Bank Reconciliation Statement

(A) Example on Two Bank Accounts:

Perfect Pvt. Ltd. has two accounts with Best Bank Ltd. The accounts were known as 'Account-I' and 'Account-II'. As at Dec. 31, 2013, the balance as per Cash books reflected the following:

Account-I ₹ 1,25,000 Debit balance.

Account-II ₹ 1,11,250 Debit balance.

The accountant failed to tally the balance with the Pass Book and the following information was available:

(a) The Bank has credited Interest on Account-I ₹1,250, but not recorded by the accountant.

(b) ₹12,500 drawn on Dec.10, 2013, from Account-I was recorded in the books of Account-II.

(c) A deposit of ₹ 17,500 in Account-I was wrongly entered in Account-II in the books.

(d) Cheques issued for ₹20,000 and ₹15,000 from Account-I and Account-II, respectively, were not presented until Jan. 5, 2014.

Solution:

Bank Reconciliation Statement for the year ended 31.12.2013

Account - I		
Particulars	**Amount (₹)**	**Amount (₹)**
Bank Balance as per Books of Account		1,25,000
Add: Interest earned but not recorded in Cash Book	1,250	
Deposit not entered in Cash Book	17,500	18,750
		1,43,750
Less: Withdrawals not entered in Cash Book	12,500	
Cheques issued but not present for payment	20,000	32,500
Bank Balance as per Pass Book		**1,11,250**

Account – I I		
Particulars	**Amount (₹)**	**Amount (₹)**
Bank Balance as per Books of Account		1,11,250
Add: Withdrawals wrongly recorded	12,500	
Cheques issued but not presented	15,000	27,500
		1,38,750
Less: Deposits wrongly entered	17,500	17,500
Bank Balance as per Pass Book		**1,21,250**

(B) Example on Amendment Cash Book

D's Cash Book shows an overdrawn position of ₹3,630 on 31.3.2013, though the Bank Statement shows only ₹3,378 overdrawn. Detailed examination of two records revealed the following:

(i) A cheque for ₹ 1,560 in favour of Rath Associates has been omitted by the Bank from its statement, thus, cheque having been debited to another customer's account.

Treatment

[It will be considered in the Bank Reconciliation Statement as it is not a mistake in either in the Cash Book or in the Pass Book]

(ii) The debit side of Cash Book has been under cast by ₹ 300.

Treatment

This is required to be adjusted in Cash Book first and it should be written in the debit side of the Cash Book.

(iii) A cheque for ₹ 182 drawn in payment of electricity amount had been entered in the Cash Book on ₹ 128 & was shown correctly in the Bank statement.

Treatment

Amount wrongly shown in the Cash Book (₹182 – ₹128) i.e. ₹54 should be shown in the credit side of Cash Book, as the amount was understated.

(iv) A cheque for ₹ 210 from S. Gupta having been paid into Bank, was dishonoured & shown as such on Bank statement, although no entry relating to dishonoured had been made in Cash Book.

Treatment

It should be credited in the Cash Book first, as the cheque was dishonoured

(v) The Bank had debited a cheque for ₹ 126 to D's A/c, in error. It should have been debited to Sukhal's A/c.

Treatment

It will be considered in the Bank Reconciliation Statement as it is not a mistake in either in the Cash Book or in the Pass Book

(vi) A dividend of ₹ 90 on D's holding of equity shares has been duly shown by Bank, no entry has been made in Cash Book.

Treatment

The amount of dividend received will appear in the debit side of the Cash Books as it was not entered in the Cash Book

(vii) A lodgment of ₹ 1,080 on 31.3.2013 had not been credited by Bank.

Treatment

It will be considered in the Bank Reconciliation Statement as it is not a mistake in either in the Cash Book or in the Pass Book

(viii) Interest on ₹ 228 had been directly debited by Bank not recorded in Cash Book.

Treatment

Interest was directly debited by the Bank. It is required to be shown in the credit side of the Cash Book

Solution:

Dr. Cash Book (Bank Column only) Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2013 March 31	To Dividend A/c. " Error (under casting in debited side) " Balance c/d.	90 300 3,732	2013 March 31	By Balance b/d. " Electric Charges A/c. Cheque drawn for [₹ 182 wrongly recorded as ₹ 128 (₹ 182 – ₹ 128)] " S. Gupta's A/c. Cheque dishonoured `` Bank Interest A/c	3,630 54 210 228
		4,122			**4,122**
				By Balance b/d	3,732

Reconciliation Statement	Amount (₹)	Amount (₹)
Overdraft as per Cash Book		3,732
Add: (i) A cheque for ₹ 126 wrongly debited by Bank.	126	
(ii) A lodgement not credited by Bank	1,080	1,206
		4,938
Less: (i) A cheque was issued in favour of Rath Associates not debited by Bank		1,560
Overdraft as per Pass Book.		**3,378**

Prevention of Money-Laundering Act, 2011

Meaning of certain terms:

1. Money-Laundering

Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money-laundering.

2. Proceeds of crime

"Proceeds of crime" means any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of any such property;

3. Property

"Property" means any property or assets of every description, whether corporeal or incorporeal, movable or immovable, tangible or intangible and includes deeds and instruments evidencing title to, or interest in, such property or assets, wherever located;

4. Scheduled offence

"Scheduled offence" means-

(i) the offences specified under Part A of the Schedule; or

(ii) the offences specified under Part B of the Schedule if the total value involved in such offences is thirty lakh rupees or more;

(iii) the offenses specified under Part C of the schedule.

5. Attachment

"Attachment" means prohibition of transfer, conversion, disposition or movement of property by an order issued under Chapter III.

6. Transfer

"Transfer" includes sale, purchase, mortgage, pledge, gift, loan or any other form of transfer of right, title, possession or lien;

7. Value

"Value" means the fair market value of any property on the date of its acquisition by any person, or if such date cannot be determined, the date on which such property is possessed by such person.

Money laundering Vs Siphoning of Funds

Mere earning of money or income or deriving any property by committing a crime does not amount to money laundering, though it may amount to siphoning of funds. Deriving or obtaining any property by committing a crime which amounts to a scheduled offence, and then projecting such property as untainted property amounts to money laundering.

Obligations of Banking Companies, Financial Institutions and Intermediaries of securities market

1. Every reporting entity shall—

   a. maintain a record of all transactions, including information relating to transactions covered under clause (b), in such manner as to enable it to reconstruct individual transactions;

   b. furnish to the Director within such time as may be prescribed, information relating to such transactions, whether attempted or executed, the nature and value of which may be prescribed;

   c. verify the identity of its clients in such manner and subject to such conditions, as may be prescribed;

   d. identify the beneficial owner, if any, of such of its clients, as may be prescribed;

e. maintain record of documents evidencing identity of its clients and beneficial owners as well as account files and business correspondence relating to its clients.

2. Every information maintained, furnished or verified, save as otherwise provided under any law for the time being in force, shall be kept confidential.

3. The records referred to in clause (a) of sub-section (1) shall be maintained for a period of five years from the date of transaction between a client and the reporting entity.

4. The records referred to in clause (e) of sub-section (1) shall be maintained for a period of five years after the business relationship between a client and the reporting entity has ended or the account has been closed, whichever is later.

5. The Central Government may, by notification, exempt any reporting entity or class of reporting entities from any obligation under this Chapter.

Access to information—

1. The Director may call for from any reporting entity any of the records referred to in sub-section (1) of section 12 and any additional information as he considers necessary for the purposes of this Act.

2. Every reporting entity shall furnish to the Director such information as may be required by him under sub-section (1) within such time and in such manner as he may specify.

3. Save as otherwise provided under any law for the time being in force, every information sought by the Director under sub-section (1), shall be kept confidential.

Powers of Director to impose fine-

(1) The Director may, either of his own motion or on an application made by any authority, officer or person, "make such inquiry or cause such inquiry to be made, as he thinks fit to be necessary, with regard to the obligations of the reporting entity, under this Chapter.

