stragged discount (Before)

- If included in invoice Exclude Ex: Meesho, Myntra.

Periodic Discount (After)

- Bill loan exclude
- Secondary Discount
- Do not exclude.

In case EMI

- Include interest, penalties, exception, agents.

DCA = VOS = Refer Previous Chapter

Works Contract

- Land + Building (goods) + Service (Service)

VOS = Amount - Land Value

Deemed / Default (1/3 of Amount)

THE END

INPUT TAX CREDIT

Goods / Service = Business / Good Services

ITC

Sec 16:

Eligibility and Conditions

Eligibility 16 (1):

Eligibility

(i) Registered Person

(ii) Goods (or) Service used for business purpose

Conditions (16 (2)

1. Document (invoice, bill, and should have details), those are mentioned below

   GST NO., G/S details, GST details

   B = Bill of entry

   I = ISD Invoice (input service deduction)

   R = Revise charge mechanism - self invoice

   D = Debit note

   S = Supplier invoice

   Details

   D = Description

   V = Value

   T = Tax (GST)

   G = GSTN

   P = Place of Supply

2. R = Goods & service received (ITC is not restricted

3. T = Tax paid

4. R = Return filed

Special Case

1. In Case of received in installments

   ITC - Allowed

Condition:-

Payment should be with in 180 days (from the issue of invoice)

↓ No

Reversal of ITC with interest @ 18% (from the date of cultivation)

↓

Exception: (i) RCM (Receipt pay chessthadu)

(ii) No consideration

(If paid offer 180 days, ITC reversal & can take subsequently)

Sec 16 (3)

If ITC taken - No Depreciation

If ITC Not taken - Depreciation

Sect 16 (4)

Maximum time limit of utilize ITC

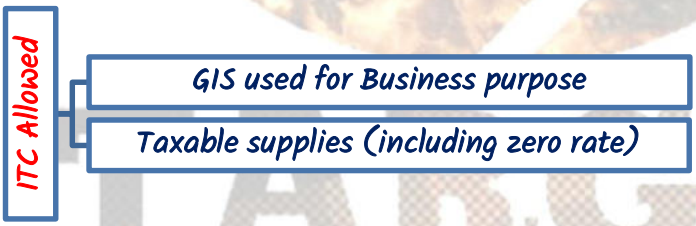
a) 30th Nov of Next year

(or) ↓ WEE

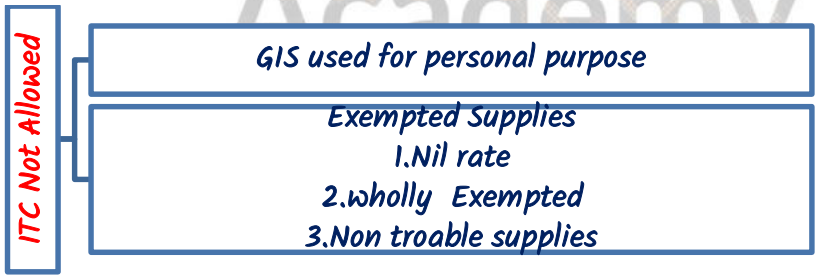
b) Actual date of furnish Annual return.

Sec 17 Apportionment & Block Credit

Sec 17 (1):



Sec 17 (2):



Sec 17 (3):

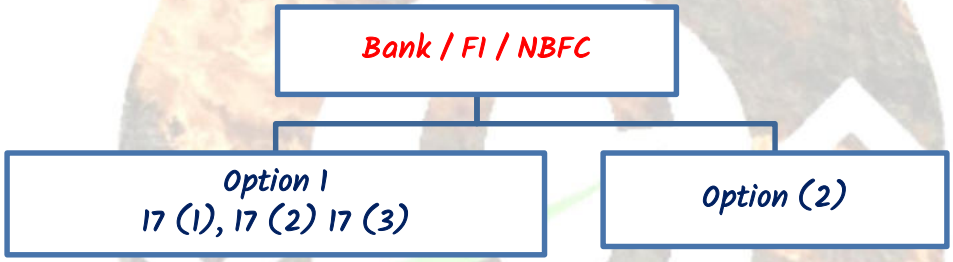
Exempted Supplies (Technical Exempted)

- Supply under RCM
- Transactions in securities - 1 % of sale values
- Supply of land & building

Not Exempted Supplies:

1. Interest / discount income (exception:- bank / Fi /NBFC)
2. VOS of services by way of transportation of goods by vessel for to outside India.
3. VOS duty credit script

Sec 17 (4):



Revess of ITC:

Input Goods - 50%

Input Services - 50%

Input Capital - 50% goods

D.p - 100%

Food Motor for vehicle employees

Block credit - No ITC

Personal purpose - no ITC

Sec 17 (5):

Block Credit

Vessel (or) Air croft

1. M - Motor Vehicle

   Transpiration of persons
   Approved capacity < 13 } Blocked

Exception:

ITC allowed:

F - Further Supply (oal, uber)

T - Transpiration of passenger

T - Training (Driving school)

ITC allowed:

F - Further Supply

T - Transportation passengers / crew ship / goods

T - Training (Driving school)

2. Service of General insurance servicing, repairing, for (motor, vessel, air craft)

Exception:

1. Manufacture of (motor, vessel (or) air craft)
2. Motor, vessel, aircraft used for specified purpose (FTT)
3. Person is supplying general insurance.

3.

i) Food & beverages,

ii) Outdoor Catering;

iii) Beauty treatment

iv) Leasing / renting / hiring of (M.VA) Except :- FTT

v) Health Services.

vi) Cosmetics, & Plastic, Surgery

vii) Life and health insurance

Exception:

1. Sub Contract
2. Composite / Mixed Supplies. ITC allowed

4. Club membership: Health & fitness

5. Trans benefits (If above (3,4,5,) facilities are obligation under any law – ITC allowed.

6. Works Contract:

Immovable	-	ITC not allowed
Part and machinery (immovable)	-	ITC allowed
Sub contract	-	ITC allowed

7. Goods & Service received by third policy (capitalized) for construction of own a/c (immovable) – ITC not allowed P & M (immovable) – ITC allowed.
8. Tax on composition scheme - No ITC
9. G/s Relieved by NRTP – No ITC (Exception : - imports – ITC allowed)
10. G/s used for personal consumption – No ITC.
11. G/s stolen, damaged, write off, thrift – No ITC.
12. Free Samples – No ITC.
13. Buy one get on – ITC allowed.
14. Tax paid on fraudulent manner – ITC not allowed

Pipe line

Within factors – ITC allowed outside factors – ITC not allowed

Telecom towers – ITC not allowed.

Sec 17 (6):

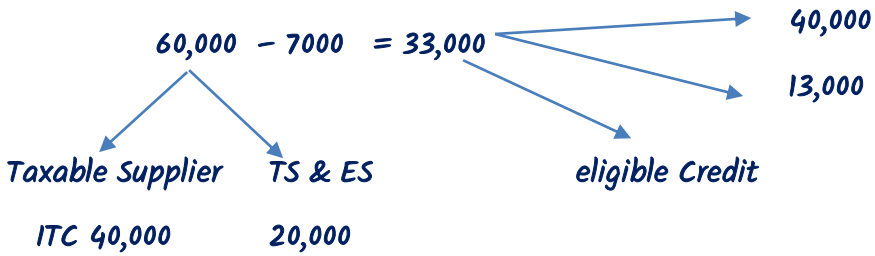
Apportionment:-

Rule – 42	ITC
Business Purpose	X
Personal Purpose	X
Block Credit	X
Restricted Credit	X
Taxable Supplier	X
Exempted Supplier	X
Taxable & Exempted	Rule -42 Supplier

Rule – 42

Ex:-

ITC (TI)	=	1,00,000, - E – Credit
(-) ITC (Perposon)	=	(10,000)
(-) ITC (Block)	=	(10,000)
(-) ITC (RC)	=	(10,000)
(-) ITC (Exempted Supplies)	=	(10,000)
ITC (cl)	=	60,000



D1 = Exempted Services = 20K x ET/ TT = 6000 (Reverse of ITC)

(OR)

D2 = Personal purpose = 20K x 5% = 1000 (Reverse of ITC)

= 13,000

Case – 1

D1 + D2 > D1 + D2
(Final) (Provisional)

↓

(Revisal of ITC)

↓

Add output tax liability along with interest @ 18%

Case –2

D1 + D2 < D1 + D2
(Final) (Provisional)

↓

Add to ITC

Rule – 43

Taxable Service & ES / PP - Appropriation

ES (Redub 5% per quarters) -TX & ES -ITC-Te = Tm X ET/ TI (Ex: panted turnover / Total turnover)

↓ T_M = ITC / 60 Months

Add to OTL

TS → E Supply → ITC reverse

$T_E = T_M$ X ET / TT

TS & ES T_M = ITC / 60M.

New Registrations:

a) **Liability to registration** – (within 30 days) ITC input goods - X

ITC on Capital goods - X

ITC on input goods – Date of liability stock preceding the date of liability

ITC on capital goods → X

b) Volar trey Registration

ITC on input goods → Stock Preceding date of Registration

ITC on C.G X

Sec 18:

Special Circumstances

Existing Registration

a) Composition -

Regular

ITC on inputs ITC on CG

On stock preceding the date of liability Reduce 5% per quarter

b) Exempted Supplier – Taxable Supplier.

ITC on inputs – on stock preceding the date of liability

ITC on CG - Reduce 5% per quarter (Rule – 40)

Sec 18 (2):

No ITC of Goods / Service if invoice is more than 1 year old.

Sec 18 (3):

In case of change in constitution (Amalgamation, Demerger, Merger)

ITC (Unutilized) transfer – Trans fore co – allowed.

↓

ITC 02 = File

Separate registration with in same state ITC – Transfer allowed.

↓

ITC 02A with 30 days file.

In case of demerge - Transfer I.T.C on proportionate basic (based on assess transport)

Sec 18 (4):

a) Normal Person Regular – Composition scheme

b) Taxable Supplies - Exempted Supplies

Revisal of ITC

ITC Input goods = Revisal

ITC on CG = ITC availed x Balance life in months/60

Sec 18 (5):

Rule – 40 – Reduce 5% per quarter

Sec 18 (6):

In case of Sale of CG Capital Goods

ITC – 5% PER quarter (or) GST Collected on Sale ↑ Reversal

THE END

REGISTRATION

REGISTRATION:

Sec – (22) Person Liable to Register:

Aggregate turnover	10lakhs (G/S)	20Lakhs (G/S)
M –	Manipur	Puducherry
M –	Mizoram	Uttarakhand
N –	Nagaland	Meghalaya
T –	Tripura	Arunachal Pradesh
		Sikkim
		Telangana

40Lakhs (goods) 20Lakhs (Services) / Goods services

Others → Exception

Interest/discount income

Aggregate turnover (ATO)

Includes			Excludes
T –	Taxable supplies		1) RCM
I –	Interstate supplies	Nil	2) GST
E –	Exempted supplies	wholly exempt	
E –	Export supplies	Non Taxable supply	

Exception to Registration U/S-22

1. Compulsory registration U/S-24
2. Voluntary registration
3. Suppliers of pan masala/ice creams/tobacco/fly ash/Bricks

Sec 22(2):- Persons register under existing law – Date 22/6/17

22(2) :- Transferring Business

Transferor → Transferee From date of transfer

↓

Registered

22(4) :- Business Recognisation → Liable from Date of incorporation

(ambulation , Demerger , merger)

Sec – (24) compulsory registration

1. inter state → Goods → exception → handicraft goods
   → Service → exception → Sec 23(2)
2. CTP(casual taxable person) → exception → handicraft goods
   → RCM(tax payable under eg:- director → services → RCM → company
3. NRTP (nonresidential taxable person)
4. person making tax supplies on behalf of taxable person (agent)

Sec – (23) Person not liable to register

1. Person engaged in wholly exempted supplies.
2. Agricultural list (either directly (or) indirectly) (including agricultural produce market committee agent
3. Notified category of persons

30th, 15th, 7th

Individual within 30 days

Procedure of registration:-

GST Reg 01 → Part A PAN, Name of Business, Mobile Nd, E – Mail id
GST Reg 01 → Part B Address, Name, Designation, Bank A/c Details

Apply within 30 days of liability (+) Aadhar Authentication, within 15 days from application

↓

Acknowledgement – GST Reg 02

Note: - CTP/ NRTP – Prior deposit of tax liability (6 days prior to commencement of business)

Verification:-

1. Application + AA (Registration verification within 7 days)
2. Application + AA (not required) - Registration certificate (within 7 days)
3. Application + AA (Not done) - Officer will physical verification of place of business. (Within 30 days & give reg certification)
4. Application x + AA – Officer will ask for clarification GST reg 03 (within 7 days)

(Satisfactory → Yes → within 7 days
→ No → Reject GST)

If registration certificate is not issued with in 7 / 30 days – Auto approval

.

Sec 25:-

Sec 25 (1):-

Apply within 30 days from date of liable to register (exception CPT/ NRTP)

Sec 25 (2):-

Persons having multiple place of business may grant separate GSTN.

Sec 25(3):-

Voluntary registration – All provisions will apply as regular taxable person.

Sec 25(4):-

Multiple registration in one state – D.p

Multiple registration in other state – D.P

Sec 25(6):-

6A - PAN Mandatory.

6B - Andhra Authentication

6c - Authorized signatory

6D - AA is not required

↓

N - NR

D - Dept. office G/SG

L - Public Sector

P - Public sector - Vizag Street

S - Stations body - Icai, icamia

U - Unique identification number holder - NR / foreign embassies

Sec 25(7):-

NRTP - 5 days prior - Advance tax payment - UIN / Passport

Sec 25(8):-

Sumoto registration (power with offices)

Sec 25(9):-

Foreign embassy – UIN for refund of GST

Respiration certificate – Display at prominent place.

GSTN – Display on name board.

Sec 26:-

If taxable person is register under SGST Act, than, he is deemed to register CGST Act, IGST, Act,

Sec 27:- Special rpovisions for CTP/ NRTP

- Apply 5 days prior to the commitment of business
- Pay net tax liability in advance
- Registration only for 90 days / may extend for other 90 days)

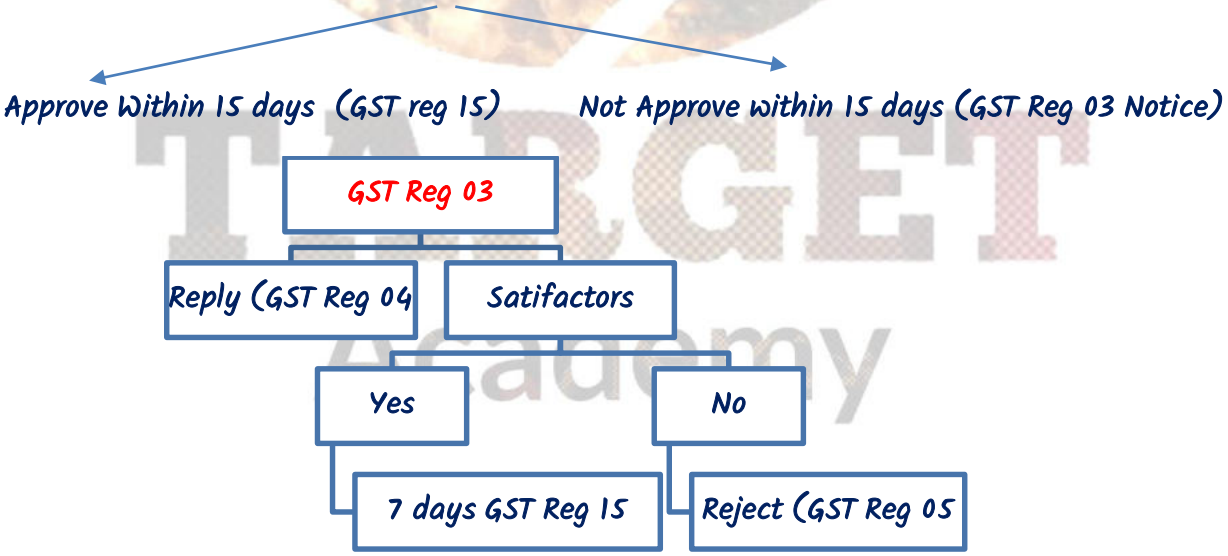
  No extension beyond 180 days

  Need to the normal registration.

Sec 28:- Amendment of registration

Core fields	Non-Core fields	other change in constitution
Legal name	Apply GST reg 14.	Change in PAN
Address		
Addition / deletion of partner/ Katha / CEO		

Change within 15 days in GST reg 14 - verification by office.



Sec 29:-

Cancellation

Sec 29(1):-

Suomoyo by officer

(or)

By application by RP / legal heirs

When

- Business discount
- Transferred
- Change in Constitution
- Transfer is no longer liable.

Sec 29(2) :- (Officer may cancel registration)

1. Contravention of any provision

   No place of business

   Issuing invoice/ Bill (fake)



2. Not furnishing Returns

   Monthly – 6 y
   Quantity – 2q
   Composition Dealer
   1 year 3 months from due date

   Registration conciliation

3. Voluntary Registration – Business not commenced within 6 months
4. Registration obtained by fake documents (Liability will not arise)
5. Suspension of recitation Application :- From the date of application mismatch

   GSTR 1 (sales details) & GSTR 3B – Automatic suspension

   ↓

   No returns, No tax invoice.

   In case of registration revised - issued revised invoice

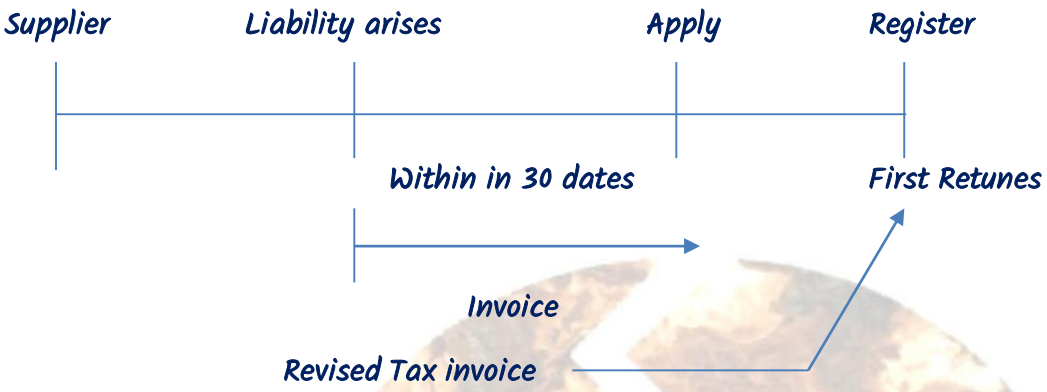
   New Registration

   Liable date (30 days) – Apply Transaction – 7 days registered certifications

   Tax revised

RETURNS

Returns:-



1. GST R-1 - 11th of next month

   Sec .37 - Outward Supplies

2. GSTR – 3B - 20th of next month

   Sec. – 39

3. Annual Return

4. Final Return

GST R-1:

- Giving details of outward supplies
- Due date:- 11th of next month
- Required to all register persons (including taxa payable)

  Except:- NRTP, composition, TDS, / TCS; OIDAR.
- Link to GSTR 2B of Recipient (ITC)

GSTR – 3B

- Tax payment after adjusting ITC to output tax liability.
- Due date:- 20th of next month

  GSTRI; GSTR 3B – Monthly Retunes

  Exceptions:- Option to adopt quarterly Returns

QR MP SCHEME:-

- Quarterly Retunes & Monthly payment scheme.
- Introduced in Jan – 2021

- Aggregate turnover ≤ 5 cr_(Previous year)
- Returns – Quarterly
- Tax payment – monthly (25th of next month)

Option -I			Option - II			Option - III		
Q1								
M1	M2	M3	M1	M2	M3	M1	M2	M3
35%	35%	Balance	100%	100%	Balance	Actual	Actual	Actual

- IFF (Invoice furnishing facility) – 13th of next month.

HOW TO OUTPUT

2 Months period & 1 Months of that quarter

Retunes:-

GSTR – 1 – 13th of next month ending quarter.

GSTR – 3B - 22/24 of next month ending quarter.

Apr	May	Apr	May
GSTR1	GSRT1 (Blocked)	GSTR 1 X	GSTR1 (Blocked)
GSTR3B X	GSTR3B (Blocked)	GSTR 3B (Blocked)	GSTR 3B (Blocked

- If GSTR -3B not file there GSTR1 of next month is blocked.
- If GSTR 3B is not filed in QRMP schemes then IFF & GSTR blocked

Annual Return:-

GSTR 9 (Regular) / GSTR 9A (Composition scheme)

- If Aggregate turnover > 2cr
- File reconciliation statement (ATO > 5 CR)

Final Return (GSTR TO):-

- When registration is cancelled

Nil Return:-

- Even if there are no transaction, it is necessary to file nil return.

Returns in composition scheme:-

GSTR 08 - 8th of next month ending quarter.

GSTR 4 - 30th April

GSTR 9A - Annual Return – 31st Dec.

Returns in case of NRTP:-

GSTR 5 - 13th of next month in case of expiry of register – 13th of next month

(or)

7 Days from expiry of registration

Late fees and interest:-

Late fee - If Return file - Late

Interest - If tax paid - Late

Late Fees:-

Monthly Return - Rs.100 per day /Max . 5000

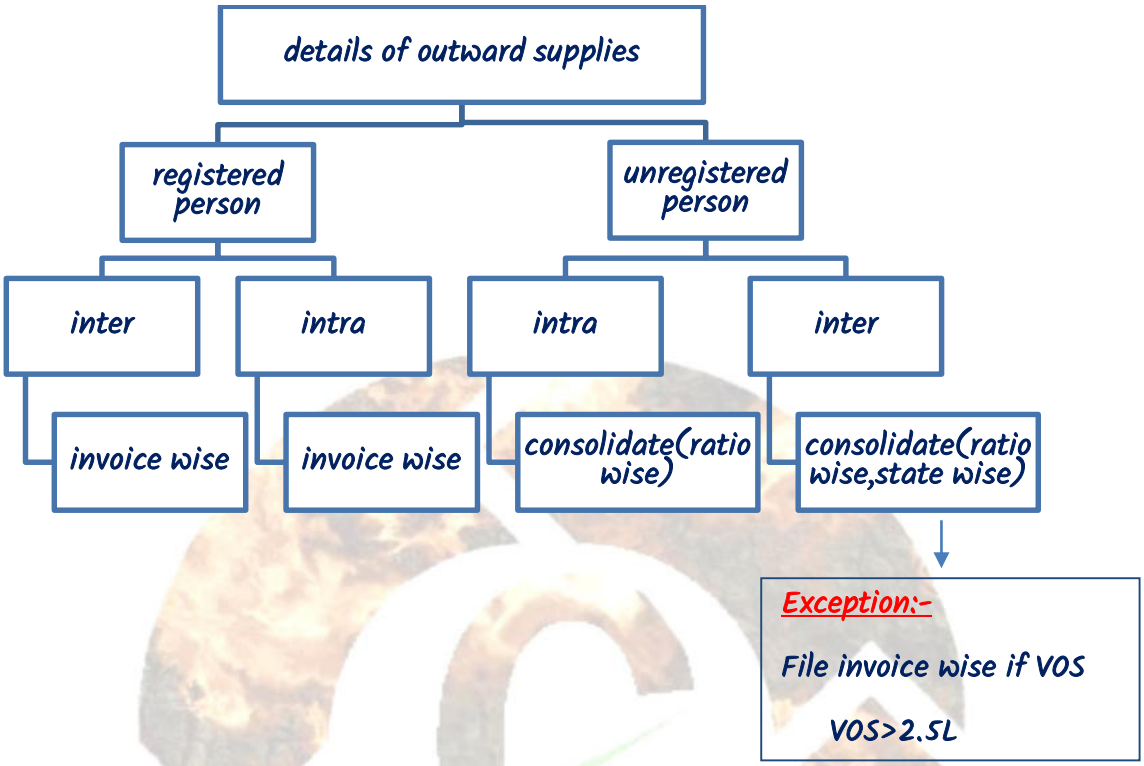
Annual Return - Rs.100 per day / Max. 0.25% of turnover. states

Exception	Late fee
Incase Nil Return others	Rs.10 PD / Max. 500
Others	Rs.25 PD / Max. 500

Waiver of maximum limit:-

	GSTR 1	GSTR 3
	per days	Max
Normal tax payer (nil Return)	10	250
Normal taxpayer (other than nil return &	25	1000
Aggregate turnover < 1.5 cr	100	2500
NTP (other than NP) & ATO 1.5 cr – 5 cr		
NTP (other than NR) & ATO > 5 cr	100	5000
Composition (Nil/ other return)	10/25	250/100
NRTP	10/25	50/10

GSTR – 1



GST R – 1 Can't file before expires months.

Exceptions: - CTP

Revisions of Returns:-

Not allowed (Revision is not allowed)

But (an amendment table (in next month return)

Maximum time limit:-30th Nov

(or)

Date of Annual Return

wee

GST Practitioners:-

- Eligibility
- Functions

THE END

TAX PAYMENT

1) Electronical liability ledger

2) Electronical credit ledger

3) Electronical cash ledger

1. E - LIABILITY LEDGER

DR

- Self-assessed tax
- Demand notice
- Interest, penalty, late fees, others

CR

- E-Credit ledger
- E-Cash ledger

2. ELECTRONICAL CREDIT LEDGER

CR

- ITC(self-assessed)

DR

- E-liability ledger(transfer to e-liability ledger)

3. ELECTRONICAL CASH LEDGER

CR

- Deposit offends

DR

- E-liability ledger

1) ELECTRONICAL LIABILITY LEDGER

DEBIT

- Self-assessed tax
- Demand notice
- Interest, penalty, late fee, others

CREDIT

- E-Credit ledger
- E-Cash ledger

NOTE: TDS, TCS, RCM, I, P, L, O, Composition tax always uses "e-cash ledger".

Manner of discharges

I. Self-assessed tax and due of previous tax period.
II. Self-assessed tax and due of current tax period.
III. Any demand notice.

2) E-CREDIT LEDGER

CREDIT

- ITC(self-assessed)

DEBIT

- E-liability(amount used for making payment of self-assessed tax)

Can't use to pay I, P, L, O

MANNER OF UTIILISATION

NOTE: CGST credit can't utilised for SGST/U TGST(vice versa)

SGST/UTGST credit can't utilised for CGST

ITC	OUTPUT TAX		
IGST	IGST (IGST I)	CGST (CGSTI)	SGST (SGST I)
CGST	(CGST 2)	(IGST 2)	(IGST 2)
SGST	(SGST2)		

Conditions to utilise amount in e-credit ledger

I) Fraudulent/eligible-not allowed(block ITC)

Reasons for blocking ITC

I. ITC based on not existing supplies
II. ITC without receipt of goods and services.
III. ITC with respect to no documents and tax not paid.
IV. Receipt not exit

Restrictions on use of amount in e-credit ledger

- Can't use to pay I, P, L, O, RCM, CST, TDS, TCS.
- Can use only up to 99% of OTL.

Exceptions:

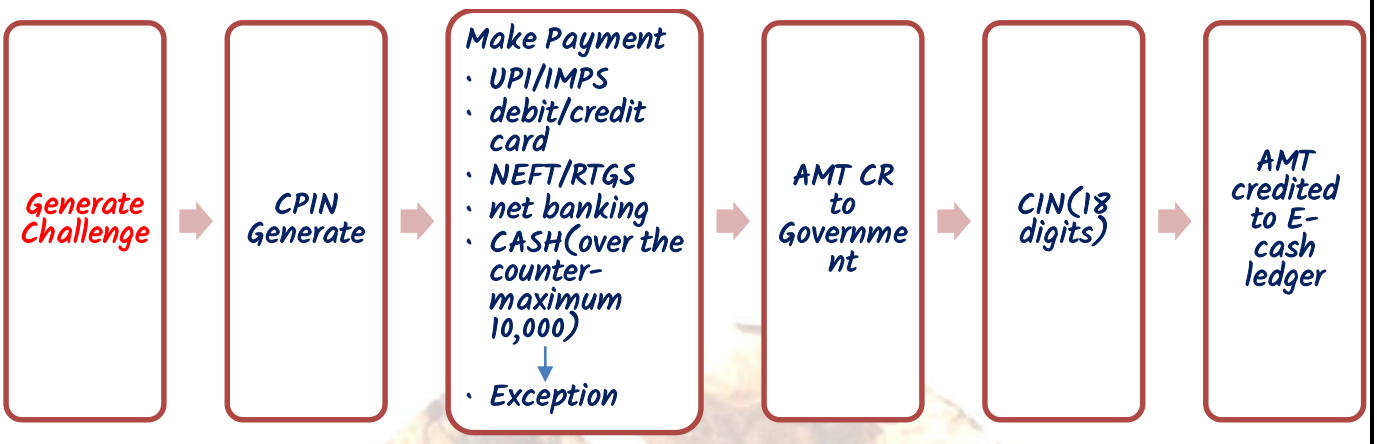
1. Government department statutory bodies, public, local sector authorities
2. Partner/kartha/CEO/member/person paid income > Ilakh in previous refund of I-T> I lakhs in I AY/FY
3. Already paid I%through e-cash ledger.

3. E-CASH LEDGER

Credit

Deposit of funds

How to deposit funds in E-Cash ledger



Debit

Used to pay OTL, I, P, I, O

	tax	Interest	Penalty	Late fee	Others
IGST					
CGST					
SGST					
UTGST					
CESS					

(Can transfer amount to IGST, CGST, SGST/UTGST (OR) vice versa) amendment

(Can transfer dp also)

Inters:
Interest @18%

Wrong utilisation of ITC

ITC	RETURN	INTERES @ 18%
SUPPLIES OF SAME PERIOD	Shown in return of same period	From date of utilisation on net tax liability
Supplies of previous period	Shown in next period shown	From the date of utilisation on gross tax liability
Supplies of period	Not shown	From the date of utilisation gross tax liability

Eg:

OTL 10 lakhs
(-) ITC 2 lakhs = 8lakhs

1 lakh wrong use 1 lakh comment use

On net liability 9L

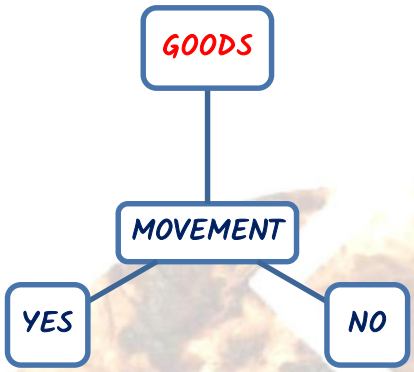
10L
(-) 5L=5L (wrong utilisation)

Tax invoice, credit note, debit note, E-Way bill

Sec 31, 32, 33, 34

Tax invoice

Sec 31(1):

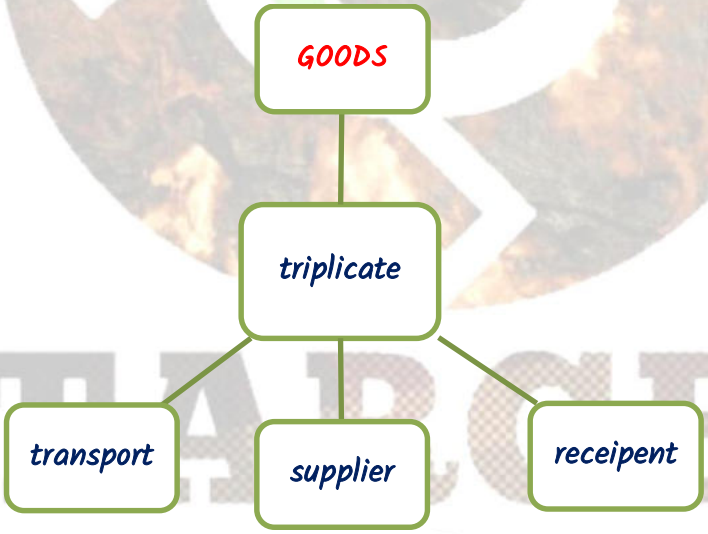


TIME: Data of removal data of delivering

Showing:

Description, quantity, value, time of supply, others.

Tax in voice:

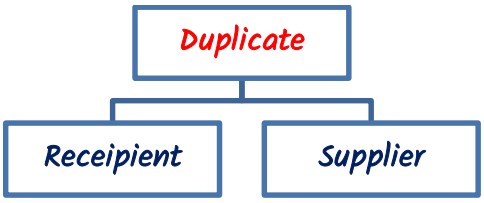


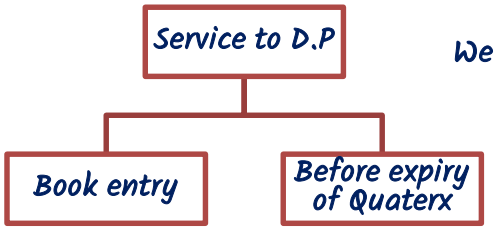
Section: 31(2)
Service:

Time before/after provision of service

Normal ➡ 30 days

B/FI/NBFC ➡ 45 days





Section31 (3):

a) Revised Tax Invoice ⟶ liability date ⟷ registration date

Revised tax invoice
(Within in 1 month)

b) No tax invoice

B to C ⟹ VOS<200

↓

(Unregistered)

c) VOS<200

Exception: Multiplex (compulsory tax invoice)

d) Advance ⟹ Receipt voucher

e) Refund ⟹ If not supplies ⟹ refund voucher

f) RCM ⟹ Self invoice

g) RCM ⟹ Payment voucher

Section 31 (4): Continuous supply of goods

Statement
(or)
DOP
↓
Wee

Section 31 (5): Continuous supply of services

Due date ⟹ on/before due date

Completion of event ⟹ on/Before completion of event

Other ⟹ Date of Payment

Section 31(6): When supply ceases

Time ⟹ Date of cessations

Section 31(7): Goods on sale or approval

TOS
or
OM
↓
WEE

Section 32 Prohibition of unauthorised collection of tax.

Section 33 Show tax amount separately

Section 34 Credit note

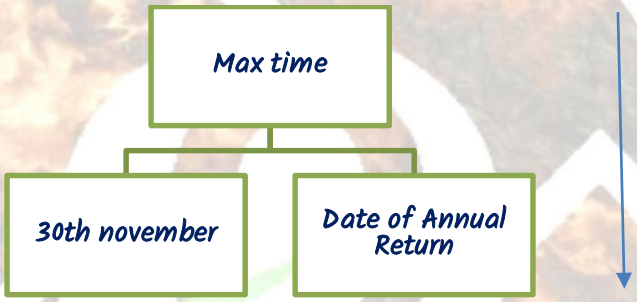
a) Discount

b) Taxable value/ Tax charged in less.

c) Good supplied returned

d) G/s supplied defective

Section 34(2): Re all CN in return



Section 34(3): Debit note:

- Taxable value/ tax charged less

Section 34(4):

No time limit to dealer Debit note in return.

E-Invoice:

If aggregates turnover > 10 CR

For B2B/Export ; B2C → Optional

Exception:

- Govt. department, SB, LA, PS, SEZ, Bank/FI/NBFC
- Goods Transport Agent
- Passenger transport

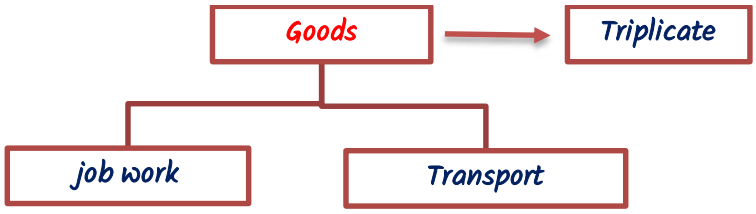
Dynamic Bar Code:

Register person, A to > 500CR

B2C
Not applicable → B/FI/NBFC

GTA, A, P, T, MULTIPEX, OI DAR

Delivery challan:

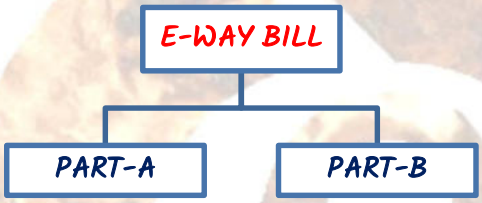


E-Way Bill:

Who: supplier, Consignor (Tracking the movement of goods), transport.

Where: Site: www.gst.gov.in

How:



When:

value>50,000
inter state

VOS+Tax(include expected supplies)

Validity: MMT (ship); OLD → 2 km (OR) 1 day
Other → 200 Km (or) 1 day

Documents: In-voice

E-way bill (with bar code scan)

Verify: officers will verify

TARGET Academy

EXEMPTIONS

II) See

Services

I. Charitable services
II. Government related services
III. Transport services
IV. Admission(Entry ticket)
V. Agricultural
VI. Health care services
VII. Legal services(court)
VIII. Education and skills(up to degree)
IX. Insurance
X. Other

TARGET Academy

LEVY AND COLLECTION OF TAX

Compositions supply

Section 8 of CGST act

a. Composite supply is when two (or) more goods are sold in a combination, it becomes difficult to identify the rate of tax to be levied.
b. Composite supply in similar to the concept of bundled service as under service tax laws in the existing regime.
c. Composite supply in naturally bundled i.e. goods (or) services are usually provided together in normal course of business and cannot be separated.
d. Composite supply consists of two (or) more goods/services, which is naturally supplied with each in the ordinary course of business and one of them is a principal supply.
e. Principal supply means the supply of goods (or) services, which constitute the predominant element of a composite supply and to which another supply is Sunday.

Conditions:

- Supply of two (or) more goods (or) services together.
- It should be a natural bundle and they cannot be separated.

Works contract:

Section 2(119) of CGST Act

Defines "works contract" means a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alternation (or) commissioning of any immovable property where in transfer of property in goods is involved in the execution of such contract.

Exemption:

As per section 17(5) of CGST ACT, 2017

Input tax credit shall not allowed on works contract services when supplied for construction of an immovable property expect where it is an input service for further supply of works contract service.

Exempted:

1.

Services provided by ⇨ private school bus operator ⇨ To the school transportation of students

A. Exempted:

Supply of services as per entry no.66 of notification no.12/2017 central tax (rate) dated 28-06-2017

2.

M.S. Geethanjali ⇨ a classical dancer ⇨ 1,00,000 receives for a stage programme

A. Exempted:

Since the amt received is not more than 21.50 lakh as, per entry no. 78 of notification no. 12/2017 central tax (rate) dated 28-06-2071 the given service is exempt from tax.

3.

Mardas music academy ⇨ Charged 500 per ticket ⇨ For a music concert

A. Exempted:

As per entry no.81 of notification no.12/2007 central tax(rate) dated 28.06.2017 as mended on 25-01-2018 services by way of right to admission to musical performance, inter-alia is up to $500 per person.

NOT EXEMPTED

1.

Campus interview contected by M\S Sona college of engineering ⇨ Mumbia ⇨ collecting entery fee from the corparate house

A. Not exempted:

Not in the nature of exempted education services as provided in entry no.66 of notification no. 12/2017-central tax(rate) dated 28-06-2017, hence it is taxable.

2.

Madras music Academy ⇨ Charged 21,000 per ticket ⇨ for amusic concert

A. Non-exempted:

As per entry no.81 of notification no.12/2017 control tax(rate) dated 28-06-2017 as amended on 25-01-202-18 services by way of right to admission to musical performance, inter-alia is exempt up ₹500 per person. But it charged ₹100 per person so, it is taxable.

Which are the commodities proposed to be kept outside the review of GST?

2018 JUNE

Calculation of value of taxable supply and GST payable by Mr.UAS for October 2021

Particulars	Amount
Classical dance(Exempt up to 1,50,000)	Nil
Television serial	2,80,000
Brand ambassador	12,00,000
	Nil
Sculpture making	3,10,000
Western dance	90,000
Value of taxable supply of service	18,80,000
GST payable @ 18%	3, 38,400

2018 June 4

Computation of aggregate turnover

Estimate supplies	₹
Intra state taxable goods	14,00,000
Intra state Exempt services	4,00,000
Export sales	3,20,000
Supplies made as agent of principal	2,40,000
Aggregate turnover	23,60,000

Since the aggregate to exceed ₹ 20 lakhs, Mrs.lakshmi has to get her registered.

