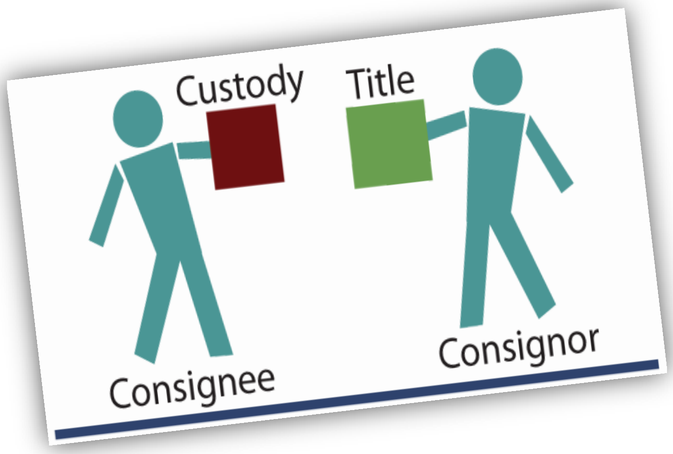
CONSIGNMENT



Stock Valuation

- Mr. M of Mumbai sent 500 cases @ ₹150 each to Mr. C of Chennai to be sold on his account and at his risk for 7½% Commission and 2½% Del Credere Commission and incurred ₹5,500 expenses.
- ₹20,000 advance has been received. Mr. C sent an Account Sale disclosing that 300 cases have been sold for ₹230 each and another 100 cases for @₹220 each.
- He has incurred Unloading Expenses etc. ₹750 and Selling Expenses ₹1,000 was proved bad since the customer became insolvent and another customer deducted ₹500 due to dispute in quality of goods.
- Compute the value of unsold stock.

Valuation of Unsold Stock

Particulars	Amount (₹)
Total Cost	75,000
Add: Expenses of Consignor	5,500
Add: Non-recurring Expenses of Consignee	750
Cost Price of 500 cases	81,250
Value of Unsold Stock	16,250

Abnormal Loss and Normal Loss

- L Ltd. of Mumbai consigned 1,000 barrels of lubricant oil costing ₹800 per barrel to Central Oil Co. of Kolkata on 1.1.2014. B Ltd. paid ₹50,000 as freight and insurance.
- 25 barrels were destroyed on 7.1.2014 in-transit. The insurance claim was settled at ₹15,000 and was paid directly to the consignor.
- Central Oil took delivery of the consignment on 19.1.2014 and accepted a bill drawn upon them by L Ltd., for ₹5,00,000 for 3 months. On 31.3.2014, Central Oil reported as follows:
- 750 barrels were sold as ₹1,200 per barrel.

The other expenses were:

Particulars	₹
Clearing charges	11,250
Godown Rent	10,000
Wages	30,000
Printing, Stationery, Advertisement	20,000

- 25 barrels of oil were lost due to leakage which is considered to be normal loss.
- Central Oil Co. is entitled to a commission of 5% on all the sales effected by them. Central Oil Company paid the amount due in respect of the consignment on 31st March itself.
- Show the Consignment Account, the account of Central Oil Co., and the Lost-in-Transit Account as they will appear in the books of Ltd.

Valuation of Goods Lost – in – transit and Unsold Stock

Particulars	Amount (₹)
Total Cost (1000 × ₹800)	8,00,000
Add: Consignor's expenses	50,000
Value of 1,000 barrels	8,50,000
Less: Lost – in – transit $\left[\frac{₹8,50,000}{1,000} \times 25\right]$	21,250

	8,28,750
Add: Non-recurring expenses of Consignee	11,250
Value of (1,000 – 25 – 25) = 950 kg	8,40,000
Therefore, Value of Stock $\left[\frac{₹8,40,000}{950} \times 200\right]$	1,76,842

In the Books of L Ltd.

Consignment to Kolkata Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
			2014 Jan. 7	By Abnormal Loss A/c	21,250

In the Books of L Ltd.

Consignment to Kolkata Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2014 Jan. 7	To, Consignment to Kolkata A/c	21,250	2014 Jan. 7	By Bank-Insurance claim	15,000
			Mar. 31	By Profit and Loss A/c(Bal. Fig.)	6,250
		21,250			21,250

MEMORANDUM OF ASSOCIATION

- Memorandum of Association is the fundamental document of the company.
- It is the Charter of Rights of the Company. It defines the powers and limitations of a company.
- It lays down the area of operation of the company as also the fundamental considerations on which the company is incorporated.
- It defines the relationship of the company with that of the outside world.
- Memorandum is the main and compulsory document which when registered gives the company its existence and birth.

Contents of Memorandum

- **Name clause:**
  Must end with 'Limited' in case of Public Company and 'Private Limited' in case of Private Company.
- **Registered office Clause:**
  This clause states the name of the state in which the Registered Office of the company will be situated.
- **Objects Clause:**
  The objects of the company should be clearly set forth in the Memorandum.
- **Capital Clause:**
  In case of a company having share capital, the amount of share capital with which it is registered and its division thereof into shares of fixed amount.

- **Liability Clause:**
  This clause states the nature of the liability of members. A company that is limited by shares or by guarantee shall state that the liability is limited.