"(1A) If at any stage of inquiry or any other proceedings before him, the Director having regard to the nature and complexity of the case, is of the opinion that it is necessary to do so, he may direct the concerned reporting entity to get its records, as may be specified, audited by an accountant from amongst a panel of accountants, maintained by the Central Government for this purpose.

(1B) The expenses of, and incidental to, any audit under sub-section (1A) shall be borne by the Central Government."

(2) If the Director, in the course of any inquiry, finds that a reporting entity or its designated director on the Board or any of its employees has failed to comply with the obligations under this Chapter, then, without prejudice to any other action that may be taken under any other provisions of this Act, he may—

(a) issue a warning in writing; or

(b) direct such reporting entity or its designated director on the Board or any of its employees, to comply with specific instructions; or

(c) direct such reporting entity or its designated director on the Board or any of its employees, to send reports at such interval as may be prescribed on the measures it is taking; or

(d) by an order, impose a monetary penalty on such reporting entity or its designated director on the Board or any of its employees, which shall not be less than ten thousand rupees but may extend to one lakh rupees for each failure.

(3) The Director shall forward a copy of the order passed under sub-section (2) to every banking company, financial institution or intermediary or person who is a party to the proceedings under that sub-section.

No civil proceedings against banking companies, financial institutions, etc., in certain cases.-

No civil or criminal proceedings against reporting entity, its directors and employees in certain cases.—Save as otherwise provided in section 13, the reporting entity, its directors and employees shall not be liable to any civil or criminal proceedings against them for furnishing information under clause (b) of sub-section (1) of section 12.

Procedure and manner of furnishing information by banking company, financial institution and intermediary.-

Procedure and manner of furnishing information by reporting entities—The Central Government may, in consultation with the Reserve Bank of India, prescribe the procedure and the manner of maintaining and furnishing information by a reporting entity under sub-section (1) of section 12 for the purpose of implementing the provisions of this Act.

CONDITIONS FOR TAXABILITY OF GIFTS OF UNLISTED SHARES RECEIVED BY A CLOSELY HELD COMPANY

1. Conditions for taxability of unlisted shares received by closely held company/firm/LLP

Shares received by a closely held company (company in which public are not substantially interested) or firm shall be taxed as income in its hands under section 56(2)(viia) if the following conditions are satisfied:

- The shares received are shares of a company in which the public is not substantially interested (i.e. unlisted shares).
- The shares are received on or after 1-6-2010.
- These shares may be received from any person or persons.
- The shares are received without consideration and the aggregate FMV of such shares received during a previous year exceeds ₹ 50,000. Alternatively, the shares are received for a consideration which is less than the FMV and the aggregate of differences (between FMV and consideration) of all such shares received during a previous year exceeds ₹ 50,000.
- The shares received may be either equity shares or preference shares - does not matter.
- Such shares are not received by way of a transaction not regarded as transfer under clause (via)/(vib)/(vic)/(vid)/(vii) of section 47.
- 'Fair market value' of a property, being shares of a closely held company, shall have the meaning assigned to it in Explanation to section 56(2)(vii). Thus, FMV of shares of a closely held company shall mean FMV determined in accordance with rules 11U and 11UA.

1.1 Firm

Firm includes LLP. [Section 2(23)(i) of the Act]. Therefore, section 56(2)(viia) also applies to LLP.

1.2 Closely-held company (i.e. company in which public are not substantially interested)

Section 2(18) defines 'company in which public are substantially interested' (i.e. widely-held companies). According to section 2(18) of the Act, a company is said to be a company in which the public are substantially interested (i.e. the company is not a closely-held company) if :

(a) it is owned by the Government or the Reserve Bank of India or in which not less than 40% of the shares are held (whether singly or taken together) by the Government or the Reserve Bank of India or a corporation owned by that bank; or

(aa) if it is registered under section 8 of the Companies Act, 2013; or

(ab) if it is a company having no share capital and it is declared by order of the Board to be a company in which the public are substantially interested; or

(ac) if it is a mutual benefit finance company, that is to say, a company which carries on, as its principal business, the business of acceptance of deposits from its members and which is declared by the Central Government under section 406 of the Companies Act, 2013, to be a Nidhi or Mutual Benefit Society; or

(ad) if its shares (not being shares entitled to a fixed rate of dividend whether with or without a further right to participate in profits) carrying not less than 51% of the voting power have been allotted unconditionally to, or acquired unconditionally by, and were throughout the relevant previous year beneficially held by, one or more co-operative societies;

(b) if it is a company which is not a private company as defined in the Companies Act, 2013, and the conditions specified either in item (A) or in item (B) are fulfilled, namely:—

(A) shares in the company (not being shares entitled to a fixed rate of dividend whether with or without a further right to participate in profits) were, as on the last day of the relevant previous year, listed in a recognised stock exchange in India in accordance with the Securities Contracts (Regulation) Act, 1956, and any rules made thereunder;

(B) shares in the company (not being shares entitled to a fixed rate of dividend whether with or without a further right to participate in profits) carrying not less than 50% (40% if the company is an Indian company whose business consists mainly in the construction of ships or in the manufacture or processing of goods or in mining or in the generation or distribution of electricity or any other form of power) of the voting power have been allotted unconditionally to, or acquired unconditionally by, and were throughout the relevant previous year beneficially held by—

(a) the Government, or

(b) a corporation established by a Central, State or Provincial Act, or

(c) any company to which this clause applies or any subsidiary company of such company if the whole of the share capital of such subsidiary company has been held by the parent company or by its nominees throughout the previous year.

If a company does not satisfy the definition of section 2(18) as above, then it is a company in which the public are not substantially interested i.e. closely held company.

2. Comparison of section 56(2)(viia) read with section 56(2)(vii)(c)

The following are the differences in taxability of receipt of shares without consideration or for inadequate consideration in the hands of individuals/HUF under section 56(2)(vii)(c) and in the hands of firm/ closely held companies under section 56(2)(viia):

Sl No.	Points of comparison	Taxability in the hands of individuals/HUFs under section 56(2)(vii)(c)	Taxability in the hands of closely held companies/ firms under section 56(2)(viia)
1.	Introduced by	Finance (No. 2) Act, 2009	Finance Act, 2010
2.	Effective from	1-10-2009	1-6-2010
3.	Shares covered	Shares of both listed and unlisted companies	Shares of only unlisted companies

4.	Whether receipt of other securities taxable?	Yes	No
5.	Whether shares received must be the capital asset of the recipient assessee?	Yes	No such requirement. This is probably because no one would hold unlisted shares as stock-in-trade

TRANSACTIONS EXEMPT FROM TAXABILITY UNDER SECTION 56(2)(viia)

1. Exempt transactions

If shares in unlisted companies are received by a closely-held company or firm under transactions not regarded as transfer under clause (via)/(vic)/(vicb)/(vid)/(vii) of section 47, no tax is attracted under section 56(2)(viia). These exempt transactions covered by clause (via)/(vic)/ (vicb)/(vid)/(vii) of section 47 are as under :

- any transfer in a scheme of amalgamation, of a capital asset being a share or shares held in an Indian company, by the amalgamating foreign company to the amalgamated foreign company [Section 47(via)]
- any transfer in a demerger, of a capital asset, being a share or shares held in an Indian company, by the demerged foreign company to the resulting foreign company [Section 47(vic)]
- any transfer by a shareholder, in a business reorganisation, of a capital asset being a share or shares held by him in the predecessor co-operative bank **[Section 47(vicb)]**
- any transfer or issue of shares by the resulting company, in a scheme of demerger to the shareholders of the demerged company if the transfer or issue is made in consideration of demerger of the undertaking [Section 47(vid)]
- any transfer by a shareholder, in a scheme of amalgamation, of a capital asset being a share or shares held by him in the amalgamating company [Section 47(vii)].