Computation of taxable supplies and GST

Estimate supplies	Amount
Intra state taxable goods	14,00,000
Intra state exempt services	Nil
Export sales	Nil
Supplies made as agent of a principal	Nil
Aggregate taxable supplies	
Estimated GST payable	14,00,00
SGST at 9%	1,26,000
CGST at 9%	1,26,000

2018

Dec 4

particulars	amount
Room rent	550
Furniture rent	450
Air- conditioner rent	150
Refrigerator rent	50
Declare tariff	1,150

Liable to pay GST @ 12%	
Taxable services	
20×31 days×900	5,58,00
35 ×15 days × 900	4,72,500
total	10,30,000

Statement showing GST liability of alisha

particulars	Value in ₹
Taxable supply of services	10,30,500
GST Liability	
CGST	61,830
SGST	61,830
(-)ITC	7,500

Total tax	CGST	SGST
	58,080	58,080

2018 DEC 5

particulars	Value in ₹
Value of charged for supply of G/s	35,00
(+)SGST @ 9%	3,150
(+) CGST @ 9%	3,150
(a) Total price charged by Mr.M	41,300

(b)Mr.M is liable to pay tax

Particulars	CGST	SGST
Output tax	3150	3150
(-)ITC	3150	450
Net tax liability	0	2700

Note

23,600

$23,600 \times \frac{18}{118} = 3,600$

2019 June 2

Computation of value of exempt and taxable supplies

s.no	Particulars	Event value	Taxable value	Remarks
1	Sale of rice	18		Notification no.28/2017 CTCPS date 22-9-17
2	Sale of branded rice		5	Notification no.27/2017 CTCPS date 22-9-17

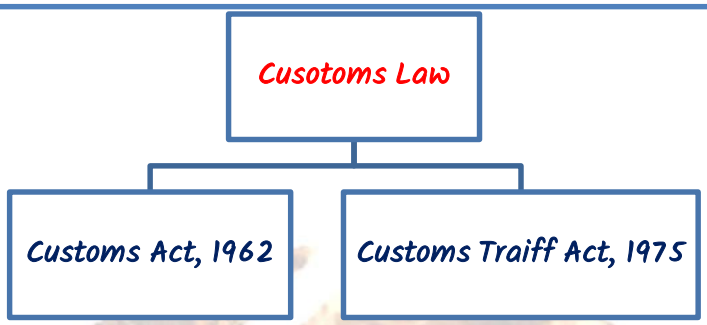
3	Commission received(unbranded rice)		2.50	Rice is not an agricultural produce
4	Commission received(branded rice)		1.00	Rice is not an agricultural procedure
5	Cr(to)	5		Raw to leaves in an agricultural
6	Sale of eggs	25		
7	Sale of dried coconut	5		
8	Sale of desolated coconut		3.00	
	total	53	11.50	



THE END

CUSTOMS

CUSTOMS LAW



Some Important Terms in Customs Act 1962:

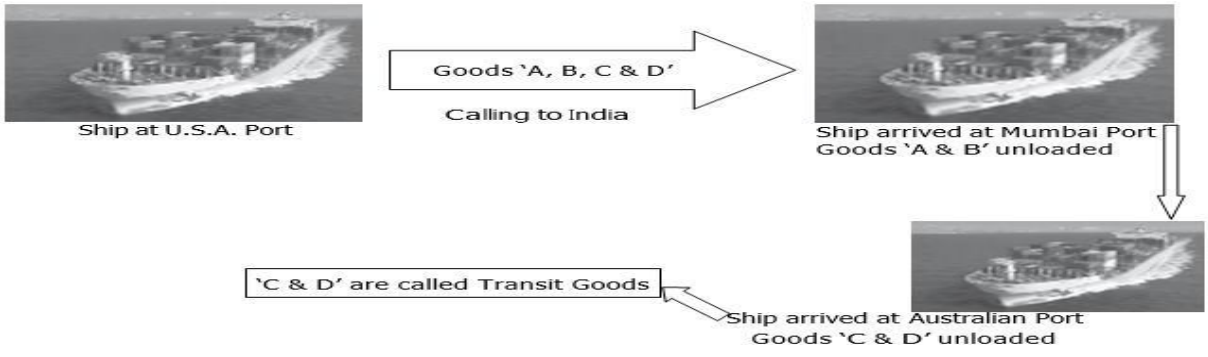
1. Cost goods



2. Cost goods

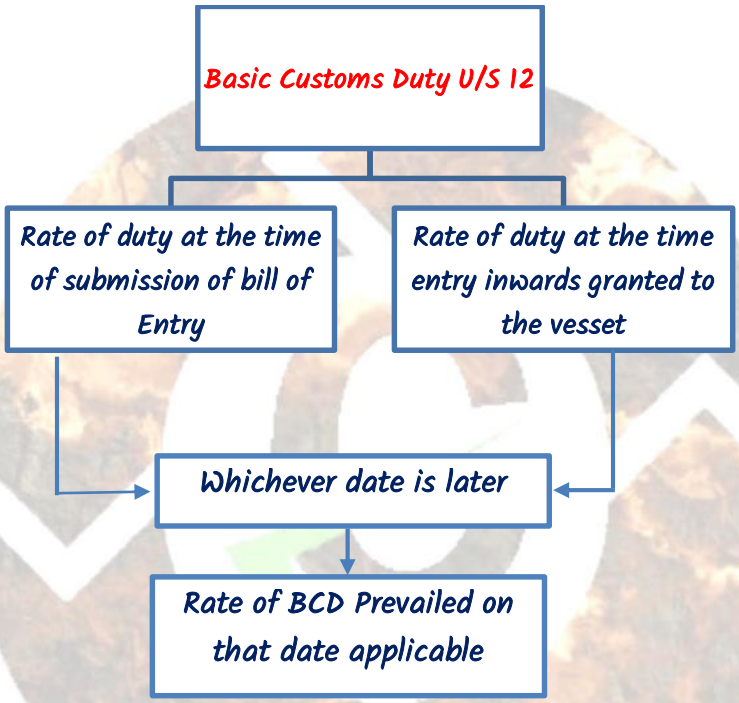


3. Goods
4. Import Report/ Import General Manifest
5. India
6. Tran risk & Transshipment of Goods

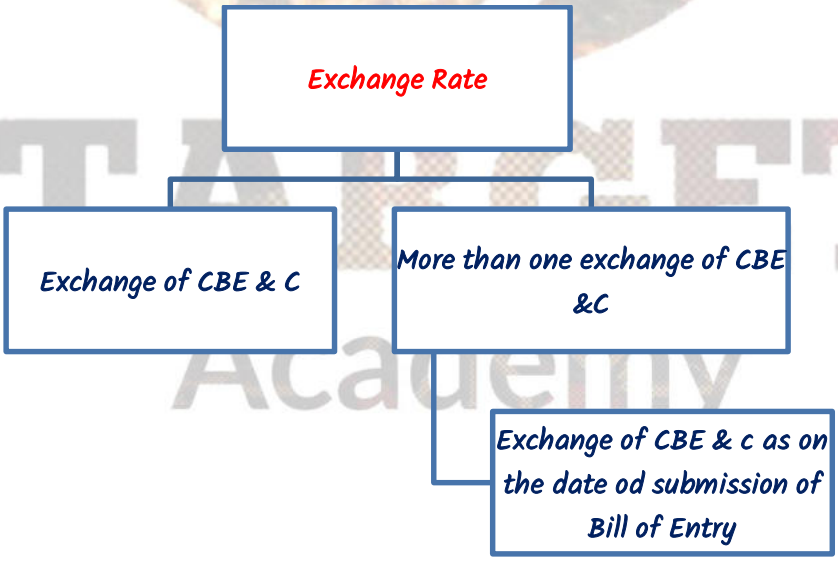


7. Stores
8. High seas
9. E – E – 2 (INM = 1.853 kms)
10. Determination of Tax rate of Currency rate

Basic Customs Duty (BCD) on imported goods



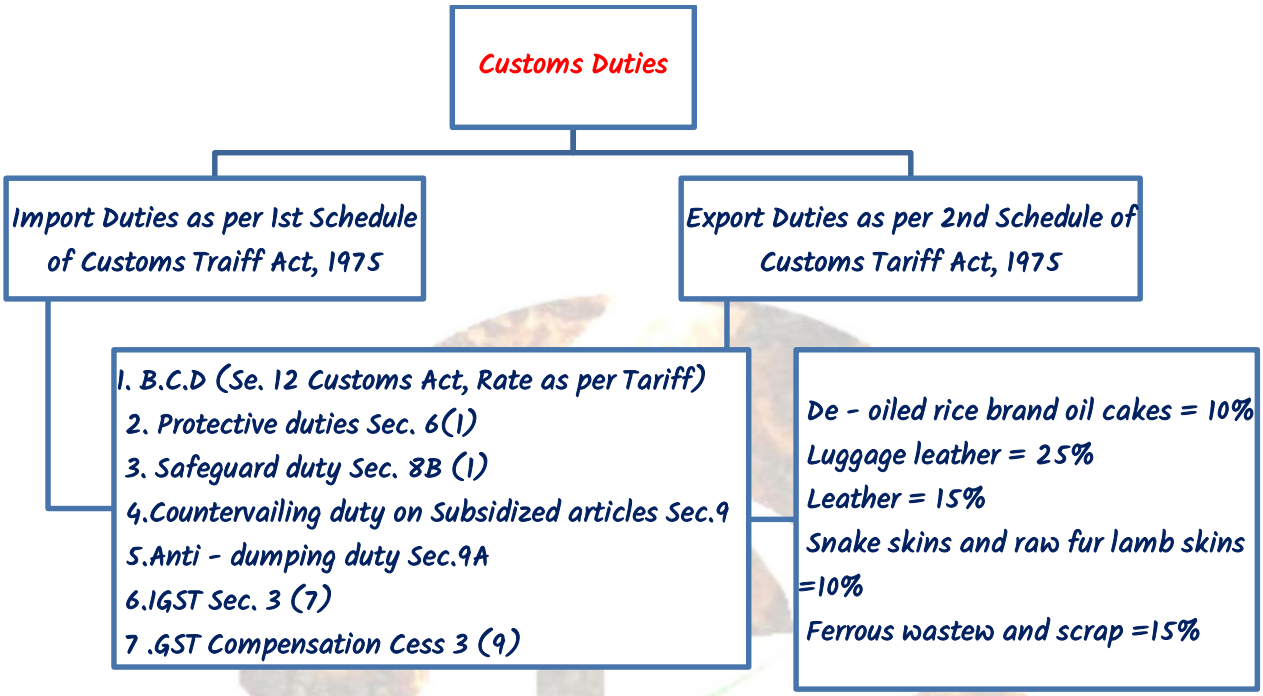
Exchange rate for imported goods



11. Derelict, Jetsam, Flotsam, Wreck

THE END

TYPES OF DUTIES



Example: 5

Determine the safeguard duty payable by X Ltd., Y Ltd., Z Ltd. and A Ltd. under section 8B of the Customs TariffAct, 1975 from the following:

Import of Sodium Nitrite from developing and developed countries from 26th February, 2015 to 25th February, 2016 (both days inclusive) are as follows:

Importer	Country of Import	Rs.in Crores
X Ltd.	Developing Country	70
Y Ltd.	Developing Country	72
Z Ltd.	Developing Country	52
A Ltd.	Developing Country	50
Others	Developed Country	2,256
	Total	2,500

Note: Safeguard duty 30%.

Example: 5

A commodity is imported into India from a country covered by a notification issued by the Central

Government under section 9A of the Customs Tariff Act, 1975. Following particulars are made available:

CIF value of the consignment: US$25,000

Quantity imported: 500 kgs.

Exchange rate applicable: Rs.60=US$1Basic customs duty: 12%

Social Welfare Surcharge applicable as per the Finance Act, 2018.

As per the notification, the anti-dumping duty will be equal to the difference between the cost of commodity calculated @ US$70 per kg. and the landed value of the commodity as imported. Appraise the liability on account of normal duties, cess and the anti-dumping duty.

Assume that only 'basic customs duty' (BCD) and Social Welfare Surcharge are payable. IGST @12% is also beapplicable.

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VALUATION UNDER CUSTOMS

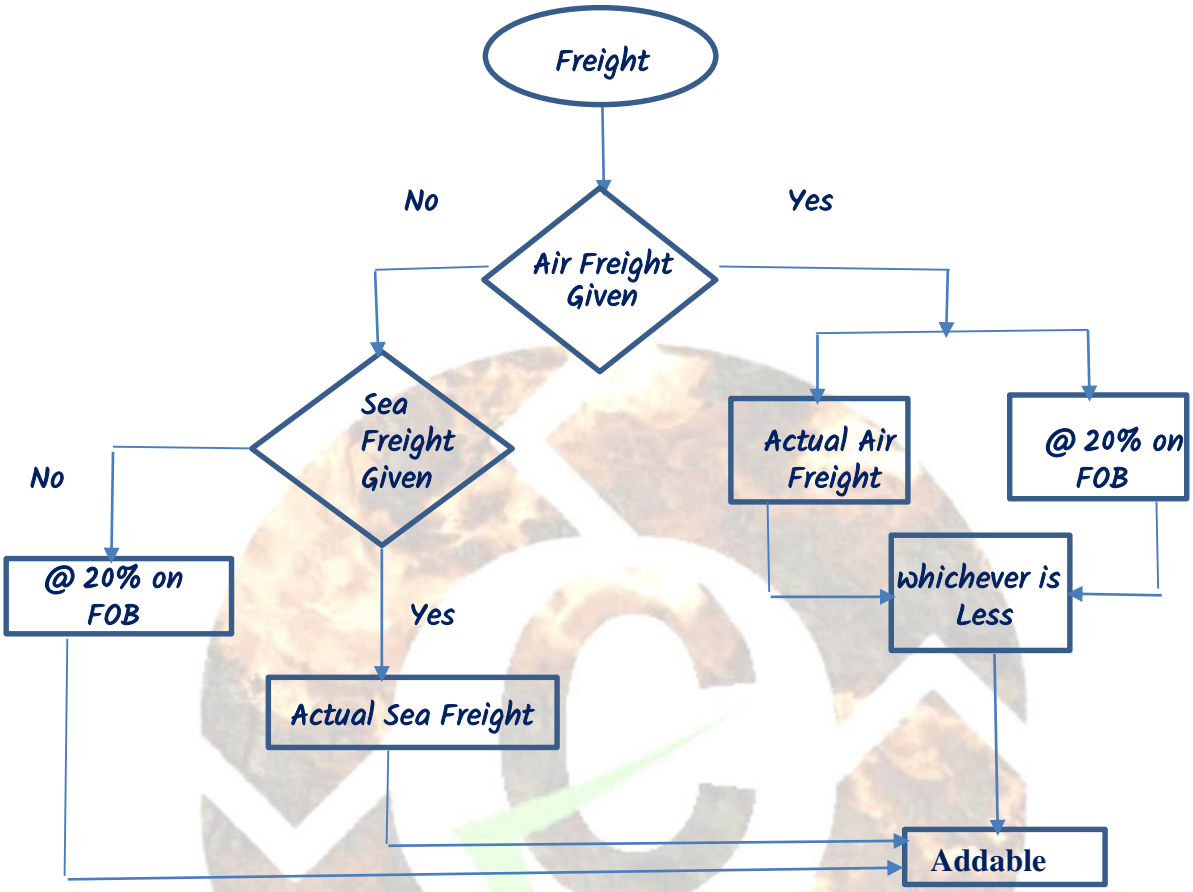
Customs Valuation Rules, 2007

Rule 3 Format

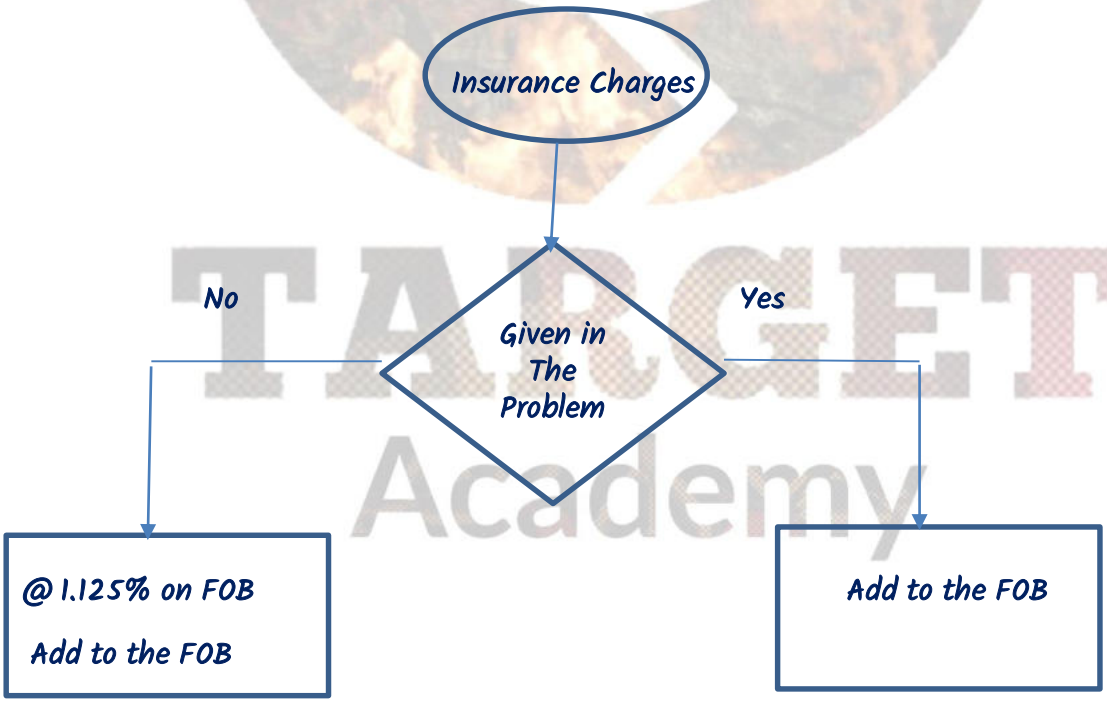
Statement Showing Computation of Assessable value for Imported Goods

	Rs.
Value of Material (at ex-factory price)	xxxx
Carriage/freight/insurance up to the port (sea/air) of shipment in the exporter's country	xxxx
Charges for loading on to the ship at the shipping port in the exporter's country	xxxx
Free on Board (FOB)	xxxx
FOB	xxxx
Add: If not included in the above [Rule 10(1)]	xxxx
Commission and brokerage (except buying commissions)	xxxx
Packing cost (except cost of durable and returnable packing)	xxxx
Cost of engineering, development and plan or sketches (Undertaken outside India)	xxxx
Royalties and license fee	xxxx
Value of subsequent re-sale if payable to foreign supplier	xxxx
Value of material supplied by the buyer free of cost	xxxx
FOB value as per the Customs	xxxx
Cost of freight if not specified @ 20% of FOB value as per Customs [Rule 10(2)]	xxxx
Ship demurrage charges on chartered vessels [Rule 10(2)]	xxxx
Lighterage or barge charges [Rule 10(2)]	xxxx
Insurance if not specified @ 1.125% of FOB value as per Customs [Rule 10(2)]	xxxx
Cost, Insurance and Freight (CIF)/Assessable Value	xxxx

Freight charges:



Insurance charges:



Example 7:

Compute the assessable value and total customs duty payable under the Customs Act, 1962 for an imported machine, based on the following information:

	US $
(i) Cost of the machine at the factory of the exporter	20,000
(ii) Transport charges from the factory of exporter to the port for shipment	800
(iii) Handling charges paid for loading the machine in the ship	50
(iv) Buying commission paid by the importer	100
(v) Lighter age charges paid by the importer	200
(vi) Freight incurred from port of entry to Inland Container depot	1,000
(vii) Ship demurrage charges	400
(viii) Freight charges from exporting country to India	5,000

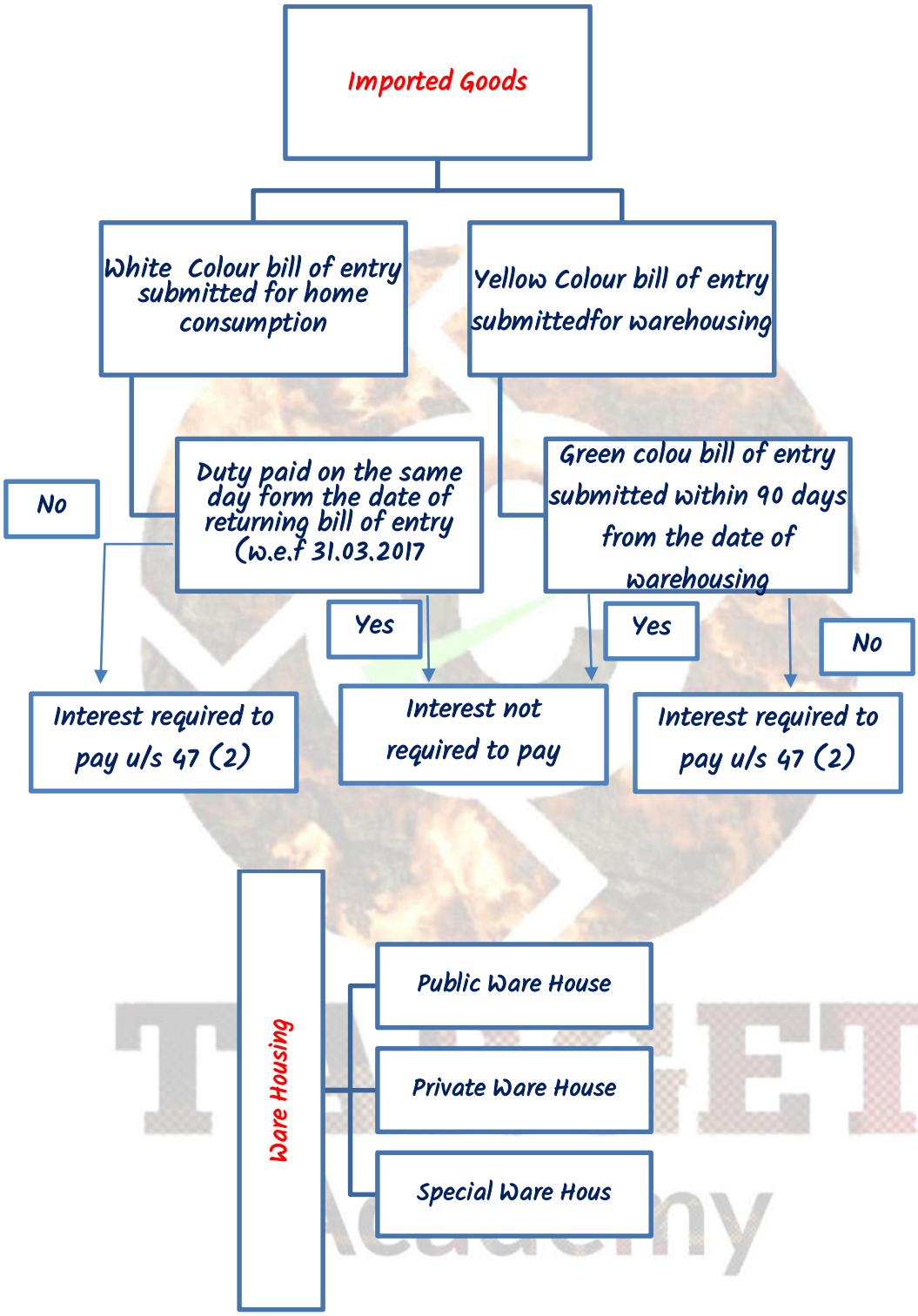
Date of bill of entry	20.02.2018 (Rate BCD 20%; Exchange rate as notified by CBIC Rs. 60 per US $)
Date of entry inward	25.01.2018 (Rate of BCD 12%; Exchange rate as notified by CBIC Rs.65 per US $)
IGST payable under section3(7) of the Customs Tariff Act, 1975	12%

Also find the eligible input tax credit to the importer.

Note to students: Pls cover rule -4 & 5 also (valuation under identical & similar good

THE END

IMPORT PROCEDURES



Features of Ware Housing

1. Importer can defer payment of import duties by storing the goods in a safe place
2. Importer allowed doing manufacturing in bonded warehouse and then re-exporting from it.
3. The importer can be allowed to keep the goods up to One year without payment of duty from the date he deposited the goods into warehouse.
4. This time period is extended to Three years for Export Oriented Units and the time period still be extended to Five years if the goods are capital goods.
5. The importer minimizes the charges by keeping in a warehouse, otherwise the demurrage charges at port is heavy.
6. Assistant Commissioner of Customs or Deputy Commissioner of Customs are competent to appoint a warehouse as public bonded warehouse.
7. The Assistant Commissioner of Customs or Deputy Commissioner of Customs may license private warehouse. The license to private warehouse can be cancelled by giving ONE month notice.
8. Only dutiable goods can be deposited in the warehouse.
9. Green Bill of Entry has to be submitted by the importer to clear goods from warehouse for home consumption.
10. Rate of duty is applicable as on the date of presentation of Bill of Entry (i.e. sub-bill of entry or ex-bond bill of entry) for home consumption.
11. If the goods which are not removed from warehouse within the permissible period, then subsequent removal called as improper removal. The rate of BCD which is applicable as on the last date on which the goods should have been removed but not removed is applicable, [Kesoram Rayon v Commissioner of Customs (1996)].

Example: 5

An importer imported some goods on 1st January, 2019 and the goods were cleared from Mumbai port forwarehousing on 8th January, 2019 by submitting Bill of Entry, exchange rate was Rs.50 per US $. FOB value US $10,000. The rate of duty on 8th January, 2019 was 20%. The goods were warehoused at Pune and were cleared from Pune warehouse on 31st May, 2019, when rate of basic customs duty was 12% and exchange rate was Rs.68.75 per 1US $. IGST @12% is applicable.

You are required to find:

a) The total Customs duty payable.

b) The interest if any payable.

Example: 6

Vipul imported certain goods in December, 2018. An 'into Bond' bill of entry was presented on 14th December, 2018 and goods were cleared from the port for warehousing. Assessable value on that date was US $1,00,000. The order permitting the deposit of goods in warehouse for four months was issued on 21st December, 2018. Vipul deposited the goods in warehouse on the same day but did not clear the imported goods even after the warehousing period got over on 20th April, 2019.

A notice was issued under section 72 of the Customs Act, 1962, demanding duty, interest and other charges. Vipul cleared the goods on 14th May 2019. Compute the amount of duty and interest payable by Vipul while removing the goods on the basis of following information:

Particulars	14-12-2018	20-4-2019	14-5-2019
Rate of exchange per US $ (as notified by Central Board of Excise & Customs)	Rs.65.20	Rs.65.40	Rs.65.50
Basic Customs Duty	15%	10%	12%
No other customs duty is payable except basic customs duty.			

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COSTING

COSTING BASICS

Cost

- Amount of expenditure incurred in producing a product
- Amount of expenditure incurred in providing a service

Costing

Procedure of ascertaining

- cost of product being manufactured
- service being rendered

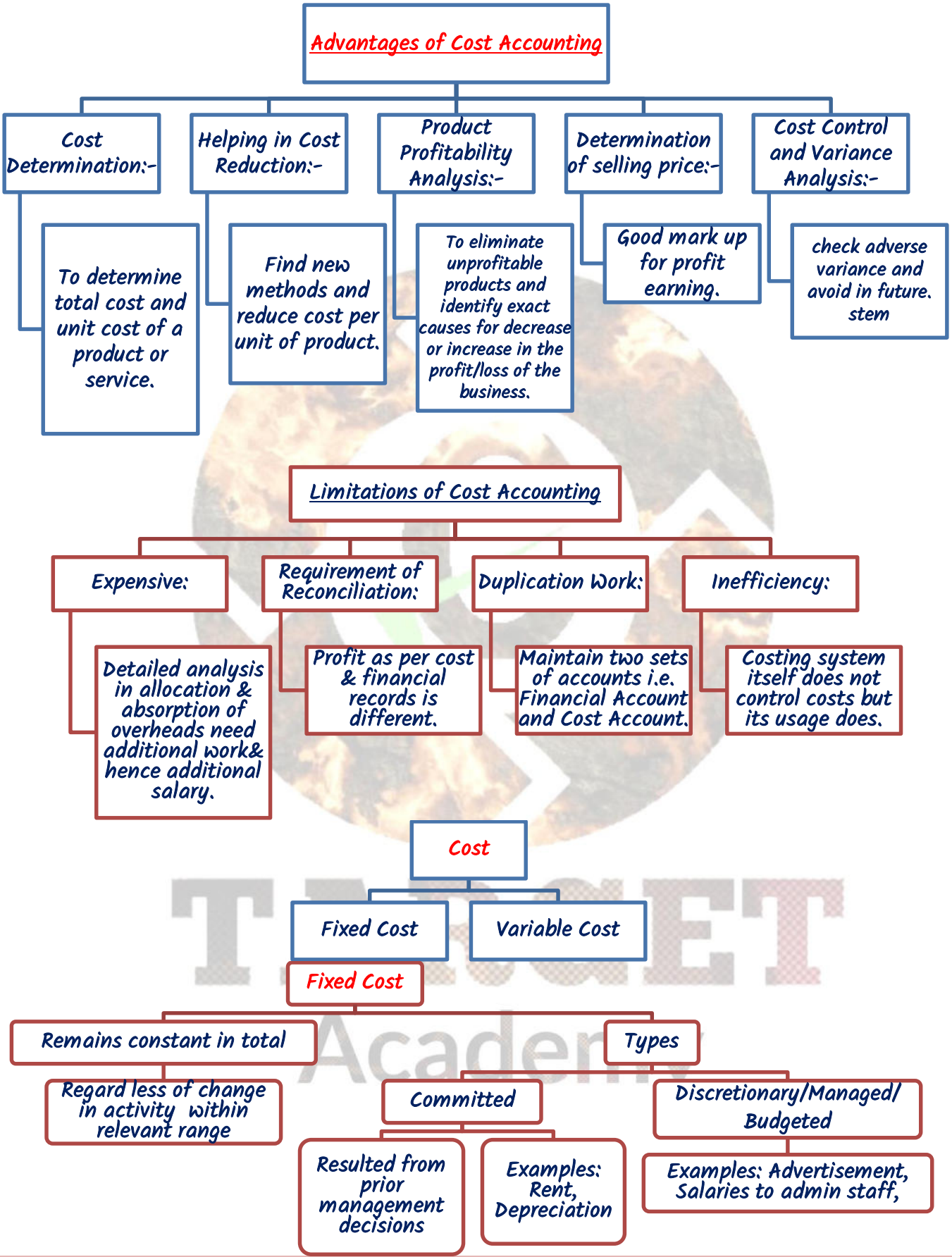
Cost Accounting:-

Process beginning with recording of income & expenditure — ending with preparation of periodical statements and reports

for controlling costs

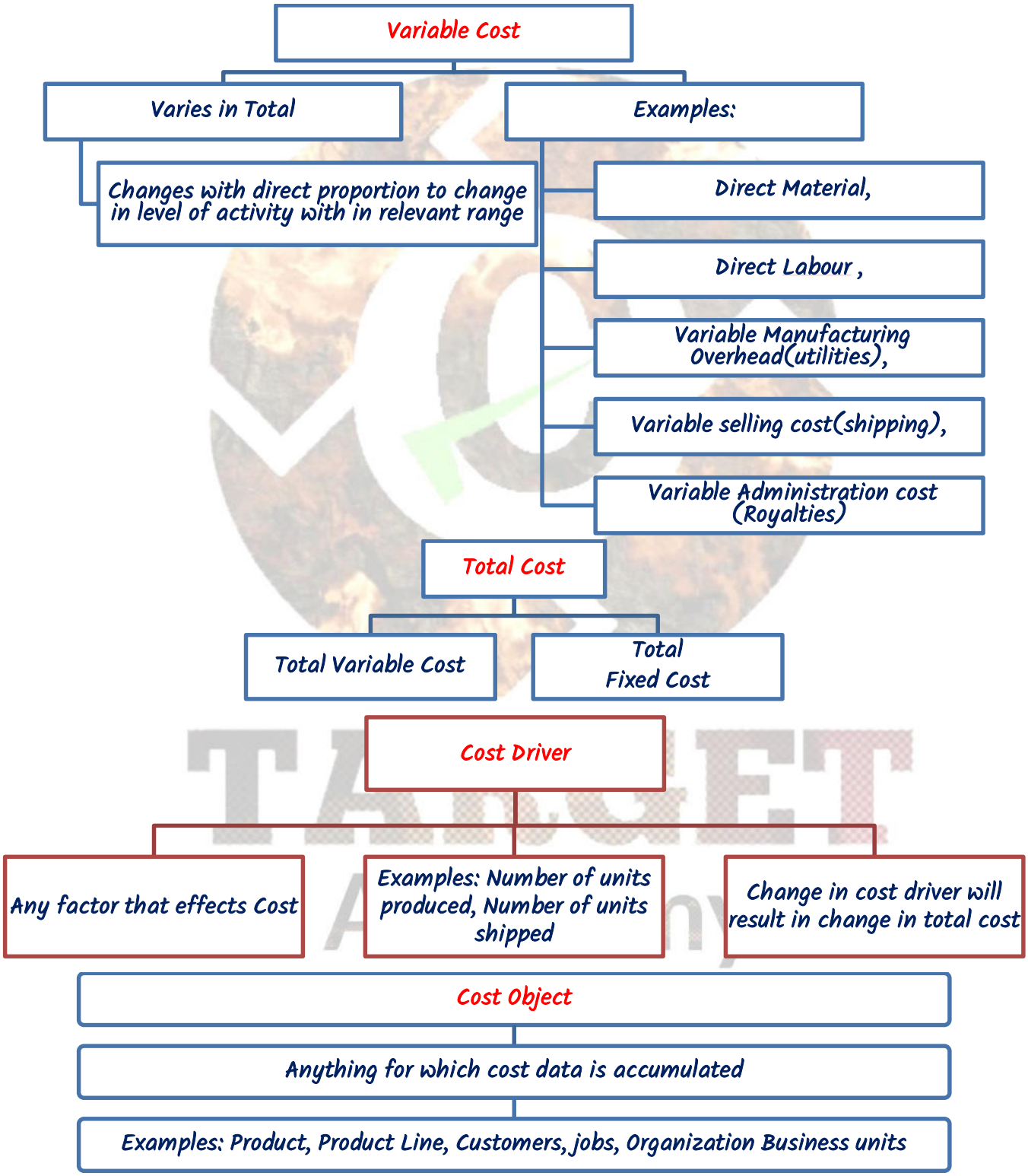
Objectives of Cost Accounting

Ascertainment of Cost	Determination of Selling Price	Cost Control	Cost Reduction	Ascertaining the profit of each activity	Assisting management in decision making
To determine cost for a job, process or product	Aims at earning profit so good mark-up on cost	Actual cost incurred in producing a product does not exceed its standard cost.	Reducing cost further from standard cost level	Match cost with the revenue& determine costing P&L	Help Selection a course of action out of two or more alternative courses.



	10,000 units		25,000 units		50,000 units	
	Total	Per unit	Total	Per Unit	Total	Per Unit

Direct Material	16,000	1.6	40,000	1.6	80,000	1.6
Direct Labour	25,000	2.5	62,500	2.5	1,25,000	2.5
Depreciation	50,000	5	50,000	2	50,000	1
Rent	25,000	2.5	25,000	1	25,000	0.5



Relevant Range

- Range of activity
- With in which variable cost, Fixed cost functions remains valid

Revenue

- Inflows of assets received in exchange of products or services
- Sum of price multiplied with number of units sold

Revenue Driver

Factor that effects revenue

Examples: Advertisement, Selling Price, No. of units sold

Operating Income

Total Revenue from Operations- Total Cost from Operations

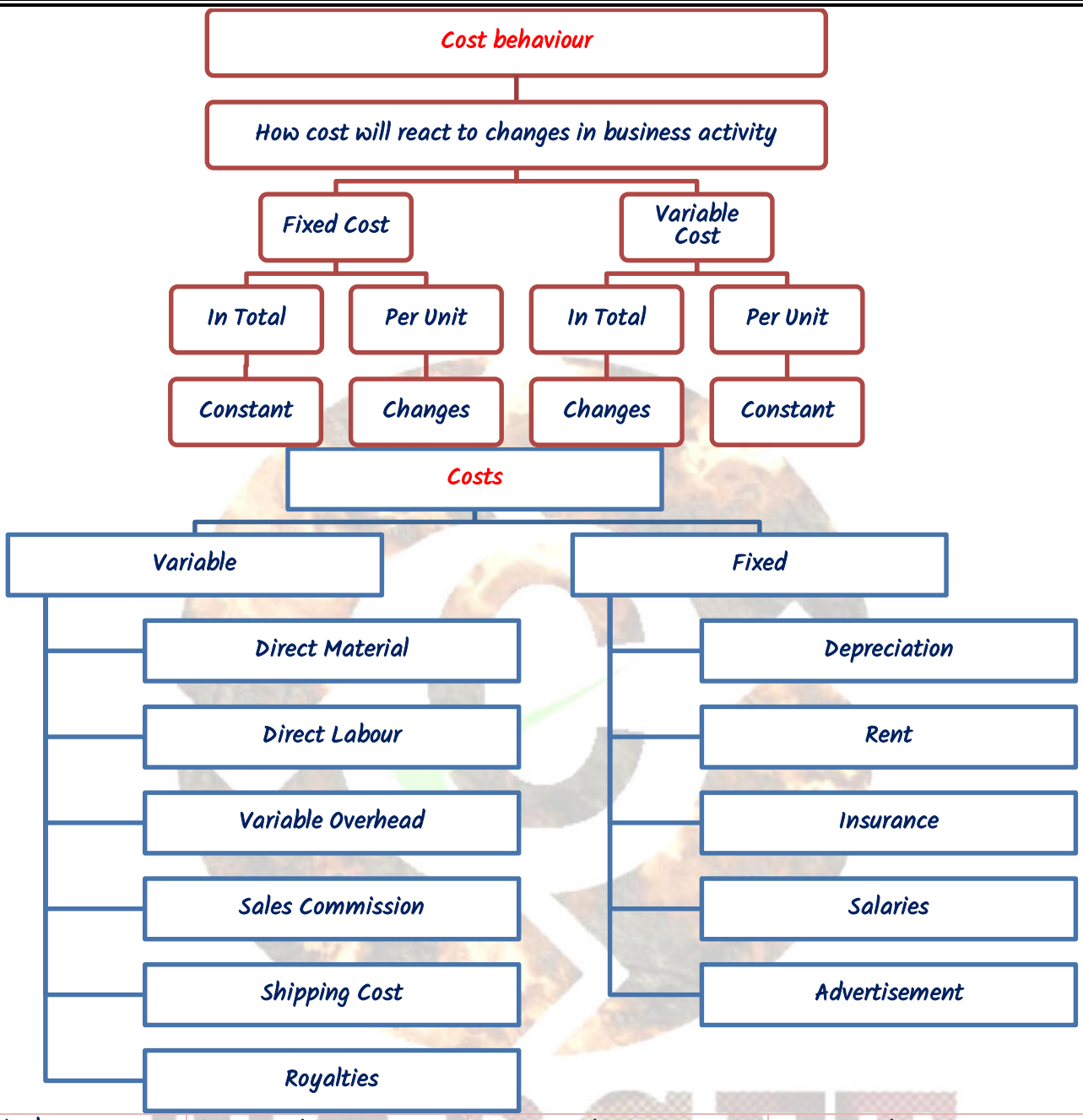
Operating Cost = COGS+ Admin Cost + Selling and Distribution Cost, excludes interest expenses and Income tax

Net Operating Income = Operating Income – Operating Income Tax

Finance Cost is treated as non operating Cost

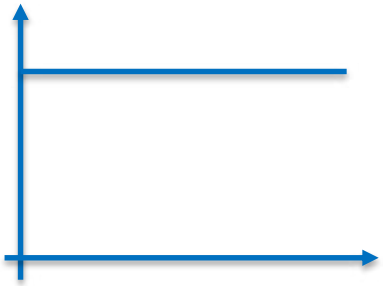
Activity Level

- Out put level
- Number of units produced or sold during the period
- Examples: Units, No. of Patients, Hotel room occupied, No. of Students

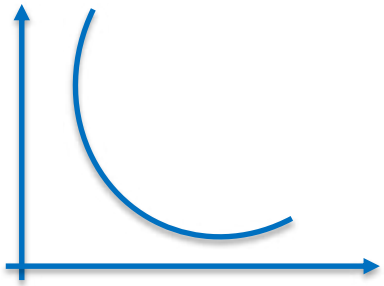


Particulars	10,000 units		25,000 units		50,000 units	
	Total	Per unit	Total	Per Unit	Total	Per Unit
Direct Material	16,000	1.6	40,000	1.6	80,000	1.6
Direct Labour	25,000	2.5	62,500	2.5	1,25,000	2.5
Depreciation	50,000	5	50,000	2	50,000	1
Rent	25,000	2.5	25,000	1	25,000	0.5

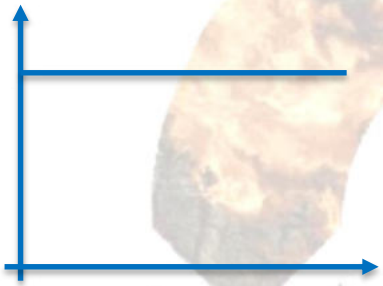
FIXED COST (TOTAL)



FIXED COST (PER UNIT)



VARIABLE COST (PER UNIT)



VARIABLE COST (TOTAL)