- **Successor in case of OPC**:
  Name of the person who shall be the member of the company (in case of one-person company) on death of the subscriber should be mentioned.

AMENDING MEMORANDUM OF ASSOCIATION:

The procedure to be followed for amending MoA, in general is as follows:

→ Get approval of Board of Directors, fix date, time and venue of general meeting

→ Get draft of notice approved. Draft of resolution proposed should be included in the notice. Notice must be accompanied by explanatory statement.

→ Convene meeting on the appointed day and get necessary resolution passed as a special resolution/ ordinary resolution, as required.

→ Within 30 days of passing the resolution, file certified copy with Registrar of Companies.

→ Send six copies of amendment (out of which one should be certified copy) to stock exchanges where shares are listed.

→ Alteration should be noted in every copy of articles of memorandum.

→ For increase of Authorised share capital, e-form is to be filed. Filling fees is payable.

Procedure for name change:

→ Name of the company can be changed any time by passing a special resolution and getting approval from the Central Government. [Sec 13(2) of Companies Act, 2013]

→ The approval of Central Government is to filled with RoC [Sec 13(6)(b) of Companies Act, 2013]

→ Permission of Central Government is not necessary for merely addition or deletion of words 'private' during conversion from public to private or vice-versa [Sec 13(2) of Companies Act, 2013]

→ Change of name shall not be permitted to a company
  (a) Which had defaulted in filling annual returns or financial statements or any document due for filling with RoC or
  (b) Which has defaulted in repayments of matured deposits or debentures or interest on deposit or debentures

→ It is first necessary to reserve proposed new name from Registrar of Companies by submitting application in prescribed form with necessary fees. [Sec 4(4)(b) of Companies Act, 2013].

Procedure for registered office change:

A. <u>Within the same state:</u>

→ Change of registered address from one city, town or village to another in the same state can be made by passing a special resolution at the general meeting of the members. [Sec 12(5) of Companies Act, 2013]

→ No change of Memorandum of Association is involved as MoA contains only name of state in which the company has registered office.

B. <u>From one state to another:</u>

→ A special resolution for change of registered office to another state has to be confirmed by the Central Government.

→ The change of registered office can take effect only after the special resolution passed by shareholders for change in registered office is approved by Central Government. [Sec 13(4) of Companies Act, 2013]

→ Application for change of registered office shall be disposed of by Central Government within 60 days [Sec 13(5) of Companies Act, 2013]

→ The Registrar will register the document and then only the alteration becomes effective – [Sec 13(10) of Companies Act, 2013]

→ Alteration in the MoA would also be required.

Procedure for change in Object Clause:

→ Change in object clause can be effected simply by passing a special resolution in the general meeting of the members. [Sec 13(1) of Companies Act, 2013]

→ The special resolution should be filed with RoC within prescribed period from the date of resolution. [Sec 13(6)(a) of Companies Act, 2013]

→ The Registrar will register the document and then only the alteration becomes effective. [Sec 13(10) of Companies Act, 2013]

Procedure for change in Capital Clause:

→ Capital Clause can be altered if there is provision in Articles of Association.

→ If there is no provision, articles will have to be amended first.

→ The change in capital clause can be made by passing an ordinary resolution in the general meeting of members.

→ Authorised capital can be increased by such amounts as it thinks fit. [Sec 61(1)(a) of Companies Act, 2013]

Procedure for change in Liability Clause and Subscription Clause:

A. Liability Clause

→ Unlimited to limited liability by passing a special resolution and getting fresh registration from RoC. [Sec 18(1) of Companies Act, 2013]

B. Subscription Clause

→ No need to change arises and hence there is no provision in law to change the subscription clause.

TRANSFER OF ASSETS BETWEEN HOLDING AND SUBSIDIARY COMPANIES

The following special provisions are applicable—

When a capital asset (other than block of asset) is transferred [Expln. 6 to sec. 43(1)] -Where a parent company transfers a capital asset to its 100 per cent subsidiary company or vice versa, the actual cost of the asset transferred to the transferee-company will be taken to be the same as it would have been if the transferor-company had continued to hold the capital asset for the purpose of its business provided that the transferee-company is an Indian company.

When a block of asset is transferred [Expln. 2 to sec. 43(6)] - The aforesaid rule is not applicable if a block of asset is transferred. Where in any previous year, any block of assets is transferred by a holding company to its wholly owned subsidiary company or vice versa, then actual cost of block of assets in the case of transferee-company shall be written down value of block of assets of the transferor-company for the immediately preceding previous year as reduced by the depreciation actually allowed in relation to the said preceding previous year. This rule is, however, applicable only if the transferee-company is an Indian company.

Exemption under section 47 - The following are not treated as transfer—

a. any transfer of a capital asset by a company to its wholly owned Indian subsidiary company **[sec. 47(iv)]**; and
b. any transfer of a capital asset by a wholly owned subsidiary company to its Indian holding company **[sec. 47(v)]**.