2. Receipt of shares by the amalgamated foreign company in a transaction covered by section 47(via)

If there is any transfer, in a scheme of amalgamation, of a capital asset being a share or shares held in an Indian company, by the amalgamating foreign company to the amalgamated foreign company, the receipt of such shares by the amalgamated foreign company shall not attract tax under section 56(2)(viia) if—

(a) at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company, and

(b) such transfer does not attract tax on capital gains in the country, in which the amalgamating company is incorporated.

3. Receipt of shares by the resulting foreign company in a transaction covered by section 47(vic)

If there is any transfer in a demerger, of a capital asset, being a share or shares held in an Indian company, by the demerged foreign company to the resulting foreign company, the receipt of such shares by the resulting foreign company shall not attract tax under section 56(2)(viia) if—

(a) the shareholders holding not less than 75% in value of the shares of the demerged foreign company continue to remain shareholders of the resulting foreign company; and

(b) such transfer does not attract tax on capital gains in the country, in which the demerged foreign company is incorporated.

4. Receipt of shares in a transaction covered by section 47(vica)

If there is any transfer by a shareholder, in a business reorganisation, of a capital asset being a share or shares held by him in the predecessor cooperative bank, the receipt of such shares shall not attract tax under section 56(2)(viia) if the transfer is made in consideration of the allotment to him of any share or shares in the successor co-operative bank. The expressions 'business reorganisation', 'predecessor co-operative bank' and 'successor co-operative bank' shall have the meanings respectively assigned to them in section 44DB.

5. Receipt of shares in a scheme of demerger - Section 47(vid)

If there is any transfer or issue of shares by the resulting company, in a scheme of demerger to the shareholders of the demerged company, the receipt of such shares shall not attract tax under section 56(2)(viia) if the transfer or issue is made in consideration of demerger of the undertaking.

6. Receipt of shares in a scheme of amalgamation – Section 47(vii)

If there is any transfer by a shareholder, in a scheme of amalgamation, of a capital asset being a share or shares held by him in the amalgamating company, the receipt of such shares shall not attract tax under section 56(2)(viia) if—

(a) the transfer is made in consideration of the allotment to him of any share or shares in the amalgamated company, and

(b) the amalgamated company is an Indian company.

Working Capital Cycle or Operating Cycle

Working Capital refers to that part of the firm's capital, which is required for financing short- term or current assets such a cash marketable securities, debtors and inventories. Funds thus, invested in current assets keep revolving fast and are constantly converted into cash and this cash flow out again in exchange for other current assets. Working Capital is also known as revolving or circulating capital or short-term capital.

Steps to ascertain the operating cycle time period :

In case of a manufacturing company the operating cycle refers to the average time elapses between the acquisition of raw materials and the final cash realisation from sale of finished goods.

Cash is used to buy raw materials, so cash is converted into raw materials inventory.

Then the raw materials and stores are issued to the production departments.

Wages are paid and other expenses are incurred in the process and work-in-process comes into existence.

Work-in-process becomes finished goods . Finished goods are sold to customers on credit.

In the course of time, these customers pay cash for the goods purchased by them. 'Cash' is retrieved and the cycle is completed.

Stages of Operating Cycle

Thus, operating cycle of a manufacturing organisation consists of four stages:

- The raw materials and stores inventory stage
- The work-in-progress stage
- The finished goods inventory stage
- The receivable stage.

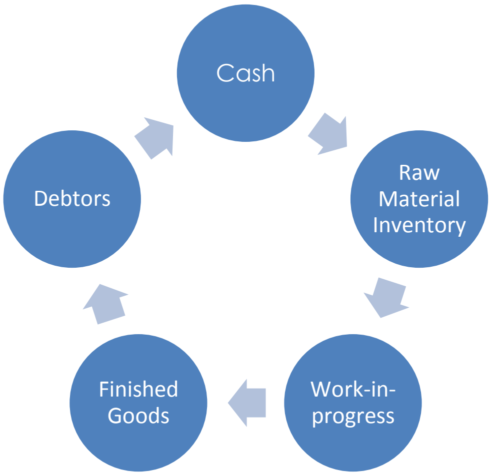
Equation of operating cycle

In the form of an equation, the operating cycle process of a manufacturing organisation can be expressed as follows:

Operating Cycle = R + W + F + D – C

Where,	**R**	**= Raw Material Storage Period.**
	W	**= Work-in-Progress Holding Period.**
	F	**= Finished Goods Storage Period.**
	D	**= Debtors Collection Period.**
	C	**= Creditors Payment Period.**

Operating Cycle of a Manufacturing Business



The lesser the time period of cash to cash cycle lesser amount of working capital is required.

It is beneficial for the industry and would get a leverage during operations and gain operating efficiency.

Components of Operating Cycle

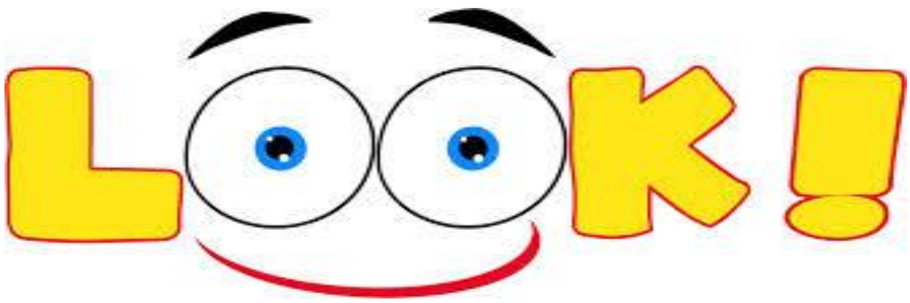
Raw material storage period: $\dfrac{\text{Average stock of raw material}}{\text{Average cost of raw material consumption per day}}$

Work-in-progress holding period: $\dfrac{\text{Average work-in-progress inventory}}{\text{Average cost of production per day}}$

Finished goods storage period: $\dfrac{\text{Average stock of finished goods}}{\text{Average cost of goods sold per day}}$

Debtors collection period: $\dfrac{\text{Average book debts}}{\text{Average credit sales per day}}$

Credit period availed: $\dfrac{\text{Average trade creditors}}{\text{Average credit purchases per day}}$



Practical Problem on CAS

Illustration 1:

A consignment consisted of two chemicals A and B. The invoices gave the following data:

Chemical A – 8,000 lb. @ ₹ 2.50 per lb	₹	20,000
Chemical B – 6,400 lb. @ ₹ 3.25 per lb	₹	20,800
Sales Tax	₹	1632
Railway Freight	₹	768
Total Cost	₹	43,200

A shortage of 400 lb in A and 256 lb. in B was noticed due to breakage. What stock rate you would adopt for pricing issues assuming a provision of 5% towards further deterioration.

Solution:

Chemical – A

8,000 lb. @ ₹ 2.50 per lb.	₹	20,000
Add: Sales Tax (4% on the value)		800
		20,800
Add: Railway Freight (in ratio of weight, i.e., 5/9 x 768)		426.67
		21,226.67

Gross Weight	8,000 lb.
Less: Shortage	400 lb.
	7,600 lb.
Less: 5% Provision for deterioration	380 lb.
Net Weight	7,220 lb.

Rate for pricing Issues	21,226.67/7,220 lb	= ₹ 2.94

Chemical – B

6,400 lb. @ ₹ 3.25 per lb	₹	20,800
Add: Sales Tax and Railway Freight (832 + 341.33)		1,173.33
	₹	21,973.33

Gross Weight	6,400 lb.
Less: Shortage	256 lb.
	6,144 lb.
Less: 5% for Deterioration	307.2 lb.
	5,836.8 lb

Rate for pricing Issues	21,973.33/5,836.8 lb	= ₹ 3.76

Note: It has been presumed that both shortages due to breakage and deterioration in quantity of raw materials are normal losses.

Illustration 2:

Purchase of Materials ₹ 2,00,000 (inclusive of Trade Discount ₹ 3,000); Fee on Board ₹ 10,000; Import Duty paid ₹ 15,000; Freight inward ₹ 20,000; Insurance paid for import by sea ₹ 12,000; Rebates allowed ₹ 4,000; Cash discount ₹ 3,000; CENVAT Credit refundable ₹ 7,000; Subsidy received from the Government for importation of these materials ₹ 18,000. Compute the landed cost of material (i.e. value of receipt of material).