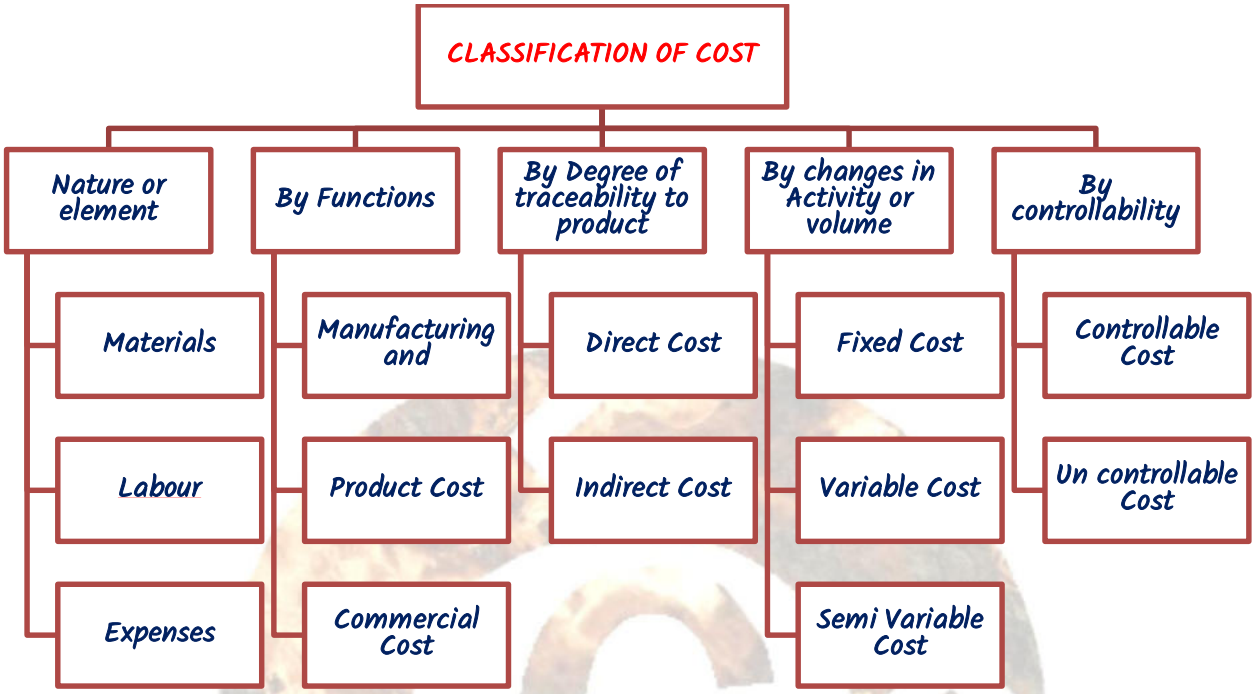


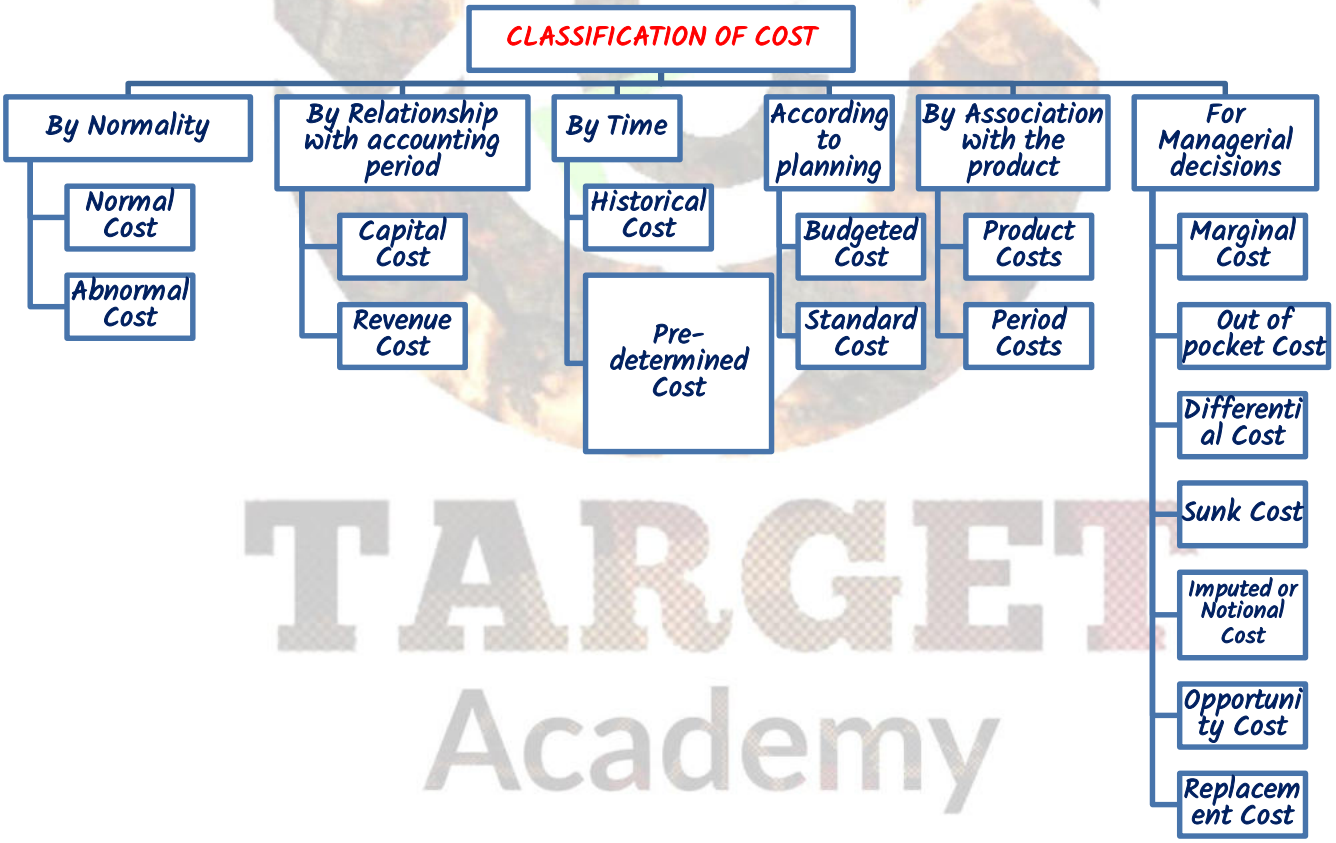
TOTAL COST



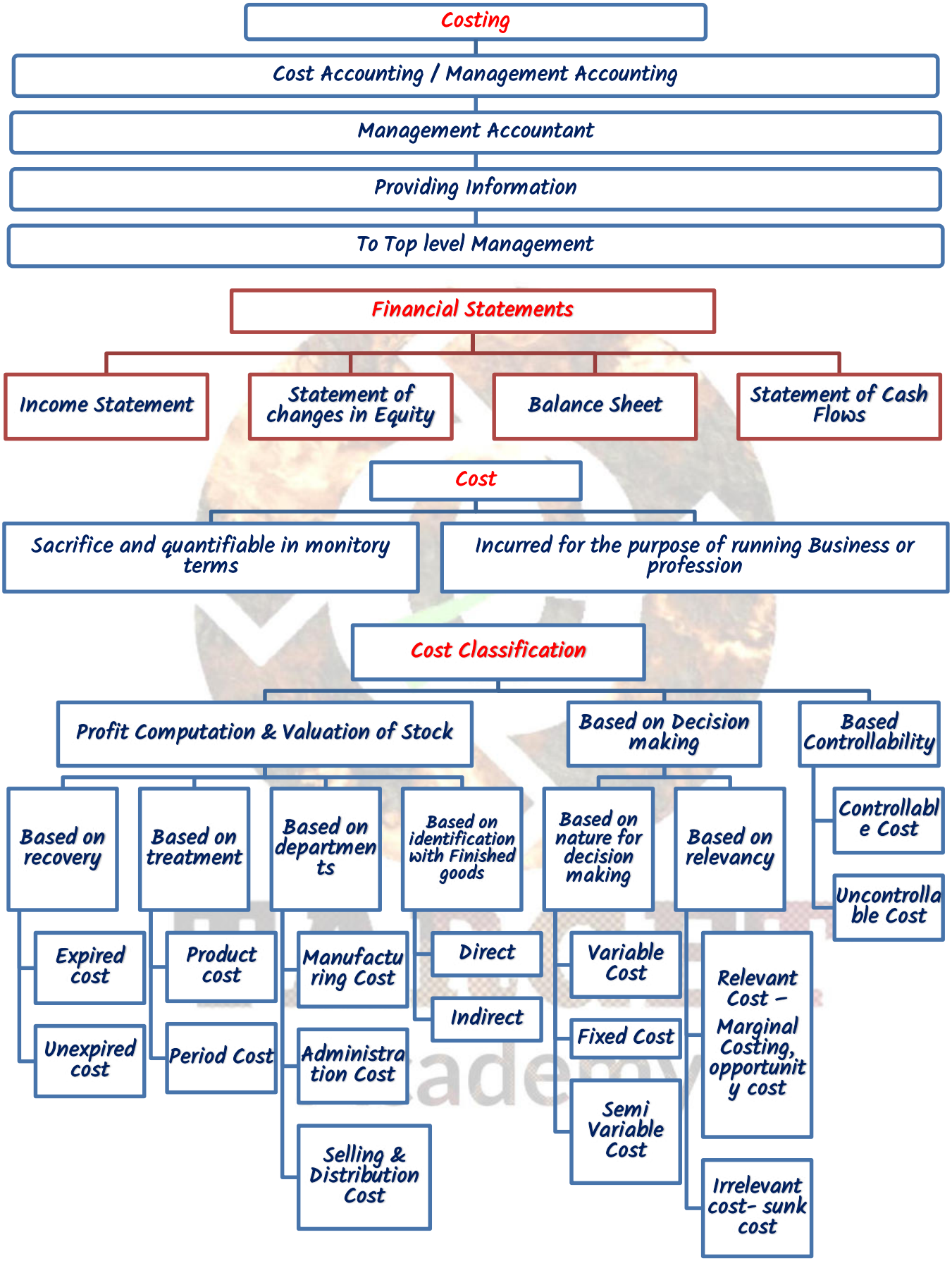
Particulars	10,000 units		25,000 units		50,000 units		75,000 Units	
	Total	Per unit	Total	Per Unit	Total	Per Unit	Total	
Direct Material	16,000	1.6	40,000	1.6	80,000	1.6	1,20,000	1.6
Direct Labour	25,000	2.5	62,500	2.5	1,25,000	2.5	1,87,500	2.5
Depreciation	50,000	5	50,000	2	50,000	1	1,00,000	1.33
Rent	25,000	2.5	25,000	1	25,000	0.5	50,000	0.67

If relevant range increases then Fixed cost will increase e.g. Rent
In short time period, higher percentage of Cost is viewed as Fixed
In Long time period, higher percentage of Cost is viewed as Variable





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Costing
Cost Accounting / Management Accounting
Management Accountant
Providing Information
To Top level Management
Financial Statements
Income Statement
Statement of changes in Equity
Balance Sheet
Statement of Cash Flows
Cost
Sacrifice and quantifiable in monitory terms
Incurred for the purpose of running Business or profession
Cost Classification
Profit Computation & Valuation of Stock
Based on Decision making
Based Controllability
Based on recovery
Based on treatment
Based on departments
Based on identification with Finished goods
Based on nature for decision making
Based on relevancy
Controllable Cost
Uncontrollable Cost
Expired cost
Unexpired cost
Product cost
Period Cost
Manufacturing Cost
Administration Cost
Selling & Distribution Cost
Direct
Indirect
Variable Cost
Fixed Cost
Semi Variable Cost
Relevant Cost – Marginal Costing, opportunity cost
Irrelevant cost- sunk cost

EXPIRED COST AND UNEXPIRED COST

Expired Cost	Unexpired Cost
· Recovered in current period · E.G : COGS	· Not recovered in relevant period · E.G : Cost of Inventory

Sales – COGS = Profit
Sales – Expired Cost = Profit



10 Kg
Purchased @ $. 50
$. 500



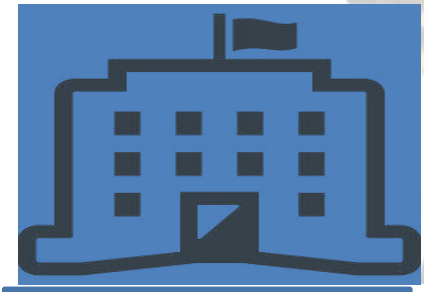
6 kg
Sold @ $. 80
$. 480
Profit/Loss = ?



4 kg

PRODUCT COST AND PERIOD COST

Administration Office	Factory	Selling Dept





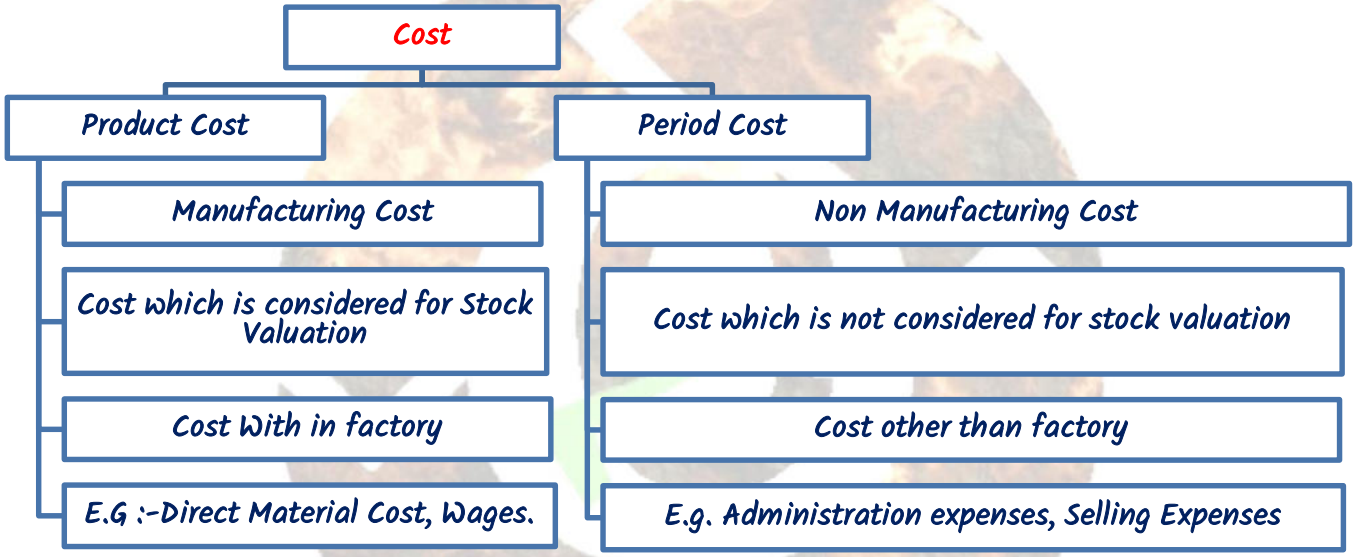


Cost (100 units)	Sales (60 Units)	Unsold Stock (40 Units)
· Material = 8,000 · Labour = 6,000 · Administration expenses = 5,000 · Selling & dist Expenses = 7,000	· Sales = 20,000	· Value =? · (unexpired)

Find Profit/ loss

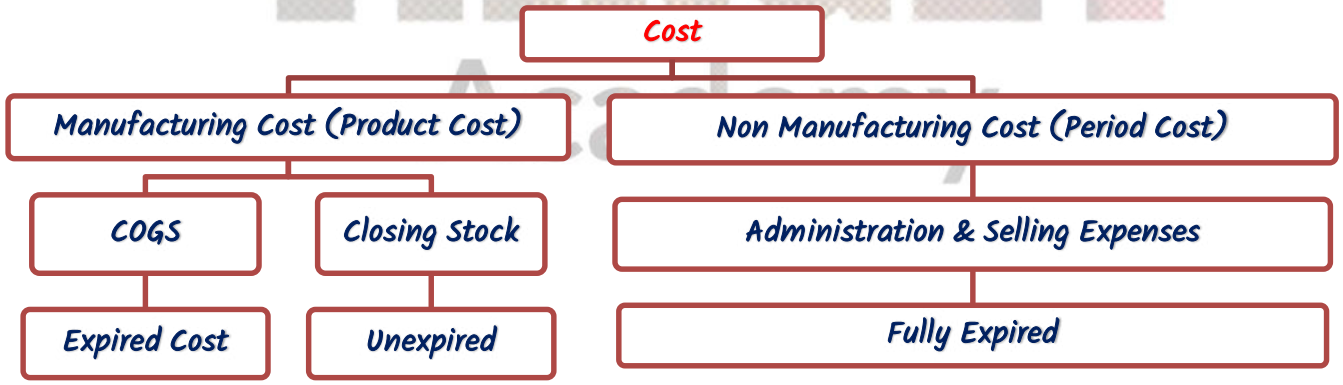
Non Manufacturing	Manufacturing	Non Manufacturing

Administration	Factory	Selling & Distribution
· Office expenses · Office Rent · Legal & Accounting · Depreciation on office equipment · Office Staff salaries	· Raw Material · Labour · Manufacturing Overheads – Factory rent, Power · Freight Inwards · (COGS)	· Advertisement · Sales Commission · Depreciation on sales truck · Bad Debts · Freight Outwards
Period Cost	Product Cost	Period Cost



Cost (100 units)	Sales (60 Units)	Unsold Stock (40 Units)
· Material = 8,000 · Labour = 6,000 · Administration expenses = 5,000 · Selling & dist Expenses = 7,000	· Sales = 20,000	· Value =? · (unexpired)

Find Profit/ loss

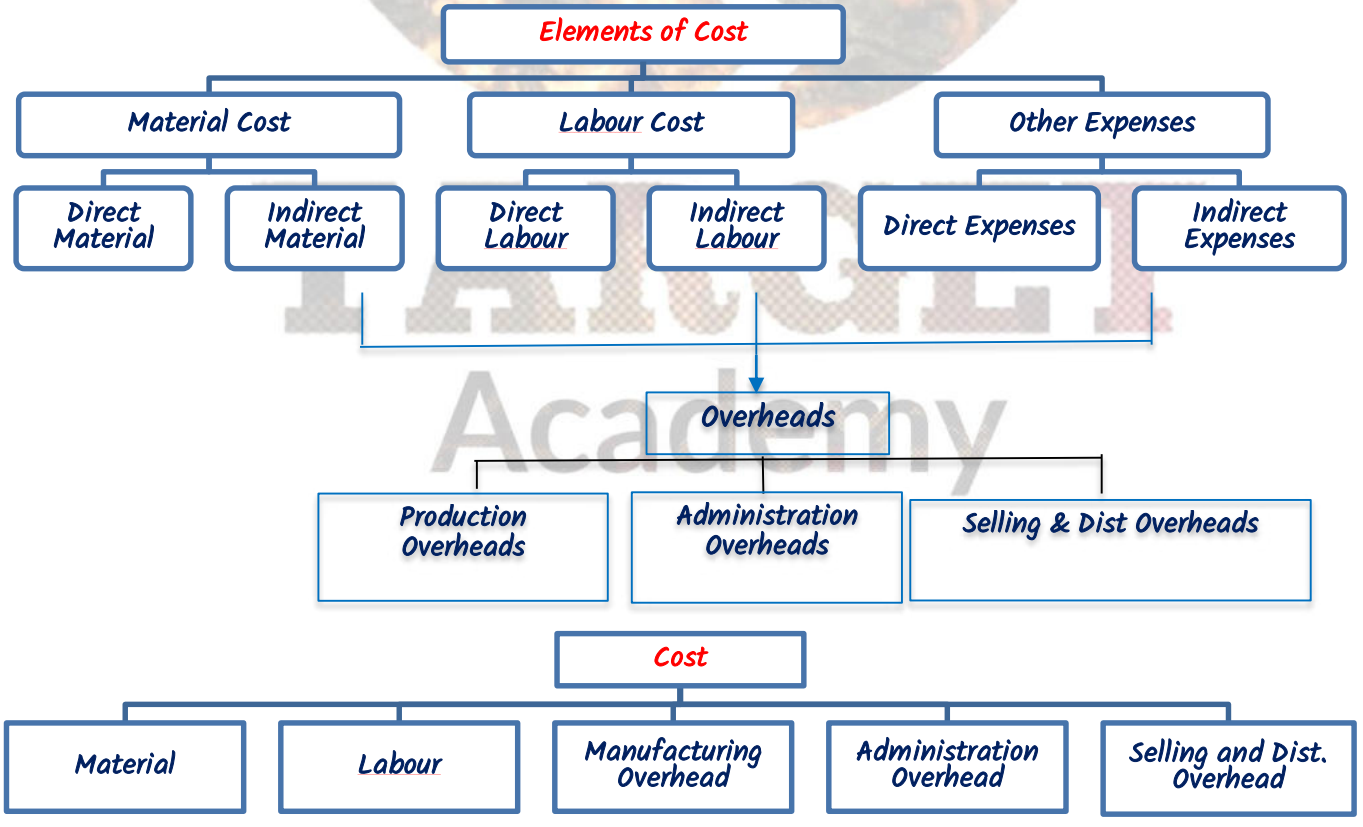


Cost (100 units)	Sales (60 Units)	Unsold Stock (40 Units)
· Material = 8,000 · Labour = 6,000 · Administration expenses = 5,000 · Selling & dist Expenses = 7,000	· Sales = 20,000	· Value =? · (unexpired)

Find Profit/ loss

MANUFACTURING COST AND NON MANUFACTURING COST

Non Manufacturing	Manufacturing	Non Manufacturing
Administration	Factory	Selling & Distribution
· Office expenses · Office Rent · Legal & Accounting · Depreciation on office equipment · Office Staff salaries	· Raw Material · Labour · Manufacturing Overheads – Factory rent, Power · Freight Inwards (COGS)	· Advertisement · Sales Commission · Depreciation on sales truck · Bad Debts · Freight Outwards
Period Cost	Product Cost	Period Cost



Product Cost

Period Cost

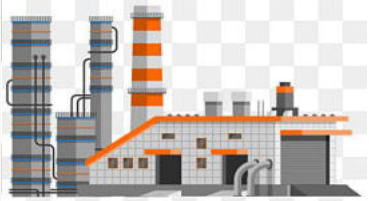
Allocation of cost

- Plant Wide-Unit Costing
- Department wide-Job Costing
- ABC

DIRECT COST, INDIRECT COST

Direct Material	Direct Labour	Direct Expenses
· Directly identified in Finished goods · Example : wood	· Directly related to Finished goods · Example : Worker cost	· Other than Direct Material , Direct Labour which can directly attributable to Finished goods · Example : Special cost





Direct	Indirect
· Wood · Worker	· Rent · Power

INDirect Material	InDirect Labour	INDirect Expenses
· Not directly identified in Finished goods · Example : lubricants for repairs	· Not directly related to Finished goods · Example : Supervisor, officer, sales man	· Expenses other than direct expense · Example : Factory- power, light, Rent · Administration – office rent, officer salary. · Selling and Distribution – Sales man salary, commission.

Administration	Factory	Selling & Distribution
· Office expenses · Office Rent · Legal & Accounting · Depreciation on office equipment · Office Staff salaries	· Raw Material · Labour · Manufacturing Overheads – Factory rent, Power · Freight Inwards · (COGS)	· Advertisement · Sales Commission · Depreciation on sales truck · Bad Debts · Freight Outwards
Period Cost	Product Cost	Period Cost

VARIABLE COST, FIXED COST

Cost

Variable	Fixed
Varies with no. of production	Do not varies with no. of Production
Example : Direct Material, Direct Labour	Rent, Depreciation

Variable Cost	Fixed cost
· Changes with Changes in production · Variable cost (per unit) – Constant · Variable cost (in total) - Changes	· Constant with changes in production · Fixed Cost (in total) – Constant · Fixed Cost (Per Unit) - Changes

Semi-variable cost

· Mixture of Variable and semi variable cost

Example

Units	Cost
1000	16,000
2000	24,000

Segregation of semi-variable cost in to variable and fixed

Variable Cost(Per Unit) = Change in cost/Change in units

Sunk Cost

Cost incurred in past, never influences current decision making

E.G :- Research & Development Cost

Opportunity Cost

The benefit of Opportunity foregone in accepting course of action

E.G :- Own building rent

Controllable and uncontrollable Cost

Discussed in Standard Costing

THE END

COST SHEET

Particulars	Amount
Direct Raw Material Consumed	xxx
Direct Labour	xxx
Direct Expenses	xxx
Prime Cost	xxx
Factory/ Manufacturing Over Head(Both Fixed & Variable)	xxx
Gross Factory Cost	xxx
Add: Opening WIP	xxx
Less: Closing WIP	(xxx)
FACTORY COST	xxx
Add: Administration Expenses (related to production)	xxx
Cost of Production	xxx
Add: Opening Finished Goods (units x last year Cost of production)	xxx
Cost of goods available for sale	xxx
Less: Closing Finished Goods (units x CY cost of production PU)	(xxx)
Cost of goods sold	xxx
Add: Administration Expenses	xxx
Add: Selling & Distribution expenses (Both Fixed & Variable)	xxx
Cost of Sales/ Total Cost	xxx
Profit (Balancing Figure)	xxx
Sales	xxx

NOTE-1: RAW MATERIAL CONSUMED

Particulars	Units	Amount(Rs)
Opening Raw Material	xx	xxx
Add: Purchases	xx	xxx
Less: Closing Raw Material	(xx)	(xxx)
Raw Material Consumed	xx	xxx

Cost of Sales/ Total Cost	xxx
Profit (Balancing Figure)	xxx
Sales	xxx

COST OF SALES

Particulars	Amount(Rs.)	Per Unit (Rs.)
Raw Material Consumed	5,000	
Direct Labour	2,000	
Direct expenses	4,000	
PRIME COST		
Add : Manufacturing OH/ Production OH	2,500	
FACTORY COST / WORKS COST		
Add: Administration OH (related to Production)	4,500	
COST OF PRODUCTION (No. Of Units = 100)		
Add: Opening Stock (No. of units = 20) (Last year cost of Production(PU) = 100)		
Less: Closing Stock (No. of units = 40)		
COST OF GOODS SOLD (No. of Units = ?)		
Add: Administration OH (General)	4,000	
Add: Sales Expenses	2,000	
COST OF SALES		

QUESTION-1:

The following data relates to the manufacture of a standard product during the month of April, 20X8:

Raw materials	1,80,000
Direct wages	90,000
Machine hours worked (hours)	10,000
Machine hour rate (per hour)	8
Administration overheads	35,000
Selling overheads (per unit)	5
Units produced	4,000
Units sold	3,600
Selling price per unit	125

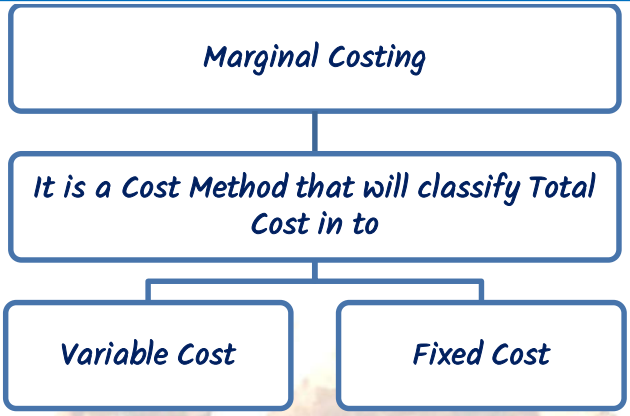
You are required to PREPARE a cost sheet in respect of the above showing:

(i) Cost per unit

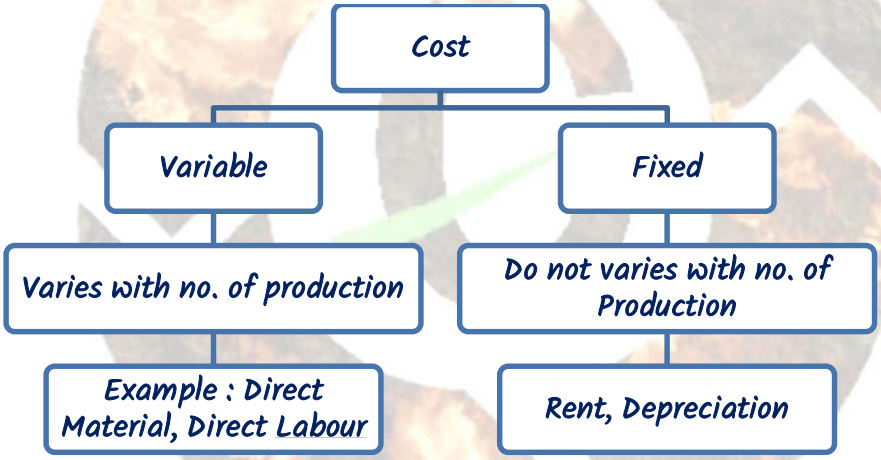
(ii) Profit for the Period

THE END

MARGINAL COSTING



VARIABLE COST, FIXED COST



Variable Cost	Fixed cost
· Changes with Changes in production · 1. Variable cost (per unit) – Constant · 2. Variable cost (in total) - Changes	· Constant with changes in production · 3. Fixed Cost (in total) – Constant · 4. Fixed Cost (Per Unit) - Changes

EXAMPLE-1:

Units/ Activity	10,000 units		20,000 units		Nature of Cost
	Total	Per Unit	Total	Per Unit	
Material Cost	40,000		80,000		
Labour Cost	30,000		60,000		
Rent	50,000		50,000		

Semi-variable cost
· Mixture of Variable and semi variable cost

SEGREGATION OF SEMI-VARIABLE COST IN TO VARIABLE AND FIXED

Step-1	· Calculation of Variable Cost (PU) · Variable Cost (PU) = Change in Cost/Change in Units
Step-2	· Calculation of Total Variable Cost · Total Variable cost = No. of Units (at any level) x Variable cost (PU)
Step-3	· Calculation of Fixed Cost · Fixed Cost = Total Cost – Variable Cost

EXAMPLE-2:

Units	Cost
1000	16,000
2000	30,000

Define the nature of cost

Calculate Variable Cost (Per unit)

Calculate Fixed Cost

MARGINAL COSTING/ DECISION ANNALYSIS

Particulars	Amount
Sales	
Less: Variable cost Direct Material Direct Labor Variable Manufacturing Over Head	
Contribution	
Less: Fixed Cost Fixed Manufacturing Over head Fixed Administration Over Head Fixed Selling & Distribution Over Head	

IN MARGINAL COSTING

- Variable Cost is treated as Product Cost
- Fixed Cost is treated as Period Cost
- In Marginal Costing only Cost related to Sold units is taken in to consideration
- No Opening Stock and Closing Stock

FORMULAE

EXAMPLE-3:

Profit = Sales- Variable Cost – Fixed Cost

Profit = {Sale Price (PU) – Variable Cost (PU)} X No. of Units – Fixed Cost.

	Amount(Rs)	Per Unit
Sales (No. of units sold = 5,000 units)	1,00,000	
Less: Variable Cost	(60,000)	
Contribution		
Less: Fixed Cost	15,000	
Profit		

EXAMPLE-4:

	Amount(Rs)	Per Unit
Sales (No. of units sold = 10,000 units)	4,00,000	
Less: Variable Cost		24
Contribution		
Less: Fixed Cost	1,00,000	
Profit		

FORMULAE

Profit = {Sale Price (PU) – Variable Cost (PU)} x No. of Units – Fixed Cost.

Profit = Contribution – Fixed Cost.

Contribution = Sales value – Variable Cost

Variable Cost = Sales value – Contribution

Sales value = Variable cost + Contribution

% of Sales = % of Variable Cost + % of Contribution

FORMULAE

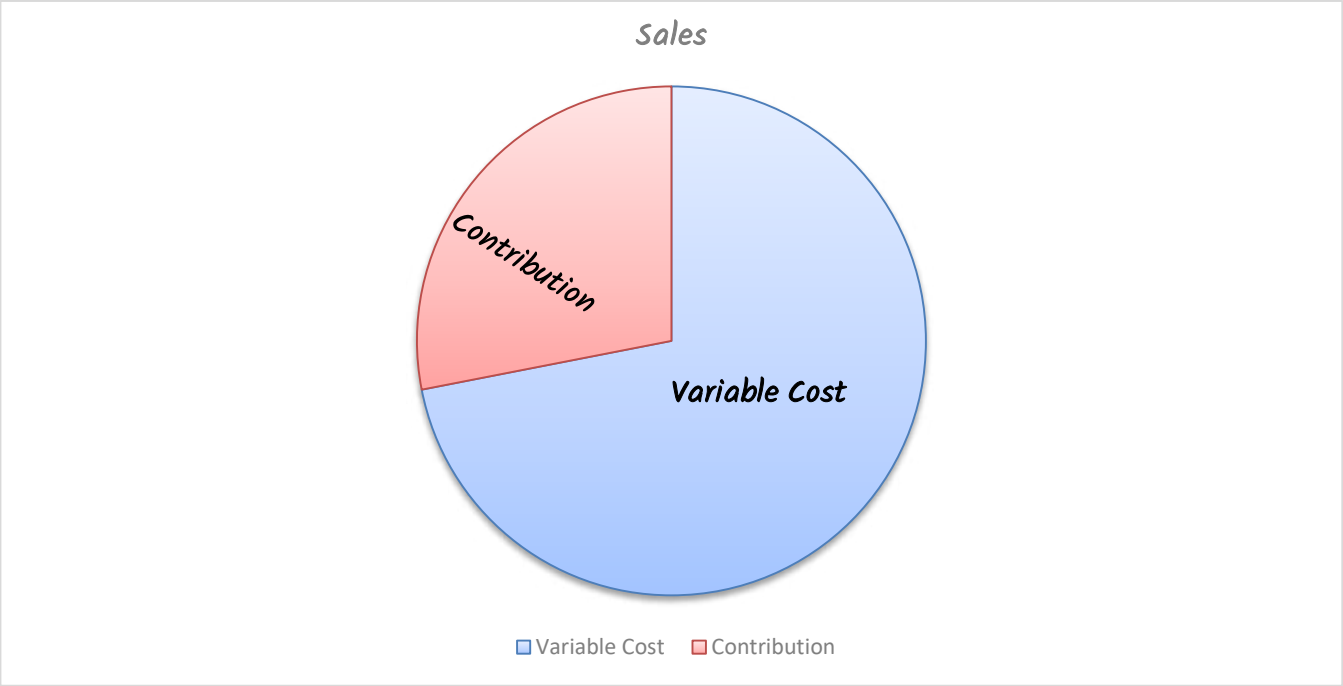
Contribution = Sales value- Variable Cost

Contribution(Per Unit) = Sale Price (Per Unit) – Variable Cost (Per Unit)

Contribution = Fixed Cost + Profit

Sales value = Variable Cost + Contribution

Sales (100%) = Variable Cost (%) + Contribution (%)



EXAMPLE-5:

Particulars	Amount
Quantity Sold	10,000 Units
Selling Price (PU)	Rs. 4,000
Variable Cost (PU)	Rs. 1,000
Fixed Cost	Rs. 1,00,000
Calculate Profit	

EXAMPLE-6:

Particulars	Amount
Quantity Sold	20,000 Units
Selling Price (Per Unit)	Rs. 5,000
Variable Cost (Per Unit)	70% of Sales Price
Fixed Cost	Rs. 1,50,000
Calculate Profit	

EXAMPLE-7:

Particulars	Amount
Sales Price (Per Unit)	Rs. 70
Variable Cost (Per Unit)	70% of Sales
Calculate Contribution	

PROFIT VOLUME RATIO (P/V RATIO)

It is also known as Contribution ratio

Contribution = Sales x P/V Ratio

$$P/V\ Ratio = \frac{Contribution}{Sales\ value} \times 100$$

$$P/V\ Ratio = \frac{Contribution\ (Per\ Unit)}{Sales\ price\ (Per\ Unit)} \times 100$$

$$P/V\ Ratio = \frac{Sales\ value - Variable\ Cost}{Sales\ value} \times 100$$

$$P/V\ Ratio = \frac{Fixed\ Cost + Profit}{Sales\ value} \times 100$$

$$P/V\ Ratio = \frac{Sales\ price(Per\ Unit) - Variable\ Cost(Per\ Unit)}{Sales\ peice\ (Per\ unit)} \times 100$$

P/V Ratio = 1 - % Variable Cost

% Variable Cost = 1 – % P/V Ratio

Sales (100%) = % Variable Cost + % P/V Ratio

EXAMPLE-8:

Particulars	Amount
Quantity Sold	10,000 Units
Selling Price (PU)	Rs. 4,000
Variable Cost (PU)	Rs. 1,000
Fixed Cost	Rs. 1,00,000
Calculate P/V ratio	

EXAMPLE-10:

Particulars	Amount
Selling Price	Rs. 4 Per unit
Variable Cost	Rs. 2.4 Per unit
Calculate P/V ratio	

EXAMPLE-11:

Particulars	Amount
Selling Price	Rs. 1,00,000
Variable Cost	30 %
Calculate P/V ratio	

EXAMPLE-13:

Particulars	Amount
Selling Price	Rs. 1,00,000
Variable Cost	40 %
Fixed Cost	20,000
Calculate P/V ratio	
Calculate Variable Cost	
Calculate Contribution	
Calculate Profit	

EXAMPLE-15:

Particulars	Amount
Selling Price	Rs. 6,00,000

P/V Ratio	40%
Fixed Cost	Rs. 2,00,000
Calculate Contribution	

BREAK EVEN POINT

Sales at which no profit and no loss

At Break even Point entire fixed cost is covered and there is no profit and no loss

$$\text{Break Even Point (in Units)} = \frac{\text{Fixed Cost}}{\text{Contribution (Per Unit)}}$$

$$\text{Break Even Point (in Value)} = \frac{\text{Fixed Cost}}{\text{p/vRatio}}$$

$$\text{Contribution(Per unit)} = \frac{\text{Fixed Cost}}{\text{BEP (in units)}}$$

$$\text{P/V Ratio} = \frac{\text{Fixed Cost}}{\text{BEP (Value)}}$$

At BEP, Contribution = Fixed Cost

BEP(Value) = BEP(Units) x Sales Price

EXAMPLE-16:

Particulars	Amount
Quantity Sold	10,000 Units
Selling Price (PU)	Rs. 4,000
Variable Cost (PU)	Rs. 1,000
Fixed Cost	Rs. 1,00,000
Calculate Contribution per unit	
Calculate P/V Ratio	
Calculate Break Even Point (in Units)	
Calculate Break Even Point (in Rs)	

EXAMPLE-17:

Particulars	Amount
Selling Price	Rs. 2,00,000
Variable Cost	Rs. 60,000
Fixed Cost	Rs. 1,00,000
Calculate P/V ratio	

EXAMPLE-18:

Particulars	Amount
Selling Price (PU)	Rs. 4,000

Fixed Cost	Rs. 1,00,000
P/V Ratio	45%
Calculate Contribution (Per Unit)	

REQUIRED SALES IF DESIRED PROFIT IS GIVEN

$$\text{Required Sales (in Units)} = \frac{\text{Fixed Cost+Profit}}{\text{Contribution (Per Unit)}}$$

$$\text{Required Sales (in Value)} = \frac{\text{Fixed Cost+Profit}}{p/v\text{Ratio}}$$

EXAMPLE-19:

Particulars	Amount
Selling Price	Rs. 200
Variable Cost	Rs. 55
No. of units	1,200
Fixed Cost	Rs. 1,00,000
Required Profit	10,000
Calculate Required Sales in units	
Calculate required sales in Value	

EXAMPLE-20:

Particulars	Amount
Selling Price	Rs. 400
Variable Cost	Rs. 112
No. of units	1,100
Fixed Cost	Rs. 2,00,000
Required Profit	10 % on sales
Calculate Required Sales in units	
Calculate required sales in Value	

EXAMPLE-21:

Particulars	Amount
Selling Price	Rs. 500
Variable Cost	40% of Sales
No. of units	1,100
Fixed Cost	Rs. 2,00,000
Required Profit	10 % on sales
Calculate Required Sales in units	
Calculate required sales in Value	

MARGIN OF SAFETY

$MOS\ (in\ Units) = \frac{Profit}{Contribution\ (Per\ Unit)}$

$MOS\ (in\ Value) = \frac{Profit}{p/vRatio}$

Profit = MOS (units) x Contribution (Per Unit)

Profit = MOS (Value) x P/V Ratio

$Contribution(Per\ Unit) = \frac{Profit}{MOS\ (in\ Units)}$

$P/V\ Ratio = \frac{Profit}{MOS\ (Value)}$

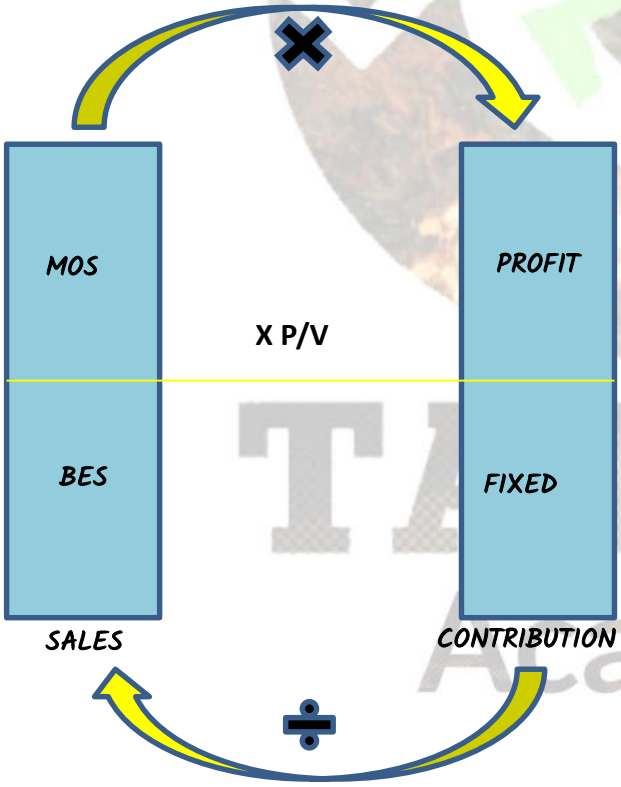
MOS(Value) = MOS(Units) x Sales Price

MOS is the Sales in excess of BEP

It is the difference between Total sales and BEP

MOS = Total Sales – BEP

Total Sales = BEP + MOS



Sales x P/V Ratio = Contribution

$\frac{Contribution}{p/vRatio}$ = Sales

Sales = BES + MOS

Contribution = Fixed Cost +Profit

BEP x P/V Ratio = Fixed Cost

$\frac{Fixed\ Cost}{P/VRatio}$ = BES

MOS x P/V Ratio = Profit

$\frac{Profit}{P/VRatio}$ = MOS

EXAMPLE-23:

Particulars	Amount
Selling Price	Rs. 150
Variable Cost	Rs. 35
No. of units	1,000

Fixed Cost	Rs. 1,00,000
Calculate MOS in units	
Calculate MOS in Value	

P/V Ratio $= \frac{Change\ in\ Profit}{Change\ in\ Sales}$

EXAMPLE:

Year	Sales(₹)	Profit(₹)
20X8	1,20,000	8,000
20X9	1,40,000	13,000

Calculate:

(i) P/V ratio,

(ii) B.E. Point,

(iii) Profit when sales are ₹1,80,000,

(iv) Sales required earn a profit of ₹12,000,

(v) Margin of safety in year 20X9

MOS Ratio or Percentage $= \frac{MOS}{Total\ Sales}$

BEP Ratio $= \frac{BEP}{Total\ Sales}$

MOS Ratio = 1- BEP Ratio

BEP Ratio = 1- MOS Ratio

BEP Ratio + MOS Ratio = 1

RATIOS

CMR = Contribution/ Sales

Variable Cost Ratio = 1- CMR

CMR = 1- VC Ratio

VCR + CMR = 1

MOS Ratio or Percentage = MOS/ Planned Sales

BEP Ratio = BEP/Planned Sales

MOS Ratio = 1- BEP Ratio

BEP Ratio = 1- MOS Ratio

BEP Ratio + MOS Ratio = 1

EXAMPLE-27:

Particulars	Amount
MOS Units	120 Units
BEP	Rs. 1,00,000
Sales price (Per Unit)	100
Calculate MOS in Value	
Calculate P/V Ratio	
Calculate Fixed Cost	
Calculate Profit	
Calculate Contribution (Per Unit)	
Calculate Variable Cost Ratio	
Calculate Variable Cost (Per Unit)	
Calculate Total Sales	

Profit = [S.P(Per unit) – V.C (per Unit)] x No. of Units – Fixed Cost.