The following points should be noted—

1. Provisions under section 47(iv)/(v) are not applicable in the case of transfer of a capital asset made after February 29, 1988 as stock-in-trade.
2. Section 47(iv) and (v) covers only the immediate subsidiary company of the holding company. There is no justification for transplanting the definition of 'holding company' under the Companies Act into the provisions of section 47 automatically.

Withdrawal of exemption given by section 47(iv)/(v) [Sees. 47A, 49(3) and proviso to sec. 47(iv), (v)] - Any transfer of capital asset by a company to its wholly owned Indian subsidiary company or by a wholly owned subsidiary company to its Indian holding company is not treated as transfer by virtue of section 47(iv)/(v).

CASES WHEN EXEMPTION IS TAKEN BACK - In the following two cases (i.e. 1 and 2), the above exemption shall be withdrawn and in the last case (i.e., 3) the exemption is not available —

1. If at any time before the expiry of eight years from the date of transfer of a capital asset between holding company and its wholly owned subsidiary company, such capital asset is converted by the transferee-company into (or is treated by it as) stock-in-trade of its business.
2. The holding company ceases to hold the whole of the share capital of the subsidiary company before the expiry of the period of eight years aforesaid.
3. The holding/subsidiary company transfers a capital asset as stock-in-trade after February 29, 1988. In such a case the transfer shall be regarded as "transfer" and will be taxed according to normal provisions of capital gains.

CONSEQUENCES - In the above noted two cases (i.e., 1 and 2), transfer of capital asset between holding and subsidiary company is chargeable to tax by virtue of section 47A. In such case cost of acquisition in the hands of the transferee-company will be the cost for which the asset was acquired by it.

H Ltd. is 100 per cent holding company of S Ltd., an Indian company. S Ltd. acquires a depreciable asset from H Ltd. on April 1, 2008 at market value of ₹120 crore. Written down value of the block of assets in the hands of H Ltd. on March 31, 2009 is ₹80 crore. As this is transfer between holding company and its 100 per cent subsidiary company, capital gain is not taxable in the hands of H Ltd. by virtue of section 47(iv). When capital gain is exempt under section 47(iv), written down value in the hands of S Ltd. for claiming depreciation will be ₹80 crore.

On May 10, 2013, H Ltd. transfers 10 per cent of its holding in S Ltd. for a specified consideration to an outsider. As the relationship 100 per cent holding company and subsidiary company is discontinued within 8 years from April 1, 2009, by virtue of section 47A, exemption provided to H Ltd. shall be withdrawn and short term capital gain will be taxable in the hands of H Ltd. When exemption is withdrawn, depreciation can be claimed by S Ltd. on purchase price of ₹120 crore with effect from date of acquisition, i.e., April 1, 2009, although the event which is responsible for withdrawal of exemption (i.e., transfer of shareholding in S Ltd. by H Ltd. to an outsider) takes place in the next year and depreciation (in the case of block of assets) will be available to the transferee-company at the cost for which the assets were acquired.

Illustration 1:

S Ltd. is a wholly owned subsidiary of A Ltd. (both are Indian companies and maintain books of account on the basis of financial year). On April 10, 1984 (relevant to the assessment year 1985-86), S Ltd. transfers a capital asset (i.e., shares) to A Ltd. (acquired on April 6, 1981 for ₹50,000) for ₹1,50,000. A Ltd. Sells the asset on May 10, 2013 for ₹3,40,000. Determine the assessable profits of A Ltd. and S Ltd. under the following situations:

1. Before the sale of asset, A Ltd. has not converted it into stock-in-trade and it does not cease to hold entire share capital of S Ltd.
2. A Ltd. has converted the capital asset into stock-in-trade before its sale on May 10, 2013 (date of conversion: June 10, 1987, fair market value : ₹3,10,000).
3. Though A Ltd. does not convert capital asset into stock-in-trade, it ceases to hold entire share capital of S Ltd. on June 10, 1988 when 5 per cent shareholding in S Ltd. is transferred by way of sale to the public.

SOLUTION:

Under situation (1), transfer between A Ltd. and S Ltd. will not be treated as transfer under section 47(v). Consequently, nothing will be taxable in the hands of S Ltd. A Ltd. will, however, be taxable in respect of capital gain computed as under:

	₹
Sale consideration	3,40,000
Less: Indexed cost of acquisition [i.e., ₹ 50,000 x 939÷100*)	4,69,500
	(-) 1,29,500

*Cost inflation index for the year (1981-82) in which the asset was first held by S Ltd.

Under situation (2), the chargeable profit will be determined as under :

□ **S Ltd.:** Since A Ltd. has converted the capital asset into stock-in-trade within eight years from April 10, 1984, exemption granted by section 47(v) will not be available and, consequently, ₹1,00,000 (i.e., ₹1,50,000 — ₹50,000) will be treated as long-term capital gain (by virtue of section 47A) of S Ltd. forthe assessment year 1 985-86.

If the assessment of S Ltd. is completed, the Assessing Officer has power to reopen the assessment for this purpose under section 1 55(7B) at any time before 4 years from the end of the previous year in which the capital asset is converted into stock-in trade (i.e., up to March 31,1 992).