Solution:

Computation of Material Cost Sheet

	Particulars	**Amount (₹)**
	Purchase price of Material	2,00,000
Add	Fee on Board	10,000
Add	Import Duties on purchasing the material	15,000
Add	Freight Inward during the procurement of material	20,000
Add	Insurance paid	12,000
	Total	**2,57,000**
Less	Trade Discount	3,000
Less	Rebates	4,000
Less	CENVAT Credit refundable	7,000
Less	Subsidy received from the Government for importation of materials	18,000
	Value of Receipt of Material	**2,25,000**

Notes:

(i) Cash discount is not allowed, as it is a financial item.

(ii) Subsidy received, rebates and CENVAT Credit refundable are to be deducted for the purpose of computing the material cost.

Illustration 3:

Purchase of Materials ₹ 5,00,000 (inclusive of Trade Discount ₹ 8,000); Import Duty paid ₹45,000; Freight inward ₹ 62,000; Insurance paid for import by air ₹ 28,000; Rebates allowed ₹10,000; Cash discount ₹ 3,000; CENVAT Credit refundable ₹ 7,000; Abnormal Loss of Material ₹14,000; Price variance due to computation of cost under standard rates ₹ 1,500. Compute the landed cost of material.

Solution:

Computation of Landed Cost of Material

	Particulars	**Amount (₹)**
	Purchase price of Material	5,00,000
Add	Import Duties of purchasing the material	45,000
Add	Freight Inward During the procurement of material	62,000
Add	Insurance paid for freight	28,000
Add	Price Variance due to computation of cost under standard rates	1,500
	Total	**6,36,500**
Less	Trade Discount	8,000
Less	Abnormal loss of materials	14,000
Less	Rebates	10,000
Less	CENVAT Credit refundable	7,000
	Value of Receipt of Material	**5,97,500**

Note:

(i) Normal loss is not deducted

(ii) Price variance is allowable inclusion as the cost was maintained on standard cost.

Illustration 4:

Purchase of material $ 50,000 [Forward contract rate $ = 54.40 but $ = 54.60 on the date of importation]; Import Duty paid ₹ 5,65,000; Freight inward ₹ 1,62,000; Insurance paid for import by road ₹ 48,000; Cash discount ₹ 33,000; CENVAT Credit refundable ₹ 37,000; Payment made to the foreign vendor after a month, on that date the rate of exchange was $ = 55.20. Compute the landed cost of material.

Solution:

Computation of Landed Cost of Material

	Particulars	**Amount (₹)**
	Purchase price of material [50,000 × 54.60]	27,30,000
Add	Import Duties of purchasing the material	5,65,000
Add	Freight Inward during the procurement of material	1,62,000
Add	Insurance of the material (In case of import of material by road/Sea)	48,000
	Total	**35,05,000**
Less	CENVAT Credit refundable	37,000
	Value of Receipt of Material	**34,68,000**

Notes:

(i) Excess payment made to the vendor due to exchange fluctuation is not an includible cost, hence not considered.

(ii) Though the forward contract rate was \$ = 54.40, but the exchange rate on the date of importation is considered. Hence, included in the cost of materials. Accordingly, the purchase cost is computed considering the \$ = 54.60.

Illustration 5:

Opening stock of raw materials (10,000 units) ₹ 1,80,000; Purchase of Raw Materials (35,000 units) ₹ 7,00,000; Closing stock of Raw Material 7,000 units; Freight Inward ₹ 85,000; Self-manufactured packing material for purchased raw materials only ₹ 60,000 (including share of administrative overheads related to marketing sales ₹ 8,000); Demurrage charges levied by transporter for delay in collection ₹ 11,000; Normal Loss due to shrinkage 1% of materials; Abnormal Loss due to absorption of moisture before receipt of materials 100 units.

Solution:

	Particulars	**Quantity (units)**	**Amount (₹)**
	Opening Stock of Raw materials	10,000	1,80,000
Add	Purchase of raw materials	35,000	7,00,000
Add	Freight inwards		85,000
Add	Demurrage Charges levied by transporter for delay in collection		11,000
			9,76,000
Less	Abnormal Loss of raw material (due to absorption of moisture before receipt of material) = [(7,00,000 + 85,000 +11,000)× 100]/35,000	(100)	(2,274)

Less	Normal Loss of material due to shrinkage during transit [1% of 35,000 units]	(350)	-
Add	Cost of self-manufactured packing materials for purchased raw materials only (60,000 – 8,000)		52,000
	Cost of raw materials	44,550	10,25,726
Less	Value of Closing Stock = Total cost/(Total units – Units of Normal Loss) [10,25,726/(10,000 + 35,000-100 – 350)] × 7,000	(7,000)	(1,61,169)
	Cost of Raw materials consumed	**37,550**	**8,64,557**

Note:

(i) Units of normal loss adjusted in quantity only and not in cost, as it is an includible item

(ii) Cost of self-manufactured packing materials does not include any share of administrative overheads or finance cost or marketing overheads. Hence, marketing overheads excluded.

(iii) Abnormal loss of materials arises before the receipt of the raw materials, hence, valuation done on the basis of costs related to purchases only. Value of opening stock is not considered for arriving at the valuation of abnormal loss.

(iv) Demurrage charges paid to transporter is an includible item. Since this was paid to the transporter, hence considered before estimating the value of abnormal loss.

Illustration 6:

Basic pay ₹ 5,00,000; Lease rent paid for accommodation provided to an employee ₹2,00,000, amount recovered from employee ₹ 40,000, Employer's Contribution to P.F. ₹75,000, Employee's Contribution to P.F. ₹ 75,000; Reimbursement of Medical expenses ₹67,000, Hospitalisation expenses of employee's family member borne by the employer ₹19,000, Festival Bonus ₹ 20,000, Festival Advance ₹ 30,000. Compute the Employee cost.

Solution:

Computation of Employee Cost

	Particulars	**Amount (₹)**
	Basic Pay	5,00,000
Add	Net cost to employer towards lease rent paid for accommodation provided to an employee [lease rent paid **less** amount recovered from employee] [2,00,000 (-) 40,000]	1,60,000
Add	Employer's Contribution to PF	75,000
Add	Reimbursement of Medical Expenses	67,000
Add	Hospitalisation expenses of employee's family member paid by the employer	19,000
Add	Festival Bonus	20,000
	Employee Cost	**8,41,000**

Note:

(i) Festival advance is a recoverable amount, hence not included in employee cost.

(ii) Employee's contribution to PF is not a cost to the employer, hence not considered.

Illustration 7:

Gross pay ₹ 10,30,000 (including cost of idle time hours paid to employee ₹ 25,000); Accommodation provided to employee free of cost [this accommodation is owned by employer, depreciation of accommodation ₹ 1,00,000, maintenance charges of the accommodation ₹ 90,000, municipal tax paid for this accommodation ₹ 3,000], Employer's Contribution to P.F. ₹ 1,00,000 (including a penalty of ₹ 2,000 for violation of PF rules), Employee's Contribution to P.F. ₹ 75,000. Compute the Employee cost.

Solution:

Computation of Employee Cost

	Particulars	**Amount (₹)**
	Gross Pay (net of cost of idle time) =[10,30,000 (-) 25,000]	10,05,000
Add	Cost of accommodation provided by employer = Depreciation (+) Municipal Tax paid (+) maintenance charges = 1,00,000 + 90,000 + 3,000 = 1,93,000	1,93,000
Add	Employer's Contribution to PF excluding penalty paid to PF authorities [1,00,000 (-) 2,000]	98,000
	Employee Cost	**12,96,000**

Note:

(i) Assumed that the entire accommodation is exclusively used by the employee. Hence, cost of accommodation provided includes all related expenses/costs, since these are identifiable/ traceable to the cost centre.