EXAMPLE-28:

Particulars	
Investment	Rs. 10,00,000
Return on Investment	8%
Number of unit	20,000
Sales Price per unit	Rs. 20
Variable Cost Per unit	Rs.15
Fixed Cost	Rs. 35,000
Find (a) Existing Profit (b) Target Profit. (c) To achieve how the following will change (i) Selling Price (PU) (ii) Variable Cost (PU) (iii) Fixed Cost (iv) No. of units	

Direct Material	25,000
Direct Labour	15,000
Variable OH	10,000
Fixed OH	5,000
Gross Margin	
Operating Expenses	
Variable Selling and Admin expenses	24,000
Fixed Selling and Admin expenses	20,000
Operating Income	

For next year 10% increase in sales, 15% increase in Variable cost, 30,000 increase in Fixed cost Find BEP for next year.

STEPS IN CALCULATING WEIGHTED AVERAGE CONTRIBUTION IN CASE OF MORE

Step-1	· Calculate individual contribution
Step- 2	· Calculate weights
Step- 3	· Calculate Weighted average contribution by multiplying individual contribution x Weights

IN CASE OF MULTIPLE PRODUCTS

	Product-A (No. of Units = 45		Product-B (No. of units = 30)		Total (No. of units = 75)	
Particulars	Per Unit	Total	Per Unit	Total		Total
Sales	180	8,100	230	6,900		15,000
Less: Variable Cost	128	5,760	183	5,490		11,250
Contribution	52	2,340	47	1,410	50	3,750

Particulars	No. of Units	Product Mix
Product-A	45	60%
Product- B	30	40%
Total	75	100%

Weighted Average Contribution = (0.6 x 52) + (0.4 x 47) = 50

This weighted average Contribution is used to calculate Overall BEP and MOS and later on divide Those BEP and

TAX IMPACT

PAT= PBT (1- Tax Rate)

$$PBT = \frac{PAT}{(1 - Tax\ Rate)}$$

INDIFFERENCE POINTTHAN ONE PRODUCTS

Sales units at which total cost is same or no difference under two options

EXAMPLE-33:

Particulars	Option-1	Option-2
Variable Cost	240	140
Fixed Cost	15,000	45,000

Calculate Indifference Point between Option-1 and Option-2

FORMULAE

Profit = {Sale Price (PU) – Variable Cost (PU)} x No. of units – Fixed Cost.

Profit = Contribution – Fixed Cost.

Contribution = Sales value – Variable Cost

Variable Cost = Sales value – Contribution

Sales value = Variable cost + Contribution

% of Sales = % of Variable Cost + % of Contribution

Contribution = Sales value – Variable Cost

Contribution(Per Unit) = Sales price (Per Unit) – Variable Cost (Per Unit)

Contribution = Fixed Cost + Profit

Contribution = Sales x P/V Ratio

$$\text{Contribution(Per unit)} = \frac{\text{Fixed Cost}}{\text{BEP (in units)}}$$

$$\text{Contribution(Per Unit)} = \frac{\text{Profit}}{\text{MOS (in Units)}}$$

Sales = Variable Cost + Contribution

Sales (100%) = Variable Cost (%) + Contribution (%)

$$\text{P/V Ratio} = \frac{\text{Contribution (Per Unit)}}{\text{Sales (Per Unit)}} \times 100$$

$$\text{P/V Ratio} = \frac{\text{Sales} - \text{Variable Cost}}{\text{Sales}} \times 100$$

$$\text{P/V Ratio} = \frac{\text{Fixed Cost+Profit}}{\text{Sales}} \times 100$$

$$\text{P/V Ratio} = \frac{\text{Sales(Per Unit)} - \text{Variable Cost(Per Unit)}}{\text{Sales}} \times 100$$

$$\text{P/V Ratio} = \frac{\text{Fixed Cost}}{\text{BEP (Value)}}$$

$$\text{P/V Ratio} = \frac{\text{Profit}}{\text{MOS (Value)}}$$

$$\text{P/V Ratio} = \frac{\text{Change in Profit}}{\text{Change in Sales}}$$

P/V Ratio = 1 - % Variable Cost

% Variable Cost = 1 – % P/V Ratio

Sales (100%) = % Variable Cost + % P/V Ratio

Break Even Point (in Units) = $\frac{Fixed\ Cost}{Contribution\ (Per\ Unit)}$

Break Even Point (in Value) = $\frac{Fixed\ Cost}{p/vRatio}$

At BEP, Contribution = Fixed Cost

BEP(Value) = BEP(Units) x Sales Price

Required Sales (in Units) = $\frac{Fixed\ Cost+Profit}{Contribution\ (Per\ Unit)}$

Required Sales (in Value) = $\frac{Fixed\ Cost+Profit}{p/vRatio}$

MOS (in Units) = $\frac{Profit}{Contribution\ (Per\ Unit)}$

MOS (in Value) = $\frac{Profit}{p/vRatio}$

Profit = MOS (units) x Contribution (Per Unit)

Profit = MOS (Value) x P/V Ratio

MOS(Value) = MOS(Units) x Sales Price

MOS = Total Sales – BEP

Total Sales = BEP + MOS

P/V Ratio = $\frac{Contribution\ (Per\ Unit)}{Sales\ (Per\ Unit)} \times 100$

P/V Ratio = $\frac{Sales - Variable\ Cost}{Sales} \times 100$

P/V Ratio = $\frac{Fixed\ Cost+Profit}{Sales} \times 100$

P/V Ratio = $\frac{Sales(Per\ Unit) - Variable\ Cost(Per\ Unit)}{Sales} \times 100$

P/V Ratio = $\frac{Fixed\ Cost}{BEP\ (Value)}$

P/V Ratio = $\frac{Profit}{MOS\ (Value)}$

P/V Ratio = 1 - % Variable Cost

% Variable Cost = 1 – % P/V Ratio

Sales (100%) = % Variable Cost + % P/V Ratio

MOS Ratio = 1- BEP Ratio

BEP Ratio = 1- MOS Ratio

BEP Ratio + MOS Ratio = 1

PAT= PBT (1- Tax Rate)

PBT= $\frac{PAT}{(1-Tax\ Rate)}$

MOS Ratio or Percentage = $\frac{MOS}{Total\ Sales}$

BEP Ratio = $\frac{BEP}{Total\ Sales}$

MOS Ratio = 1- BEP Ratio

BEP Ratio = 1- MOS Ratio

BEP Ratio + MOS Ratio = 1

Profit Ratio = Mos Ratio x P/V Ratio

CMR = Contribution/ Sales

Variable Cost Ratio = 1- CMR

CMR = 1- VC Ratio

VCR + CMR = 1

MOS Ratio or Percentage = MOS/ Planned Sales

Decision Making

Involves choice between alternatives

Cost and Benefits of two alternatives to be evaluated

This technique is called Marginal Analysis

Marginal Analysis

It is also Know as Incremental or Differential Analysis

Method of analyzing short term decisions (1 Year)

It emphasis on incremental cost rather than Total Cost

Cost Classification

Relevant Cost	Irrelevant cost
Incremental Cost	Committed Costs
Opportunity Cost	Sunk Costs
Avoidable Fixed Cost	Unavoidable Fixed Cost

Cost

Relevant Cost	Irrelevant Cost
Consider	Ignore

Opportunity Cost

Benefit lost or opportunity foregone on selection other alternative

Relevant for decision making

EXAMPLE

Particulars	Flat	Bank
Investment	10,00,000	10,00,000
Period	After 1 year	After 1 year
Return	10,80,000	11,00,000
Opportunity Cost		
Net Profit		

Sunk Cost

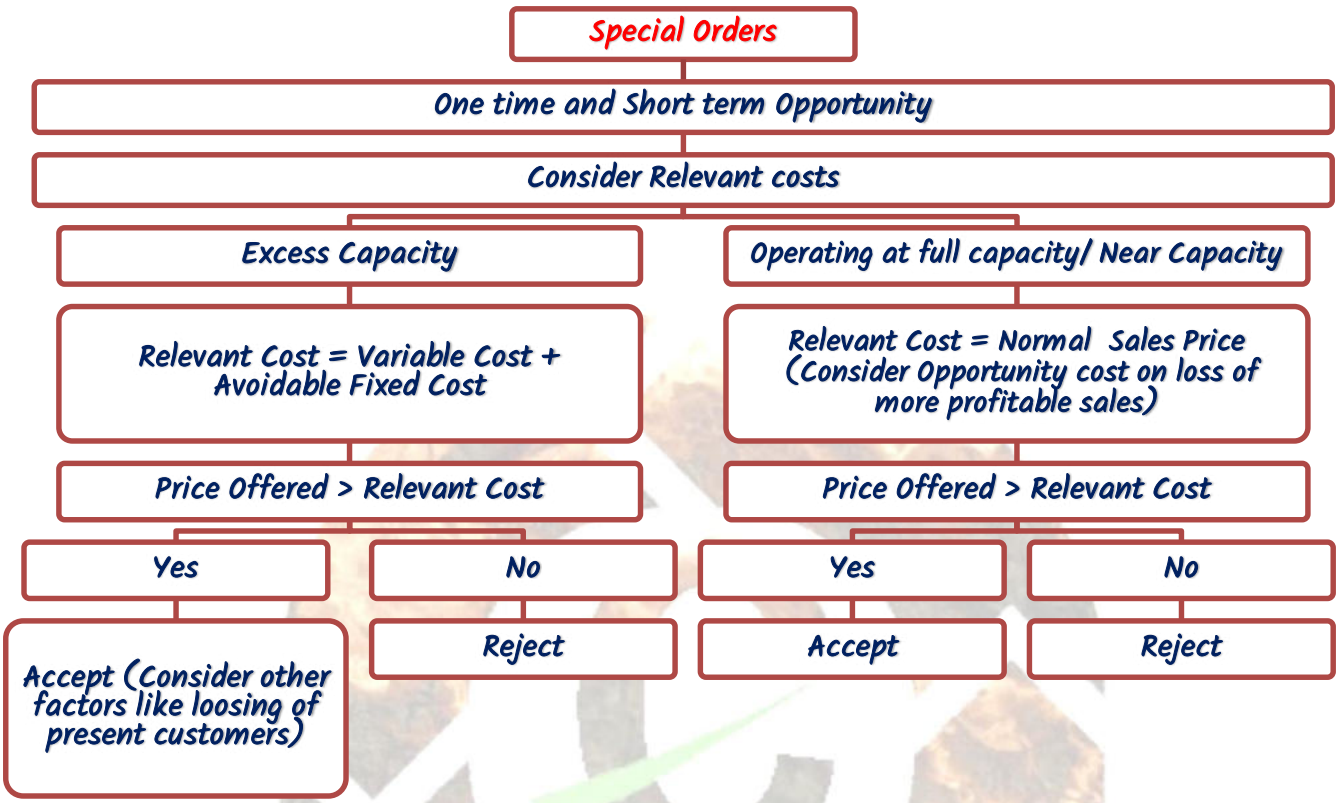
- Historical Cost
- Already Committed Cost
- Irrelevant for decision making
- Example: Research and Development, Rent, Already purchased Machinery

Marginal Costing is applied

While taking following type of decisions

- Special Orders and Pricing
- Make or Buy
- Sell or Process further
- Add or Drop a segment
- Maximize contribution per unit of the Limiting Factor

SPECIAL ORDERS



EXAMPLE

Selling Price (PU) = $. 4

Variable Cost (PU) = $. 2.75.

Fixed Cost (PU) = $. 1

Total Cost(PU) = 3.75

Capacity = 5,00,000 units.

Special Order = 50,000 units offered at selling price of $. 3.50 Per unit.

Decide whether to accept the Special Order or not (i) If Entity has excess capacity (ii) If entity is operating at Full Capacity. (Find potential savings/losses also by making that choice)

MAKE OR BUY

Make v/s Buy

Decide whether Outsource/Purchase Outside or Production in house

Produce internally

Relevant Cost = Incremental Cost = Variable Cost + Avoidable Fixed Cost + Any Contribution foregone	Irrelevant Cost = Unavoidable Fixed Cost = Sunk Cost = remains same if you purchase outside

If Relevant Cost < Purchase price	If Relevant Cost > Purchase price
Produce inside	Purchase outside

EXAMPLE

- Direct Material = $ 2.5
- Direct Labour = $. 3.5
- Variable Overhead = $. 1.5
- Fixed Overhead = $. 1
- Out side supplier Price = $. 7.75
- Relevant cost of making inside = $. 7.5
- No. of Units = 5,000.
- Decide whether to make or buy the product and also potential savings.

Note:

There is no discussion of revenue while taking make or buy decision, because even you make or buy from outside you sell finished product to the customer at same price

Cost

Fixed Cost

Avoidable Fixed Cost	Unavoidable Fixed Cost
Avoid by outsourcing	Un avoid by outsourcing

Opportunity cost

Space used for internal production has alternative use

Yes	No
Consider Opportunity cost	Don't consider Opportunity cost
Opportunity cost = Exist= Contribution lost	Opportunity cost = Nil

EXAMPLE

- Direct Material = $ 2.5
- Direct Labour = $. 3.5
- Variable Overhead = $. 1.5
- Fixed Overhead = $. 1
- Out side supplier Price = $. 7.75
- Relevant cost of making inside = $. 7.5
- No. of Units = 5,000.
- Entity can avoid 50% of fixed overhead if outsourced the product.
- Entity can lease the Space of production to other company for $. 6,000
- Decide whether to make or buy the product and also potential savings

Considering Other qualitative factors in case of Buy decision

Consider Factors w.r.t External Supplier

- Knowledge of Supplier
- Skill
- Access of Raw material to supplier
- Quality
- Core Competence
- Intellectual Property Rights- Exposing
- Timeliness
  - Maintain Safety Stock
  - Consider Cost of maintenance of safety stock

SELL OR PROCESS FURTHER

- Sell or Further Process
  - Sell with out further process
  - Sell after further process
    - Add features to the product to enhance the functionality
    - Improve quality
    - Repair defective product

- Sell or further process
  - Consider relevant cost
    - Relevant Cost
      - Incremental Cost (Cost of further processing)
    - Irrelevant cost
      - Already committed cost

Step-1	Identify Selling Price before Processing
Step-2	Identify Selling Price after Processing
Step-3	Calculate Incremental Revenue (i.e. Step-2 – Step-1)
Step-4	Calculate Incremental Cost (i.e. Cost of further Processing)
Step-5	Compare Incremental Revenue and Incremental Cost
Step-6	If Incremental Revenue is greater than Incremental Cost the process futrther

EXAMPLE

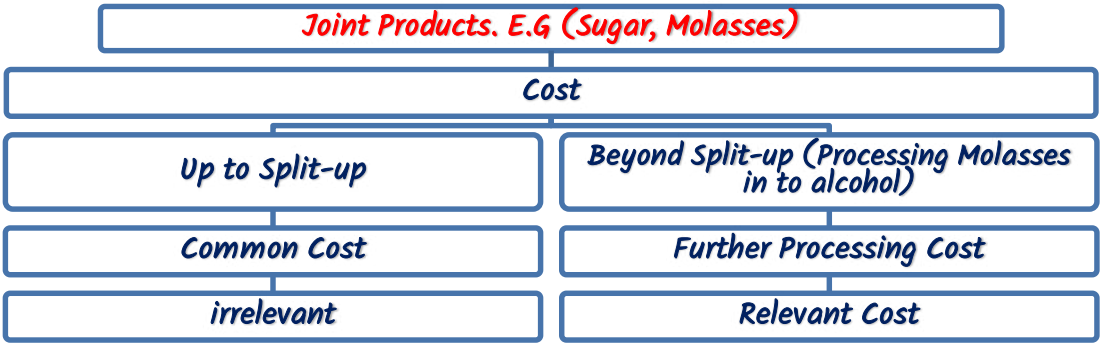
Selling price of product-A before processing = $. 20.

Cost of Production of Product –A is

If Product –A further processed get Product-AA. You can sell Product – AA to $. 50.

Further Processing Cost = $. 18.

Decide whether to further process or not



EXAMPLE

Mr. Pappu is running a sugar industry. He processed Sugar cane and got two products Sugar and Molasses.

Cost of Sugar cane is $. 80

Cost of processing to get Sugar and molasses is $. 30

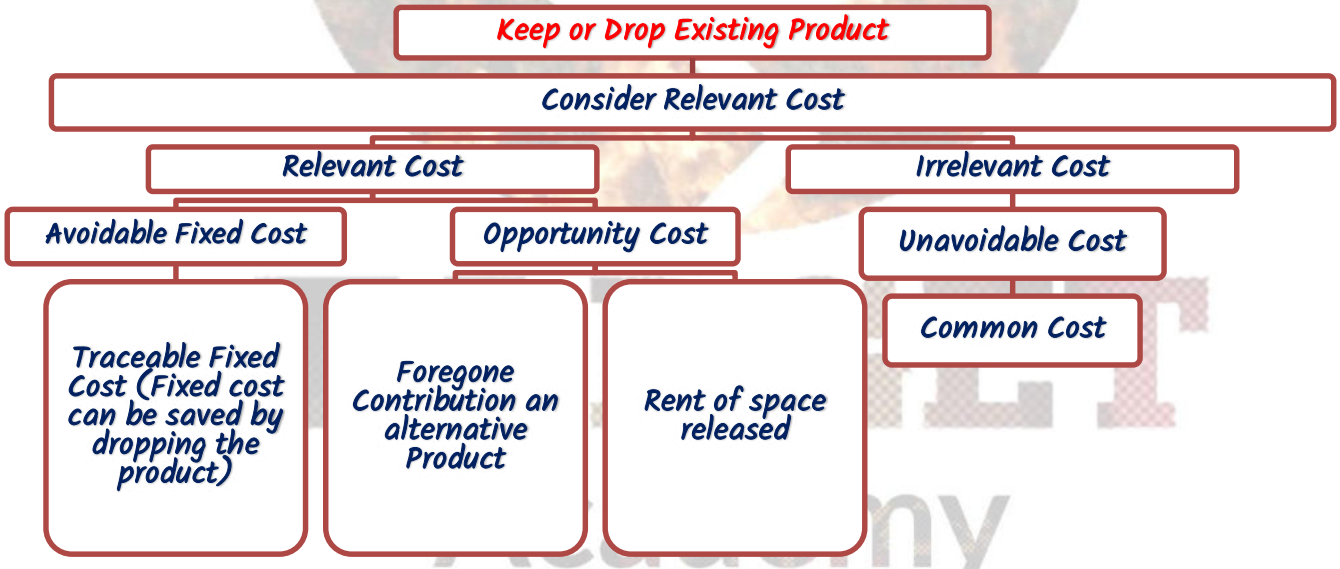
Mr. Pappu can sell Sugar for $. 150 and Molasses for $. 20

If Mr. Pappu further process Molasses, he will get Alcohol which can sell for $. 55

The further Processing Cost of Molasses is $. 25.

Decide whether to further process or not.

ADD, KEEP OR DROP A SEGMENT



Decision

Step-1: Identify Relevant Cost

Step-2 Identify Contribution

Step-3: Compare Contribution and Relevant Cost

If Contribution Greater than Relevant Cost

Keep

If Contribution less than relevant Cost

Drop

Because over all net Operating Income will improve

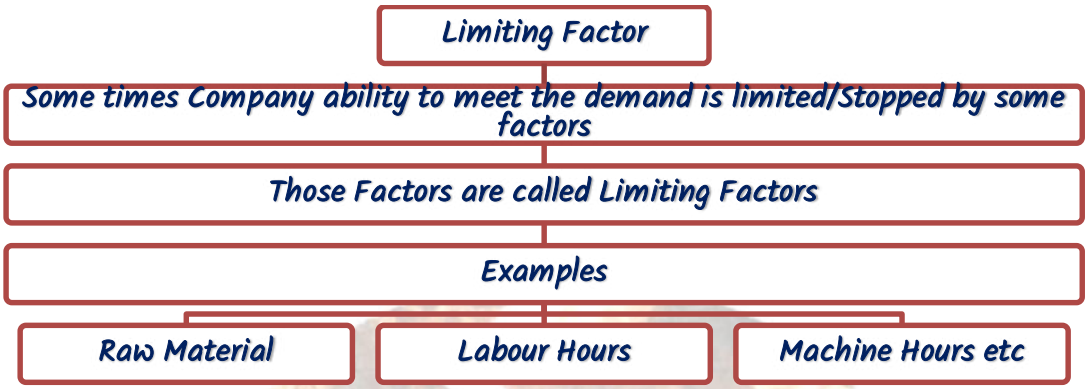
EXAMPLE

Particulars	Amount
Sales	5,00,000
Variable expenses	2,00,000
Contribution	3,00,000
Fixed expenses	
General factory overhead (common cost)	60,000
Salary of product manager	90,000
Depreciation (common cost)	50,000
Product advertising	1,00,000
Rent for factory space (Common Cost)	70,000
General administration expenses (Common Cost)	30,000
Net Loss	

Particulars	Amount
Contribution	
Avoidable Fixed Cost	

Particulars	Product-A	Overall Company	Company without Product-A
Sales	5,00,000	40,00,000	35,00,000
Variable Expenses	2,00,000	20,00,000	18,00,000
Contribution			
Fixed Expenses			
General factory overhead	60,000	6,00,000	6,00,000
Salary of product manager	90,000	4,00,000	3,10,000
Depreciation of equipment	50,000	3,00,000	3,00,000
Product advertising	1,00,000	3,00,000	2,00,000
Rent of the factory	70,000	2,00,000	2,00,000
General administration expenses	30,000	1,00,000	1,00,000
Net Loss			

LIMITING FACTOR/BOTTLE NECK CONTRIBUTION PER UNIT OF LIMITING FACTOR



Step1: Calculate Contribution per unit.

Step2: calculate Contribution per limiting factor

$$\text{Contribution per limiting factor} = \frac{\text{contribution PU}}{\text{Limiting factor PU}}$$

Example: SP = 100

VC = 60

Raw material required (PU) = 6 kgs

Raw material is the limiting factor

$$\text{Contribution per limiting factor} = \frac{\text{contribution PU}}{\text{Limiting factor PU}}$$

$$= (100-60)/6$$

$$= 40/6$$

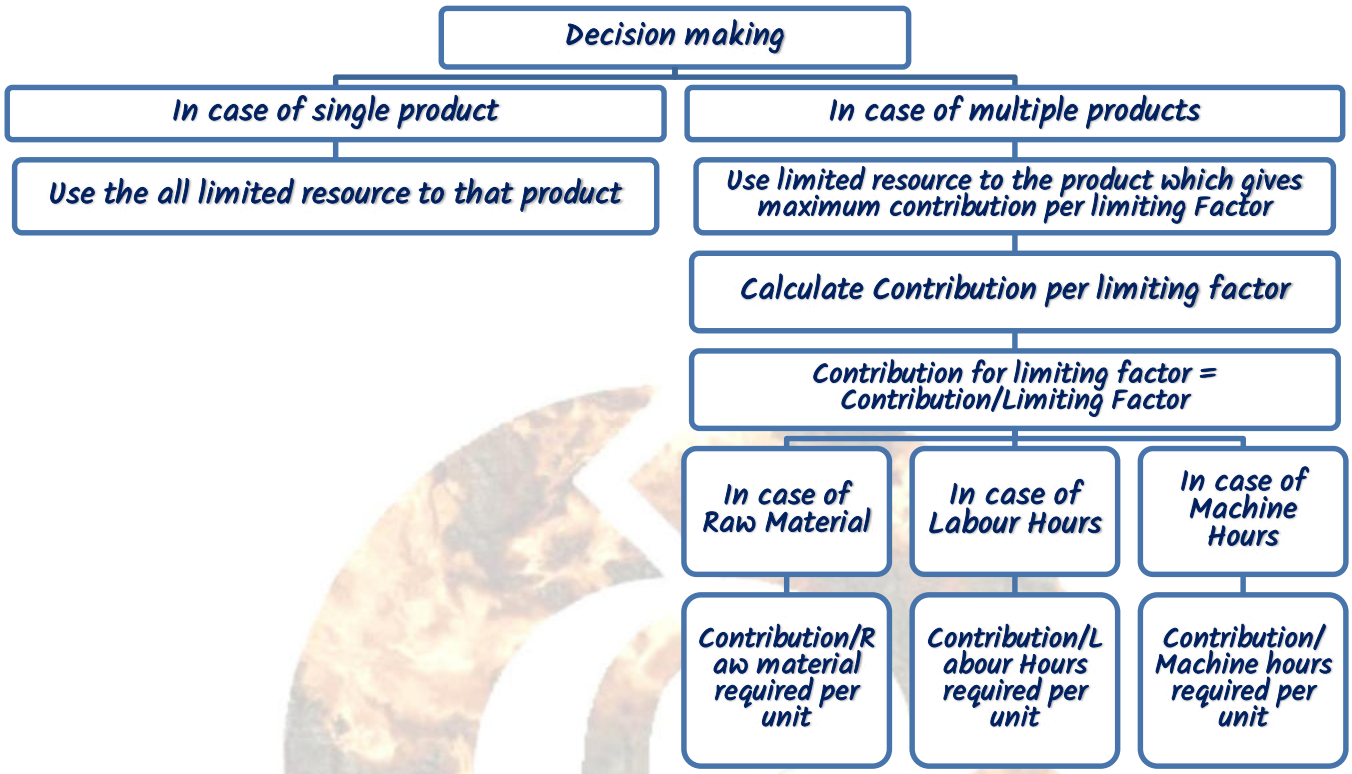
$$= 6.67$$

Step3: Ranking based on contribution per limiting factor

Step4: check contribution (if only) → 1. Maximum production

2. minimum Production

1. No minimum production and no maximum demand => allocate entire RM to Rank 1
2. Maximum demand (given); but no minimum production => Allocate RM Rank 1 up to maximum demand and remaining to other ranks (one after other)
3. Maximum production (given); but no maximum demand given => Allocate RM for minimum production of all products and remaining RM to Rank 1
4. Maximum demand (given); minimum production given => Allocate RM for minimum production of all production and remaining RM to Rank 1 up to maximum demand and remaining RM to others up to maximum demand (one by one)



EXAMPLE - 1

Sambar Company producing 3 products (A,B & C). It is using Pappu as raw material for all three Products: A,B,C. Raw Material (Pappu) is available is only 500 kgs (i.e. in limited quantity). Fixed cost is $. 1000

Particulars	Product-A	Product-B	Product-C
Selling Price (PU)	100	80	60
Variable Cost (PU)	30	14	36
Raw material required per unit	5 kg	2.5 kg	4 kg
Contribution Per unit			
Contribution per Raw material kg			
Ranking			

Particulars	Product-A	Product-B	Product-C	Total
No. of Units to be produced				
Sales				
Less: Variable Cost				
Contribution				
Less Fixed Cost				
Operating Profit				

Which product should Sambar manufacture to earn highest Operating Profit?

EXAMPLE - 2

Sambar Company producing 3 products (A,B & C). It is using Pappu as raw material for all three Products: A,B,C. Raw Material (Pappu) is available is only 500 kgs (i.e. in limited quantity) . Fixed cost is $. 1000

Particulars	Product-A	Product-B	Product-C
Selling Price (PU)	100	80	60
Variable Cost (PU)	30	14	36
Raw material required per unit	5 kg	2.5 kg	4 kg
Demand	32 units	120 units	100 units
Contribution Per unit			
Contribution per Raw material kg			
Ranking			

Particulars	Product-A	Product-B	Product-C	Total
No. of Units to be produced				
Sales				
Less: Variable Cost				
Contribution				
Less Fixed Cost				
Operating Profit				

Which product should Sambar manufacture to earn highest Operating Profit?

EXAMPLE - 3

Sambar Company producing 3 products (A,B & C). It is using Pappu as raw material for all three Products: A,B,C. Raw Material (Pappu) is available is only 500 kgs (i.e. in limited quantity) . Fixed cost is $. 1000

Particulars	Product-A	Product-B	Product-C
Selling Price (PU)	100	80	60
Variable Cost (PU)	30	14	36
Raw material required per unit	5 kg	2.5 kg	4 kg
Minimum units to be produced	20 units	20 units	20 units
Contribution Per unit			
Contribution per Raw material kg			
Ranking			

Particulars	Product-A	Product-B	Product-C	Total
No. of Units to be produced				
Sales				
Less: Variable Cost				
Contribution				
Less Fixed Cost				
Operating Profit				

Which product should Sambar manufacture to earn highest Operating Profit?

EXAMPLE - 4

Sambar Company producing 3 products (A,B & C). It is using Pappu as raw material for all three Products: A,B,C. Raw Material (Pappu) is available is only 500 kgs (i.e. in limited quantity) . Fixed cost is $. 1000

Particulars	Product-A	Product-B	Product-C
Selling Price (PU)	100	80	60
Variable Cost (PU)	30	14	36
Raw material required per unit	5 kg	2.5 kg	4 kg
Demand	32 units	120 units	100 units
Minimum units to be produced	20 units	20 units	20 units
Contribution Per unit			
Contribution per Raw material kg			
Ranking			

Particulars	Product-A	Product-B	Product-C	Total
No. of Units to be produced				
Sales				
Less: Variable Cost				
Contribution				
Less Fixed Cost				
Operating Profit				

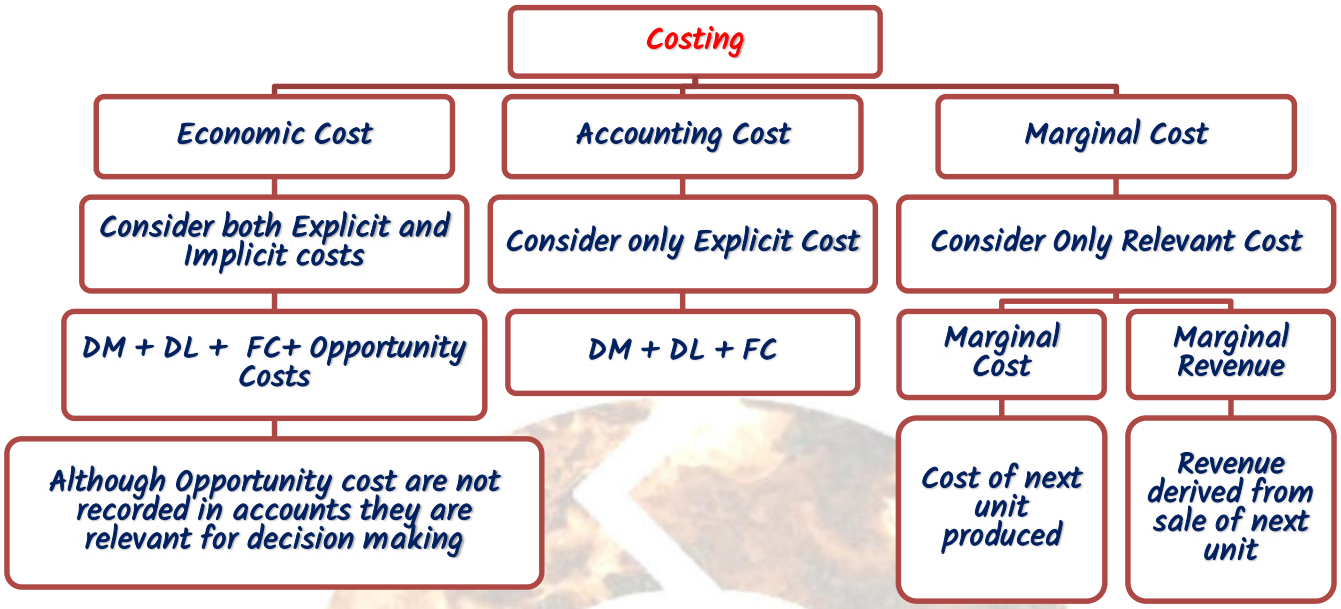
Which product should Sambar manufacture to earn highest Operating Profit?

INCOME TAXES AND MARGINAL ANALYSIS

- Tax
  - If Operating Income increase then Net Operating Income also increases
  - Income Taxes are irrelevant cost
    - Income tax is irrelevant for decision making
  - But Tax Saving on some of the cost are relevant
    - Example: Depreciation is a committed cost which is irrelevant
    - But due to depreciation tax saving will be there
    - Consider that tax savings as relevant cot

ECONOMIC COST V/S ACCOUNTING COST V/S MARGINAL COST

- Cost
  - Explicit Cost
    - Direct Material
    - Direct Labour
    - Fixed Costs
  - Implicit Cost
    - Opportunity Costs
    - Example: Rent lost on Space



AVERAGE COST

Total Cost = Variable Cost + Fixed Cost.

Average Variable Cost = Variable Cost / Production Volume

Average Fixed Cost = Fixed Cost / Production Volume

Average Total Cost = Average Variable Cost + Average Fixed Cost

TRANSFER PRICING

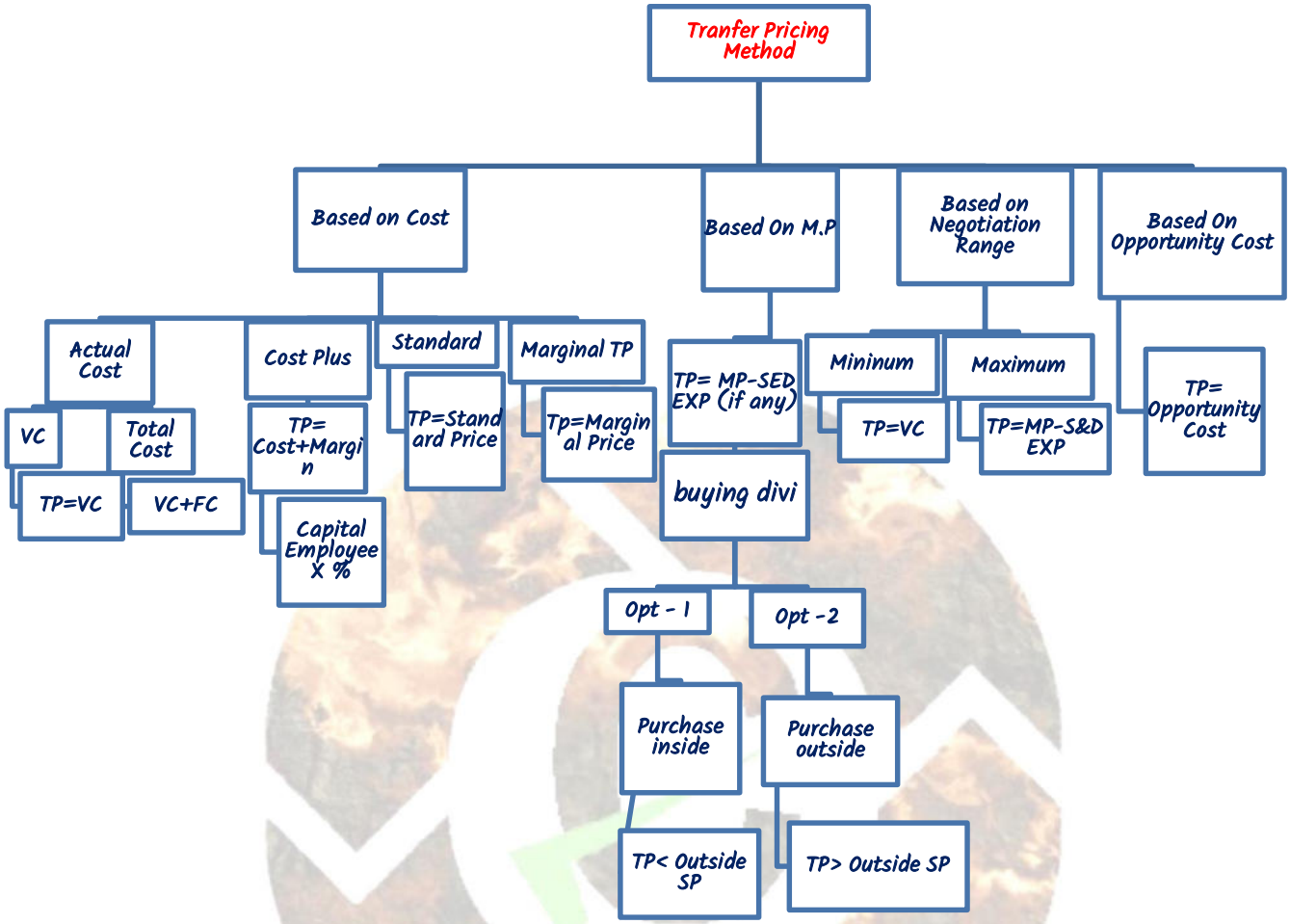


Cloth Hyd

Transferor / Transferring / Selling

Gun Shirts

Transferee / Receiving / buying



Cost Indifference Point → Diff in FC / Diff in VC PW

= (39500-25900) / (0.5-0.35)

= 90,666.67

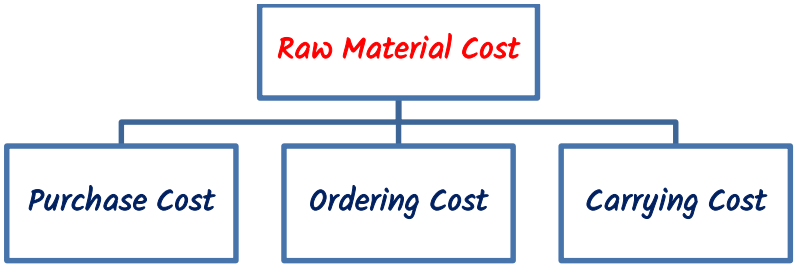
THE END

TARGET
Academy

MATERIAL COSTING

CONTACT: 90595 29540, 90106 76997.

MATERIAL COSTING



NOTE:

Generally, annual demand of raw material is not purchased at one time, it is purchased in instalments based on requirement.

Total Purchase cost (i.e. annual demand x cost per unit) is common for any quantity you order.



1. If you order more units Carrying cost will increase
2. If you order less units, No. of orders will increase there by Ordering cost will increase

Carrying cost = Cost of Storage + Insurance + Interest + Obsolescence

C = Cost incurred to order raw material

CARRYING COST

Carrying Cost Per Unit

- Cost of Storage + Insurance + Interest + Obsolescence
- Some times Carrying cost expressed as % on Price of Raw Material

Example	· Calculate Carrying Cost Per unit · If Cost of Storage = 2,000; Insurance = 1,000; Obsolescence = 500 then Carrying cost =..... · If Price of Raw Material = 400; Carrying Cost = 5% on Price ; Insurance = 4% on Price; Obsolescence = 2% on Price then calculate Carrying Cost per unit = ... · If Carrying cost = 15%on price; price of raw material = 500, then calculate carrying Cost per unit = ...
Total Carrying Cost	· Average Quantity ordered x Carrying Cost per Order · Average Quantity ordered = Quantity ordered /2

EXAMPLE-1:

Particulars	
Cost of Raw Material per unit	Rs. 500
Storage Cost	5% on Cost
Insurance	4% of Cost
Obsolescence	2% on Cost
No of units ordered per order	400 units
Calculate Carrying Cost per Unit	
Calculate Average Quantity ordered	
Calculate Total Carrying Cost	

ORDERING COST

Ordering Cost	· Cost incurred to order raw material
Example	· If no. of orders = 300; Cost per order = 5, then calculate Ordering Cost = ...