□ **A Ltd.:** ₹30,000 (i.e., ₹3,40,000 — ₹3,10,000) will be chargeable to tax under section 28(i) as business profits for the assessment year 2014-15. Besides, capital gain will be determined as under:

	₹
Full value of consideration received [fair market value on the date of conversion of capital stock into stock-in-trade under section 45(2)]	3,10,000
Less: Indexed cost of acquisition (₹1,50,000 x 150 ÷ 125)	1,80,000
Long-term capital gain for the assessment year 2014-15	1,30,000

Under situation (3), the chargeable profit will be determined as under:

□ **S Ltd.:** Since A Ltd. has transferred shareholding in S Ltd. before the expiry of 8 years from April 10, 1984, the exemption granted by section 47(v) will not be available and, consequently, ₹1,00,000 (i.e., ₹1,50,000 minus ₹50,000) will be treated as long-term capital gain by virtue of section 47A for the assessment year 1985-86. If assessment of S Ltd. is completed, the Assessing Officer has power to reopen the assessment under section

155(7B) at any time up to March 31, 1993 (i.e., up to 4 years from the end of the previous year in which shareholding is transferred).

□ **A Ltd.:** Capital gain will be determined as under:

	₹
Sale consideration	3,40,000
Less: Indexed cost of acquisition (i.e., ₹1,50,000 ×939÷125*)	11,26,800
Long-term capital gain	(-) 7,86,800

*Cost inflation index for the year (1984-85) in which the asset was first held by A Ltd. In other words, indexation will be started only from 1984-85 in this case.

Illustrated 2:

S Ltd. is a wholly-owned subsidiary of H Ltd. On April 22, 1987, it transfers the following assets to H Ltd.

Block of assets	Rate of depreciation from the assessment year 1988-89	Written down value for the assessment year 1987-88 ₹	Depreciation for assessment year 1987-88 ₹	Agreed consideration ₹
Plant	50%	9,50,000	1,42,500	6,30,000
Building	10%	20,00,000	1,00,000	27,10,000

What is the actual cost of assets to H Ltd.?

SOLUTION:

In the case of H Ltd. actual cost of block of assets would be as follows:

	Plant ₹	Building ₹
Written down value for the assessment year 1987-88	9,50,000	20,00,000
Less: Depreciation for the assessment year 1987-88	1,42,500	1,00,000
Actual cost of asset to H Ltd.		
□ if it is an Indian company	8,07,500	19,00,000
□ if it is a foreign company	6,30,000	27,10,000

Illustrated 3:

H Ltd. owns the following asset on April 1, 2013:

Block of asset	Rate of depreciation	Written down value on April 1, 2013
Plant (consisting of Plants A, B and C)	15%	20,50,000

On June 30, 2013, it sells Plant A for ₹6,00,000. It, however, acquires Plant D for ₹15,00,000 on March 10, 2014. On April 16, 2014, Plants B, C and D are transferred by it to S Ltd. (a wholly-owned subsidiary of H Ltd.) for ₹3,50,000 or for ₹60,00,000. S Ltd. owns Plant P whose written down value on April 1, 2014 is ₹2,00,000; besides it purchases plant Q on May 10,2014 for ₹1,00,000, in either case the rate of depreciation is 15 percent and new acquisition are not eligible for additional depreciation. Find out the tax consequences if S Ltd. is an Indian company or foreign company. Additional depreciation is not available.

SOLUTION:

H Ltd.	**Block 1 (Plant)** ₹
Depreciated value of the block on April 1, 2013	20,50,000
Add: Actual cost of Plant D acquired on March 10, 2014	15,00,000
Less: Money payable in respect of Plant A sold during 2013-14	(-) 6,00,000
Written down value on March 31, 2014	29,50,000
Less: Depreciation for the previous year 2013-14	3,30,000
Depreciated value of the block on April 1, 2014	26,20,000

(₹ in lakh)

	If S Ltd. is an Indian company		**If S Ltd. is a foreign company**	
	If the block is transferred for		**If the block is transferred for**	
	₹ 3.50 lakh	₹ 60 lakh	₹ 3.50 lakh	₹ 60 lakh
Depreciated value of the block consisting of Plants B, C and D on April 1, 2014	26.20	26.20	26.20	26.20
Less: Sale proceeds of Plants B, C and D transferred to S Ltd. (*cannot exceed the opening balance)	3.50	26.20*	3.50	26.20
Written down value on March 31, 2015	20.70	Nil	22.70	Nil
Depreciation for the previous year 2014-15 (no depreciation is available as the block ceases to				

exist)	Nil	Nil	Nil	Nil
Capital gains				
Sale proceeds				
Less: Cost of acquisition as per section 50	3.50	60	3.50	60
	26.20	26.20	26.20	26.20
Short-term capital gain [*by virtue of section 47(iv), it is exempt from tax]				
	Nil*	Nil*	(-) 22.70	33.80
Depreciated value of the block consisting of Plant P on April 1, 2014				
Add: Actual cost of Q acquired during 2014-15				
Add: Actual cost of Plants B, C and D acquired from H Ltd.	2	2	2	2
Written down value of the block consisting of Plants B, C, D, P and Q on March 31, 2015	1	1	1	1
Depreciation for 2014-15	26.20	26.20	3.50	60
	29.20	29.20	6.5	63
	4.38	4.38	0.975	9.45

The following points should be noted—

1. The rule given by the fifth proviso to section 32(1) is not applicable in the case of a transfer between holding company and its hundred per cent subsidiary company.
2. In the above problem if Plant B, C, D or Q is put to use for less than 180 days, then S Ltd. will be entitled for one half of the normal depreciation.