(ii) Cost of idle time hours is assumed as abnormal. Since it is already included in the gross pay, hence excluded.

(iii) Penalty paid to PF authorities is not a normal cost. Since, it is included in the amount of contribution, it is excluded.

Illustration 8:

Trial Balance as on 31.3.2012 *(relevant extracts only)*

Particulars	Amount (₹)	Particulars	Amount (₹)
Materials consumed	25,00,000		
Salaries	15,00,000	Special Subsidy received from Government towards Employee salary	2,75,000
Employee Training Cost	2,00,000	Recoverable amount from Employee out of perquisites extended	35,000
Perquisites to Employees	4,50,000		
Contribution to Gratuity Fund	4,00,000		
Lease rent for accommodation provided to employees	3,00,000		
Festival Bonus	50,000		
Unamortised amount of Employee cost related to a discontinued operation	90,000		

Compute employee cost.

Solution:

Computation of Employee Cost

	Particulars	Amount (₹)
	Salaries	15,00,000
Add	Net Cost of Perquisites to Employees = Cost of Perquisites (-) amount recoverable from employee = 4,50,000 (-) 35,000	4,15,000
Add	Lease rent paid for accommodation provided to employee	3,00,000
Add	Festival Bonus	50,000
Add	Contribution to Gratuity Fund	4,00,000
Less	Special subsidy received from Government towards employee salary	(2,75,000)
	Employee Cost	**23,90,000**

Note:

(i) Recoverable amount from employee is excluded from the cost of perquisites.

(ii) Employee training cost is not an employee cost. It is to be treated as an Overhead, hence, not included.

(iii) Special subsidy received is to be excluded, as it reduces the cost of the employer.

(iv) Unamortized amount of employee cost related to a discontinued operation is not an includible item of cost.

Illustration 9:

Royalty paid on sales ₹ 30,000; Royalty paid on units produced ₹ 20,000, Hire Charges of equipment used for production ₹ 2,000, Design charges ₹ 15,000, Software development charges related to production ₹ 22,000. Compute the Direct Expenses.

Solution:

Computation of Direct Expenses

	Particulars	**Amount (₹)**
	Royalty paid on Sales	30,000
Add	Royalty paid on units produced	20,000
Add	Hire charges of equipment used for production	2,000
Add	Design Charges	15,000
Add	Software development charges related to production	22,000
	Direct Expenses	**89,000**

Note:

(i) Expenses are related to either manufacturing of the product or rendering of service.

(ii) These costs are directly identifiable and can be linked with the cost object and are not related to direct material cost or direct employee cost. Hence, these are considered as Direct Expenses.

Illustration 10:

A manufacturing unit produces two products X and Y. The following information is furnished:

Particulars	Product X	Product Y
Units produced (Qty)	20,000	15,000
Units Sold (Qty)	15,000	12,000
Machine Hours utilised	10,000	5,000
Design charges	15,000	18,000
Software development charges	24,000	36,000

Royalty paid on sales ₹ 54,000 [@ ₹2 per unit sold, for both the products]; Royalty paid on units produced ₹ 35,000 [@ ₹ 1 per unit purchased, for both the products], Hire charges of equipment used in manufacturing process of Product X only ₹ 5,000, Compute the Direct Expenses.

Solution:

Computation of Direct Expenses

	Particulars	Product X	Product Y
	Royalty paid on Sales	30,000	24,000
Add	Royalty paid on units produced	20,000	15,000
Add	Hire charges of equipment used in manufacturing process of Product X only	5,000	----
Add	Design Charges	15,000	18,000
Add	Software development charges related to production	24,000	36,000
	Direct Expenses	**94,000**	**93,000**

Note:

(i) Royalty on production and royalty on sales are allocated on the basis of units produced and units sold respectively. These are directly identifiable and traceable to the number of units produced and units sold. Hence, this is not an apportionment.

(ii) No adjustments are made related to units held, i.e. closing stock.

Illustration 11:

A factory has 3 production departments (P1, P2, P3) and 2 service departments (S1 & S2). The following overheads & other information are extracted from the books for the month of January 2015.

Expense	Amount (₹)
Rent	6,000
Repair	3,600
Depreciation	2,700
Lighting	600
Supervision	9,000
Fire Insurance for stock	3,000
ESI contribution	900
Power	5,400

Particulars	P1	P2	P3	S1	S2
Area sq ft	400	300	270	150	80
No. of workers	54	48	36	24	18
Wages	18,000	15,000	12,000	9,000	6,000
Value of plant	72,000	54,000	48,000	6,000	
Stock Value	45,000	27,000	18,000		
Horse power of plant	600	400	300	150	50

Allocate or apportion the overheads among the various departments on suitable basis.

Solution:

The primary distribution of overheads is as follows:- ₹

Expense	Total	Basis	P1	P2	P3	S1	S2
Rent	6,000	Area sq ft	2,000	1,500	1,350	750	400
Repair	3,600	Plant value	1,440	1,080	960	120	-
Depreciation	2,700	Plant value	1,080	810	720	90	-
Lighting	600	Area sq ft	200	150	135	75	40

Supervision	9,000	No of workers	2,700	2,400	1,800	1,200	900
Fire Insurance for stock	3,000	Stock value	1,500	900	600	-	-
ESI contribution	900	Wages	270	225	180	135	90
Power	5,400	Horse power	2,160	1,440	1,080	540	180
Total	31,200		11,350	8,505	6,825	2,910	1,610

Illustration 12:

In an Engineering Factory, the following particulars have been extracted for the quarter ended 31st December, 2014. Compute the departmental overhead rate for each of the production departments, assuming that overheads are recovered as a percentage of direct wages.

	Production Depts.			**Service Depts.**	
	A	**B**	**C**	**X**	**Y**
Direct Wages (₹)	30,000	45,000	60,000	15,000	30,000
Direct Material	15,000	30,000	30,000	22,500	22,500
No. of workers	1,500	2,250	2,250	750	750
Electricity KWH	6,000	4,500	3,000	1,500	1,500
Assets Value	60,000	40,000	30,000	10,000	10,000
No. of Light points	10	16	4	6	4
Area Sq. Yards	150	250	50	50	50

The expenses for the period were:

	₹
Power	1,100
Lighting	200
Stores Overhead	800
Welfare of Staff	3,000
Depreciation	30,000
Repairs	6,000
General Overheads	12,000
Rent and Taxes	550

Apportion the expenses of Service Dept. Y according to direct wages and those of Service Department X in the ratio of 5: 3: 2 to the production departments.

Solution:

Statement showing apportionment of overheads and computation of OH rates:

Particulars	Basis	Total (₹)	A (₹)	B (₹)	C (₹)	X (₹)	Y (₹)
Power	KWH (4:3:2:1:1)	1,100	400	300	200	100	100
Wages	Actual	45,000	—	—	—	15,000	30,000
Material	Actual	45,000	—	—	—	22,500	22,500
Lighting	Light Points (5:8:2:3:2)	200	50	80	20	30	20
Stores overhead	Materials (2:4:4:3:3)	800	100	200	200	150	150
Welfare of staff	No. of workers (2:3:3:1:1)	3,000	600	900	900	300	300
Depreciation	Assets Value (6:4:3:1:1)	30,000	12,000	8,000	6,000	2,000	2,000
Repair	Assets Value (6:4:3:1:1)	6,000	2,400	1,600	1,200	400	400
General Overheads	Direct Wages (2:3:4:1:2)	12,000	2,000	3,000	4,000	1,000	2,000
Rent & Taxes	Area (3:5:1:1:1)	550	150	250	50	50	50
		1,43,650	**17,700**	**14,330**	**12,570**	**41,530**	**57,520**
Costs of 'X'	5:3:2		20,765	12,459	8,306	(41,530)	—
Costs of 'Y'	2:3:4		12,782	19,173	25,565	—	(57,520)
			51,247	**45,962**	**46,441**	—	—

Overhead Rate as % on direct wages

A = [51,247/30,000] x 100 = 170.82%

B = [45,962/45,000] x 100 = 102.14%

C = [46,441/60,000] x 100 = 77.40%

Illustration 13:

Prepared Cost Sheet for an engineering company which produces standard components in batches of 1000 pieces each. A batch passes through three processes viz. Foundary, Machining & Assembly. The material used for a batch number 001 were: Foundry 1300 tonnes @ ₹ 50 per tonne of which 50 tonnes were send back to stores.