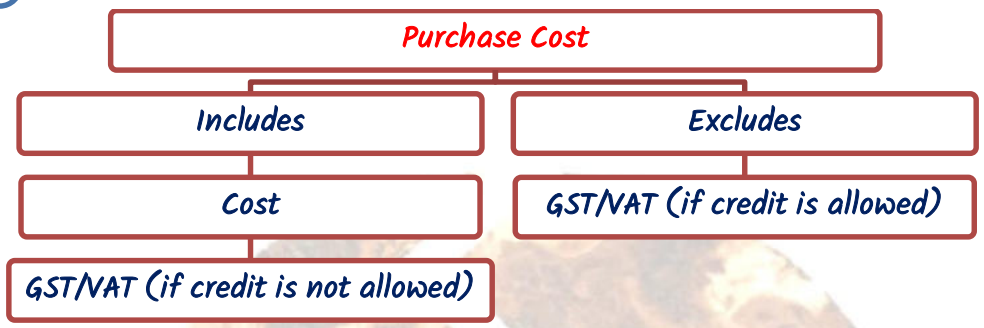
PURCHASE COST OF RAW MATERIAL

Purchase Cost Of Raw Material	· Total Purchase Cost of Raw Material = Quantity required per annum x Cost per Unit

TOTAL COST

Total Cost

- Total Cost = Total Purchase Cost of Raw Material + Total Ordering Cost + Total Carrying Cost



EXAMPLE-2:

Particulars	
Quantity required per annum	30,000 units
Quantity ordered per order	300 units
Carrying Cost	12 % on Price of Raw Material
Price of Raw Material	Rs. 60 Per Unit
No. Of Orders	
Cost per order	Rs. 10
Calculate Total Purchase Cost	
Calculate Total Ordering Cost	
Calculate Total Carrying Cost	
Calculate Total Cost	
Calculate Total Purchase Cost, Total Ordering Cost, Total Carrying Cost if units ordered = 500 units per order	

NOTE:

- If Quantity per order increases then number of orders will decrease, Ordering Cost will decrease and Carrying cost will increase
- If Quantity per Order decreases then No. of orders will increase, Ordering Cost will Increase and Carrying Cost will Decrease
- There is inverse relationship between Ordering Cost and Carrying Cost
- So, Manager should Order such quantity at which Ordering Cost and Carrying Cost is minimum
- Order Quantity at which Ordering Cost and Carrying Cost is minimum is called Economic Ordering Quantity

ECONOMIC ORDER QUANTITY

Order Quantity at which Ordering Cost and Carrying Cost is minimum is called EOQ

$$EOQ = \sqrt{\frac{2AO}{C}}$$

A = Annual Demand of Raw Material

O = Ordering Cost per Order

C = Carrying Cost per Unit

EXAMPLE-3:

Particulars	
Cost of Raw Material per unit	Rs. 600
Storage Cost	5% on Cost
Insurance	4% of Cost
Obsolescence	2% on Cost
Units required per Annum	4,000 Units
Ordering Cost Per Order	10
Calculate Carrying Cost Per Unit	
Calculate EOQ	
What is new EOQ if Cost of Raw material per unit decreased by 5%	

EXAMPLE-4:

Particulars	
Quantity required per annum	30,000 units
Quantity ordered per order	6000 units
Carrying Cost	12 % on Price of Raw Material
Price of Raw Material	Rs. 60 Per Unit
No. Of Orders	
Cost per order	Rs. 10
Calculate Total Purchase Cost	
Calculate Total Ordering Cost	
Calculate Total Carrying Cost	
Calculate Total Cost	
Calculate EOQ	

Calculate Total Cost in case of EOQ	

STOCK LEVELS

Lead Time	• Time between material ordered and material delivered • It is expressed in range i.e. Minimum Lead time and Maximum Lead time • Example :- 2 to 6 Days
Emergency Lead Time	• It is very shortest time for delivery of Raw Material • Example :- 1 day
Consumption	• Minimum Consumption • Example :- 20 units per day • Average Consumption • Example :- 40 units per day • Maximum Consumption • Example :- 60 units per day

Note: Lead time and consumption should be in same time period (i.e. if lead time is in days then consumption should be in days only)

Reorder Level (ROL) = (Maximum Lead Time x Maximum Consumption) + Safety Stock

Maximum Stock Level = ROL + ROQ – (Minimum Lead Time x Minimum Consumption)

Minimum Stock Level = ROL – (Avg Lead Time x Average Consumption) or Avg Stock Level - $\frac{OQ}{2}$

Average Stock Level = $\frac{Maximum\ Stock\ Level + Minimum\ Stock\ Level}{2}$ or Minimum Stock Level + $\frac{OQ}{2}$

Danger Level = Emergency Lead Time x Average Consumption

Safety Stock	• It is the stock and will not issue for production

EXAMPLE:

Particulars	
Normal Consumption	50 per week
Maximum Consumption	75 per week

Minimum Consumption	25 per week
Reorder Quantity	300
Reorder period	4 to 6 weeks
Calculate Reorder Level	
Calculate Minimum Stock Level	
Calculate Maximum Stock Level	
Calculate Average Stock Level	

Normal Loss	Abnormal Loss
Loss occupied normally	Loss beyond normal loss
Considered while calculating Rate of Raw Material	Not considered while calculating Rate of Raw Material

$$\text{Rate Per kg} = \frac{\text{Total Cost of Raw Material}}{\text{No. of kgs (after normal loss)}}$$

EXAMPLE-5:

Particulars	
Raw Material purchased 50 kgs for	Rs. 45,000
Normal Discount	5 kgs
Calculate Rate per kg	

Trade Discount	Cash Discount
Discount offered at the time of Purchase/Sale	Discount offered at the time of payment/ Collection for early payment or collection
Considered in calculation cost of Raw Material	Not considered in calculating cost of Raw Material

$$\text{Inventory Turnover} = \frac{\text{COGS}}{\text{Average Inventory}}$$

$$\text{Days in Inventory} = \frac{365}{\text{Inventory Turnover}}$$

EXAMPLE-6:

Particulars	
Opening Inventory	Rs. 20,000
Closing Inventory	Rs. 30,000
COGS	Rs. 75,000

Calculate Inventory turnover	
Calculate Days in inventory	

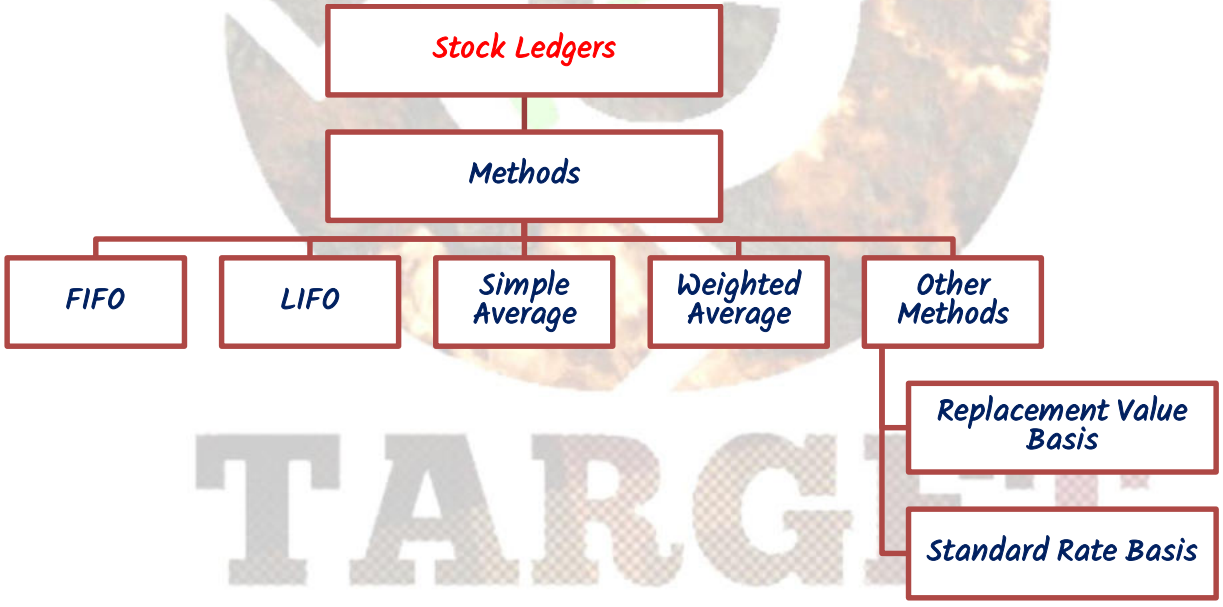
ABC ANALYSIS

Type	No. of variety	Value
A	Less	More
B	Medium	Medium
C	High	Less

EXAMPLE:

No. of varieties	% of value	Category
300	20%	
200	35%	
80	55%	

STOCK LEDGERS



Date	Receipt			Issue			Balance		
	Qty	Rate	Amount	Qty	Rate	Amount	Qty	Rate	Amount

FIFO

EXAMPLE-7:

The stock of material held on 1-4-2015 was 400 units @ 50 per unit. The following receipts and issues were recorded. You are required to prepare the Stores Ledger Account, showing how the values of issues would be calculated under Base Stock Method, both through FIFO AND LIFO base being 100 units.

2-4-2015 Purchased 100 units @₹55 per unit

6-4-2015 Issued 400 units

10-4-2015 Purchased 600 units @₹55 per unit

13-4-2015 Issued 400 units

20-4-2015 Purchased 500 units @₹65 per unit.

25-4-2015 Issued 600 units

10-5-2015 Purchased 800 units @₹70 per unit

12-5-2015 Issued 500 units

13-5-2015 Issued 200 units

15-5-2015 Purchased 500 units @₹75 per unit

12-6-2015 Issued 400 units

15-6-2015 Purchased 300 units @₹ 80 per unit

SOLUTION:

Stores Ledger Account [under Base Stock through FIFO Method]

Date	Receipts			Issue			Balance		
	Qty.	Price Amount (₹)	Value Amount (₹)	Qty.	Price Amount (₹)	Value Amount (₹)	Qty.	Price Amount (₹)	Value Amount (₹)
1-4-2015	--	--	--	--	--	--	100	50	5,000
							300	50	15,000
2-4-2015	100	55	5,500	--	--	--	100	50	5,000
							300	50	15,000
							100	55	5,500
6-4-2015	--	--	--	300	50	15,000			
				100	55	5,500	100	50	5,000
10-4-2015	600	55	33,000	--	--	--	100	50	5,000
							600	55	33,000
13-4-2015	--	--	--	400	55	22,000	100	50	5,000
							200	55	11,000
20-4-2015	500	65	32,500	--	--	--	100	50	5,000
							200	55	11,000
							500	65	32,500

25-4-2015	--	--	--	200	55	11,000	100	50	5,000
				400	65	26,000	100	65	6,500
10-5-2015	800	70	56,000	--	--	--	100	50	5,000
							100	65	6,500
							800	70	56,000
12-5-2015	--	--	--	100	65	6,500	100	50	5,000
				400	70	28,000	400	70	28,000
13-5-2015	--	--	--	200	70	14,000	100	50	5,000
							200	70	14,000
15-5-2015	500	75	37,500	--	--	--	100	50	5,000
							200	70	14,000
							500	75	37,500
12-6-2015	--	--	--	200	70	14,000	100	50	5,000
				200	75	15,000	300	75	22,500
15-6-2015	300	80	24,000	--	--	--	100	50	5,000
							300	75	22,500
							300	80	24,000

FIFO

EXAMPLE-8:

The stock of material held on 1-4-2015 was 400 units @ 50 per unit. The following receipts and issues were recorded. You are required to prepare the Stores Ledger Account, showing how the values of issues would be calculated under Base Stock Method, both through FIFO AND LIFO base being 100 units.

2-4-2015 Purchased 100 units @₹55 per unit

6-4-2015 Issued 400 units

10-4-2015 Purchased 600 units @₹55 per unit

13-4-2015 Issued 400 units

20-4-2015 Purchased 500 units @₹65 per unit.

25-4-2015 Issued 600 units

10-5-2015 Purchased 800 units @₹70 per unit

12-5-2015 Issued 500 units

13-5-2015 Issued 200 units

15-5-2015 Purchased 500 units @₹75 per unit

12-6-2015 Issued 400 units

15-6-2015 Purchased 300 units @₹ 80 per unit

SOLUTION:

Stores Ledger Account [under Base Stock through LIFO Method]

Date	Receipts			Issue			Balance		
	Qty.	Price Amount (₹)	Value Amount (₹)	Qty.	Price Amount (₹)	Value Amount (₹)	Qty.	Price Amount (₹)	Value Amount (₹)
1-4-2015	--	--	--	--	--	--	100	50	5,000
							300	50	15,000
2-4-2015	100	55	5,500	--	--	--	100	50	5,000
							300	50	15,000
							100	55	5,500
6-4-2015	--	--	--	100	55	5,500			
				300	50	15,000	100	50	5,000
10-4-2015	600	55	33,000	--	--	--	100	50	5,000
							600	55	33,000
13-4-2015	--	--	--	400	55	22,000	100	50	5,000
							200	55	11,000
20-4-2015	500	65	32,500	--	--	--	100	50	5,000
							200	55	11,000
							500	65	32,500
25-4-2015	--	--	--	500	65	32,500	100	50	5,000
				100	55	5,500	100	55	5,500
10-5-2015	800	70	56,000	--	--	--	100	50	5,000
							100	55	5,500
							800	70	56,000
12-5-2015	--	--	--	500	70	35,000	100	50	5,000
							100	55	5,500
							300	70	21,000
13-5-2015	--	--	--	200	70	14,000	100	50	5,000
							100	55	5,500
							100	70	7,000
15-5-2015	500	75	37,500	--	--	--	100	50	5,000
							100	55	5,500
							100	70	7,000
							500	75	37,500
12-6-2015	--	--	--	400	75	30,000	100	50	5,000
							100	55	5,500
							100	70	7,000
							100	75	7,500
15-6-2015	300	80	24,000	--	--	--	100	50	5,000
							100	55	5,500
							100	70	7,000
							100	75	7,500
							300	80	24,000

SIMPLE AVERAGE

- Prepare a statement showing the pricing of issues, on the basis of

- (a) Simple Average and
- The following information pertaining to Material-D 2016 March
- 1 Purchased 100 units @₹10 each
- 2 Purchased 200 units @₹ 10.2 each.
- 5 Issued 250 units to Job X vide M.R.No.12
- 7 Purchased 200 units @₹10.50 each
- 10 Purchased 300 units @₹10.80 each
- 13 Issued 200 units to Job Y vide M.R.No.15
- 18 Issued 200 units to Job Z vide M.R.No.17
- 20 Purchased 100 units @₹11 each
- 25 Issued 150 units to Job K vide M.R.No.25

SOLUTION:

Simple Average Method

Stores Ledger Account

Date	Receipts			Issue			Balance	
	Qty.	Price Amount (₹)	Value Amount (₹)	Qty.	Price Amount (₹)	Value Amount (₹)	Qty.	Value Amount (₹)
2016 March 1	100	10	1000	--	--	--	100	1000
March 2	200	10.2	2040	--	--	--	300	3040
March 5	--	--	--	250	10.10 (1)	2525	50	515
March 7	200	10.5	2100	--	--	--	250	2615
March 10	300	10.8	3240	--	--	--	550	5855
March 13	--	--	--	200	10.50 (2)	2100	350	3755
March 18	--	--	--	200	10.65 (3)	2130	150	1625
March 20	100	11	1100	--	--	--	250	2725
March 25	--	--	--	150	10.90 (4)	1635	100	1090

Working Notes:

- Calculation of Price for Issue on March 5th

= (10 + 10.2) / 2 = ₹10.10

- Calculation of Price for Issue on March 13th

= (10.2 + 10.5 + 10.8) / 3 = ₹10.5

- Calculation of Price for Issue on March 18th

= (10.5 + 10.8) / 2 = ₹10.65

- Calculation of Price for Issue on March 25th

= (10.8 + 11) / 2 = ₹10.90

REPLACEMENT PRICE BASIS

- Prepare Stores Ledger Account showing pricing of material issues on Replacement Price basis from the following particulars.
- Opening balance 400 units at₹4 each
- 10-3-2016 Received 100 units at₹4.10 each
- 15-3-2016 Issued 300 units to Job XY vide M.R.No.14 17-3-2016 Received 200 units at₹4.30 each
- 20-3-2016 Issued 250 units to Job AB vide M.R.No.20
- 25-3-2016 Received 400 units @₹4.50 each
- 26-3-2016 Issued 200 units to Job JK vide M.R.No.27 27-3-2016 Received 100 units @`4.60 each.
- 30-3-2016 Issued 300 units to Job PQ vide M.R.No.32.
- Replacement Price on various dates : 15-3-2016₹4.20
- 20-3-2016₹4.40
- 26-3-2016₹4.60 &
- 30-3-2016₹4.80.

SOLUTION:

Stores Ledger Account [Replacement Price Basis]

Date	Receipts			Issue			Balance		
	Qty.	Price Amount (₹)	Value Amount (₹)	Qty.	Price Amount (₹)	Value Amount (₹)	Qty.	Price Amount (₹)	Value Amount (₹)
2016 Mar 1	--	--	--	--	--	--	400	4.00	1,600
10-3-2016	100	4.10	410	--	--	--	500	4.02	2,010
15-3-2016	--	--	--	300	4.20	1260	200	3.75	750
17-3-2016	200	4.30	860	--	--	--	400	4.03	1,610
20-3-2016	--	--	--	250	4.40	1,100	150	3.40	510

25-3-2016	400	4.50	1,800	--	--	--	550	4.20	2,310
26-3-2016	--	--	--	200	4.60	920	350	3.97	1,390
27-3-2016	100	4.60	460	--	--	--	450	4.11	1,850
30-3-2016	--	--	--	300	4.80	1,440	150	2.7310	410

STANDARD PRICE BASIS

- Stocks are issued at a standard price and the following transactions occurred for a specific material:
- 1st January Opening Stock 10 tonnes at₹240 per ton
- 4th January Purchased 5 tonnes at₹260 per ton
- 5th January Issued 3 tons
- 12th January Issued 4 tons
- 13thJanuary Purchased 3 tons at₹250 per ton
- 19thJanuary Issued 4 tons
- 26thJanuary Issued 3 tons
- 30thJanuary Purchased 4 tons at₹280 per ton
- 31stJanuary Issued 3 tons.
- The debit balance of price variation on 1st January was₹20. Show the stock account for the material for the month of January, indicating how you would deal with the difference in material price variance, when preparing the Profit and Loss Account for the month.

SOLUTION:

Standard Price $= \frac{(240\ x\ 10)+20}{10} = 242$

Date	Receipts			Issue			Balance	
	Qty.	Price Amount (₹)	Value Amount (₹)	Qty.	Price Amount (₹)	Value Amount (₹)	Qty.	Value Amount (₹)
1st January	--	--	--	--	--	--	10	2,400
4th January	5	260	1,300	--	--	--	15	3,700
5th January	--	--	--	3	242	726	12	2,974
12th January	--	--	--	4	242	968	8	2,006
13th January	3	250	750	--	--	--	11	2,756

19th January	--	--	--	4	242	968	7	1,788
26th January	--	--	--	3	242	726	4	1,062
30th January	4	280	1,120	--	--	--	8	2,182
31st January	--	--	--	3	242	726	5	1,456

Material price variance is ₹ 246 which is to be transferred to debit of costing P & L A/c.

STOCK OUTS

Stock outs	· It is the situation when entity is unable to issue stock due to unavailability of stock.
Stock Out Cost	· Probability x Stockouts x Loss due to Stock outs.
Safety Stock	· Stock not issued in normal circumstances, but used to avoid stock outs in case of late delivery
Expected Stockouts	· Probability x (Stockouts- Sefety stock)

FORMAT

Safety Cost	Expected Stock outs	Stock outs Cost - A	Carrying cost of safety stock - B	Total cost A+B

EXAMPLE-9:

Stock outs	100 units	80 units	20 units
Probability	20%	50%	70%

Safety Stock 10units, 30 units, 100 units

Stock out cost per unit = Rs. 100

Carrying cost of Safety stock = Rs. 20

Calculate Total Cost

- Total Carrying cost in case of safety stock is maintained = $\frac{OQ}{2}$ x C + Safety Stock x C
- Where
  - ✓ C = carrying cost per unit
  - ✓ Safety stock is not issued to production so it will not reduce through year, it is constant though the year. So average is not taken while calculating total carrying cost

EXAMPLE-10:

Annual Demand	20,000 units
Ordering cost Per unit	Rs. 100
Carrying Cost per unit	Rs. 20
Safety stock	150 units
Calculate Total Carrying Cost	

THE END

LABOUR COSTING

CONTACT: 90595 29540, 90106 76997.

LABOUR COSTING

Normal Wage	• Normal Wage is paid to workers for hours worked • Normal Wage = Hours worked x Rate per hour. • Example:- No. of hours worked = 200 hours; Wage Rate per hour = 20 per hour; Normal Wage = Rs. .....
Bonus	• Bonus is paid to workers for time saved when compared to time allowed • Here Time saved = Time allowed – Time Taken • Bonus = Time Saved x Certain percentage of Wage Rate (based on method) • Example : Time allowed = 250 Hours; Time Taken = 200 Hours; Wage Rate = 20 Per hour; Bonus = 50% of Rate; then Calculate Bonus= .....
Total Wage	• Total Wage = Normal Wage + Bonus (as per method selected) • Example:- Total wage = ...

Models of Bonus

- Halsey Model
- Rowan Model

HALSEY MODEL

Bonus = Time Saved x (50% x wage rate)

Total wage = (Time taken x wage rate) + (Time saved x 50% x Wage rate)

EXAMPLE 1:

Particulars	
Time Allowed	90 hours
Time taken	75 hours
Wage Rate	8 per hour
Calculate Bonus under Halsey Model	
Calculate Total Wages under Halsey Model	

ROWAN MODEL

$$\text{Bonus} = \frac{\text{Time Taken}}{\text{Time allowed}} \times \text{Time saved} \times \text{Wage Rate}$$

$$\text{Total Wages} = (\text{Time taken} \times \text{wage rate}) + \frac{\text{Time Taken}}{\text{Time allowed}} \times \text{Time saved} \times \text{Wage Rate}$$

EXAMPLE 2:

Particulars	
Time Allowed	90 hours
Time taken	75 hours
Wage Rate	8 per hour
Calculate Bonus under Rowan Model	
Calculate Total Wages under Rowan Model	

HALSEY VS ROWAN

If time taken is more than 50% of time allowed Rowen is better.

If time taken is less than 50% of time allowed Halsey is better.

If time taken is equal to 50% of time allowed then both plans are good (indifference point)

EFFECTIVE WAGE RATE

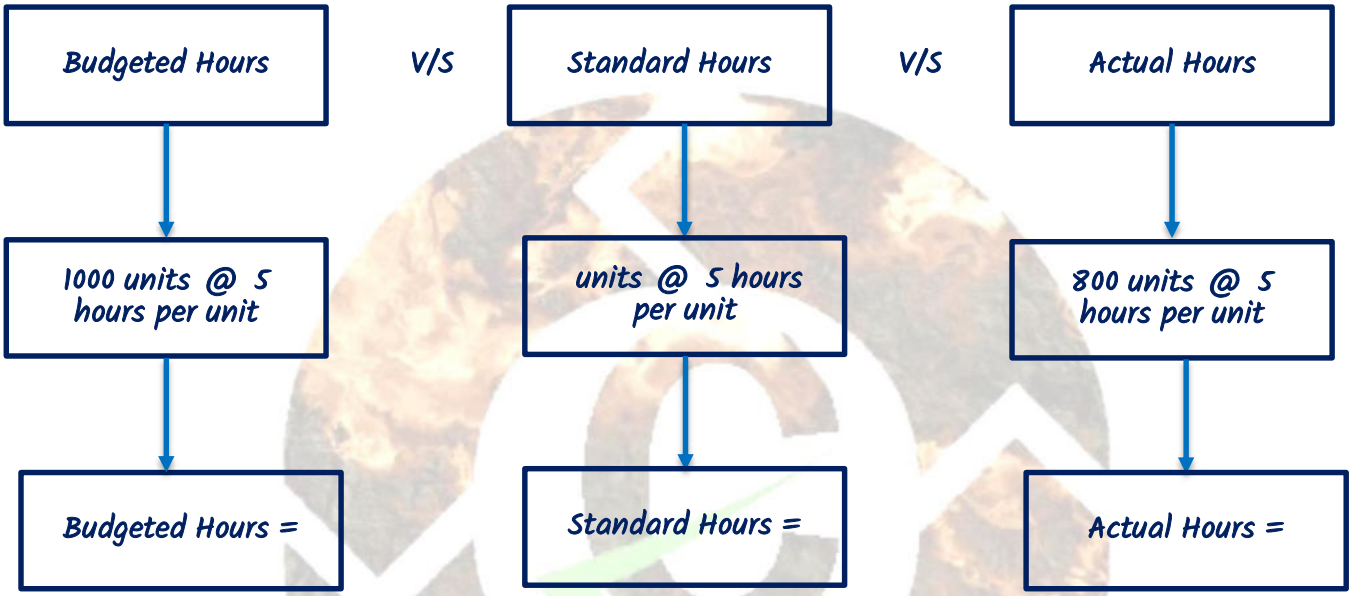
$$\text{Effective wage rate} = \frac{\text{Total Wages (including Bonus)}}{\text{Time Taken}}$$

EXAMPLE 3:

Particulars	
Time Allowed	100 hours
Time taken	85 hours
Wage Rate	9 per hour
Calculate Bonus under Halsey Model	
Calculate Total Wages under Halsey Model	
Calculate Bonus under Rowan	
Calculate Total Wages under Rowan	
Calculate effective wage rate under Halsey	
Calculate effective wage rate under Rowan	

EXAMPLE 4:

Particulars	
Time allowed	80 hours
Wage Rate	Rs. 20 per hour
Effective Wage rate under Halsey	Rs. 25 per hour
Effective wage rate under Rowan	Rs. 28 Per hour
Calculate time saved under	
Calculate time saved under Rowan	



LABOUR TURNOVER

EXAMPLE 5:

Particulars	Beginning	Joined	Left	Replaced (Least of Joined or left)	End (Beginning + Joined – Left)
Supervisor	60	30	20		
Workers	70	25	35		

LABOUR TURNOVER RATES

1. Replacement Method = $\frac{Replaced}{Average}$ x 100 here Average = $\frac{Begining+Ending}{2}$

2. Separation Method = $\frac{Left}{Average}$ x 100 here Average = $\frac{Begining+Ending}{2}$

3. Flux Method = $\frac{Joined+Left}{Average}$ x 100 here Average = $\frac{Begining+Ending}{2}$

EXAMPLE 6:

Particulars	Beginning	Joined	Left	Replaced (Least of Joined or left)	End (Beginning + Joined – Left)
Supervisor	100	45	55		
Workers	60	35	25		

Calculate Labour Turnover by using

1. Replacement Method
2. Separation Method
3. Flux Method

COST TO COMPANY

Cost to Company = Basic Salary + DA + Bonus + Other Allowances + Employer's Contribution to PF, ESI etc.

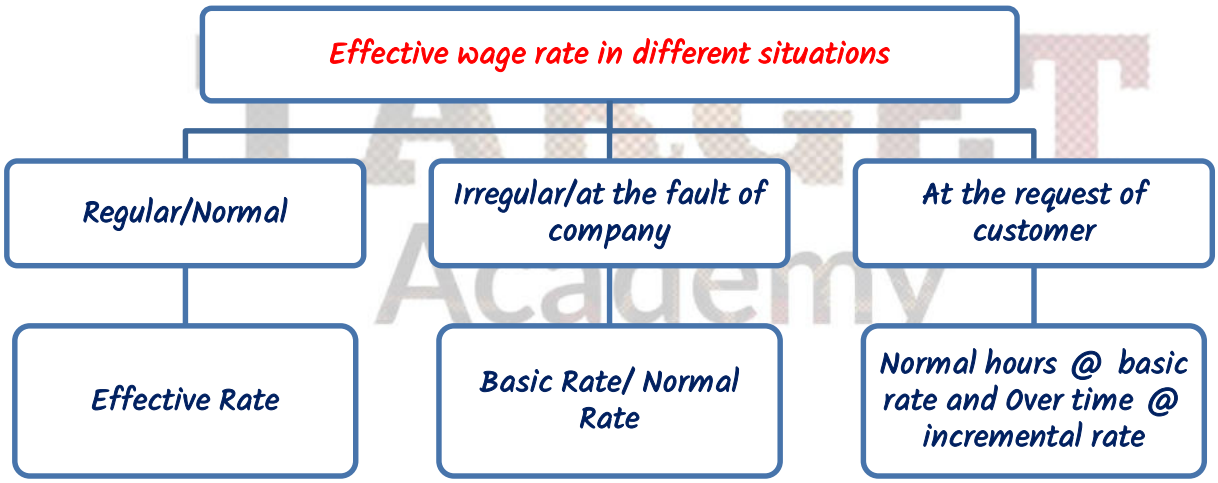
$$\text{Effective Hourly Cost} = \frac{CTC}{\text{Total Hours} - \text{unproductive hours}}$$

Note:-
1. Employer's contribution to PF, ESI, etc., is a cost to company that is not covered in Basic, DA, etc., hence added separately
2. Employee's contribution to PF, ESI, etc. is not a cost to company, hence not added to Basic, DA etc.,

EXAMPLE 7:

Particulars	
Basic Salary	Rs. 30,000
DA	Rs. 15,000
Bonus	10% of (Basic + DA)
Other allowance	Rs. 10,000
Employer's Contribution to PF	9 % of (Basic + DA)
Employee's Contribution to PF	Same amount contributed by Employer
Calculate CTC	
Calculate Effective Hourly Cost	

EFFECTIVE WAGE RATE IN DIFFERENT SITUATIONS



EXAMPLE 8:

Particulars	
Normal Wage	Rs. 100
Wage in case of overtime in normal days	150% of Normal Wage
Wage in case of Sunday and Holidays	170% of Normal Wage
Normal Time	200 hours
Overtime in normal days	120 hours
Overtime in Sundays, Holidays	80 Hours
Calculate Total labour cost if worked regularly	
Calculate Total labour Cost if worked irregularly – at the fault of company	
Calculate Total labour cost – if worked at the request of Customers	

COMPUTATION OF OVERTIME AS PER FACTORIES ACT

Over Time =

- Higher of
- (a) More than 9 hours/day or
- (b) More than 48 hours/week
- Shall be considered as overtime and wage rate applicable during overtime shall be double of basic wage rate

EXAMPLE 9:

Day	Total hours worked		Normal Hours		Over time	
	A	B	A	B	A	B
Monday	10.5	10.5				
Tuesday	8	8				
Wednesday	10.5	10.5				
Thursday	9.5	9.5				
Friday	10.5	10.5				
Saturday	0	8				
Total						
Over time- Higher of						
Normal wage rate	20	25				
Over time wage Rate	35	45				
Total Wages						

EMERSON'S EFFICIENCY PLAN

Efficiency Range	Total Wages
Below 66.66%	100% of Guaranteed time Rate
66.66% to 100%	120% of Guaranteed time rate
Above 100%	120% + 1% extra for every 1% extra efficiency

$$\text{Efficiency} = \frac{SH}{AH} \times 100 \text{ (or) } \frac{AQ}{SQ} \times 100$$

EXAMPLE 10:

Particulars	
SH	12 hours
AH	15 Hours
Guaranteed Time Rate	Rs. 100
Calculate Efficiency	
Calculate Total Wages as per Emerson	

DIFFERENTIAL PIECE RATE SYSTEM (TAYLOR'S RULE)

Efficiency	Wage
Less than 100% efficiency	80%/83% x Normal Piece Rate x No. of units
100% or above	120%/ 125% x normal piece Rate x No. of units

$$\text{Efficiency} = \frac{SH}{AH} \times 100 \text{ (or) } \frac{AQ}{SQ} x\ 100$$

EXAMPLE 11:

Particulars	
SH	13 hours
AH	16 Hours
Guaranteed Time Rate	Rs. 100
Calculate Efficiency	
Calculate Total Wages as per Tayler's	

MERICK DIFFERENTIAL PIECE RATE SYSTEM

Efficiency Range	Total Wages
Below 83 %	100%
83% to 100%	110% of piece rate
Above 100%	120% of piece rate

$$\text{Efficiency} = \frac{SH}{AH} \times 100 \text{ (or) } \frac{AQ}{SQ} x\ 100$$

EXAMPLE 12:

Particulars	
SH	130 hours
AH	96 Hours
Guaranteed Time Rate	Rs. 20
Calculate Efficiency	
Calculate Total Wages as per Tayler's	

- Total Labour Cost = Total Hours required x Rate per hour
- = (No. of units x hours required per unit) x Rate per Hour

$$\text{No. of Workers required} = \frac{\text{Total hours required}}{\text{Hours per worker per period}}$$

EXAMPLE 13:

Time to complete 1 unit of Finished Goods	12 minutes
Each workers	8 hours per day
Finished goods required to complete	5,000 units
No. of workers appointed	6
Calculate how many days to complete 5,000 units	

EXAMPLE 14:

Time to complete 1 unit of Finished Goods	12 minutes
Each workers	8 hours per day
Finished goods required to complete	5,000 units
No. of workers appointed	2
Days to complete 5,000 units	3 days
How many additional workers need to appoint	

WAGE RATE

Wage Rate per hour = $\frac{\text{Total Wages}}{\text{Productive hours}}$

Productive Hours = Total hours – Non productive hours(like ideal time)

EXAMPLE 15:

Total days	300 days
Leave taken	30 days
Worker works	8 hours per day
Total wage	2,00,000
Calculate wage rate per hour	

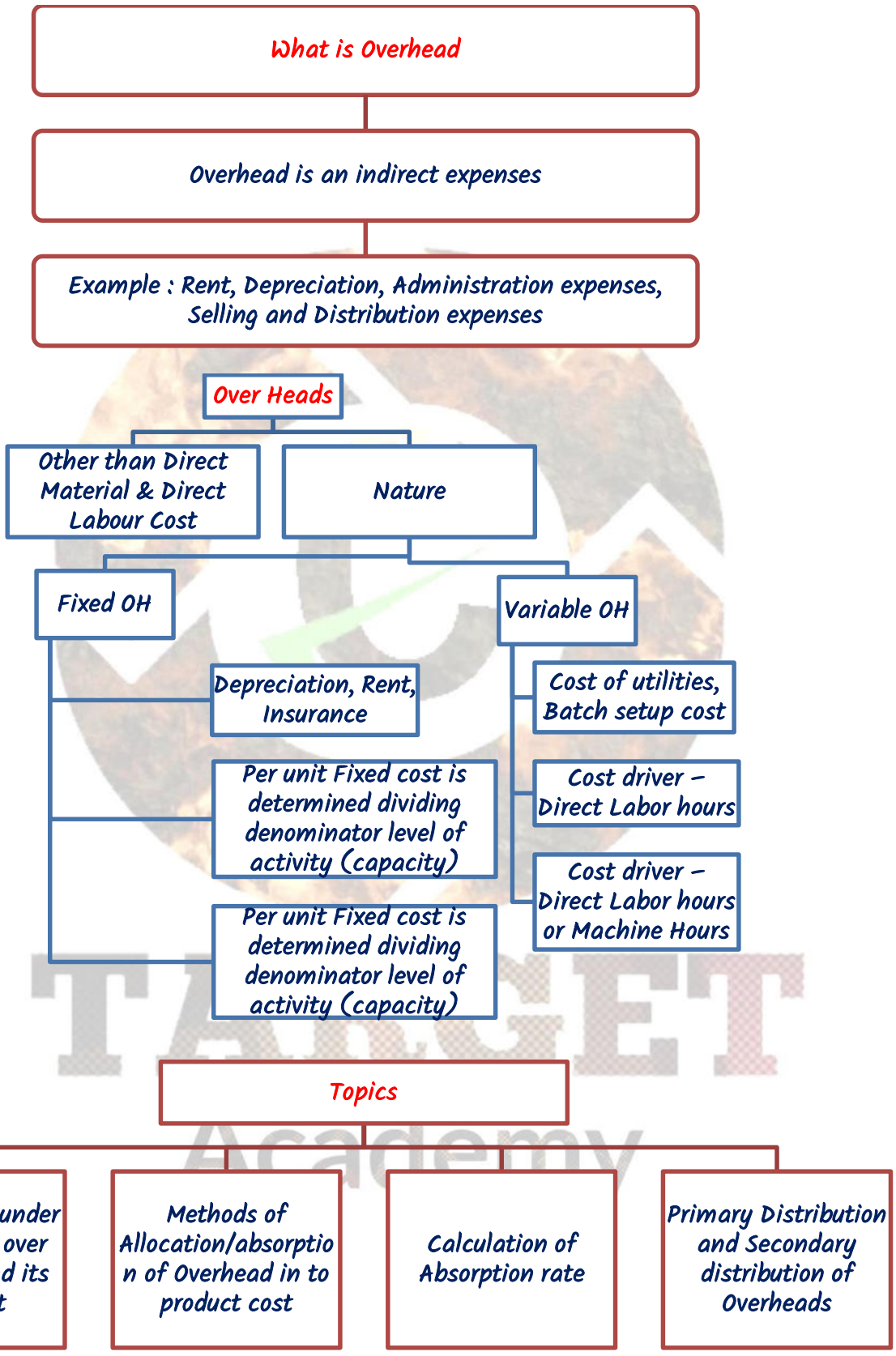
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OVERHEADS

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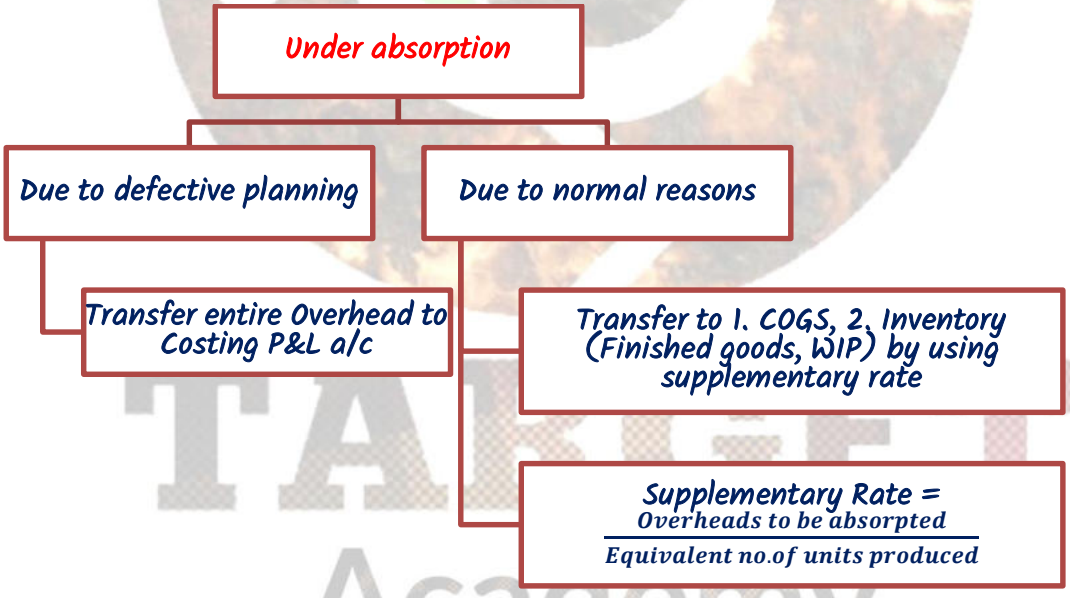
OVERHEADS


What is Overhead
Overhead is an indirect expenses
Example : Rent, Depreciation, Administration expenses, Selling and Distribution expenses
Over Heads
Other than Direct Material & Direct Labour Cost
Nature
Fixed OH
Variable OH
Depreciation, Rent, Insurance
Per unit Fixed cost is determined dividing denominator level of activity (capacity)
Per unit Fixed cost is determined dividing denominator level of activity (capacity)
Cost of utilities, Batch setup cost
Cost driver – Direct Labor hours
Cost driver – Direct Labor hours or Machine Hours
Topics
Calculation of under absorption or over absorption and its treatment
Methods of Allocation/absorption of Overhead in to product cost
Calculation of Absorption rate
Primary Distribution and Secondary distribution of Overheads

UNDER/OVER ABSORPTION AND ITS TREATMENT

Step-1	• Calculation of actual overhead amount by eliminating abnormal/ unexpected items like Obsolescence, Strike, Court Order, Previous year due etc. • Example: Total Overhead incurred is Rs. 5,00,000 which includes Obsolete stores 20,000. Ans : Actual Overhead = ...
Step-2	• Calculate the amount of overhead absorbed • Overhead absorbed = Machine hours or Labour hours x Absorption Rate (Predetermined) • Example : Overhead absorption rate = Rs. 150 per machine hours; Machine hours = 3,000 hours, Calculate Overhead Absorbed
Step-3	• Calculation of Under absorption or Over absorption • If Actual < Absorbed then Over absorption • If Actual > Absorbed then Under absorption

TREATMENT OF UNDER ABSORPTION



Supplementary Rate	• Supplementary Rate = $\frac{\text{Overheads to be absorpted}}{\text{Equivalent no.of units produced}}$ • Example : Under absorbed Over heads = 1,00,000; ¼th is due to planning error, remaining is due to normal circumstances, no. of units produced = 4,000 units • Supplementary Rate = ...

Equivalent no. of units	• Equivalent no. of units is units that are expressed in fully produced finished goods • Example : Inventory has 3,000 units finished goods and 4,000 units of WIP which are 50% completed; here WIP can be expressed as 4,000 x 50% = 2,000 units equivalent Finished goods; therefore Equivalent units = ...