DIRECT EXPENSES (CAS-10)

Expenses related to manufacture of a product or rendering of a service, which can be identified or linked with the cost object other than direct material cost and direct employee cost.

Objective of CAS-10

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Direct Expenses with reasonable accuracy.

Scope of CAS-10

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Direct Expenses including those requiring attestation.

Expenses treated as direct expenses

- Cost of patents, royalty payment
- Hire charges in respect of special machinery or plant
- Cost of special patterns, cores design or tools
- Experimental costs and expenditure in connection with models and pilots schemes
- Architects, surveyors and other consultants fee
- Travelling expenses to sites
- Inward charges and freight charges on special material.

Principles of measurement of Direct Expenses as per CAS-10

- Identification of Direct Expenses shall be based on traceability in an economically feasible manner.
- Direct expenses incurred for the use of bought out resources shall be determined at invoice or agreed price including all duties and taxes, and any other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
- Direct Expenses incurred in lump-sum shall be amortized on the basis of the estimated output or benefit to be derived from such direct expenses.

- Finance costs incurred in connection with the self generated or procured resources shall not form part of Direct Expenses.
- Any Subsidy/Grant/Incentive or any such payment received /receivable with respect to any Direct Expenses shall be reduced for ascertainment of the cost of the cost object.
- Penalties, damages paid to statutory authorities or other third parties shall not form part of the Direct Expenses
- Any change in the cost accounting principles applied for the measurement of the Direct Expenses should be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an organization.

Cost Statement shall disclose the items of Direct Expenses as per CAS-10:

- Basis of distribution of direct expenses to cost objects/cost units
- Quantity and rates of items of direct expenses as applicable
- Where direct expenses are accounted at standard cost the price and usage variance.
- Direct expenses representing procurement of resources and expenses incurred in connection with resources generated.
- Direct expenses paid or payable to related parties
- Direct expenses incurred in foreign currency.
- Any subsidy/incentive and any such payment received from direct expenses.
- Credits or recoveries relating to the direct expenses.
- Any abnormal portion of direct expenses.
- Penalties and damages excluded from direct expenses.
- Disclosure shall be made only when material, significant and quantifiable. Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.

Items included for the purpose of measuring employee cost:

- Costs which are directly traceable/identifiable with the cost object
- Expenses incurred for the use of bought in resources
- Price variance if such expenses are accounted for at standard cost

Items excluded for the purpose of measuring employee cost:

- If not traceable/identifiable should be considered as overheads
- Finance cost is not a direct expense
- Imputed cost
- Recoveries, credits, subsidy, grant, incentive or any other which reduces the cost

- Penalty, damages paid to statutory authorities

Example: 1

Royalty paid on sales ₹25,000; Royalty paid on units produced ₹20,000, hire charges of equipment used for production ₹3,500, Design charges ₹15,000, Software development charges related to production ₹22,500. Compute the Direct Expenses as per CAS-10.

Solution:

Computation of Direct Expenses

	Particulars	Amount (₹)
	Royalty paid on Sales	25,000
Add	Royalty paid on units produced	20,000
Add	Hire charges of equipment used for production	3,500
Add	Design Charges	15,000
Add	Software development charges related to production	22,500
	Direct Expenses	86,000

Note:

- Expenses are related to either manufacturing of the product or rendering of service
- 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.

Example: 2

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

Particulars	Product A	Product B
Units produced (Qty)	15,000	10,000
Units Sold (Qty)	12,000	11,000
Machine hours utilized	12,000	7,000
Design charges	15,000	18,000
Software development charges	20,000	36,000

Royalty paid on sales ₹46,000 [@₹2 per unit sold, for both the products]; Royalty paid on units produced ₹25,000 [@ Re. 1 per unit purchased, for both the products], Hire charges of equipment used in manufacturing process of Product A only ₹6,000.

Compute the Direct Expenses.

Solution:

	Computation of Direct Expenses		
	Particulars	**Product A**	**Product B**
	Royalty paid on Sales	**24,000**	**22,000**
Add	**Royalty paid on units produced**	**15,000**	**10,000**
Add	**Hire charges of equipment used in manufacturing process of product A only**	**6,000**	------
Add	**Design charges**	**15,000**	**18,000**
Add	**Software development charges**	**20,000**	**36,000**
	Direct Expenses	**80,000**	**86,000**

Note:

- 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.
- No adjustment are made related to units held, i.e. closing stock.

Duty liability on re-importation of Goods [Section 20]

If goods are -

- imported into India
  - after exportation

therefrom, then, suchgoods shall be -

- liable to duty and
- subject to all the conditions and restrictions, if any,

to which goods of the like kind and value are liable or subject, on the importation thereof. Thus, re-import is treated just like a normal import.