Other details

Process	**Direct Labour**	**Overheads**
Foundry	**200 Hrs @ ₹ 10**	**₹ 15 per Labour Hour**
Machining	**100 Hrs @ ₹ 5**	**₹ 20 per Labour Hour**
Assembly	**100 Hrs @ ₹ 15**	**₹ 10 per Labour Hour**

A comparison of actual costs with estimated cost discloses that material and overheads have exceeded the estimates by 20% whereas the estimated labour cost is 10% more than the actual.

Solution:

Cost Sheet for the Batch number 001

Standard batch size 1000 pieces

Particulars	**Amount (₹)**
Direct material issued 1250 × 50	62,500
Direct labour spent	
Foundry – 200 × 10	2,000
Machining – 100 × 5	500

Assembly – 100 × 15	1,500
Prime Cost	**66,500**
Factory Overhead applied Foundry – 200 × 15 Machining – 100 × 20 Assembly – 100 × 10	 3,000 2,000 1,000
Factory Cost	**72,500**
Cost per unit (Factory Cost/ 1,000)	72.5

Illustration 14:

An advertising agency has received an enquiry for which you are supposed to submit the quotation. Bill of material prepared by the production department for the job states the following requirement of material:

Paper 10 reams @ ₹ 1,800 per ream

Ink and other printing material ₹ 5,000

Binding material & other consumables ₹ 3,000

Some photography is required for the job. The agency does not have a photographer as an employee. It decides to hire one by paying ₹10,000 to him. Estimated job card prepared by production department specifies that service of following employees will be required for this job:

Artist (₹ 12,000 per month)	80 hours
Copywriter (₹ 10,000 per month)	75 hours
Client servicing (₹ 9,000 per month)	30 hours

The primary packing material will be required to the tune of ₹ 4,000. Production Overheads 40% of direct cost, while the S & D Overheads are likely to be 25% on Production Cost. The agency expects a profit of 20% on the quoted price. The agency works 25 days in a month and 6 hours a day.

Solution:

Quotation for a Printing Job

Items	**Amount** ₹	**Amount** ₹
Direct material required:		
Paper 10 x 1800	18,000	
Ink & other printing material	5,000	
Binding material & consumables	3,000	
Direct labour spent:		
Artist (12,000/25 x 6) x 80	6,400	
Copy writer (10,000/(25 x 6)) x 75	5,000	
Client Servicing (9,000/(25 x 6)) x 30	1,800	13,200
Photographer's charges		10,000
Prime Cost		53,200
Factory Overheads applied @ 40% on Direct Cost		21,280
Production Cost		74,480
S & D overheads applied @ 25% on Production Cost		18,620
Total Cost		93,100

Profit (20% on price i. e. 25% on cost)		23,275
Price to be quoted		1,16,375

Illustration 15:

The following figures were extracted from the Trial Balance of a company as on 31st December 2014.

Particulars	Debit	Credit (₹)
Inventories		
Raw Material	1,40,	
WIP	2,00,	
FG	80,	
Office Appliances	17,	
Plant and Machinery	4,60,	
Buildings	2,00,	
Sales		7,68,000
Sales Returns	14,	
Material purchased	3,20,	
Freight on materials	16,	
Purchase returns		4,800
Direct labour	1,60,	
Indirect labour	18,	
Factory supervision	10,	
Factory repairs & upkeep	14,	
Heat, light & power	65,	
Rates & taxes	6,	
Misc factory expenses	18,	
Sales commission	33,	
Sales travelling	11,	
Sales Promotion	22,,	
Distribution department salaries & wages	18,	
Office salaries	8,	
Interest on borrowed funds	2,	

Further details are given as follows:

Closing inventories are Material ₹ 1,80,000, WIP ₹ 1,92,000 & FG ₹1,15,000.

Accrued expenses are Direct Labour ₹ 8,000, Indirect Labour ₹ 1,200 & interest ₹ 2,000.

Depreciation should be provided as 5% on Office Appliances, 10% on Machinery and 4% on Buildings.

Heat, light and power are to be distributed in the ratio of 8:1:1 among factory, office and distribution respectively.

Rates & taxes apply as 2/3rd to the factory and 1/3rd to office.

Depreciation on building to be distributed in the ratio of 8:1:1 among factory, office and distribution respectively

Prepare a Cost Sheet showing all important components.

Solution:

Cost Sheet

Particulars	**Amount (₹)**	**Amount (₹)**
Direct Materials		
Opening stock	1,40,000	
Add: Purchases	3,20,000	
Add: Freight	16,000	
Less: Returns	(4,800)	
Less: Closing Stock	(1,80,000)	2,91,20
Direct Labour	1,60,000	
Add: Accrued	8,000	1,68,000
Prime Cost		**4,59,20**
Factory Overheads:		
Indirect labour	18,000	
Accrued indirect labour	1,200	
Factory supervision	10,000	
Repairs & upkeep	14,000	
Heat, Light & Power	52,000	
Rates & taxes	4,200	
Misc. Factory expenses	18,700	
Depreciation on plant & machinery	46,050	
Depreciation on buildings	6,400	
	1,70,550	

Add: Opening WIP	2,00,000	
Less: Closing WIP	(1,92,000)	1,78,55
Factory Cost		**6,37,75**
Administration Overheads		
Heat, Light & power	6,500	
Rates & taxes	2,100	
Depreciation on buildings	800	
Depreciation on office appliances	870	
Office salaries	8,600	
	18,870	
Add: Opening FG stock	80,000	
Less: Closing FG Stock	(1,15,000)	(16,130)
Cost of Production of saleable units		**6,21,620**
Selling & Distribution overheads		
Heat & light	6,500	
Depreciation on buildings	800	
Sales commission	33,600	
Sales travelling	11,000	
Sales promotion	22,500	
Distribution department expenses	18,000	92,400
Cost of Sales		**7,14,02**

Activity Based Costing

Activity based costing (ABC) assigns manufacturing overhead costs to products in a more logical manner than the traditional approach of simply allocating costs on the basis of machine hours. Activity based costing first assigns costs to the activities that are the real cause of the overhead. It then assigns the cost of those activities only to the products that are actually demanding the activities.

"Activity Based Costing" is defined as "Cost Contribution to cost units on the basis of benefits received from indirect activities, i.e., ordering, setting up, assuring quality etc.

Objective of Activity Based Costing

- Remove manufacturing costs from product costing
- Determine the single best measure for allocating all overhead costs to products or services
- Fully cost products for external reporting purposes.
- Understand overhead and the profitability of products, services, and customers.