Example 1:

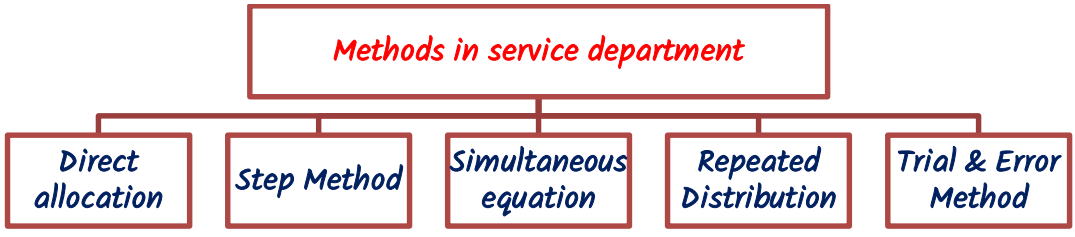
Total Overhead incurred (Includes Obsolescence = Rs. 3,000; Strike = 4,000)	Rs. 2,00,000
Overhead Rate per labour hour	Rs. 20
Labour hours	5,500 hours
COGS	40 units
Finished goods	60 units
WIP	10 units
1/4th of under absorption is due to wrong estimation	
Calculate Under Absorption	
Under absorption charged to Costing P&L	
Under Absorption charged to COGS	
Under absorption charged to Finished goods	
Under Absorption charged to WIP	

PRIMARY DISTRIBUTION AND SECONDARY DISTRIBUTION

Primary distribution	• Allocation of expenses to Main division and Service departments

Particulars	Basis	Proportion	Total	Production dept - 1	Production dept - 2	Production dept - 3	Services dept - 1	Services dept - 2
Rent	Square feet							

Secondary Distribution	• Allocation of Service/secondary Divisions costs to production departments



DIRECT ALLOCATION

Division	Total Amount	Basis	Production dept - 1	Production dept - 2
Service dept-1				
Service dept -2				

Example 2:

Particulars	Service		Production		
	HR	Janitorial	Metal Dept	Chrome Dept	Total Cost
Dept costs before allocation	2,00,000	80,000	4,00,000	1,00,000	7,80,000
Labour hours	10,000	5,000	20,000	5,000	
Space (sq. ft)	15,000	500	60,000	20,000	

Particulars	Metal Dept	Chrome Dept	Total
HR Cost Rate			
HR Cost			
Janitorial Cost Rate			
Janitorial Cost			

Particulars	Production Cost	Service Cost	Total
Metal Dept			
Chrome Dept			

Example 3:

Division	
Primary Division -1	Rs. 4,50,000
Primary Division-2	Rs. 2,50,000
Secondary Division-1	Rs. 1,00,000
Secondary Division-2	Rs. 2,40,000

Division	Service department-1	Service department -2
Primary Division-1	200 hours	250 hours
Primary Division-2	300 hours	150 hours

Division	Total Amount	Basis	Production department-1	Production department -2
Service department -1				
Service department -2				

Example 4:

	P1	P2	S1	S2
Costs	$30,000	$40,000	$24,000	20,000
S1 services	50%	30%	0	20%
S2 services	40%	40%	20%	0

What are the total service costs allocated to the two production departments (P1 and P2) by using Direct Method

STEP DOWN METHOD

The following process is used in the step-down method

Step 1	• Determine the service department to be allocated first to the other service and production departments Calculate the percentage to be used for this allocation base 1 on a cost driver. Then allocate the first service department costs to all the receiving departments
Step 2	• The next service department is allocated to other service and production departments based on a cost driver Continue this process until all service departments' costs have been allocated to the production departments.

Example 5:

Particulars	Service		Production		
	HR	Janitorial	Metal Dept	Chrome Dept	Total Cost
Dept costs before allocation	2,00,000	80,000	4,00,000	1,00,000	7,80,000
First Step					
Subtotal	0				
Second Step					
Total	0	0			7,80,000
Labour hours	10,000	5,000	20,000	5,000	
Space (sq. ft)	15,000	500	60,000	20,000	

Example 6:

	P1	P2	S1	S2
Costs	$30,000	$40,000	$24,000	20,000
S1 services	50%	30%	0	20%
S2 services	40%	40%	20%	0

What are the total service costs allocated to the two production departments (P1 and P2) by using Step Down Method

SIMULTANEOUS EQUATION

Steps in Reciprocal Method

Step 1	• Set up a system of equations for each of the service departments. Create equations for the HR and Janitorial departments and reduce both to their simplest form.
Step 2	• Solve for HR's total cost as shown below. This amount will be allocated to the janitorial, metal, and chrome departments based on labor hours.
Step 3	• Allocate the new total in janitorial to HR, metal, and chrome departments based on square footage. At this point, all costs end up in the production departments

Example 7:

Particulars	Service		Production		
	HR	Janitorial	Metal Dept	Chrome Dept	Total Cost
Dept costs before allocation	2,00,000	80,000	4,00,000	1,00,000	7,80,000
Step 2					
Step 3	0				
Total	0	0			7,80,000
Labour hours	10,000	5,000	20,000	5,000	
Space (sq. ft)	15,000	500	60,000	20,000	

Example 7:

	P1	P2	S1	S2
Costs	$30,000	$40,000	$24,000	20,000
S1 services	50%	30%	0	20%
S2 services	40%	40%	20%	0

Method	Metal Department	Chrome Department	Total
Direct	6,20,000	1,60,000	7,80,000
Step-Down	6,18,334	1,61,666	7,80,000
Simultaneous equation	6,19,100	1,60,902	7,80,000

REPEATED DISTRIBUTION METHOD

The following process is used in the Redistribution method

Step 1	• Determine the service department to be allocated first to the all other service and production departments • Calculate the percentage to be used for this allocation base. • Then allocate the first service department costs to all the receiving departments
Step 2	• The next service department is allocated to all other service and production departments based on a cost driver • Continue this process until all service departments' costs have been allocated to the production departments.

Example 8:

Particulars	Service		Production		
	HR	Janitorial	Metal Dept	Chrome Dept	Total Cost
Dept costs before allocation	2,00,000	80,000	4,00,000	1,00,000	7,80,000
Step 2					
Step 3	0				
Total	0	0			7,80,000
Labour hours	10,000	5,000	20,000	5,000	
Space (sq. ft)	15,000	500	60,000	20,000	

TRIAL & ERROR (MECHANICAL) METHOD

The following process is used in the Redistribution method

Step 1	• Determine the service department to be allocated first to the other service, based on percentage given • Then allocate the first service department costs to all the other service department
Step 2	• The next service department is allocated other service based o percentage given • Continue this process until all service departments' costs have been allocated to the other Service Departments.

Step-3	• Allocate total cost of service departments to Production departments

Example 8:

	P1	P2	S1	S2
Costs	$30,000	$40,000	$24,000	20,000
S1 services	50%	30%	0	20%
S2 services	40%	40%	20%	0

What are the total service costs allocated to the two production departments (P1 and P2) by using Trial & Error Method

ABSORPTION RATE

Absorption Rate

- It is the rate used to allocate the total Cost of Production Departments (After secondary distribution) to Jobs, Products
- Absorption Rate = $\frac{\text{Total Overhead cost (after distribution)}}{\text{Machine hours or labour hours}}$

Basis of allocation of Manufacturing overheads to units produced

- Generally Direct labors or Machine hours
- Overhead per unit = $\frac{\text{Total Over head cost (After diatribution)}}{\text{Total no. of direct labor hours or Machine hours}}$

Example 9:

Department	
Production Department -1	Rs. 6,19,100
Production Department -2	Rs. 1,60,902

Particulars	Production Departement-1	Production Departemnt-2
Machine Hours	2000 hours	3,000 hours

Particulars	Job-A	Job-B
Machine Hours _PD-1	40 hours	50 hours

Machine Hours_PD-2	20 hours	35 hours

Calculate Absorption Rate .Allocate Cost to Job-A, Job-B

Example 10:

Particulars	
Manufacturing over head	120% of Direct wages
Direct wages	Rs. 20,000
Calculate Manufacturing Overhead	

Example 11:

Particulars	
Depreciation	5,00,000
Repairs	1,00,000
Power (Rs. 45 per hour)	
No. of machine hours	4380 hours
Rent	80,000
Supervisor salary	30,000
Insurance	20,000
Other expenses	10,000
Calculate total Overheads	
Calculate Rate per machine hour	

Rated Capacity	Practical Capacity	Normal capacity	Actual Capacity
· Theoretical Capacity	· After adjusting holidays	· After adjusting abnormal items in break down, ideal time etc.	· Actually happened

PRODUCTIVE TIME AND RUNNING TIME OF MACHINE

Particulars	
Machine Total time	208 hours
Maintenance time	20 hours
Setup Time	8 hours
Calculate Machine Running Time	
Calculate Total time available	

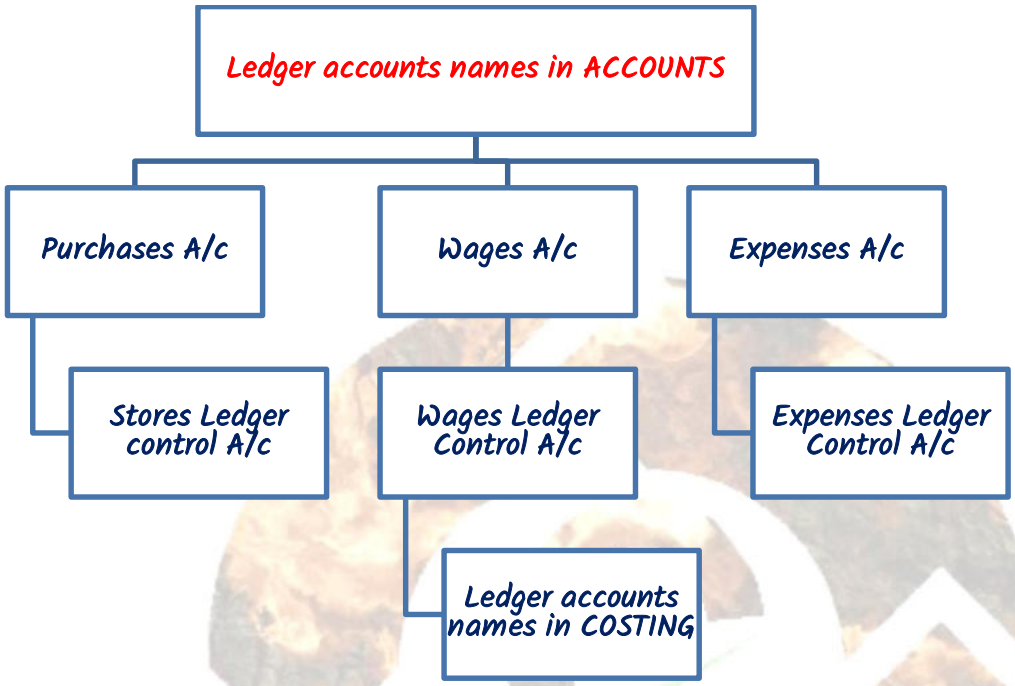
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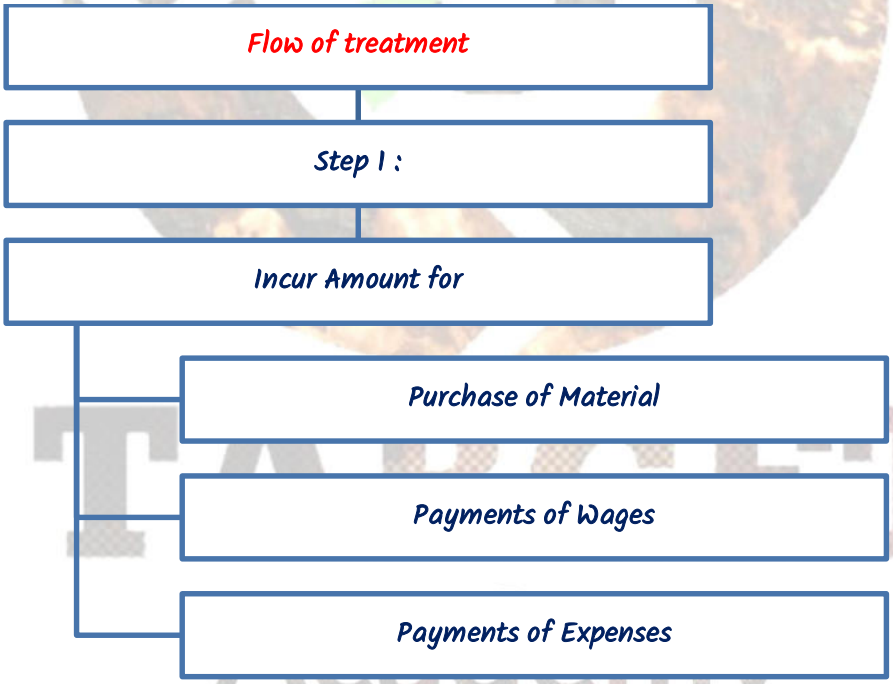
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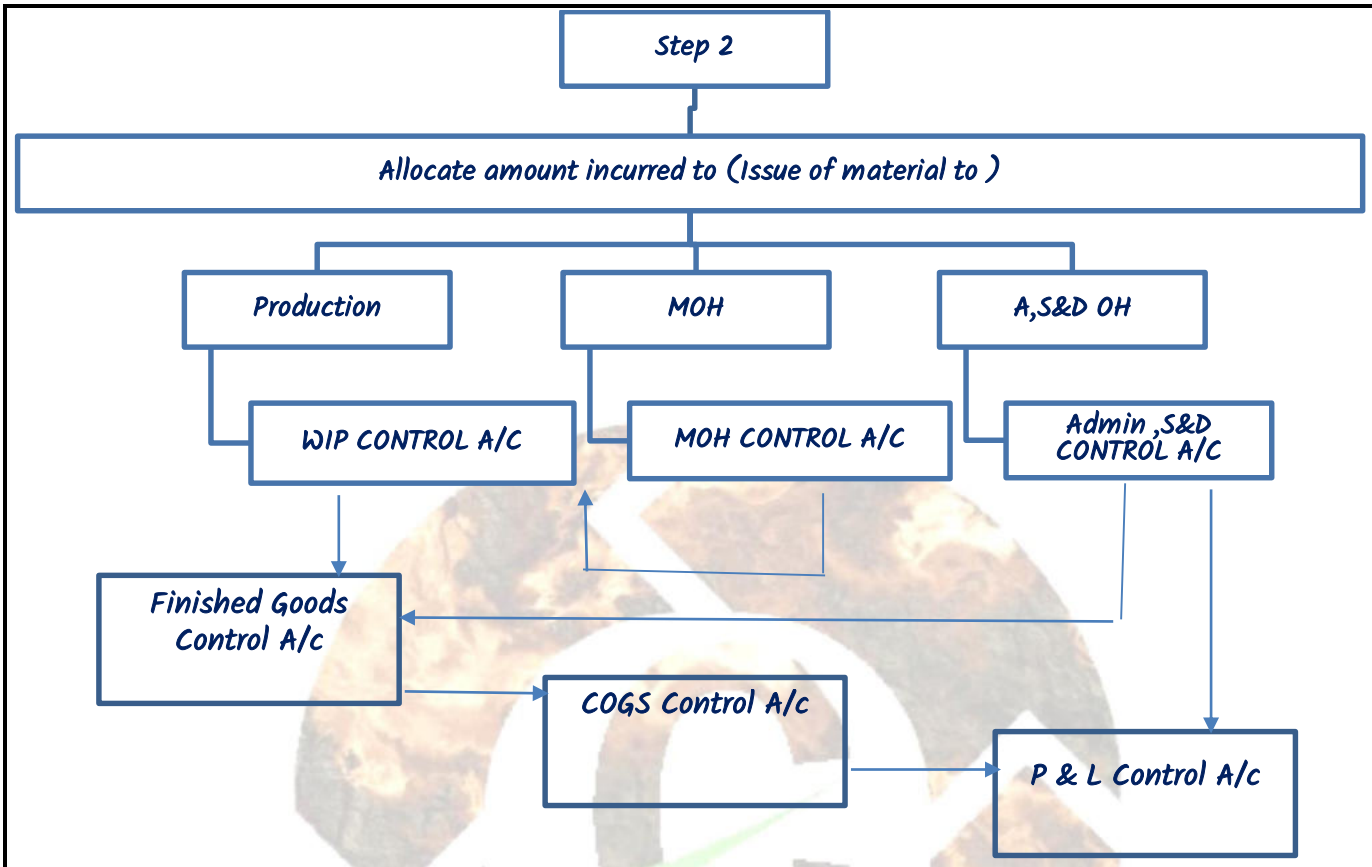
COST ACCOUNTING

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COST ACCOUNTING







INCURRING ENTRIES	MATERIAL PURCHASED	Wages paid	Expenses paid
	Stores ledger control a/c dr To cost ledger control a/c	Wages ledger control a/c dr To cost ledger control a/c	Expenses ledger control a/c dr To cost ledger control a/c
Allocating entries Issued to	MATERIAL	WAGES	EXPENSES
1) Production dept a) Direct	WIP Control a/c dr To Stores ledger control a/c (Being material issued to production)	WIP Control a/c dr To Wages ledger control a/c (Being wages incurred in production dept)	WIP Control a/c dr To Expenses ledger control a/c (Being expenses incurred in production dept)
b) Indirect (MOH)	MOH control a/c dr To Stores ledger control a/c (Being material issued MOH)	MOH control a/c dr To Wages ledger control a/c (Being wages allocated to MOH)	MOH control a/c dr To Expenses ledger control a/c (Being Expenses allocated to MOH)
2) AOH	AOH control a/c dr	AOH control a/c dr	AOH control a/c dr

	To Stores ledger control a/c (Being material issued to AOH dept)	To Wages ledger control a/c (Being wages paid to AOH dept)	To Expenses ledger control a/c (Being expenses paid to AOH dept)
3) S&DOH	S&DOH control a/c dr To Stores ledger control a/c (Being material issued to S&DOH)	S&DOH control a/c dr To Wages ledger control a/c (Being wages issued to S&DOH)	S&DOH control a/c dr To Expenses ledger control a/c (Being expenses issued to S&DOH)

Transfer entries	
1) MOH transfer to WIP control a/c	WIP control a/c dr to MOH control a/c
2) WIP control to FG control a/c	FG control a/c dr to WIP control a/c
3) AOH control a/c to FG control a/c	FG control a/c dr to AOH control a/c
4)FG control a/c to COGS	COGS control a/c dr to FG control a/c
5) COGS control a/c to Costing p&l a/c	Costing p&l a/c dr to COGS control a/c
6)S&DOH control a/c to Costing p&l	Costing p&l a/c dr S&DOH control a/c
Under absorbed OH	Over absorbed OH
Costing p&l a/c dr to MOH control a/c or to AOH control a/c or to S&DOH control a/c	MOH control a/c dr or AOH control a/c dr or S&DOH control a/c dr to Costing p&l a/c
Normal loss	Abnormal loss
MOH control a/c dr to Stores ledger control a/c	Costing P& L a/c dr to Stores ledger control a/c

ITEMS EXCLUDED FROM COST AND NORMAL AND ABNORMAL ITEMS/COST:

Items Excluded from Cost Accounts:

There are certain items which are included in financial accounts of a manufacturing concern but shall not to be included in cost accounts since they are not related to cost of production. These items fall into three categories: -

Appropriation of profits:

(i) Appropriation to sinking funds

(ii) Dividends paid

(iii) Taxes on income and profits

(iv) Transfers to general reserves

(v) Excess provision for depreciation of buildings, plant etc. and for bad debts

(vi) Amount written off – goodwill, preliminary expenses, underwriting commission, discount on debentures issued; expenses of capital issue etc.

(vii) Capital expenditures specifically charged to revenue

(viii) Charitable donation

Matters of pure finance

(a) Purely financial charges:-

(i) Losses on sale of investments, buildings, etc.

(ii) Expenses on transfer of company's office

(iii) Interest on bank loan, debentures, mortgages, etc.

(v) Penalties and fines

(vi) Losses due to scrapping of machinery

(vii) Remuneration paid to the proprietor in excess of a fair reward for services rendered

(b) Purely financial incomes:-

(i) Interest received on bank deposits

(ii) Profits made on the sale of investments, fixed assets, etc.

(iii) Transfer fees received

(iv) Rent receivable

(v) Interest, dividends, etc. received on investments.

(vi) Brokerage received

(vii) Discount, commission received

Abnormal gains and losses:-

(i) Losses or gains on sale of fixed assets.

(ii) Loss to business property on account of theft, fire or other natural calamities.

In addition to above abnormal items (gain and losses) may also be excluded from cost accounts. Alternatively, these may be taken to costing profit and loss account. Damages payable

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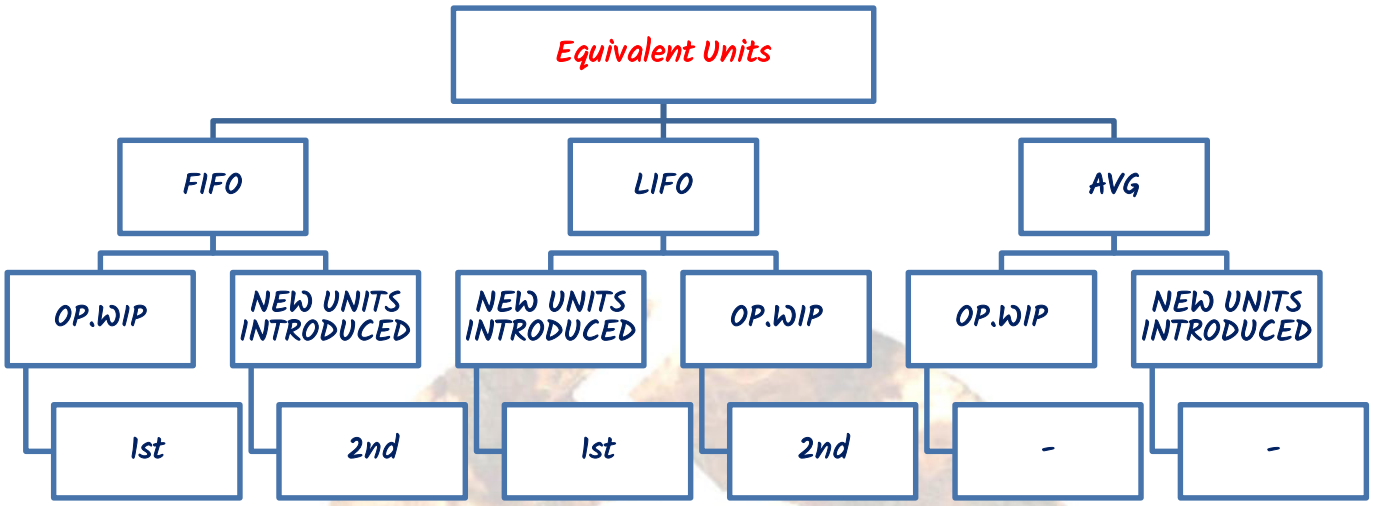
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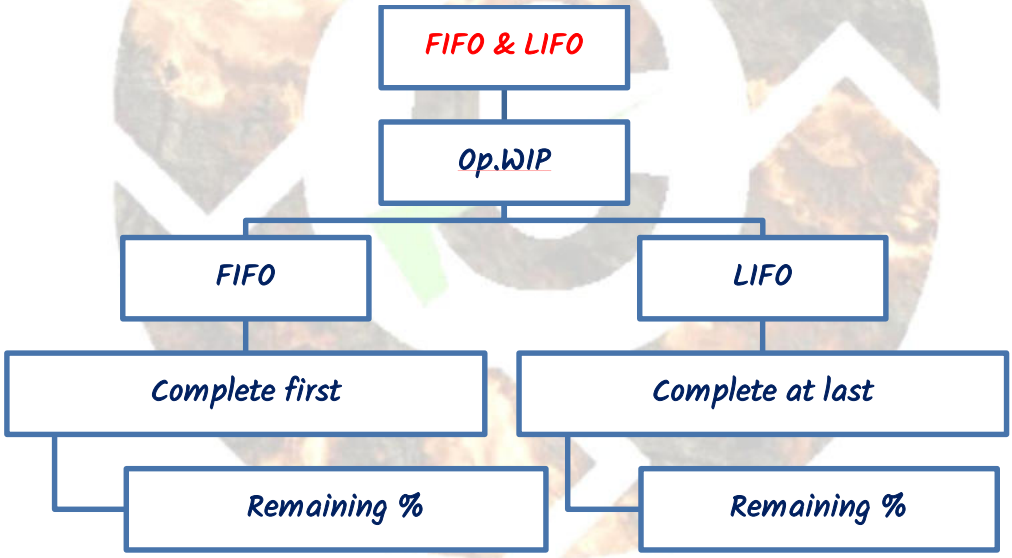
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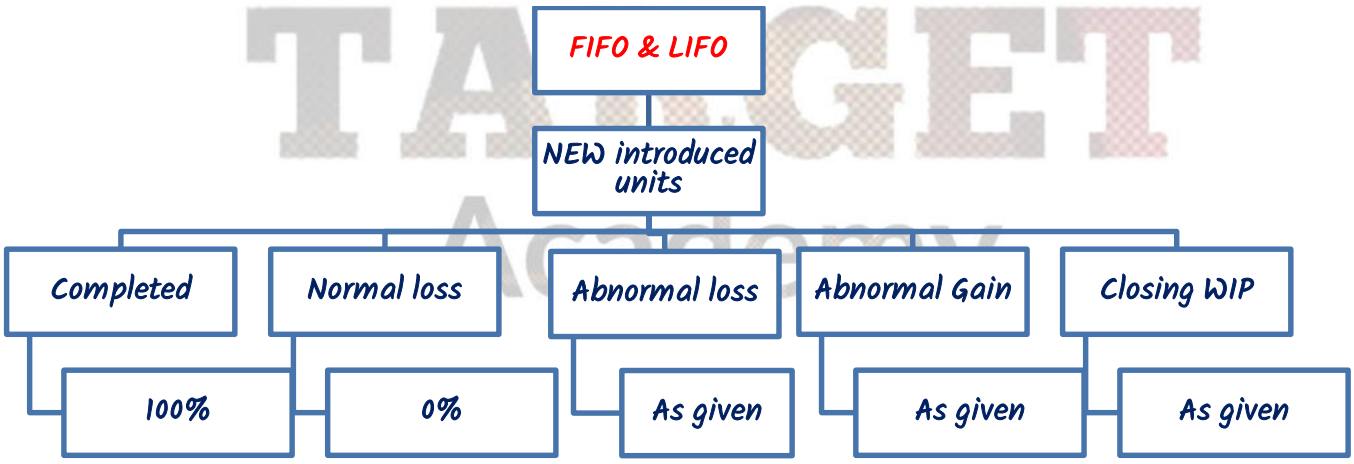
PROCESS COSTING

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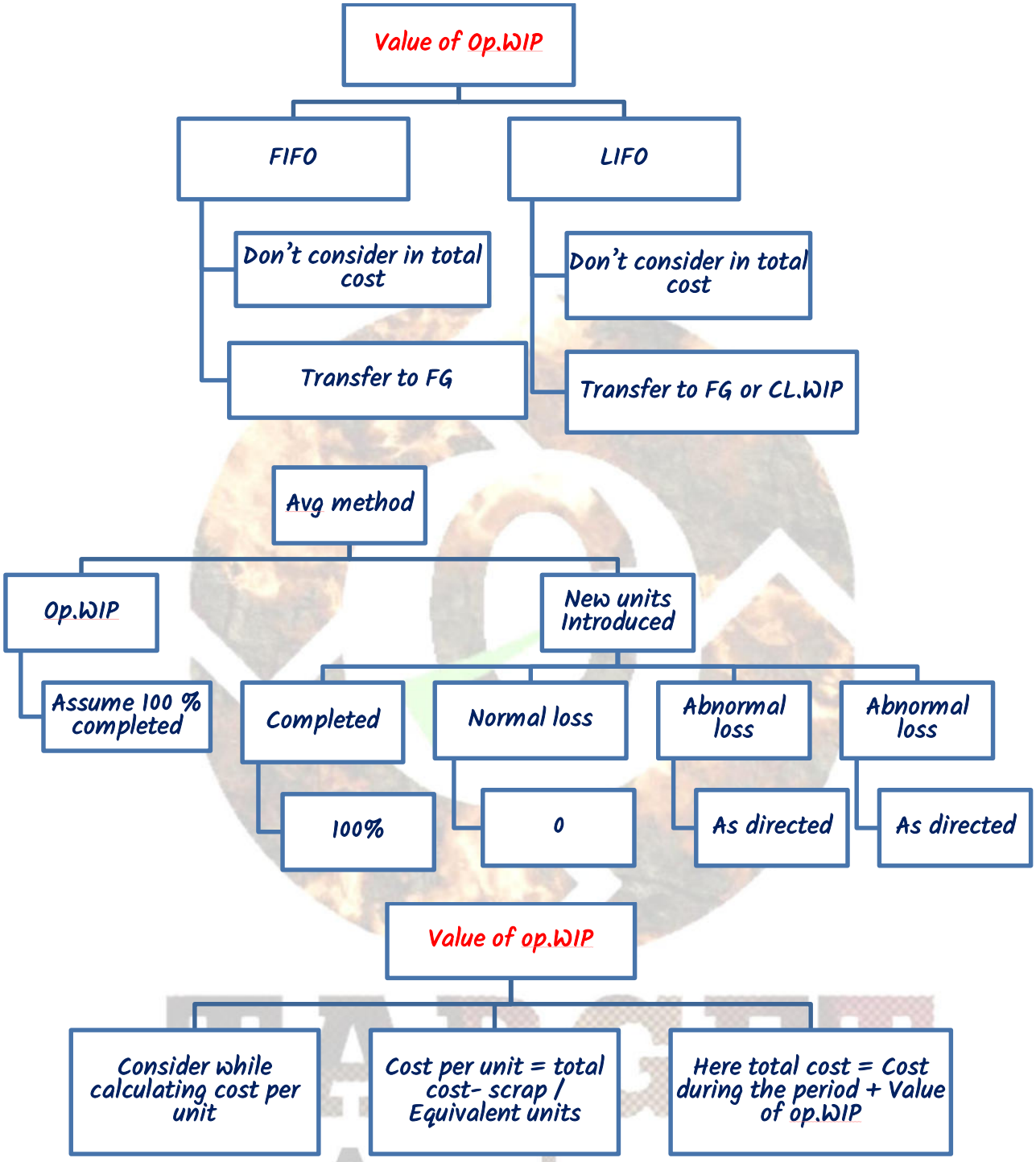
PROCESS COSTING







- Cost per unit = Total cost – scrap / Equivalent units
- Total cost = cost during period



PROCESS COST ACCOUNT

Formulae:

1. Cost/unit = Total Cost/Total Quantity

= (Total Cost – Scrap Value) / TQ – Normal loss Qty)

= [Total Cost – (NLQ * Scrap/Unit)] / (TQ – NLQ)

2. Valuation of Normal Loss & Abnormal Loss/Gain:

a) Normal Loss = NLQ * Scrap/Unit

b) Abnormal Loss = Abnormal Loss Qty * Cost/Unit

c) Abnormal Gain = Abnormal Gain Qty * Cost/Unit

3. Valuation of Transfer/Finished Goods

a) Value = FG (units) * Cost/Unit

4. Costing P/L

a) Abnormal Loss → Debited to Costing P/L

= Abnormal Loss Qty * (Cost/Unit – Scrap/Unit)

b) Abnormal Gain → Credited to Costing P/L

= Abnormal Gain Qty * (Cost/Unit – Scrap/Unit)

Notes:

Process Account

Particulars	Qty	Amt (₹)	Particulars	Qty	Amt (₹)
To Transfer from Previous Process	xxx	xxx	By Normal Loss	xxx	xxx
To Material		xxx	By Abnormal Loss	xxx	xxx
To Labour		xxx	By Finished Goods	xxx	xxx
To Overheads		xxx			
To Abnormal Gain	xxx	xxx			

EQUIVALENT PRODUCTION

Notes:

1. Steps to complete the statement:

a) Match Input-Output

b) Determine % Completion for every output item

c) Calculate TC per unit for Material, Labour & Overhead separately

d) Calculate value of all items of output

2. Treatment of Opening W.I.P

a) Under FIFO → Completion % = 100 % - Already completed % last year

b) Under LIFO → May not be altered → becomes part of Closing WIP

c) Under Weighted Average → Always treat 100% completed during the current year

3. Normal Loss will be 0% complete always

4. Abnormal Loss % completion depends on % completion of scrap. If nothing mentioned, take 100% complete

5. Abnormal Gain → always 100% complete and inserted as a negative value

6. Cost per unit

a) For material (for FIFO & LIFO) → [TC during the year – (Scrap p.u * NLQ)]/ Equivalent units of Material

b) For Material (for weighted avg) → [Cost of Op WIP + TC during the year – (scrap pu * NLQ)/Eq. units of Material]

c) For Lab & OH (For FIFO & LIFO)→ TC during the year / Eq. units of Lab & OH

d)For Lab & OH (under weighted avg) → (Cost of Op IP + Cost during the year) / Eq. units of Lab & OH

7. Value of Output Items:

Value of each item = € (Eq. units * Cost/units)

8. Under FIFO → Cost of Opening IP will be added to completed

9. Under LIFO → Cost of Opening IP may be added to Closing IP

Problem 2:

Following details are related to the work done in Process-I by XYZ Company during the month of March, 20X9:

	(₹)
Opening work-in process (2,000 units)	
Materials	80,000
Labour	15,000
Overheads	45,000
Materials introduced in Process-I (38,000 units)	14,80,000
Direct Labour	3,59,000
Overheads	10,77,000
Units scrapped:	3,000 units
Degree of completion:	
Materials	100%
Labour and overheads	80%
Closing work-in process:	2,000 units
Degree of completion:	
Materials	100%
Labour and overheads	80%
Units finished and transferred to Process-II:	35,000 units

Normal Loss: 5% of total input including opening work-in-process.

Scrapped units fetch ₹ 20 per piece.

You are required to PREPARE using average method:

i. Statement of equivalent production

ii. Statement of cost

iii. Statement of distribution cost, and

Solution:

i. Statement of Equivalent Production: (Average Cost Method)

Particulars	Inputs	Particulars	Output	Material		Labour & OH	
				%	Eq units	%	Eq units
Op IP	2,000 (W)	Complete	2,000	100%	2,000	100%	2,000
Introduced	38,000	Complete	33,000	100%	33,000	100%	33,000
		Normal Loss	2,000	0%	–	0%	–
		Cl. IP (W)	2,000	100%	2,000	80%	1,600
		Abnormal Loss	1,000	100%	1,000	80%	800
	40,000		40,000		38,000		37,400

ii. Statement of Cost:

Particulars	Total Cost (including WIP)	Eq units	Cost/unit
Material	80,000+14,80,000–(2,000*20) = 15,20,000	38,000	₹ 40
Labour	15,000+3,59,000 = 3,74,000	37,400	₹ 10
Overheads	45,000+10,77,000 = 11,22,000	37,400	₹ 30
			₹ 80

Therefore, Cost/unit = ₹ 80

iii. Statement of Distribution of Cost

Particulars	Total Cost	
a. Completed units	35,000 * ₹ 80	₹ 28,00,000
b. Closing WIP	(2,000*40) + (1,600*40)	₹ 1,44,000
c. Abnormal Loss	(1,000*40) + (800*40)	₹ 72,000

Problem 3:

From the following Information for the month ending October, 2013, prepare Process Cost accounts for Process III. Use First-in-fist-out (FIFO) method to value equivalent production.

Direct materials added in Process III (Opening IP) 2,000 units at ₹ 25,750

Transfer from Process II 53,000 units at	₹ 4,11,500
Transferred to Process IV	48,000 units
Closing stock of Process III	5,000 units
Units scrapped	2,000 units
Direct material added in Process III	₹ 1,97,600
Direct wages	₹ 97,600
Production Overheads	₹ 48,800

Degree of completion:

Particulars	Opening Stock	Closing Stock	Scrap
Materials	80%	70%	100%
Labour	60%	50%	70%
Overheads	60%	50%	70%

The normal loss in the process was 5% of production and scrap was sold at ₹ 3 per unit.

Solution:

Statement of Equivalent Production

Particulars	Inputs	Particulars	Output	Material A		Material B		Labour & OH	
				%	Eq units	%	Eq units	%	Eq units
Op IP	2,000	Completed	2,000	–	–	20%	400	40%	800
Introduced	53,000	Completed	46,000	100%	46,000	100%	46,000	100%	46,000
		Cl. IP	5,000	100%	5,000	70%	3,500	50%	2,500
		Normal Loss	2,500	–	–	–	–	–	–
		Abnormal Gain	(500)	100%	(500)	100%	(500)	100%	(500)
	55,000		55,000		50,500		49,400		48,000

Units produced = Op WIP + Introduced – Cl WIP, or

= units completed + units scrapped

= 2,000 + 53,000 – 5,000

= 48,000 + 2,000

= 50,000

Therefore, Normal Loss = 5% of 50,000 = 2,500 units Computation of cost per element

Particulars	Total Cost	Eq. units	Cost/unit
Material A	4,11,500 -(2,500*3) =4,04,00	50,500	8
Material B	1,97,600	49,400	4
Labour	97,600	48,800	2
OH	48,800	48,800	1
			15

INTER-PROCESS PROFIT:

Pharma Limited produces product 'Gluco-G' which passes through two processes before it is completed and transferred to finished stock. The following data relates to March, 2014:

Particulars	Process-I (₹)	Process-II (₹)	Finished Stock (₹)
Opening Stock	1,50,000	1,80,000	4,50,000
Direct materials	3,00,000	3,15,000	–
Direct wages	2,24,000	2,25,000	–
Factory Overheads	2,10,000	90,000	–
Closing Stock	74,000	90,000	2,25,000
Inter process profit included in Opening stock	NIL	30,000	1,65,000

Output of process I is transferred to process II at 25 percent profit on the transfer price, whereas output of process II is transferred to finished stock at 20 percent on transfer price. Stock in processes are valued at prime cost. Finished stock is valued at the price at which it is received from process II. Sales for the month is ₹ 28,00,000.

You are required to prepare Process-I A/c, Process-II A/c, and Finished Stock A/c showing the profit element at each stage.

Solution

Process-I Account

Particulars	Cost	Profit	Total	Particulars	Cost	Profit	Total
To Op IP	1,50,000	–	1,50,000	By Cl IP	74,000	–	74,000
To DM	3,00,000	–	3,00,000	By Process-II	8,10,000	2,70,000	10,80,000
To D	2,24,000	–	2,24,000				

To FOH	2,10,000	–	2,10,000				
To CPL	–	2,70,000	2,70,000				
	8,84,000	2,70,000	11,54,000		8,84,000	2,70,000	11,54,000

Transfer to Process II = Cost of Material transferred + Profit

Therefore, Transfer Price = (1,50,000 + 3,00,000+ 2,24,000 + 2,10,000 – 74,000 + 25% of TP

75% of TP = 8,10,000

TP = 10,80,000

Process-II Account

Particulars	Cost	Profit	Total	Particulars	Cost	Profit	Total
To Op IP (i)	1,50,000	30,000	1,80,000	By Cl IP (i)	75,000	15,000	90,000
To Process I	8,10,000	2,70,000	10,80,000	By Finis. St.	15,15,000	7,35,000	22,50,000
To DM (ii)	3,15,000	–	3,15,000				
To DL	2,25,000	–	2,25,000				
To FOH	90,000	–	90,000				
To CPL	–	4,50,000	4,50,000				
	15,90,000	7,50,000	23,40,000		15,90,000	7,50,000	23,40,000

Profit included in Closing WIP = 90,000 * (3,00,000/18,00,000) = 15,000 (ii)

Transfer Price (for Process II) = Cost of Material Transferred (for Process II) + Profit

= (1,80,000+10,80,000+3,15,000+2,25,000+90,000–90,000) +

20% of transfer

price 80% of Transfer Price = 18,00,000

Transfer Price = 18,00,000/80%

= 22,50,000

Finished Stock Account

Particulars	Cost	Profit	Total	Particulars (ii)	Cost	Profit	Total
To Op IP (ii)	2,85,000	1,65,000	4,50,000	By Cl IP	1,51,500	73,500	2,25,000
To Process II	15,15,000	7,35,000	22,50,000	By Sales	16,48,500	11,51,500	28,00,000
To CPL	–	3,25,000	3,25,000				

	18,00,000	12,25,000	30,25,000		18,00,000	12,25,000	30,25,000

Profit included in FG = 2,25,000 * (7,35,000/22,50,000) = 73,500

Note: Closing Stock of FG is calculated by taking only current years transfer value (under FIFO Method)

Costing P/L

Particulars	Amount	Particulars	Amount
To Unrealised Profit in Cl Stock (15,000 + 73,500)	88,500	By Unrealised Profit in Op Stock (30,000 + 1,65,000)	1,95,000
To Net Profit	11,51,500	By Process I	2,70,000
		By Process II	4,50,000
		By Finished Stock	3,25,000
	12,40,000		12,40,000

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CONTRACT COSTING

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CONTRACT COSTING

TOPIC - 1

QUESTION: 1

M/s. Bansals Construction Company Ltd. took a contract for ₹ 60,00,000 expected to be completed in three years. The following particulars relating to the contract are available

Particulars	2018-19 (₹)	2018-19 (₹)	2018-19 (₹)
Materials	6,75,000	10,50,00	9,00,000
Transportation cost	6,20,000	9,00,000	7,50,000
Other expenses	30,000	90,000	75,000
Cumulative work certified	30,000	75,000	24,000
Cumulative work certified	13,50,000	75,000	60,00,000
Cumulative work uncertified	15,000	75,000	-

Plant costing ₹ 3,00,000 was bought at the commencement of the contract. Depreciation was to be charged at 25% per annum, on the written down value method. The contractee pays 75% of the value of work certified as and when certified, and makes the final payment on completion of the contract. You are required to PREPARE a contract account for three years and total estimated profit/ loss from the contract.