Exemptions or concessions available in respect of re-import [Not. Nos. 94/96 and 158/95]:

Case of re-import	Time-limit for re-import	Duty payable (after exemption)
1. Goods exported claiming export incentive and re-imported without any re-manufacturing or re-processing	within 3 years from date of export	**Duty payable =** Export Incentive claimed on export (viz. duty drawback or excise duty exemption or duty rebate)
2. Goods exported for repairs and re-imported without any re-manufacturing or re-processing and also without change in ownership between export and re-import	within 3 years	**Value (for levy of duty) =** Fair cost of repairs + Cost of materials used in repairs (such costs includible even if not actually incurred) + Insurance and freight (to and fro)
3. Goods manufactured in India and re-imported in India for – **(i)** repairs or re-conditioning	within 3 years (10 years in case of Nepal and Bhutan)	**Duty is FULLY EXEMPT**, if - **(a)** such goods are re-exported within 6 months from date of re-import (extension upto 6 months allowed by Commissioner or Principal Commissioner); and **(b)** Assistant Commissioner is satisfied about identity of such goods.
(ii) reprocessing/refining/re-making or other similar process	within 1 year	

ILLUSTRATION 1: **(Re-importation of Goods)**

Mr. Kamal manufactured and exported goods worth ₹10,00,000 to Uma of UK on 1st January, 2015 and availed duty drawback of ₹15,000. Mr. Kamal imported the same goods on 8th February, 2015. What will be the customs duty payable by Mr. Kamal, if rate of basic customs duty is 10% and goods are exempt from CVD and special CVD?

SOLUTION:

Since the exported goods have been re-imported within 3 years from date of export (viz. Date of export is 1st Jan. while date of re-import is 8th Feb.), hence, as per exemption issued by the Central Government, the duty payable = Export Incentive viz. Duty drawback claimed at the time of export. Therefore, duty payable = ₹15,000.

It is assumed that the goods are re-imported without any re-manufacturing or re-processing.

ILLUSTRATION 2: (Re-import after repairs)

Mr. Pritam of Kanpur imported machinery on 1-1-2014 (value ₹1 lakh and duty ₹10,300) from Mr. Bidhur of US. Later, he found that machinery was defective and therefore, he sent back that machinery for repairs, etc. abroad. The cost of insurance and freight from Kanpur to US is ₹5,000. Repair work was carried out on machinery by Mr. Bidhur and materials worth ₹7,500 and labour, etc. worth ₹4,000 was borne by Mr. Bidhur. The cost of insurance and freight for repaired goods from US to Kanpur is ₹6,000. Determine the duty payable at the time of re-import on 1-1-2015, if rate of duty is 10.3%. Department claims that machinery will be liable to duty on full normal value of ₹1,10,000 (market price on 1-1-2015).

SOLUTION:

In view of section 20, re-import is also liable to duty. However, as per concession granted in this behalf, in case of re-import after repairs abroad, the duty payable would be that on value comprising of 'fair cost of repairs (even if not borne by importer)' plus Insurance/freight (both ways). Hence, the duty would be —

- Value = ₹5,000 + ₹7,500 + ₹4,000 + ₹6,000 = ₹22,500;
- Duty = ₹22,500 X 10.3% = ₹2,317.5 (rounded off to ₹2,318).

Advance Authorisation: A Scheme of EXIM Policy

Inputs which are used in the export products can be imported without payment of customs duty under Advance Authorisation scheme. In other words, it is issued to allow duty free import of inputs, which are physically incorporated in the export product. Since the raw materials can be imported before exports of final products, the Authorisation issued for this purpose is called 'Advance Authorisation'. The 'Advance Authorisation' was termed as 'Advance License' upto 01.04.2006.

The following duties are exempted under this scheme:

- basic customs duty,
- additional customs duty/ excise duty,
- education cess,
- anti-dumping duty &
- safeguard duty.

Authorisation granted to merchant exporter or manufacturer exporter to import inputs, fuel, oil, energy & catalysts. A normal allowance for wastage is permitted with duty free imports of inputs. Duty free import of mandatory spares upto 10% of CIF Value of Authorisation, which is required to be exported with resultant products, may also be allowed.

The following items cannot be imported duty-free under Advance Authorisation:

- Prohibited items mentioned in ITC (HS) [Indian Trade Classification (Harmonized System)]
- Energy
- Items reserved for imports by State Trading Enterprise (STEs). However, such items can be procured from STEs against Advance Release Order (ARO) / Invalidation letter. Goods can be procured from indigenous manufacturer against ARO which is to be issued by Regional Authority. This can be denominated in foreign exchange/ Indian rupees. Alternatively, exporter can obtain goods from indigenous sources on basis of back to back Inland Letter of Credit from bank.

Advance Authorisation requires exports with a minimum positive value addition of 15%. In case of tea, value addition should be 50%. In case of spices, it should be for crushing, grinding, sterlisation and not for simple cleaning, grading or repacking. Advance Authorisation and/ or materials imported thereunder will be with actual user condition. It will not be transferable even after completion of the export obligation.