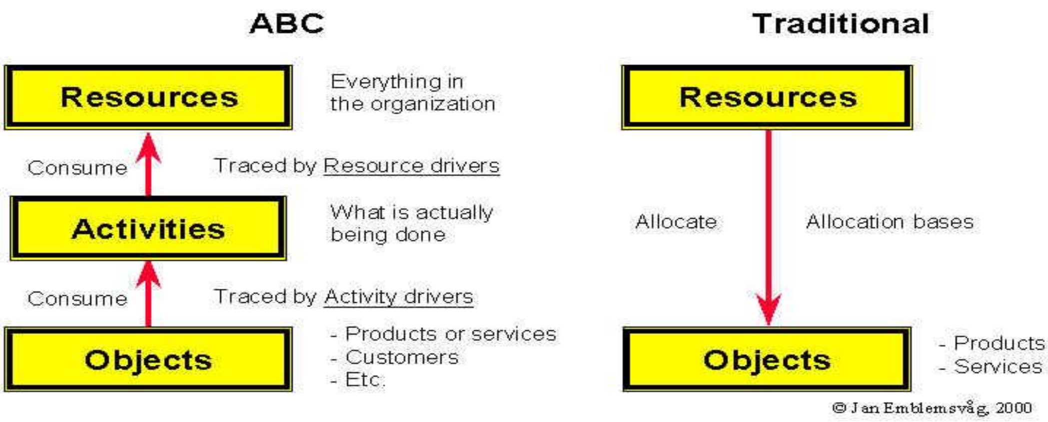
Need for Activity Based Costing

- Production overheads are high in relation to direct cost
- There is a great diversity in the product range
- Products uses very different amount of the overhead
- Consumption of overhead resources is not primarily driven by volume

Steps in Activity Based Costing

1. Understanding and analyzing manufacturing process
2. Studies of the activities involved
3. Activity Cost Pool
4. Cost Drivers
5. Identification of costs with the products

ABC brings detailed information from the processes up to assess costs and manage capacity on many levels whereas traditional cost accounting methods simply allocate costs, or capacity to be correct, down onto the cost objects without considering any 'cause and effect' relations. This can be understood by the figure given below:



With the help of an example, we can understand the more difference of Traditional Costing and Activity Based Costing:

Example:

Relevant data relating to a Company are:

	Products			
	A	B	C	Total
Production and sales (Units)	60,000	40,000	16,000	
Raw material usage in units	10	10	22	
Raw material costs (₹)	45	40	22	24,76,000
Direct labour hours	2.5	4	2	3,42,000
Machine hours	2.5	2	4	2,94,000
Direct Labour Costs (₹)	16	24	12	
No. of production runs	6	14	40	60
No. of deliveries	18	6	40	64
No. of receipts	60	140	880	1,080
No. of production orders	30	20	50	100

Overheads:	₹
Setup	60,000
Machines	15,20,000
Receiving	8,70,000
Packing	5,00,000
Engineering	7,46,000

The Company operates a JIT inventory policy and receives each component once per production run.

Required:

(i) Compute the product cost based on direct labour-hour recovery rate of overheads.

(ii) Compute the product cost using activity based costing.

Solution:

(i) Traditional method of absorption of overhead i.e. on the basis of Direct Labour Hours

$$\text{Total Overheads} = \frac{36{,}96{,}000}{[\text{Hours}(60{,}000 \times 2.5) + (40{,}000 \times 4) + (16{,}000 \times 2)]}$$

= 36,96,000/3,42,000
= ₹10.81 per labour hour

Calculation of Factory cost of the products under Traditional Method of apportioning overheads:

	A	B	C
	₹	₹	₹
Raw Material	45.000	40.00	22.00
Direct Labour	16.000	24.00	12.00
Overheads (2.5 x 10.81)	27.025	43.24	21.62
Factory cost (Total)	88.025	107.24	55.62

(ii) Under Activity Based Costing System
Computation of Cost driver's rates

Cost Pool	Cost Driver	Cost per cost driver
Set up cost	No. of production run	60,000/ 60 = ₹ 1,000 per run
Machines	Machine hour rate	15,20,000/ 2,94,000 = ₹5.17 per machine hour
Receiving cost	No. of receipts	8,70,000/ 1,080 = ₹805.56
Packing	No. of deliveries	5,00,000/ 64= ₹7,812.5 per delivery
Engineering	No. of production order	7,46,000/ 100= ₹7,460 per order

Exemption to Small Scale Industries (SSI)

The threshold exemptions granted to manufacturers under exemption notifications are popularly called SSI exemption notifications are popularly called SSI exemption notifications because originally meant to be an incentive to SSI units. SSI units are eligible for exemption from duty under Notification No. 8/2003-CE dated 1-3-2003.

A manufacturer is eligible for SSI exemption of ₹ 150 lakhs in the current financial year, if —

- ❑ the aggregate value of clearances of excisable goods
- ❑ for home consumption
- ❑ does not exceed ₹ 400 lakhs
- ❑ in the preceding financial year.

SSI Units have been given Two Types of Exemptions:

Option 1:

- SSI units can avail full exemption upto ₹ 150 lakhs

- Pay normal duty thereafter.
- Such units can avail Cenvat credit only after reaching turnover of ₹ 150 lakhs in the financial year.

Option 2:

- Pay full 100% duty
- Avail Cenvat credit

Clubbing of Clearances for Computing the Limit of ₹ 400 lakhs/ ₹ 150 lakhs:

1) Where a single manufacturer having two or more factories, the eligibility limit of ₹ 400 lakhs/ ₹ 150 lakhs will be determined after adding up clearances of all such factories.

2) Where a single factory is used by more than one manufacturer, the eligibility limit of ₹ 400 lakhs/ ₹ 150 lakhs will be determined after adding up clearances of all such manufacturers from that factory.

Turnovers to be Excluded for Calculating Limit of ₹ 400 Lakhs/ ₹ 150 Lakhs:

- Export turnover except export to Nepal / Bhutan
- Turnover of non-excisable goods
- Goods manufactured with other's brand name cleared on payment of duty
- Intermediate products / captive consumption when final product eligible for SSI exemption
- Turnover as trader along with own manufactured goods
- Job work amounting to manufacture done under specified notifications
- Job work or any process which does not amount to manufacture
- Strips of plastics used within the factory
- Inputs brought by assessee and cleared as such
- Final products brought back for inspection
- Final products brought back for repairs.

Turnovers to be Included for Calculating Limit of ₹ 400 Lakhs/ ₹ 150 Lakhs:

- Goods manufactured in rural area with other's brand name
- Deemed export but excludible if supplied under CT-3 (obtained from an 100% EOU)
- Export to Nepal / Bhutan
- Goods manufactured even if later rejected and returned
- Goods cleared with payment of duty
- Goods cleared under compounded levy scheme.

Distinction between mode of calculations of ₹ (150/ 400) lakhs: Generally, provisions for calculation of turnover for ₹ 150 lakhs and ₹ 400 lakhs are similar. Major distinction is that if goods are exempt under a notification other than

SSI exemption notification or job work exemption notification the turnover will be included for calculating ₹ 400 lakhs limit but not for ₹ 150 lakhs limit. If final product is exempt under job work exemption notification it is not to be considered either for ₹ 150 lakhs or for ₹ 400 lakhs.

'Value' for Calculating Exemption Limit: For calculating the SSI exemption limit of ₹ 400 Lakhs and ₹ 150 Lakhs,

- Assessable value will be transaction value as per section 4 of the Central Excise Act.
- If assessment is done on the basis of MRP provision, value will be determined as per section 4A of the Central Excise Act.
- If goods cleared under compounded levy scheme, value will be determined on the basis of transaction value u/s 4.

Illustration:

S Associates, a small scale unit, had cleared goods of the value of ₹ 890 lakhs during the financial year 2013-14. Records show that the following clearances were included in the total turnover of ₹ 750 lakhs: (i) Total exports during the year - ₹ 300 lakhs (25% of total exports were to Nepal), (ii) Job-work in terms of Notification No. 214/86 - ₹ 60 lakhs, (iii) Job-work in terms of Notification No.83 /94-E - ₹ 70 lakhs, (iv) Clearances of excisable goods without payment of duty to a 100% E.O.U. ₹ 45 lakhs, (v) Goods manufactured in rural area with others brand - ₹ 120 lakhs. Find out whether the unit is eligible to avail concession for the year 2014-15, under Notification No. 8/2003-CE dated 1st March, 2003.

Answer:

Turnover not to be considered for ₹ 400 lakhs - (i) ₹ 225 lakhs, (ii) ₹ 60 lakhs, (iii) ₹ 70 lakhs, (iv) ₹ 45 lakhs. Excluding this turnover, his turnover during 2013-14 was ₹ 490 lakhs. Since it is more than ₹ 400 lakhs, the unit is not eligible for SSI exemption in 2014-15.