SOLUTION:

Contract Account (For the year 2018-19)

Particulars	(Rs.)	Particulars	(Rs.)
To Materials	6,75,000	By Plant at site c/d (75% of Rs.3,00,000	2,25,000
To Wages	6,20,000	By Work-in-progress c/d:	13,50,000
		- Work certified	15,000
		- Work uncertified	
To Transportation cost	30,000	Costing P & L A/c (Loss for the year)	65,000
To Other Expenses	30,000		
To Plant	3,00,0000		
	16,55,000		16,55,000

Costing Profit & Loss A/c for the year 2018-19

Particulars	(Rs.)	Particulars	(Rs.)
To Contract A/c (Notional Loss on contract)	65,000	By Balance c/d (Loss)	65,000
	65,000		65,000

Contract Account (For the year 2019-20)

Particulars	(Rs.)	Particulars	(Rs.)
To Plant at site b/d	2,25,000	By Plant at sit c/d (75% of Rs.2,25,000)	1,68,750
To Work-in-progress b/d: - Work certified - Work uncertified	13,50,000 15,000	By Work-in-progress c/d: - Work certified - Work uncertified	45,00,000 75,000
To Materials	10,50,000		
To Wages	9,00,000		
To Transportation cost	90,000		
To Other Expenses	75,000		
To Costing P&L A/c (Notional Profit for the year)	10,38,750		
	47,43,750		47,43,750

Costing Profit & Loss A/c for the year 2019-20

Particulars	(Rs.)	Particulars	(Rs.)
To Balance b/d	65,000	By Contract A/c (National profit on contract	10,38,750
To Balance c/d (Profit)	9,73,750		
	10,38,750		10,38,750

Contract Account (For the year 2020-21)

Particulars	(Rs.)	Particulars	(Rs.)
To Plant at site b/d	1,68,750	By Plant at site c/d (75% of Rs.1,68,750)	1,26,563
To Work-in-progress b/d: - Work certified - Work uncertified	45,00,000 75,000	By Contractee A/c	60,00,000
To Materials	9,00,000	By Costing P& L A/C (National Loss for the year	3,66,187
To Wages	7,50,000		
To Transportation cost	75,000		
To Other Expenses	24,000		
	64,92,750		64,92,750

Costing Profit & Loss A/c for the year 2020-21

Particulars	(Rs.)	Particulars	(Rs.)
To Contract A/c (Notional loss on contract)	3,66,187	By Balance b/d	9,73,750
To Estimated profit on Contract	6,07,563		
	9,73,750		9,73,750

QUESTION: 2

AKP Builders Ltd. commenced a contract on April 1, 2020. The total contract was for ₹ 5,00,000. Actual expenditure for the period April 1, 2020 to March 31, 2021 and estimated expenditure for April 1, 2021 to December 31, 2021 are given below:

Particulars	2020-21 (actual)	2021-22 (9 months) (estimated)
Materials issued	90,000	85,750
Wages: Paid	75,000	87,325
Outstanding at the end	6,250	8,300
Plant	25,000	-
Sundry expenses: Paid	7,250	6,875
Prepaid at the end	625	-
Establishment charges	14,625	-

A part of the material was unsuitable and was sold for ₹ 18,125 (cost being ₹ 15,000) and a part of plant was scrapped and disposed- off for ₹ 2,875. The value of plant at site on 31 March, 2021 was ₹ 7,750 and the value of material at site was ₹ 4,250. Cash received on account to date was ₹ 1,75,000, representing 80% of the work certified. The cost of work uncertified was valued at ₹ 27,375.

The contractor estimated further expenditure that would be incurred in completion of the contract:

- The contract would be completed by 31st December, 2021.
- A further sum of ₹31,250 would have to be spent on the plant and the residual value of the plant on the completion of the contract would be ₹ 3,750.
- Establishment charges would cost the same amount per month as in the previous year.
- ₹ 10,800 would be sufficient to provide for contingencies.

Required: PREPARE a Contract Account for the year ended 31st March, 2021, and CALCULATE estimated total profit on this contract.

SOLUTION:

Contract Account (2020-21)

Particulars	(Rs.)	Particulars	(Rs.)
To Materials issued	90,000	By Material sold	18,125
To Wages paid	75,000	By Plant sold	2,875
Add: Outstanding	6,250		
To Plant	25,000	By Plant at site c/d	7,750
To Sundry Expense	7,250	By Material at site c/d	4,250
Less: Prepaid	625		
To Establishment charges	14,625	By Work-in-progress c/d	
To Costing P & L A/c (₹18,125 – ₹15,000)	3,125	Work certified (1,75,000 /80%)	2,18,750
		Work uncertified	27,375
To Notional profit (Profit for the year)	58,500		
	2,79,125		2,79,125

Calculation of Estimated Profit

	(₹)	(₹)
Material consumed (90,000 + 3,125 – 18,125)	75,000	
Add: Further consumption	85,750	1,60,750
Wages:	81,250	
Add: Further cost (87,325 – 6,250)	81,075	
Add: Outstanding	8,300	1,70,625
Plant used (25,000 – 2,875)	22,125	
Add: Further plant introduced	31,250	
Less: Closing balance of plant	(3,750)	49,625
Establishment charges	14,625	
Add: Further charges for nine months (14,625 × 9/12)	10,969	25,594
Sundry expenses	7,250	
Add: Further expenses	6,875	14,125
Reserve for contingencies		10,800
Estimated profit (balancing figure)		68,481
Contract price		5,00,000

Topic – 2

ESCALATION CLAUSE

QUESTION: 3

A contractor has entered into a long term contract at an agreed price of ₹ 17,50,000 subject to an escalation clause for materials and wages as spelt out in the contract and corresponding actual are as follows:

	Standard		Actual	
Materials	Qty (tons)	Rate (₹)	Qty (tons)	Rate (₹)
A	5,000	50.00	5,050	48.00
B	3,500	80.00	3,450	79.00
C	2,500	60.00	2,600	66.00
Wages	Hours	Hourly Rate (₹)	Hours	Hourly Rate (₹)
X	2,000	70.00	2,100	72.00
Y	2,500	75.00	2,450	75.00
Z	3,000	65.00	3,100	66.00

Reckoning the full actual consumption of material and wages, the company has claimed a final price of ₹ 17,73,600. Give your ANALYSIS of admissible escalation claim and indicate the final price payable.

SOLUTION:

Statement showing final claim

	Standard Qty/Hrs.	Standard Rate (₹)	Actual Rate (₹)	Variation in Rate (₹)	Escalation Claim (₹)
	(a)	(b)	(c)	(d) =(c) –(b)	(e) = (a) x (d)
Materials					
A	5,000	50.00	48.00	(-) 2.00	(-) 10,000
B	3,500	80.00	79.00	(-) 1.00	(-) 3,500
C	2,500	60.00	66.00	(+) 6.00	15,000
Materials escalation claim: (A)					1,500
Wages					
X	2,000	70.00	72.00	(+) 2.00	4,000
Y	2,500	75.00	75.00	-	-
Z	3,000	65.00	66.00	(+) 1.00	3,000
Wages escalation claim: (B)					7,000
Final claim: (A + B)					8,500

Statement showing final price payable

Agreed price		₹ 17,50,000
Agreed escalation:		
Material cost	₹ 1,500	
Labour cost	₹ 7,000	₹ 8,500
Final price payable		₹ 17,58,500

The claim of ₹ 17,73,600 is based on the total increase in cost. This can be verified as shown below:

Statement showing total increase in cost

	Standard Cost			Actual Cost			Increase/ (Decrease
	Qty / hrs (a)	Rate (Rs.) (b)	Amount (c) = (a) x (b)	Qty / hrs (d)	Rate (Rs.) (e)	Amount (f) = (d) x (e)	g = (f) – (c)
Materials							
A	5,000	50.00	2,50,000	5,050	48.00	2,42,400	(7,600)
B	3,500	80.00	2,80,000	3,450	79.00	2,72,550	(7,450)
C	2,500	60.00	1,50,000	2,600	66.00	1,71,600	21,600
			6,80,000			6,86,550	6,550
Wages							
X	2,000	70.00	1,40,000	2,100	72.00	1,51,200	
Y	2,500	75.00	1,87,500	2,450	75.00	1,83,750	
Z	3,000	65.00	1,95,000	3,100	66.00	2,04,600	
			5,22,500			5,39,550	17,050
							23,600

Contract price	₹ 17,50,000
Add: Increase in cost	₹ 23,600
The final price claimed by the company	₹ 17,73,600

This claim is not admissible because escalation clause covers only that part of increase in cost, which has been caused by inflation.

Note: It is fundamental principle that the contractee would compensate the contractor for the increase in costs which are caused by factors beyond the control of contractor and not for increase in costs which are caused due to inefficiency or wrong estimation.

Contract Costing	Contract costing is a form of specific order costing where job undertaken is relatively large and normally takes period longer than a year to be getting completed.
Work Certified	The portion of work which is certified as complete by architecture, surveyor, engineer or any other person as may be agreed between the contractor and contractee is called work certified.
Work uncertified	It represents the cost of the work which has been carried out by the contractor but has not been certified by the architect. It is always shown at cost price.

- It is method of costing where cost is calculated for each contract _Cost unit is contract.
- For payment of money, work done is divided into work certified & work uncertified.
  Work certified = at cost + profit
  Work uncertified = at cost



Contract account

Particulars	Amount	Particulars	Amount
To Direct Material		By Work Certified	
To Direct Labour		By Work Uncertified	
To Overheads		By Plant at Site	
To Plant (At Cost)		By Material at site	
To Notional profit c/d			
	XXXX		XXXX
To P & L A/c (Transfer of Profit)		By Notional profit b/d	
To Profit reserved			
	XXXX		XXXX

1. METHOD OF TRANSFER OF PROFIT ON INCOMPLETE CONTRACT

To obtain profit on a contract for a year, a contract account is prepared & notional profit is calculated.

% of work completion	Profit transferred
Upto 25%	Nil
25 – 50%	1/3 * notional profit x $\frac{Cash\ received}{Work\ certified}$
50 – 90%	2/3 * notional profit x $\frac{Cash\ received}{Work\ certified}$
Above 90 %	As per estimated profit basis

$$\%\ of\ work\ completion = \frac{Work\ certified}{Contract\ price} \times 100$$

2. TRANSFER OF PROFIT AS PER ESTIMATED PROFIT

Estimated profit = Contract price – estimated cost

= Contract price – (cost to date + further cost)

Where, Estimated cost = total cost of entire contract

Profit is transferred by using following formula:

$$Profit\ transferred = estimated\ profit \times \frac{Work\ certified}{Contract\ price} \times \frac{Cash\ received}{Work\ certified}$$

3. ESCALATION CLAUSE

"When price of material & labour increase beyond certain limit then contract price can be increased proportionately. " _ applicable only in case of fixed contract.

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SERVICE COSTING

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SERVICE COSTING

COST

EXPENDITURE INCURRED

- IN PRODUCING A PRODUCT → MANUFACTURER POINT OF VIEW
- RENDERING A SERVICE → SERVICE PROVIDER POINT OF VIEW

COSTING	· IDENTIFICATION OF COST OF A PRODUCT
COST ACCOUNTING	· SYSTEMATIC BOOK KEEPING OF COST RECORDS

Classification of costs

Fixed cost	Variable cost	Semi variable cost
Cost to be incurred regardless of how much you sell	Cost directly related to sales volume	Combination of fixed and variable cost
Rent for office space	Delivery shipping charges	Electricity bills
Weekly payroll	Sales commisions	Operating a vehicle
Equipment depriciation	Advertising & pubicity	Packing machinery

- Methods of costing
  - Absorption costing
  - Historical costing
  - Marginal costing
  - Standard costing
  - Lean costing
  - Activity based costing
  - Process costing
  - Contract costing
  - Operating costing
  - Job costing
  - Batch costing
  - Unit costing

OPERATING COSTING

SERVICE COSTING

TO CALCULATE COST OF VARIOUS SERVICE INDUSTRIES AND PROPORTINATE IT ON THE BASIS OF UNIT COST

Service industry	Unit of cost
Cinema	Per ticket
Public transport	Per passenger kilometre
Goods carriage transport	Per ton kilometre
	Per quintal kilometre
Educational institutions	Per student
	Per batch
	Per lecturer

caluclation of tonnes kms

- Absolute tonne kms weighted average
  - Weighted average
- Commercial tonne kms
  - Simple average

QUESTION: 1

Mr. Sohan Singh has started transport business with a fleet of 10 taxies. The various expenses incurredby him are given below:

(i) Cost of each taxi Rs.75,000

(ii) Salary of office Staff Rs.1,500 p.m.

(iii) Salary of Garage's Supervisor Rs.2,000 p.m.

(iv) Rent of Garage Rs.1,000 p.m

(v) Drivers Salary (per taxi) Rs.400 pm.

(vi) Road Tax and Repairs per taxi Rs.2,160 p.a.

(vii) Insurance premium @ 4% of cost p.a.

The life of a taxi is 3,00,000 km. and at the end of which it is estimated to be sold at Rs.15,000. A taxi runs on an average 4,000 Km. per month of which 20% it runs empty, petrol consumption 9 Km. per litre ofpetrol costing Rs.6.30 per litre. Oil and other sundry expenses amount to Rs.10 per 100 Km.

Calculate the effective cost of running a taxi per kilometre. If the hire charge is Rs.1.80 per Kilometre, find out the profit that Mr.Shoan may expect to make in the first year of operation.

SOLUTION:

Statement Showing Computation of Effective Cost and Profit for the Year

Particulars	Amount (Rs.)	Amount (Rs.)
Fixed expenses:		
Salary of staff	1,500	
Salary of garage supervisor	2,000	
Rent of garage	1,000	
Driver Salary (10 x 400)	4,000	
Road tax and repairs (2,160 x 10/12)	1,800	12,800
Insurance premium (75,000 x 4 % x 10/12)	2,500	
Fixed cost of 10 taxi's per month		
Cost per taxi = Rs. 12,800/10 = Rs. 1,280		
Cost per km = 1280/4,000 = 0.32		0.32
Running Costs:		
Depreciation [(75,000-15,000) / 3,00,000]		0.20
Petrol (6.3/9)		0.70
Oil & sundry expenses (10/100)		0.10
		1.32
Effective cost per Km = 1.32 x (100/80)		1.65

Profit for year = (1.80 – 1.65) x 10 x 3,200 x 12

= Rs.57,600

QUESTION: 2

XYZ Ltd. runs a holiday home. For this purpose, it has hired a building at a rent of Rs.10,000 per monthalong with 5% of total taking. It has three types of suites for its customers, viz., single room, double roomsand triple rooms.
Following information is available:

Type of suite	Number	Percentage of occupancy
Single room	100	100%
Double roomsTriple rooms	50	80%
	30	60%

The rent of double rooms' suite is to be fixed at 2.5 times of the single room suite and that of triple roomssuite as twice of the double rooms suite.
The other expenses for the year 2018 are as follows:

Particulars	Rs.
Staff salaries	14,25,000
Room attendants' wages	4,50,000
Lighting, heating and power	2,15,000
Repairs and renovation	1,23,500
Laundry charges	80,500
Interior decoration	74,000
Sundries	1,53,000

Provide profit @ 20% on total taking and assume 360 days in a year.Calculate the rent to be charged for each type of suite.

SOLUTION:

Working Notes:

Total equivalent single room suites

Nature of suite	Occupancy (Room-days)	Equivalent single room suite (Room- days)
Single room suites	36,000 (100 rooms × 360 days × 100%)	36,000 (36,000 × 1)
Double rooms suites	14,400 (50 rooms × 360 days × 80%)	36,000 (14,400 × 2.5)
Triple rooms suites	6,480 (30 rooms × 360 days × 60%)	32,400 (6,480 × 5)

		1,04,400

Statement of total cost

Particulars	Rs.
Staff salaries	14,25,000
Room attendants' wages Lighting, heating and power Repairs	4,50,000
and renovation Laundry charges	2,15,000
Interior decoration Sundries	1,23,500
Building rent {(Rs.10,000 × 12 months) + 5% on total taking}	80,500
	74,000
	1,53,000
	25,21,000
	1,20,000 + 5% on total takings
Total cost	26,41,000 + 5% on total takings

Profit is 20% of total takings

Total takings = Rs. 26,41,000 + 25% (5% + 20%) of total takings Let R be rent for single room suite

Then 1,04,400 R = 26,41,000 + (0.25 × 1,04,400 R)

Or, 1,04,400 R = 26,41,000 + 26,100 R

Or, 78,300 R = 26,41,000

Or, R = Rs.33.73

Rent to be charged:

Rent to be charged for single room suite = Rs.33.73

Rent for double rooms suites = Rs.33.73 × 2.5 = Rs.84.33

Rent for triple room suites = Rs.33.73 × 5 = Rs.168.65

THE END

STANDARD COSTING

Inputs
- Direct Materials
- Direct Labour
- Variable Overhead
- Fixed Overhead

→ **Out Put**
- Finished Goods

→ **Income Statement**
- Cost of Goods Sold

Annual Budgets were developed in order to prepare the proforma income statement

Variance

Difference between expected outcomes (budgets, forecast, or set standards)

Variance = Budgets/Standards VS Actuals

Comparison of actual to budgets

Calculate initial variance

There after, initial variance will be broken down into more meaningful variances

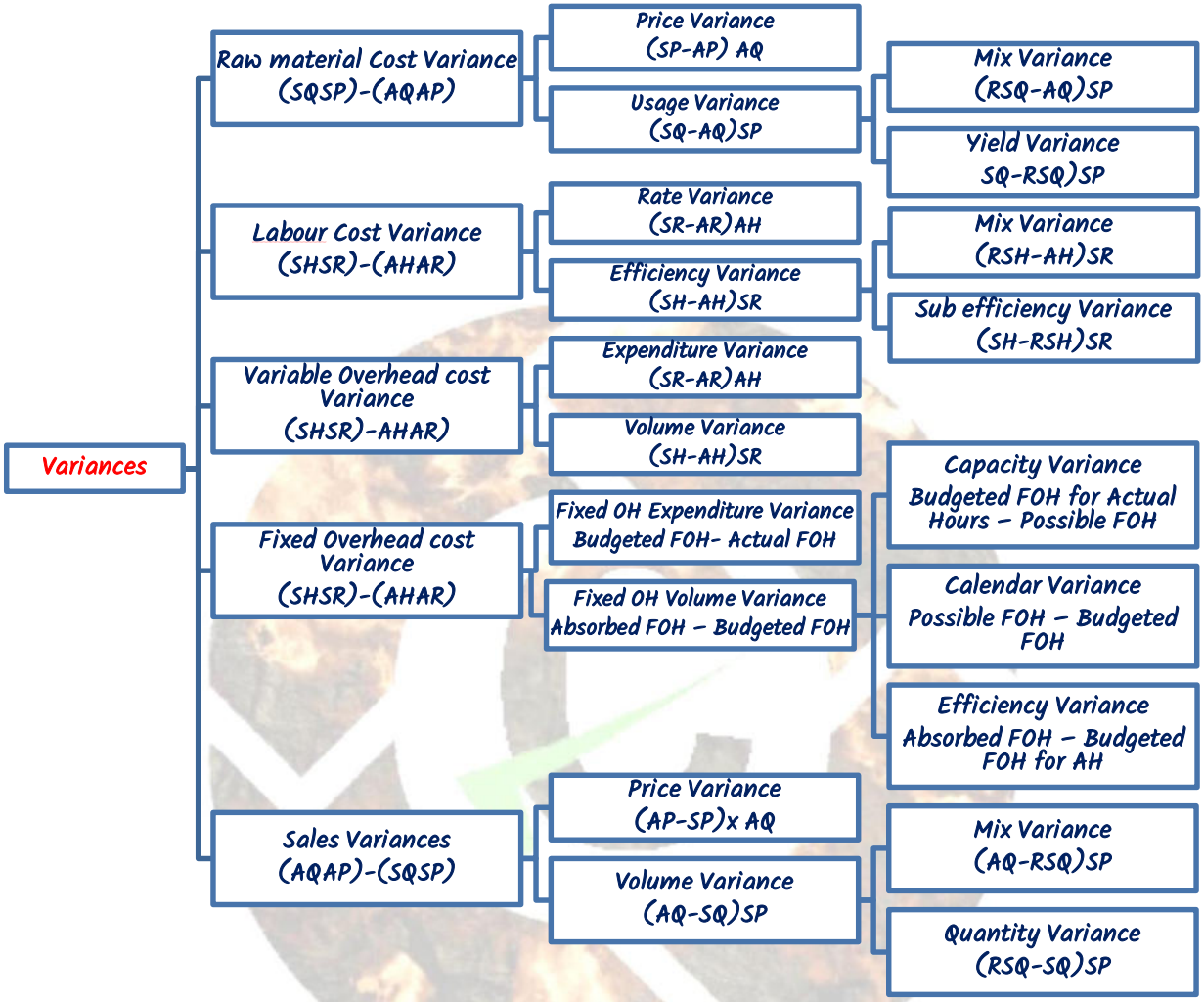
Management can use to evaluate and investigate to determine why the variances occurred

DEVELOPING A STANDARD COST

VARIANCES

Input	Units of input	Cost per unit of input	Cost per unit of Finished good
Raw material	1 kg per Finished Goods	60 per kg	
Direct Labour	2 DLH per Finished Goods	8 per DLH	
Variable Overhead	1.2 machine hour per FG	10 per machine hour	
Total Variable cost			
Fixed Overhead			10 per unit
Total Cost (PU)			
Selling Price (PU)			120
Contribution (PU)			
Number of units			30,000 units

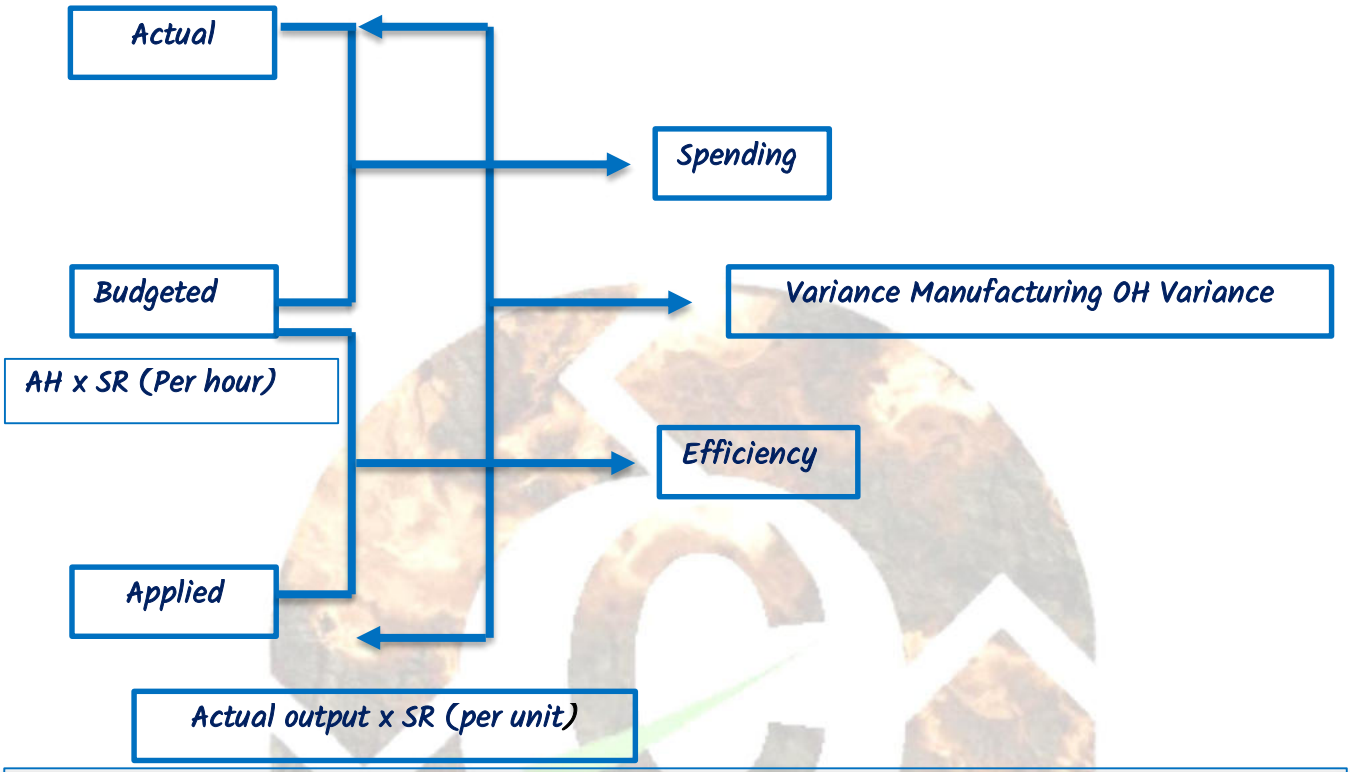
Selling and administrative expenses			3,90,000 per year (fixed)



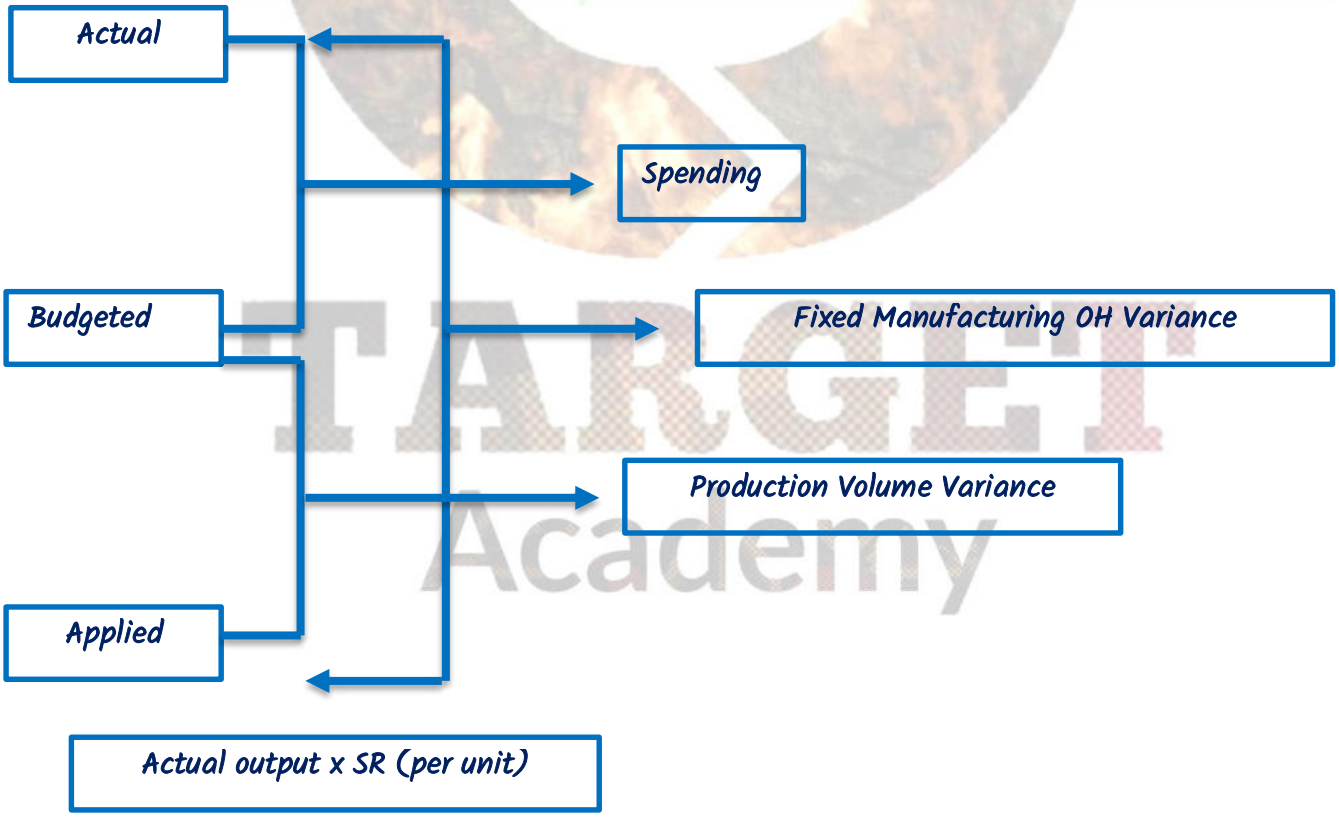
Material Variance	SQ = Standard quantity for Actual out put	
Labour Variance, Variable Overhead	SH = Standard Hours for Actual output	
Fixed Overhead	Working Note	
Sales Variance	SQ=Standard quantity sold	

TARGET Academy

VARIABLE MANUFACTURING OH VARIANCE



FIXED MANUFACTURING OH VARIANCE



IN CASE OF MORE THAN 1 RAW MATERIAL

RAW MATERAIL	SQ (Budgeted Sales)	AQ (Actual Sales)	Standard Ratio	RSQ = (AQ x St Ratio)
A	10,000	11,000		
B	8,000	9,000		
Total	18,000	20,000		

SALES VARIANCE

Sales Variances (SQSP)-(AQAP)

- Price Variance (SP-AP)x AQ
- Volume Variance (SQ-AQ)SP
  - Mix Variance (RSQ-AQ)SP
  - Quantity Variance (SQ-RSQ)SP

IN CASE OF MULTIPLE PRODUCTS

SQ	AQ	Standard Ratio	RSQ (AQ x St Ratio)
10,000	11,000		
8,000	9,000		
18,000	20,000		

EXAMPLE

Particulars	
Budget	
Sales	10,000 units
Sale price	80
Actuals	
Sales	9,000
Sale Price	85
Calculate Sales Price Variance, Sales Volume Variance	

EXAMPLE

Particulars	Product-A	Product-B
Budgets		
Sales	30,000	20,000
Standard Price	300	200
Actuals		
Sales	26,000	21,000
Actual Price	315	195
Calculate (i) Sales Price Variance,(ii) Sales Volume Variance,(iii) Sales Mix Variance,(iv) Sales Quantity Variance		

EXAMPLE

Company sells two type of products A and B

Budget		Actuals	
Sales		Sales	
A	10,000 units	A	8,000 units
B	6,000 units	B	9,000 units

If Product A sells for a higher price than Product B, what will be the impact on actual revenue relative to budgeted revenue?

EXAMPLE

Company sells two type of products A and B

Budget		Actuals	
Sales		Sales	
A	10,000 units	A	12,600 units
B	6,000 units	B	2,400 units
Contribution		Contribution	
A	10 PU	A	8 PU
B	24 PU	B	27 PU

Calculate sales mix variance for A & B Products

- Raw material Cost Variance (SQSP)-(AQAP)
  - Price Variance (SP-AP) AQ
  - Usage Variance (SQ-AQ)SP
    - Mix Variance (RSQ-AQ)SP
    - Yield Variance SQ-RSQ)SP

IN CASE OF MULTIPLE PRODUCTS

SQ	AQ	Standard Ratio	RSQ (AQ x St Ratio)
10,000	12,000		
8,000	7,000		
18,000	19,000		

EXAMPLE

Particulars	
Budget	

Quantity of Raw Material	12,000 units
Price	20
Actuals	
Quantity of Raw Material	14,000
Price	19
Calculate Raw Material Cost Variance, RM Price Variance, RM Usage Variance	

EXAMPLE

Particulars	Product-A	Product-B
Budgets		
Raw Material Quantity	20,000	12,000
Standard Price	200	160
Actuals		
Sales	16,000	17,000
Actual Price	210	145
Calculate (i) RM Cost Variance (ii) RM Price Variance,(iii) RM Usage Variance,(iii) RM Mix Variance(iv) RM Yield Variance		

EXAMPLE

Company sells two type of products A and B

Budget		Actuals	
Sales		Sales	
A	12,000 units	A	14,000 units
B	7,000 units	B	5,400 units
Contribution		Contribution	
A	10 PU	A	8 PU
B	24 PU	B	27 PU

Calculate sales mix variance for A & B Products

Raw material Cost variance	
Price Variance	Usage Variance
(SP-AP) AQ	(SQ-AQ)SP
Here AQ = AQ Purchased	Here AQ = AQ Used

Note:

Direct material has valued as an inventory of Direct material. It can be used at a later time, and it should keep its value between the time of acquisition and the time of usage

EXAMPLE

Particulars	
Fewer total units of materials were used than were "allowed" to be used for actual production.	
If two or more types of material or labor are used, the total quantity (or efficiency) variance can be broken down into mix and yield variances. The material yield variance arises when the total units of materials used differs from the total units "allowed" to be used for actual	

production. If the total units used are less than the total units "allowed" to be used, the materials yield variance is favorable as this indicates that less is spent on materials than expected.

LABOUR COST VARIANCE

- Labour Cost Variance (SHSR)-(AHAR)
  - Rate Variance (SR-AR)AH
  - Efficiency Variance (SH-AH)SR
    - Mix Variance (RSH-AH)SR
    - Sub efficiency Variance (SH-RSH)SR

SH = Standard Labor hours that should have been used to produce the actual production = AQ x Standard hours per unit

IN CASE OF MULTIPLE PRODUCTS

SH	AH	Standard Ratio	RSH (AH x St Ratio)
10,000	12,000		
8,000	7,000		
18,000	19,000		

EXAMPLE

Particulars	
Budget	
Standard Hours	10,000 hours
Rate	15
Actuals	
Actual Hours	13,000
Rate	14
Calculate Labor Cost Variance, Labor Rate Variance, Labor efficiency Variance	

EXAMPLE

Particulars	Product-A	Product-B
Budgets		
Standard Hours	12,000	8,000
Standard Rate	13	16
Actuals		
Labours Hours	13,000	10,000
Actual Price	15	15
Calculate (i) Labour Cost Variance (ii) Labour Rate Variance, (iii) Labour Efficiency Variance, (iv) Labour Mix Variance (v) Labour sub efficiency Variance		

EXAMPLE

Company sells two type of products A and B

		Actuals	
Labour hours		Raw Material Quantity	
A	11,000 Hours	A	13,000
B	9,000 Hours	B	7,400
Rate		Price	
A	13 PU	A	10 PU
B	22 PU	B	19 PU

Calculate Labour mix variance for A & B Products

VARIABLE OVER HEAD VARIANCE

Variable Over Head Variance

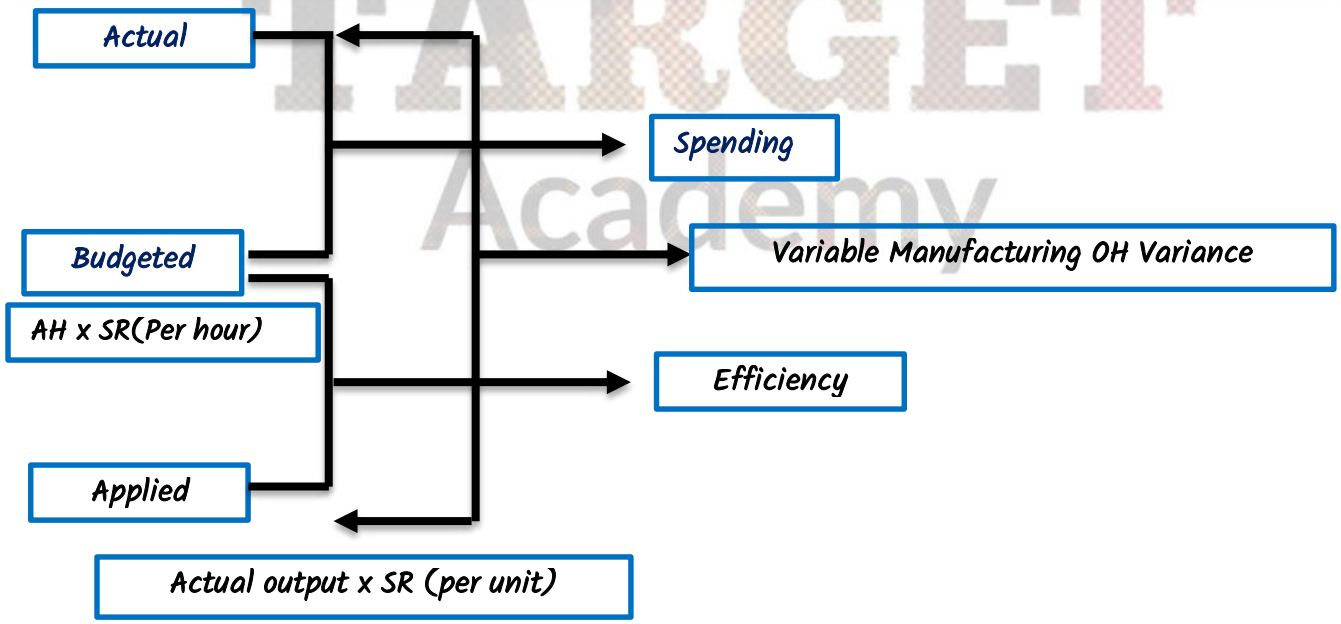
It is manufacturing Overhead that varies as the level of activity varies.

Here H indicates the Hours (if hours are taken as cost driver)

Variable Overhead cost Variance (SHSR)-AHAR)

- Spending Variance (SR-AR)AH
- Efficiency Variance (SH-AH)SR

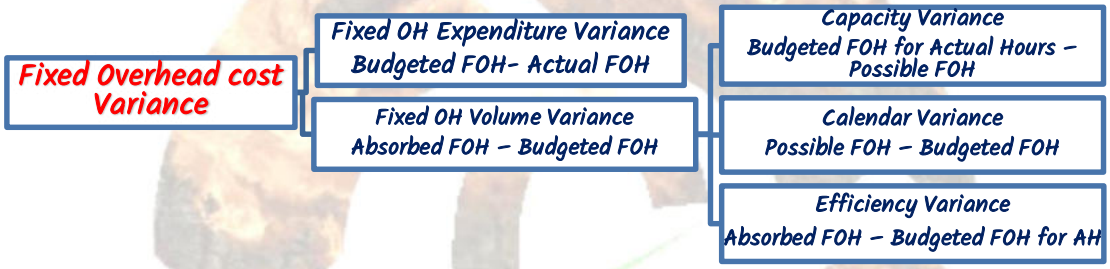
VARIANCE MANUFACTURING OH VARIANCE



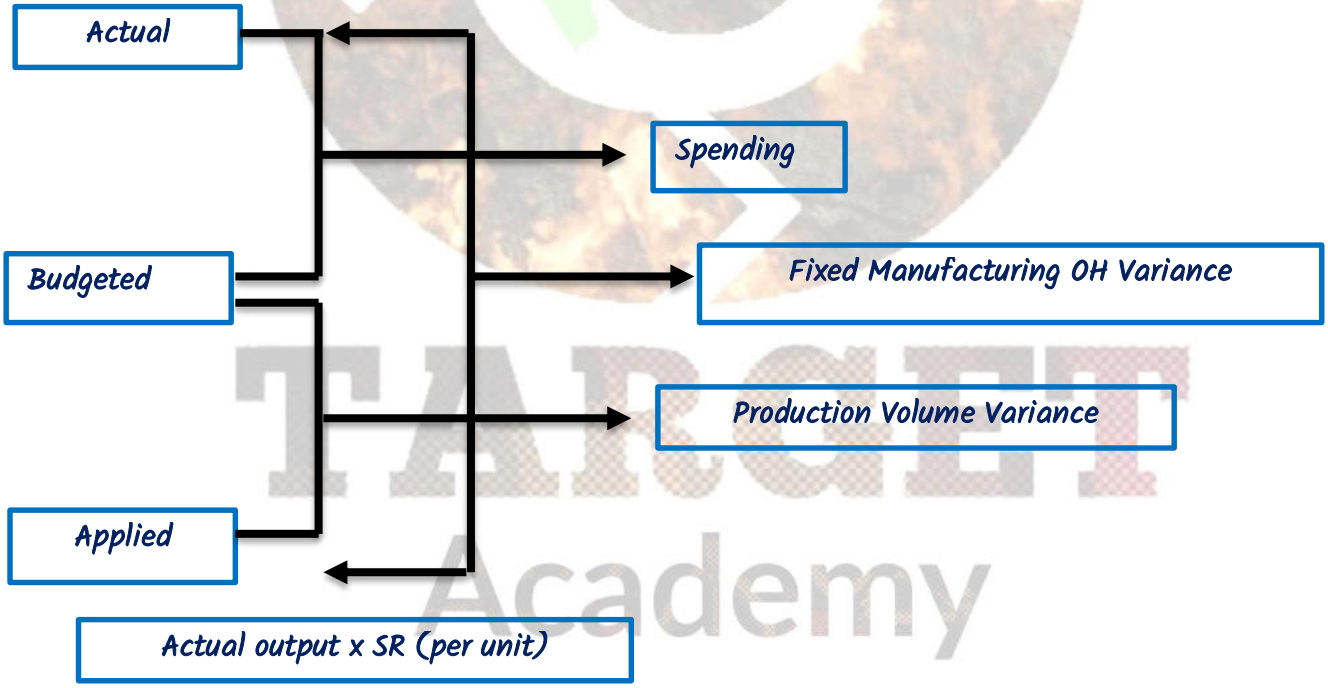
EXAMPLE

Particulars	
Budget	
Standard Hours	12,000 hours
Rate	14
Actuals	
Actual Hours	10,000
Rate	18
Calculate Variable OH Cost Variance, Spending Variance, Efficiency Variance	

FIXED MANUFACTURING OVERHEAD VARIANCE



FIXED MANUFACTURING OH VARIANCE



Fixed manufacturing Overhead Variance

It is easy to compute, because fixed cost are not expected to vary with changes in the level of activity within the relevant range

- **Spending Variance** — Comparison of actual spending to fixed overhead budgeted
- **Production Volume variance** — Comparison of Budgeted with Applied cost

EXAMPLE

Particulars	
Budgeted Fixed Expenses	3,00,000
Budgeted units	30,000
Budgeted Rate per Unit	
Fixed OH rate per DLH	5 per DLH
Actual Fixed Over Head expenses	2,94,000
Actual units	24,000
Fixed over head observed/applied in to inventory	24,000 x 10 = 2,40,000
Calculate Fixed over head cost variance, Fixed OH spending variance, Production volume variance	

Note:

Production volume variance appears only in absorption costing. This variance is not a measure of any individual's or department performance

If actual level of activity is lower than denominated level of activity, then the production volume variance will be unfavorable. The unfavorable variance can be avoidable by producing more number of units, but may leads to more inventory

EXAMPLE

A manufacturing co. operates a costing system and showed the following data in respect of themonth of November.

Actual no. of working days	22
Actual man hours worked during the month	4,300
No. of Products Produced	425
Actual overhead incurred	₹ 1,800

Relevant information from the company's budget and standard cost data is as follows:

Budgeted no. of working days per month	20
Budgeted man hours per month	4,000
Standard man hours per product	10
Standard overhead rate per month per hour	50 p.

You are required to calculate the overhead variances for the month of November.