Illustration: A Ltd. has imported inputs without payment of duty under Advance Authorisation. The CIF value of such inputs is ₹ 5,00,000. The inputs are processed and the final product is exported. The exports made by the A Ltd. are subject to general rate of value addition prescribed under Advance Authorisation scheme. No other input is being used by A Ltd. in the processing. What should be the minimum FOB value of the exports made by the A Ltd. as per the provisions of Advance Authorisation?

Answer:

As we know, Advance Authorisation requires exports with a minimum positive value addition (VA) of 15%, then to determine the FOB value of export realised, we need to take the help of the following formula:

$VA = [(A – B) / B \times 100]$

Here,
VA = Value addition = 15%
A = Minimum FOB value of export realised
B = CIF value of inputs covered by authorisation = ₹ 5,00,000

Therefore, the minimum FOB value of the exports made by the A Ltd. should be ₹ 5,75,000.

Advance Authorisation is issued for the imports of raw materials are on the basis of standard input-output norms or SION. Quantity allowed to be imported will be based on quantity exported. SION is fixed by 'Norms Committee' at DGFT (Director General of Foreign Trade). These are the technical norms set on the basis of data submitted to DGFT. These are reviewed/ revised from time to time. The norms cover different products, e.g. chemical & allied products, electronics, engineering products, leather & leather products, sports goods, textiles, readymade garments, hosiery & knitwear etc.

Advance Authorisation can also be issued for annual requirement. Status Certificate holder and all other categories of exporters having past export performance in preceding two years shall be entitled for Advance Authorisation for annual requirement. Annual Advance Authorisation will be granted upto 300% of FOB value of physical exports in preceding year and/ or FOR value of deemed exports in preceding year or ₹ 1 crore whichever is higher.

In case of Advance Authorisation, drawback shall be available for any duty-paid material, whether imported or indigenous, used in the goods exported, as per drawback rules fixed by the Directorate of Revenue, Ministry of Finance.

Underwriting of Shares

Contract:

- It is a contract between a Company and another party called Underwriter
- In the event of the Shares or Debentures not being subscribed fully by the public, the Underwriter agrees to take up the balance.

Benefits:

- It ensures full subscription of Company's issue.
- Risk of the Capital not being subscribed for by the public is borne by the Underwriters.

Commission:

- The Underwriter is entitled to a Commission.
- Underwriting Commission will be payable only at a rate authorized by the Articles of Association, not exceeding 2.5% of the Issue Price of Debentures and 5% of Shares.
- No Commission can be paid in respect of Shares or Debentures which have not been offered to the general public for subscription.

Example 2:

- M underwrites 60% of an issue of 10,000 Shares of ₹10 each of XY Co. Ltd and also applies for 1,000 Shares, 'Firm'.
- The Underwriting Commission is agreed at the rate of 2.5%.

Pass accounting entries relating to Firm Underwriting in the books of the –

(i) Company, and

(ii) The Underwriter.

Entries in the books of XY Co. Ltd (Company)

	Particulars	Dr. (₹)	Cr. (₹)
1	M's A/c Dr. To Equity Share Capital A/c (Being Allotment of Underwritten Equity Shares in pursuance of Firm Underwriting contract, vide Board's Resolution No... dated...)	10,000	10,000
2	Underwriting Commission A/c Dr. To M's A/c (Being Underwriting Commission due to underwriter under the Firm Underwriting Contract)	250	250
3	Bank A/c Dr. To M's A/c (Being money received in full settlement of account from Underwriter)	9,750	9,750

Entries in the books of A (Underwriter)

	Particulars	Dr. (₹)	Cr. (₹)
1	Underwriting A/c Dr. To XY Co. Ltd A/c (Being the liability to take up necessary number of Shares of the Company in pursuance of Firm Underwriting Contract recorded)	10,000	10,000
2	XY Co. Ltd A/c Dr. To Underwriting A/c (Being Underwriting Commission income credited to Underwriting Account)	250	250

3	XY Co. Ltd A/c Dr. To Bank A/c (Being balance money paid to the Company in full Settlement of Account)	9,750	9,750

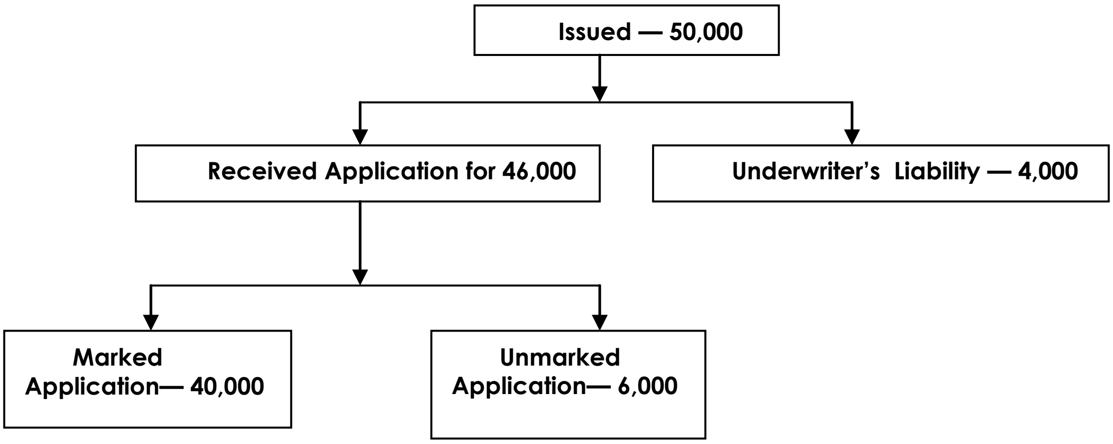
Underwriter's liability

- If the whole of the issue has been underwritten by one person, he is responsible to subscribe for all the Shares or Debentures that have not been subscribed by the public.
- It is not necessary to know the number of applications which had originated through the Underwriter (i.e. Marked Forms) and those which had flowed directly to the Company (i.e. Unmarked Forms).