Some Procedural Concessions to SSI Units:

- SSI to file quarterly return by 10th of the following month from the end of relevant quarter.
- SSI to pay duty quarterly by 5th/ 6th (in case of e-payment) of the month following the quarter.
- In case of March, duty is payable by 31st March
- SSI can avail entire Cenvat credit in capital goods in the first year.
- Small units, having turnover below ₹ 150 lakhs, which are exempt from duty, are also exempt from provision of registration.
- Even if export turnover exceeds ₹ 150 lakhs, no registration is required if home consumption is less than ₹ 150 lakhs.

Treatment of Goodwill/ Capital Reserve in Amalgamation

I. In Case of Amalgamation in the Nature of Merger —

The difference between purchase consideration paid by the transferee company to the transferor company and the amount of share capital (equity + preference capital) of the transferor company should be adjusted with reserves.

(₹ in Lakhs)

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
	₹	₹		₹	₹
Share capital:			Fixed assets	1,200	1,000
Equity Shares of ₹ 100 each	1,000	800	Current assets, Loans and Advances	880	565
15% Preference Share Capital of ₹ 100 each	400	300			
Reserve and Surplus:					
Revaluation Reserve	100	80			
General Reserve	200	150			
P & L Account	80	60			
Secured Loan:					
12% Debentures of ₹ 100 each	96	80			
Current Liabilities and Provisions	204	95			
	2,080	1,565		2,080	1,565

Other Information:

A. 12% Debenture holders of A Ltd. and B Ltd. are discharged by D Limited by issuing adequate number of 16% Debentures of ₹ 100 each to ensure that they continue to receive the same amount of interest.

B. Preference shareholders of A Ltd. and B Ltd. have received same number of 15% Preference shares of ₹ 100 each of D Limited.

C. D Ltd. has issued 1.5 equity shares for each equity share of A Ltd. and 1 equity share for each equity share of B Ltd. The face value of shares issued by D Ltd. is ₹ 100 each.

Calculation of purchase consideration:

No. of equity shares	10,00,000	8,00,000
Exchange Ratio	1:1.5	1:1
No. of equity shares to be issued	15,00,000	8,00,000
Equity Shares capital	₹1,500 Lakhs	₹800 Lakhs
No. of preference shares	4,00,000	3,00,000
Exchange Ratio	1:1	1:1
No. of preference share to be issued	4,00,000	3,00,000
Preference Share Capital	₹ 400 Lakhs	₹ 300 Lakhs

Journal entries in the books of transferee:

	Particulars	A Ltd.		B Ltd.	
		Debit	Credit	Debit	Credit
		₹	₹	₹	₹
a.	For Business Purchase				
	Business Purchase A/c Dr.	1,900		1,100	
	To Liquidator of Selling Co. A/c		1,900		1,100

Reserves to be incorporated on the Amalgamation:

	Particulars			A Ltd.	B Ltd.
				₹	₹
(i)	Purchase consideration payable			1,900	1,100
(ii)	Total paid up Share capital				
	(a)	Equity Share capital	1,000		
	(b)	Preference Share capital	400	1,400	1,100
(iii)	Excess purchase consideration			500	Nil

(iv) Adjustment against reserves of transferee company:

			A Ltd.	B Ltd.
	(a)	General reserve	(200)	
	(b)	Profit & Loss A/c Balance	(80)	
	(c)	Profit & Loss A/c debit balance	220	
(v)	**Reserves of transferor company to be incorporated**			
	(a)	Revaluation Reserve	100	80
	(b)	General Reserve	—	150
	(c)	Profit & Loss A/c	—	60

II. In Case of Amalgamation in the Nature of Purchase —

If purchase consideration exceeds the net assets taken over (Net Assets = Assets at their agreed value less liabilities at agreed value), the difference is debited to Goodwill Account. If purchase consideration is less than the net assets taken over, the difference is credited to Capital Reserve Account.

Journal entries in the books of transferee:

Particulars	A Ltd.		B Ltd.	
	Debit	Credit	Debit	Credit

	₹	₹	₹	₹
b. Incorporation of Assets and Liabilities				
taken over:				
Fixed Assets A/c Dr.	1,200		1,000	
Current Assets A/c Dr.	880		565	
Profit and Loss A/c Dr.	220			
To Current Liabilities A/c		204		95
To 12% Debentures A/c		96		80
To Revaluation Reserve A/c		100		80
To General Reserve A/c		—		150
To Profit and Loss A/c		—		60
To Business Purchase A/c		1,900		1,100

Journal entries in the books of transferee:

Particulars	A Ltd.		B Ltd.	
	Debit	Credit	Debit	Credit
	₹	₹	₹	₹
c. Discharge of Purchase Consideration				
Liquidator of Selling Co. A/c Dr.	1,900		1,100	
To Equity Share Capital A/c		1,500		800
To Preference Share Capital A/c		400		300
d. Discharge of Debentures:				
12% Debentures A/c Dr.	96		80	
To 16% Debentures A/c		72		60
To Profit & Loss A/c (WN # 3)		24		20

1. Amalgamation in the nature of Purchase

The following are the Balance sheets of Fat Ltd. and Thin Ltd. for the year ending on 31st March, 2014.

(₹ in Crores)

	Fat Ltd.	Thin Ltd.
Equity Share capital. @ ₹ 10 each	50	40
Preference Share capital - in 12%		
preference shares of ₹ 100 each	–	60
Reserves and surplus	200	150
	250	250
Loan - Secured	100	100
Total	350	350
Fixed assets (at cost less depreciation)		
- Tangible	150	150
Current assets less Current liabilities	200	200
Total	350	350

Note : Secured Loan to repayable within 12 months.

- The present worth of Fixed assets of Fat Ltd. is ₹ 200 crores and that of Thin Ltd. is ₹ 429 crores. Goodwill of Fat Ltd. is ₹ 40 crores and of Thin Ltd. is ₹75 crores.
- Thin Ltd. absorbs Fat Ltd. by issuing equity shares at par in such a way that intrinsic net worth is maintained.
- Goodwill account is not to appear in the books. Fixed assets are to appear at old figures.

Particulars	Fat Ltd.	Thin Ltd.
a) Assets :	₹	₹
i. Goodwill	40	75
ii. Fixed assets	200	429
iii.Current asset less		

Current liabilities	200	200
	440	704

b) Liabilities :

i. Secured Loans	(100)	(100)
ii. 12% Preference Share capital	—	(60)

c) Net Assets attributable

to Equity shareholders	340	544
Number of Shares (in Crores)	5	4
d) Value per share of ₹ 10 each	₹ 68	₹ 136

Exchange Ratio is based on intrinsic value per share of the companies

		Fat Ltd.	:	Thin Ltd.
i.	Intrinsic value	₹ 68	:	₹ 136
ii.	Exchange ratio	1	:	2

1 share of Thin Ltd. for 2 shares of Fat Ltd.

Therefore, Number of shares to be issued

= Number of shares of Fat Ltd. × %

= 5 crores × 50% (i.e. ratio is 1:2 =50%)

= 2.5 crores

(₹ in Crores)

Particulars		Debit ₹	Credit ₹
1. For Business Purchase			
Business Purchase A/c	Dr.	25	

To Liquidator of Fat Ltd.			25

2. **For assets and liabilities taken over :**

Fixed Assets A/c	Dr.	150	
Net Current Assets A/c	Dr.	200	
To Secured Loans A/c			100
To Capital Reserve A/c			225
To Business Purchase A/c			25

3. **For Discharge of Purchase Consideration :**

Liquidator of Fat Ltd. A/c	Dr.	25	
To Equity Share Capital A/c			25

If the Purchase Consideration were ₹255

2. **For assets and liabilities taken over :**

Fixed Assets A/c	Dr.	150	
Net Current Assets A/c	Dr.	200	
Goodwill A/c	Dr.	5	
To Secured Loans A/c			100
To Business Purchase A/c			255

3. **For Discharge of Purchase Consideration :**

Liquidator of Fat Ltd. A/c	Dr.	255	
To Equity Share Capital A/c			255