BQ = 400 units BH = 4000 BFOH = 4000 hr X 0.5

Nit → 10hrs = 2000

? ← 4000hr

SH (For unit) = $\frac{4000}{400}$ = 10 SR = $\frac{BFOH}{BH}$ = $\frac{2000}{4000}$ = 0.5

SH for actual output = (S.H for unit X Aq)

= 10 X 425

= 4250

2.

1. BFOH = 4000 x 0.5 = 2000
2. AFOH = 18000
3. Above FOH = S.H x SR = 4250 x 0.5 = 2125 (for ac of)
4. Budgeted FOH for a dual hours = A.H x SR = 4000 x 0.5 = 250
5. Possible FOH = Budgeted FOH X $\frac{Actual\ days}{Budgeted\ days}$ = 2000 $\frac{22}{22}$ = 2200

Fixed OH variance Absorbed FOH - Actual FOH 2125-1800 = 305 (F)

FOH exp variance Budgeted FOh - Actual FOH 2000-1800 +200 (F)

FOH Volume Vairance Absorbed 2125-2000 = 215 (F)

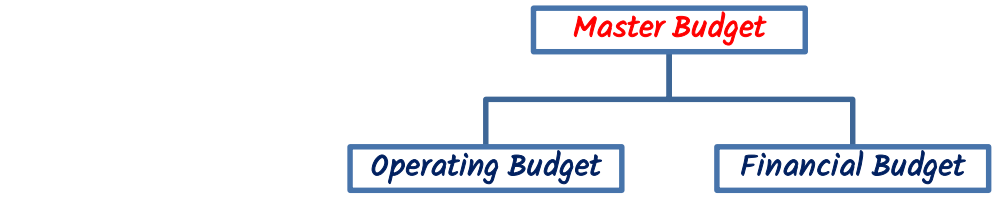
Capacity Variance FOH for AH - Possible FOH 2150 - 2200 = 50 (A)

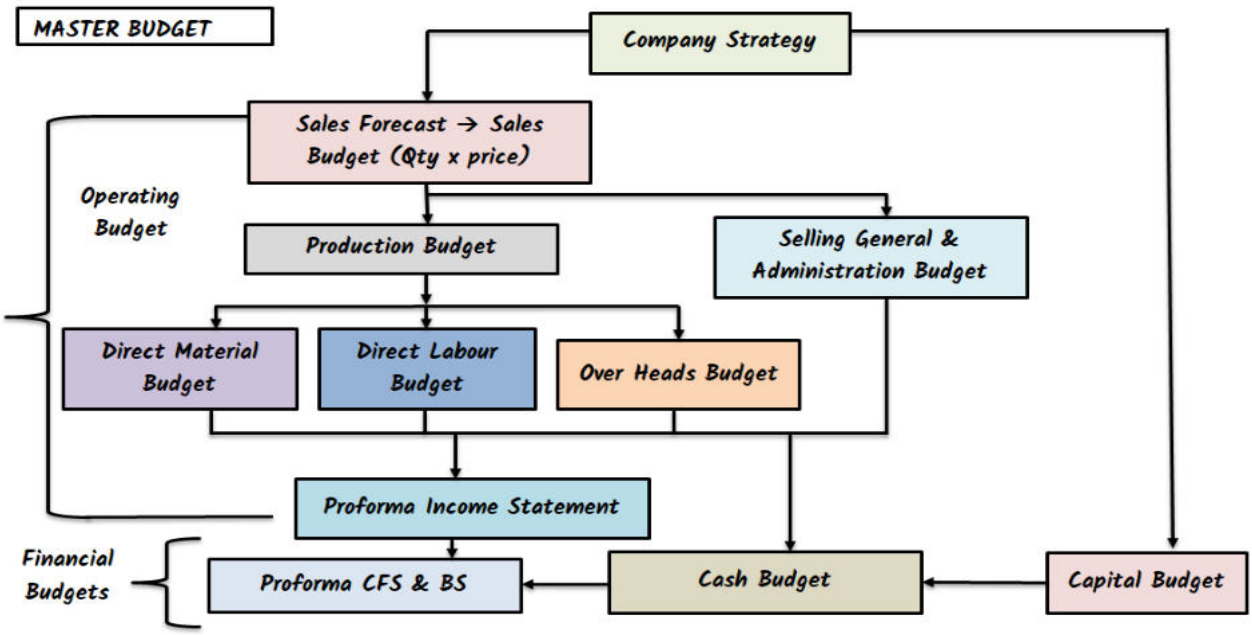
Calender variance Possible FOH - Budgeted FOH 2200 - 2000 + 200 (f)

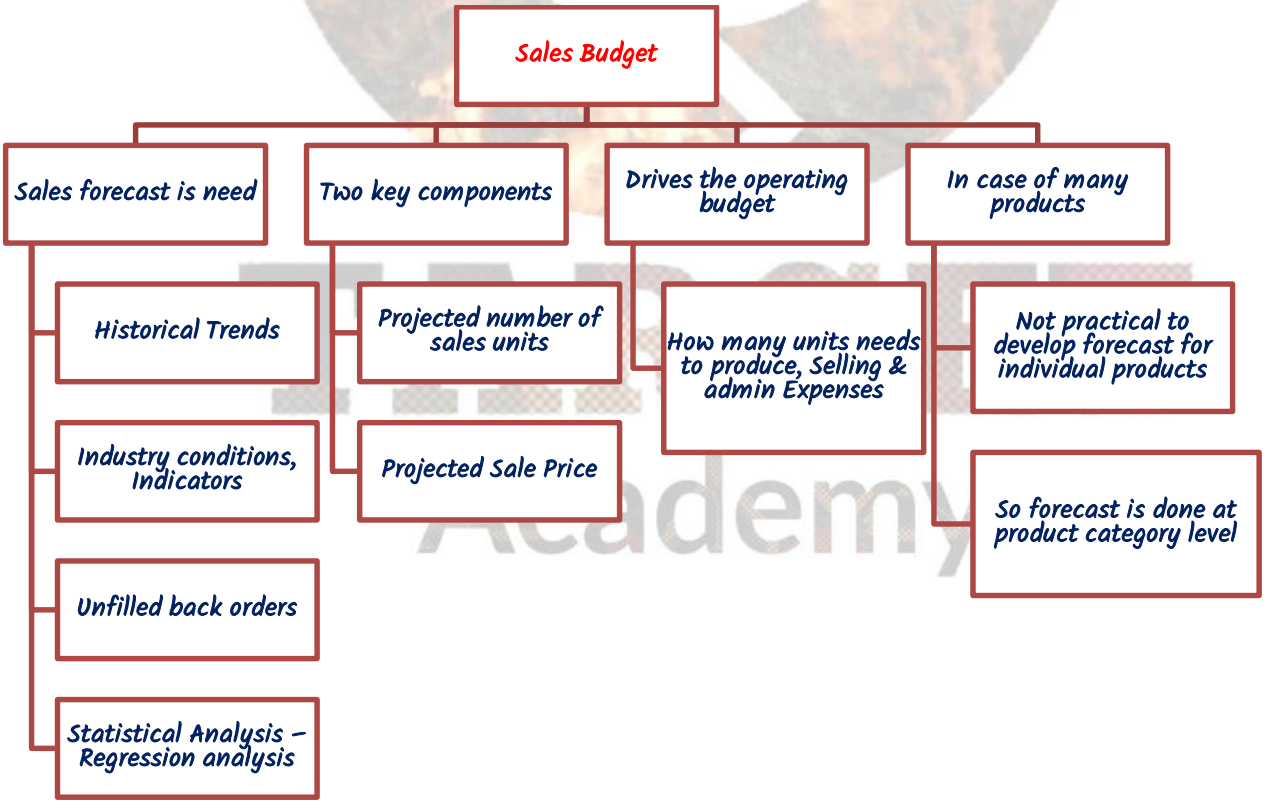
FOH Efficience variance absorbed FOH - Budgeted FOH for AC POH 2125 -2150 = 25 (A)

THE END

BUDGETS


Master Budget
Operating Budget
Financial Budget


MASTER BUDGET
Company Strategy
Sales Forecast → Sales Budget (Qty x price)
Operating Budget
Production Budget
Selling General & Administration Budget
Direct Material Budget
Direct Labour Budget
Over Heads Budget
Proforma Income Statement
Financial Budgets
Proforma CFS & BS
Cash Budget
Capital Budget


Sales Budget
Sales forecast is need
Two key components
Drives the operating budget
In case of many products
Historical Trends
Industry conditions, Indicators
Unfilled back orders
Statistical Analysis – Regression analysis
Projected number of sales units
Projected Sale Price
How many units needs to produce, Selling & admin Expenses
Not practical to develop forecast for individual products
So forecast is done at product category level

SALES BUDGET

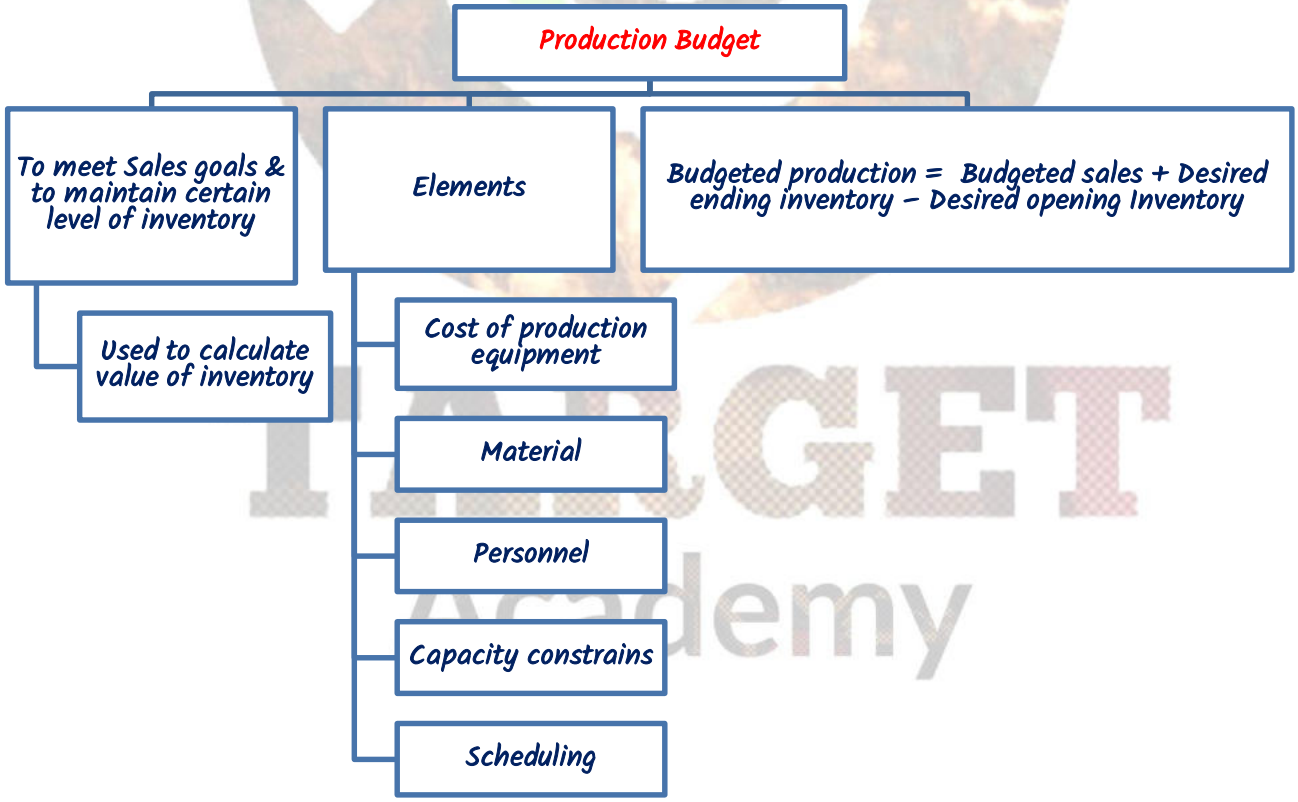
Particulars	
Sales in units	50,000
Selling price per unit	100
Total Sales	5,00,000

Question

- Estimated sales units for next month are 20,000 units. Estimated sales price for next month is $. 13 per unit. Find Sales budgeted.
- Ans

Question

Particulars	Current quarter	Next quarter
Sales (units)	15,000 units	Increased by 10%
Sale Price (Per unit)	$. 12 per unit	Decreased by 5%
Find budgeted sales		



Production Budget

Particulars	
Budgeted sales	xxx
Add: Desired ending inventory	xxx

Total units needed	xxx
Less: Beginning inventory	(xxx)
Budgeted Production units	xxx

Question

Particulars	
Budgeted sales	13,40,000
Desired ending Inventory	1,20,000
Beginning Inventory	70,000
Find How much goods to be produced for 2021	

Question

- The K Company has 5,000 units in beginning finished goods. The sales budget shows expected sales to be 16,000 units. If the production budget shows that 14,000 units are required for production. what was the desired ending finished goods?

Question

- K Inc. estimated 12,000 units as sales for next month. It has opening inventory as 2,000 units. It wants to maintain 3,000 as ending inventory. Find the production units for next month.

Question

Particulars	Jan	Feb	Mar
Sales units	23,000	22,000	32,000

Entity wants to maintain 25% of next month sales as ending inventory.

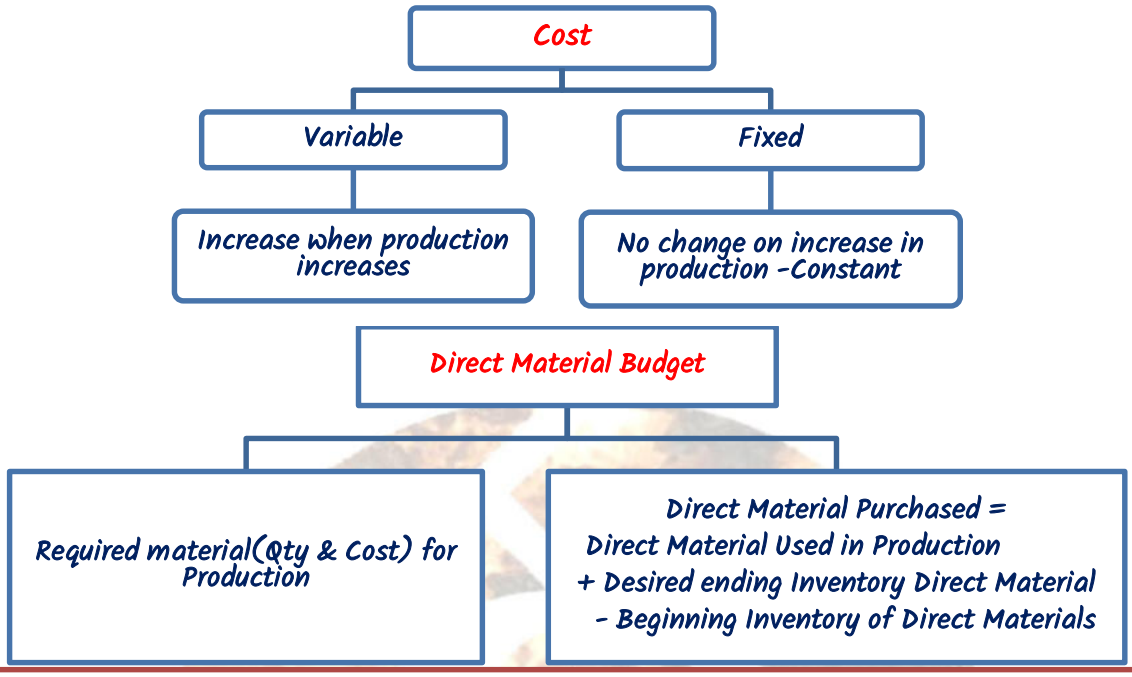
Find out production budget for February month.

Question

Particulars	Jan	Feb	Mar	Apr
Sales units	13,000	12,000	22,000	33,000

Entity wants to maintain 15% of next month sales as ending inventory.

Find out production budget for March month.



Direct Material usage budget

Direct Material usage budget = Opening Direct Material + Purchases – Closing Direct Material

Direct Material Purchase Budget

Particulars	
DM Used in production	xxx
Add: Desired ending inventory of DM	xxx
Total Direct Material needed	xxx
Less: Beginning inventory of DM	(xxx)
Budgeted DM to be Purchased	xxx

Question

Particulars	
Direct material needed for production	3,60,000
Desired Inventory of Raw material	35,000
Beginning Raw material	40,000

Find How much Direct Material to be purchased for 2021

Question

- Direct material needed for production = 26,000 units
- Desired Inventory of Raw material = 1500 units
- Beginning Raw material = 1000 units
- Raw material cost per unit = $. 4 per unit
- Find out value of Direct Material to be purchased for 2021.
- Ans

Question

Particulars	Units
Beginning inventory of Raw Material as on 1.6.2021	2000 units
Ending Inventory of Raw Material as on 30.9.2021	2500 units
Production for this quarter (Jul to Sep)	8,000 units

1. For the next quarter
   a. Production increase by 30%
   b. Ending inventory of Raw Material increase by 40% Find out Purchase of Raw Material for Next quarter?

Question

Particulars	March	April	June	July
Budgeted Production	25,000	36,000	46,000	42,000

Company requires maintaining 20% of next month Production as ending inventory Find out budgeted Raw Material Purchase budget for month of June?

One unit of finished good requires 3 units of raw material means

Question

Particulars	Jan	Feb	Mar	Apr
Production units	13,000	12,000	22,000	33,000

Entity wants to maintain 15% of next month sales as ending inventory of finished goods.

Entity wants to maintain 10% of next month Production as ending inventory of Raw Material.

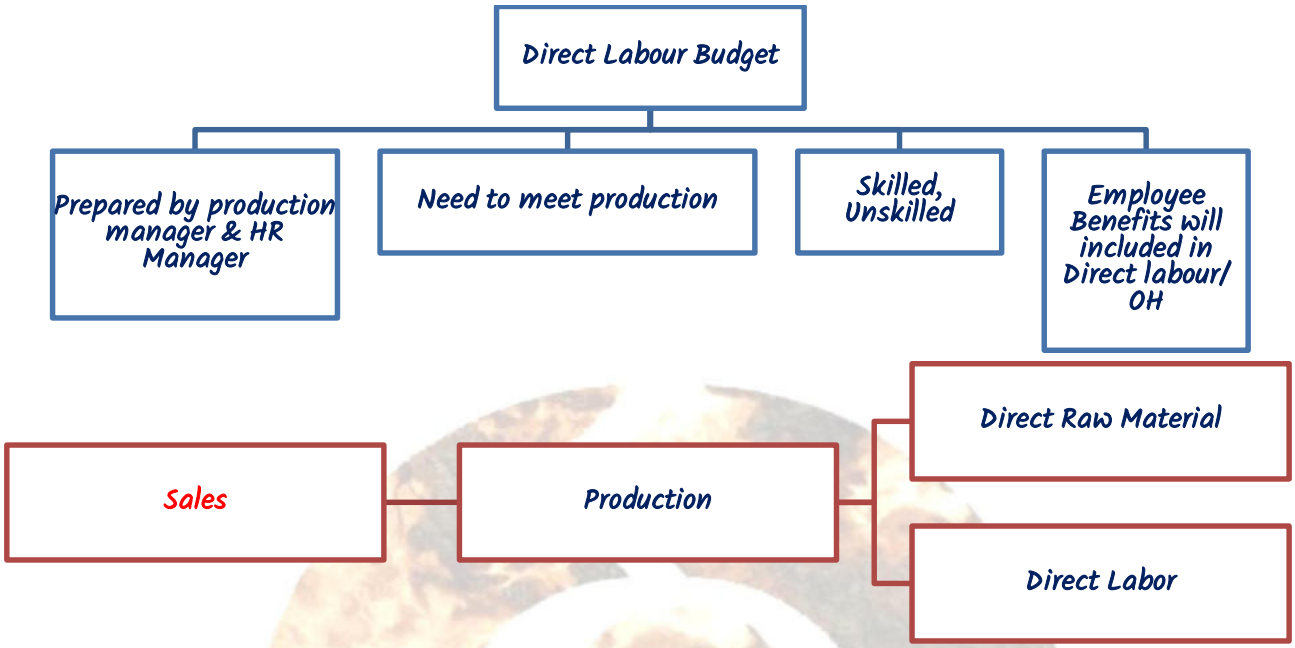
One unit of finished goods require 3 units of Raw Material.

Find out production budget for March month.

Question

Particulars	Jan	Feb	Mar	Apr
Sales units	15,000	17,000	24,000	32,000

Entity wants to maintain 15% of next month sales as ending inventory of finished goods.
One unit of finished goods require 3 units of Raw Material.
Cost of per unit raw material is $. 12.
Find out value of Raw material purchase budget for Feb month.



Direct Labour Requirement = Expected Production x Direct Labour Hours Per Unit

Budgeted Direct Labour Cost = Direct Labour hours Requirement x Direct Labour Cost per Hour.

There is a direct relationship between budgeted production and Direct labour cost

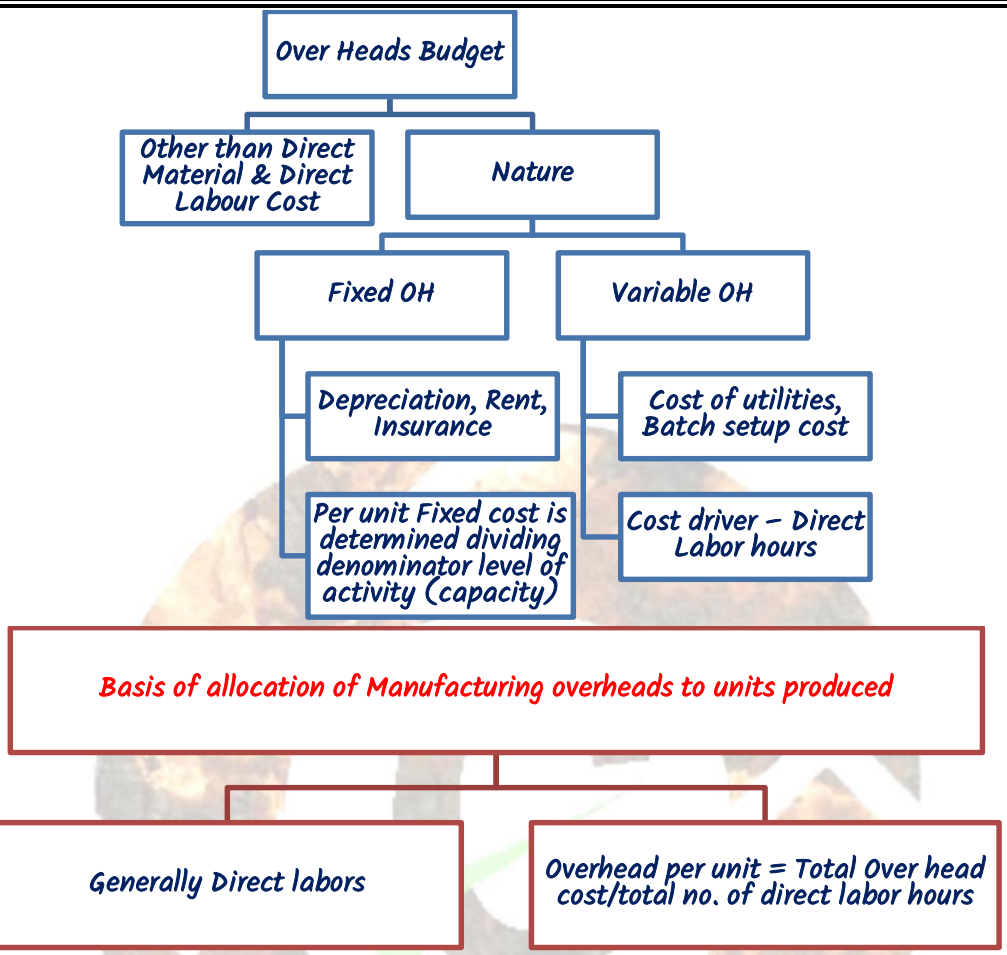
NO OF LABOURS REQUIRED = TOTAL HOURS REQUIRED / nOUMBER OF HOURS BY ONE WORKER PER PERIOD

Question

Particulars	
Production for the month	9,000 units.
Each finished good require	2 hours of Direct labor
Company paying	$. 5 per labor hour
Calculate Direct labor hours budget and Direct labor cost budget.	

Question

Particulars	
Production for the month	9,000 units.
Each finished good require	2 hours of Direct labor
Each worker works 150 hours for month	
Calculate how many labor required to produce required units.	



Overhead budget is depends Direct Labour Budget but not on Direct Material Budget.

Question

- Manufacturing Over Head is 120% of Direct Labour Cost. Direct Labour Cost is $. 30,000. Find out the manufacturing Overhead.
- Ans

Question

Particulars	Jan	Feb	Mar	Apr
Sales units	14,000	16,000	22,000	34,000

Entity wants to maintain 15% of next month sales as ending inventory of finished goods.
One unit of finished goods require 3 hours of direct labour.
Cost of per hour direct labour is $. 2. Manufacturing Over Head is 130%of direct labour Cost.
Find out value of Manufacturing Over Head budget for Feb month.

MARGINAL COSTING

Particulars	Amount
Sales	xxx
Less: Variable cost	
- Direct material	(xxx)
- Direct Labor	(xxx)
- Variable Manufacturing OH	(xxx)
- Variable Admin, Selling & dist. OH	(xxx)
Contribution margin	xxx
Less: Fixed cost	
- Fixed manufacturing OH	(xxx)
- Fixed Selling & dist. OH	(xxx)
Profit	xxx

ABSORPTION COSTING

Particulars	Amount
Sales	xxx
Less: COGS : (Beginning inventory + DM + DL + Variable Manufacturing OH + Fixed Manufacturing OH - Ending Inventory)	xxx
Gross margin	xxx
Less:	
Admin (Variable + Fixed)	(xxx)
Selling & dist. (Variable + Fixed)	(xxx)
Profit	xxx

- Sales = 1000 units @ $ 60 Per unit
- Raw material consumed = 1000 units @ $ 5 per unit.
- Labour = $ 2 per Hour (1 unit requires 1.5 hours).
- Variable Manufacturing over Head = $ 1 per labour hours.
- Fixed Manufacturing Over Head = $ 2,000.
- Fixed Administration & Selling = $ 4,000
- Calculate Profit in both Marginal & Absorption costing.

Marginal Costing	Absorption costing
To measurement internal performance	For external reporting
Fixed Manufacture OH – Period cost	Fixed Manufacturing OH – Product Cost
No of goods Produced = No. of goods sold	No. goods produced =/ No. of goods sold, Opening, Ending inventory exits



Proforma Income Statement | Capital Budget | Cash Budget

Pro Forma Balance Sheet | Pro Forma Statement of Cash Flows

Capital Budget

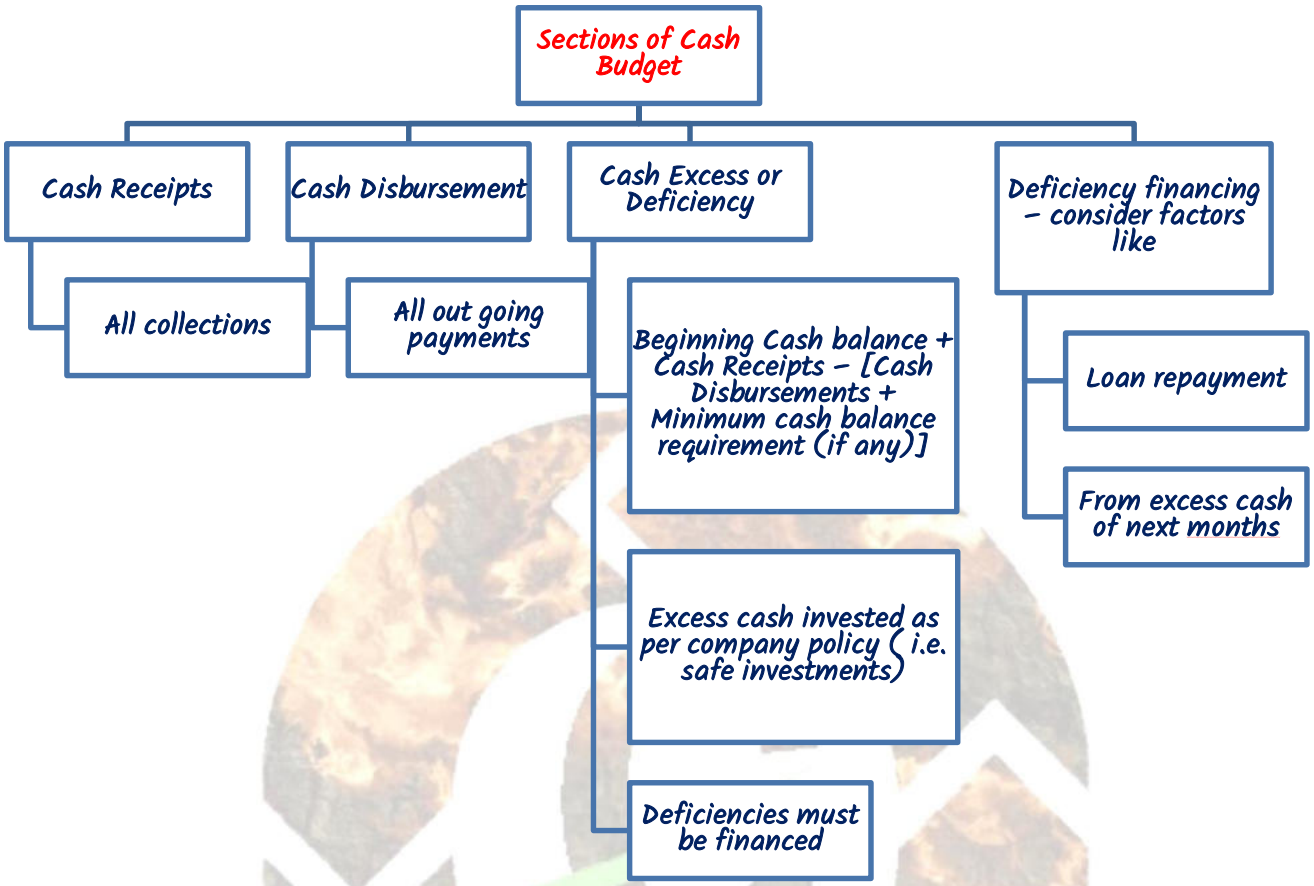
- The amount of money plans to invest in selected Long- term capital projects
  - Will provide benefit in future
- This included the purchases of Property, Plant, or equipment, new business
  - Which give benefit in future
- Amount, Timing, Funding need, Reasons
- Consider company strategy, internal strengths & external opportunities

Question

- Identify the capital budget elements from the following spending
- 1. Acquiring new Machinery.
- 2. Acquired new business line.
- 3. Acquiring Raw material.
- 4. Spending on training of staff.

Cash Budget

- To ensure liquidity
- To discharge current liabilities
- Generally prepared for monthly
- Data required form all parts of master budget
- Divided in to 4 sections
  - Cash Receipts
  - Cash Disbursement
  - Cash excess or Deficiency
  - Financing section



Format:

Opening cash balance	XXXX
(+) cash receipts (like cash sales, collection from debtors, interest, rent, commission received other receipt)	XXXX
(A) Total cash available	XXXX
(-) Cash payments (cash purchases, payment creditors, Salaries, rent paid, other expenses)	(XXXX)
Closing cash balance	XXXX
Opening cash balance	XXXX
(+) Cash receipts	XXXX
(A) Total cash available	XXXX
Cash payments	XXXX
Minimum Cash balance on hand	XXXX
(B) Total cash required	XXXX

A-B => A>B => Surplus

A<B=deflect→ short term borrowings

Cash Receipts

Month	% of collection
Month 0	60%
Month 1	40%

Month	Credit sale
January	40,000
February	30,000
March	45,000
April	25,000

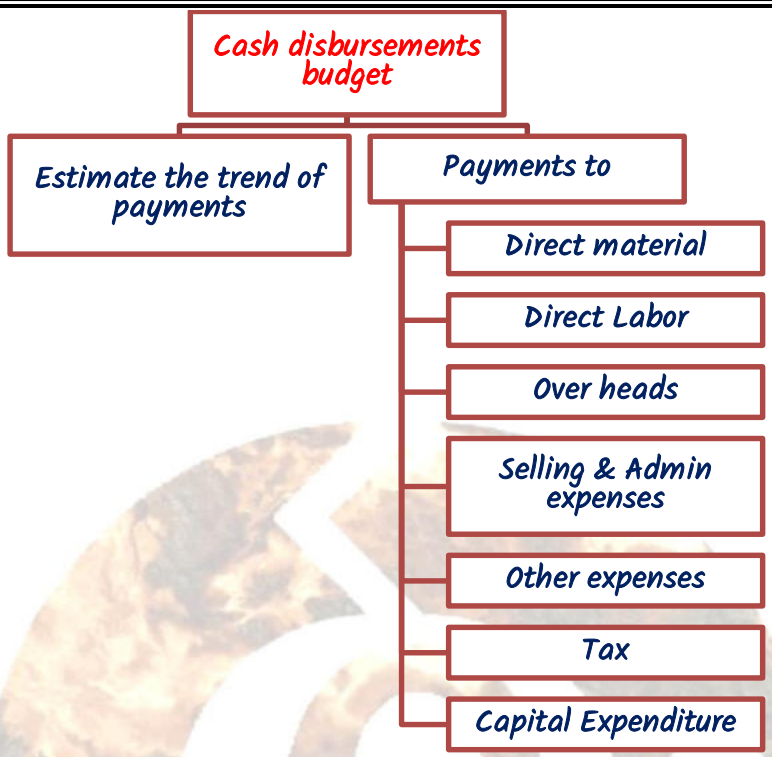
Month	Collection	Collection	Collection	Collection
January				
February				
March				
April				
May				

Month	% of collection
Month 0	40%
Month 1	30%
Month 2	20%
Month 3	10%

Month	Credit sale	Cash Sales
January	40,000	20,000
February	30,000	15,000
March	45,000	30,000
April	25,000	12,000

Month	Collection	Collection	Collection	Collection
January				
February				
March				

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Particulars	Month-0	Month-1	Month-2
Direct Material (50% in same month 50% in following month	50%	50%	
Direct Labor (same month)	100%		
Variable Overhead(following month		100%	
Fixed Overhead (paid in following month)		100%	
Selling & admin expenses (50% in following month & 50% in next month thereafter)		50%	50%
Interest expenses	100%		
Tax expenses (Same month)	100%		
Capital expenditure(same month)	100%		

Cash Disbursement

Particulars	Amount (January Month)
Direct Material (50% in same month 50% in following month	30,000
Direct Labor (same month)	25,000
Variable Overhead(following month	13,000
Fixed Overhead (paid in following month)	12,000
Selling & admin expenses (50% in following month & 50% in next month thereafter)	13,000
Interest expenses	14,000
Tax expenses (Same month)	11,000
Capital expenditure(same month)	2,00,000

Prepare cash disbursement for January month February month

Question

	April	May	June
Sales	35,000	60,000	50,000
Direct Material	20,000	26,000	31,000
Direct Labour	12,000	14,000	16,000
Over head	7,000	9,000	12,000

Particulars	
Sales (50% cash 50% credit)	Credit sales collected 60% in the month of sale and 35 % in the following month and % uncollectable
Direct Material 75% are credit and rest are cash	Credit purchases payment 60% in that month and remaining in following month
Direct Labour	Payment 85% in that month and balance in following month
Overhead	Payment in following month

Find out the Cash collection for May month

Question

	April	May	June
Sales	35,000	60,000	50,000
Direct Material	20,000	26,000	31,000
Direct Labour	12,000	14,000	16,000
Over head	7,000	9,000	12,000

Particulars	
Sales (50% cash 50% credit)	Credit sales collected 60% in the month of sale and 35 % in the following month and % uncollectable
Direct Material 75% are credit and rest are cash	Credit purchases payment 60% in that month and remaining in following month
Direct Labour	Payment 85% in that month and balance in following month
Overhead	Payment in following month

Question

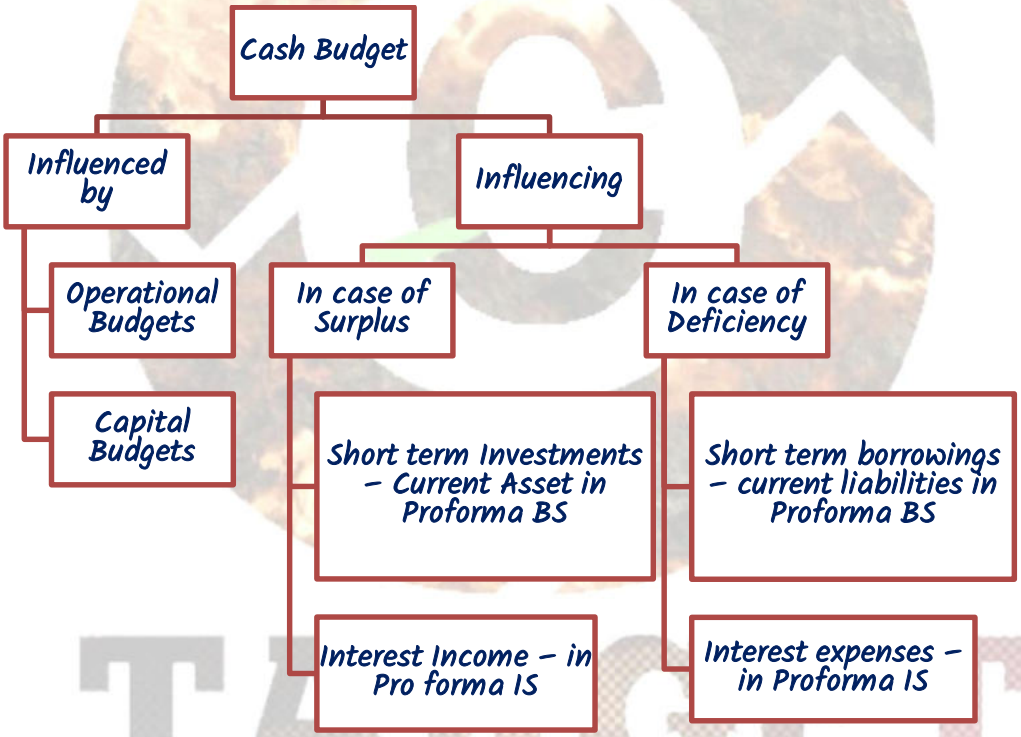
Particulars	January	February	March	April
Sales	$ 240,000	$ 1,50,000	$ 300,000	$ 400,000

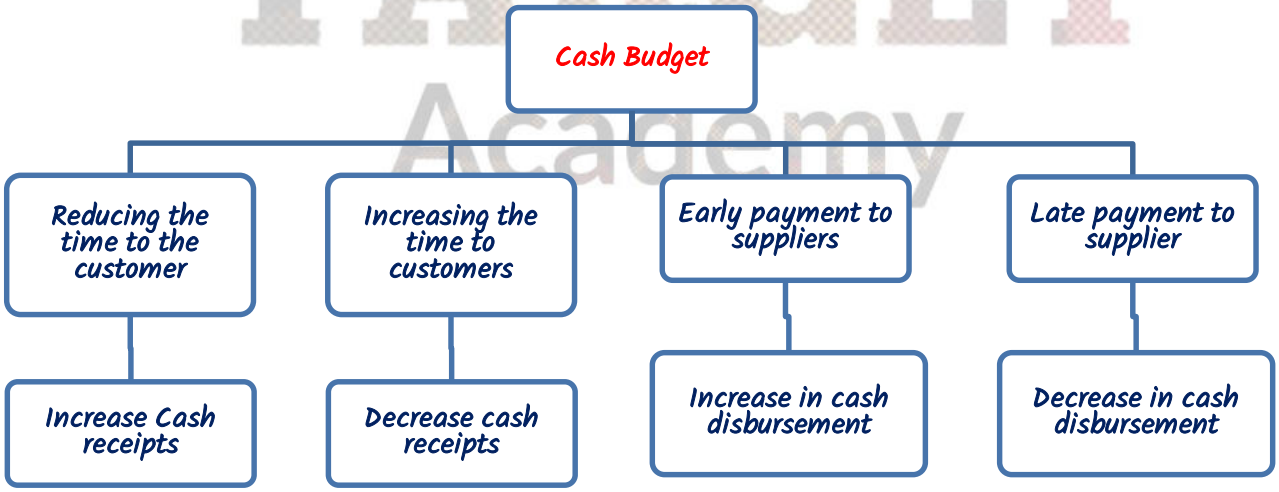
Particulars	
Sales	60% in the month of sale 25% in the month after the sale 15% in the second month after sale

Find Collection in the month of April
Find closing balance of receivables at the end of March, April

Particulars	January	February	March	Total
Beginning Cash Balance				
Add: Cash Receipts				

Total Cash available				
Less: Cash disbursements				
Minimum cash needed				
Total Cash needed				
Cash excess/ (Deficiency)				
Financing				
Borrowings beginning balance				
+ Borrowings (A)				
(-) Repayments (B)				
(-) Interest expenses (C)				
Borrowings ending balance				
Total Financing needs (A+B+C)				
Cash Balance at the end				





Question

Particulars		December	January	February	March
Sales		$. 200,000	$. 200,000	$. 350,000	$ 400,000
Inventory purchased		60% of Sales			
Other expenses		$ 30,000	$. 30,000	$ 30,000	$ 30,000

Particulars	Amounts
Beginning Cash balance at January	$ 30,000
Minimum cash balance to maintained	$ 10,000

Sales	All sales are credit sales, collected in the following month
Purchases	Paid in that month itself
Other expenses	Payment in that month itself

Find out short term borrowings by the end of February

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THE END