Example 2:

- Sun Ltd. issued 50,000 Equity Shares of ₹10 each at par to the public.
- Underwritten only by M/s Purav & Co.
- Company received applications for 46,000 Shares of which 40,000 Shares were in Marked Forms.
- Underwriter's Liability will be for 4,000 Shares (i.e. 50,000 Issued Less 46,000 Subscribed by Public).

The classification between Marked and Unmarked Forms is not relevant here.



Underwriting by more than one Underwriter:

In such case, distinction should be drawn between Marked Forms and Unmarked Forms.

The Underwriter's Liability can be determined by a process of subtracting the Marked Forms, Unmarked Forms and Firm Underwriting, from his Gross Liability.

The procedure in this case is given below -

Particulars	Amount (₹)
Gross Liability	XXX
(-) Firm Underwriting	XXX
(-) Marked Application	XXX
(-) Unmarked Application	XXX
(+)/(-) Surplus in Gross Liability Ratio	XXX

Liability of the Underwriter	XXXX
(+) Firm Application	XXX
Total Liability of the Underwriter	XXXX

Example 3:

- Prithvi Ltd. issued 40,000 Shares which are underwritten as follows:
  Mr. A — 24,000; Mr. B — 10,000 and Mr. C — 6,000 Shares.
- The Underwriters made applications for firm underwriting as under:
  Mr. A — 3,200 Shares; Mr. B — 1,200 Shares; and Mr. C — 4,000 Shares.
- The total subscriptions excluding Firm Underwriting but including marked applications were for 20,000 Shares.
- The marked applications were: Mr. A — 4,000 Shares; Mr. B — 8,000 Shares and Mr. C — 2,000 Shares.
- Show the allocation of liability of the underwriters.

Particulars	Mr. A	Mr. B	Mr. C	Total
Gross Liability	24,000	10,000	6,000	40,000
(-) Firm Underwriting	(3,200)	(1,200)	(4,000)	(8,400)
(-) Marked Application	(4,000)	(8,000)	(2,000)	(14,000)
(-) Unmarked Application	(3,600)	(1,500)	(900)	(6,000)
Net liability under the Contract	13,200	(700)	(900)	11,600
(+)/(-) Surplus in Gross Liability Ratio	(1,600)	700	900	—
Liability of the Underwriter	11,600	—	—	11,600
(+) Firm Application	3,200	1,200	4,000	8,400
Total Liability of the Underwriter	14,800	1,200	4,000	20,000

Note: Unmarked Applications = 6,000 i.e. Total Applications 20,000 — Marked Applications (4,000 + 8,000 + 2,000 = 14,000). These are distributed in the ratio of Gross Liability i.e. 12:5:3.

Example 4:

Star Ltd. issued to public 1,80,000 Equity Shares of ₹100 each at par ₹50 per Share was payable along with Application and the balance on Allotment. The issue was underwritten equally by Lily, Mily and Nily for a commission of 3%. They agreed for a Firm Underwriting of 10,000 Shares each.

Application for 1,40,000 Shares excluding Underwriters' Firm Underwriting were received as below —	
Applications with marking of Lily's Seal	47,500
Applications with marking of Mily's Seal	42,500
Application with marking of Nily's Seal	38,000
Unmarked Applications	12,000
Compute the Underwriters' Liability and the amount payable / receivable.	

Particulars	Lily	Mily	Nily	Total
Gross Liability	60,000	60,000	60,000	1,80,000
(-) Firm Underwriting	(10,000)	(10,000)	(10,000)	(30,000)
(-) Marked Application	(47,500)	(42,500)	(38,000)	(1,28,000)
(-) Unmarked Application	(4,000)	(4,000)	(4,000)	(12,000)
Balance to be taken under contract	(1,500)	3,500	8,000	10,000
(+)/(-) Surplus in Gross Liability Ratio	1,500	(750)	(750)	—
Net Liability	—	2,750	7,250	10,000
(+) Firm Application	10,000	10,000	10,000	30,000
Total Liability	10,000	12,750	17,250	40,000
Amount Due to Co. at ₹50 per Share (₹)	5,00,000	6,37,500	8,62,500	20,00,000
Less: Commission at 3% on Nominal Value of Shares underwritten (60,000 × ₹100 × 3%)	(1,80,000)	(1,80,000)	(1,80,000)	(5,40,000)
Net Amount Due from Underwriters	3,20,000	4,57,500	6,82,500	14,60,000