



Contract Revenue and Computation of Percentage of Completion (AS – 7)



Accounting for long-term construction contracts involves question as to when revenue should be recognized and how to measure the revenue in the books of contractor. As the period of construction contract is long, work of construction starts in one year and is completed in another year or after 4-5 years or so. AS – 7 [Construction Contracts] deals with such issues.

There may be following two ways to determine profit or loss:

- ✚ On year to year basis based on percentage of completion, or
- ✚ On completion of the contract.

Till the revision of this Accounting Standard both the methods were recommended. However, the revised standard has eliminated the existing option, by adopting only percentage of completion method for recognizing the revenue.

This method justifies the accrual system of accounting which is fundamental accounting assumption.

Construction contract —

As per this AS-Construction Contract is a contract specifically negotiated for the construction of an asset or combination of assets closely interrelated or interdependent, for example, contract for construction of bridge, building, dam, pipeline road, etc. This accounting standard further mentions that the following are also included in construction contract.

- ✚ Contracts for rendering of services which are directly related to the construction of assets, for example, service of architect, and
- ✚ Contract for destruction or restoration of asset and the restoration of the environment following the demolition of asset.

Example: If existing structure/building in a plot of land has to be demolished before new building as per new design is constructed, the destruction of building is construction contract.

Construction contracts are of two types:—

- ✚ Fixed price contracts
- ✚ Cost plus contracts
- ✚ Some construction contracts may be a mix of the both



Applicability:

- This Accounting Standard is applicable in accounting for construction contracts in contractor's financial statements.
- It does not apply to customer (Contractee).
- Accounting standard would not be applicable for the construction projects undertaken by the enterprise on its own account as a commercial venture in the nature of production activities.

A contract may provide for the construction of an additional asset at the option of the customer, such construction of additional asset should be treated as a separate construction contract if —

- ✚ Asset differs significantly as compared to original contract
- ✚ Price of the additional asset is independent of original contract.

Points to be noted:

- We need to compute the following first —
Contract revenue
Contract cost
- Profit or loss of construction contract is equal to Contract revenue Less Contract Cost.
- Contract revenue consists of the following :
 - Revenue/price agreed as per Contract.
 - Revenue arising due to escalation clause.
 - Claims - Claims is the amount that contractors seek to collect from the customer as reimbursement of cost not included in contract price.
 - Increase in revenue due to increase in units of output.
 - Increase or decrease in revenue due to change or variation in scope of work to be performed.
 - Incentive payments to the contractors.
 - Decrease in contract revenue due to penalties.
- The contract revenue and contract cost associated with the construction contract should recognize revenue and expenses respectively with reference to Stage of Completion of the contract activity at the reporting date. Recognition of revenue and expenses by reference to the stage of completion of a contract is generally referred as the Percentage of Completion Method, under this method revenue is recognized as revenue in the statement of profit/loss in the accounting period in which work is performed.

Example:

Calculate the contract revenue from the following details

Particulars	Years		
	I	II	III
1. Initial contract revenue	2000	2000	2000
2. Revenue increase due to escalation in II nd year	---	400	---
3. Claim			200
4. Incentive Payment			300
5. Penalties		100	



Solution:

Calculation of contract revenue

(₹ In Crores)

Particulars	I	II	III
Initial contract value	2000	2000	2000
Increase in revenue due to escalation	---	400	400
Claims	---	---	200
Incentive	---	---	300
Penalties	---	(100)	(100)
Contract revenue	2000	2300	2800

Determination of stage of completion

Stage of completion may be determined in a variety of ways like:

- ◆ Cost to cost method : The percentage of completion would be estimated by comparing total cost incurred to date with total cost expected for the entire contract —

$$\text{Percentage of Completion} = \frac{\text{Cost to date}}{\text{Cumulative cost incurred} + \text{estimated cost to complete}} \times 100\%$$

Current revenue from Contract
 = Contract Price × Percentage of Completion
 – Revenue previously recognised

- ◆ By survey of work performed
- ◆ Completion of physical proportion of the contract work

Example:

Assume a ₹10,00,000 contract that requires 3 years to complete and incurs a total cost of ₹8,10,000. The following data pertain to the construction period:

Particulars	Yr. I	Yr. II	Yr. III
Cumulative costs incurred to date	3,00,000	7,20,000	8,10,000
Estimated cost yet to be incurred at year end	6,00,000	80,000	---
Progressive billing made during the year	2,00,000	7,40,000	60,000
Collections of billings	1,50,000	6,00,000	2,50,000

Calculate the percentage of completion.

Solution:

Particulars	Yr. I	Yr. II	Yr. III
Initial amount of Revenue agreed in contract	10,00,000	10,00,000	10,00,000
Variation	---	---	---
Total contract Revenue (A)	10,00,000	10,00,000	10,00,000
Contract cost incurred	3,00,000	7,20,000	8,10,000
Contract cost yet to be incurred to complete	6,00,000	80,000	---
Total Estimated contract cost (B)	9,00,000	8,00,000	8,10,000
Estimated profit (A-B)	1,00,000	2,00,000	1,90,000



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Stage of completion	$\frac{3,00,000}{9,00,000} \times 100$ 33.1/3%	$\frac{7,20,000}{8,00,000} \times 100$ 90%	$\frac{8,10,000}{8,10,000} \times 100$ 100%
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Exclusion from contract cost

While calculating the contract cost to date as mentioned above in formula following contract cost should be excluded

- Contract cost that relates to future activity on the contract such as cost of material that have been delivered to a contract site or set aside for use of a contract but not used and applied.
- Payment made to sub-contractors in advance of work performed under the sub-contract.

Contract costs

Contract costs consist of the following:

Specific costs to contract -

- Site labour cost including supervision
- Cost of material used in construction
- Depreciation of plant and equipments used on the contract
- Cost of moving plant, equipments and materials from contract site
- Cost of hiring plant
- Cost of design and technical assistance
- Estimated cost of rectification and guarantee work including expected warranty cost
- Claim from third parties
- Pre-contract cost. If it is probable that contract will be obtained. These costs should be reduced by incidental income if not included in contract revenue.

Cost attributable to contract –

These costs are:

- Insurance.
- Cost of design and technical assistance that is not directly related to a specific contract.
- Construction overheads.

Cost specifically chargeable to customers under the terms of contract –

These costs are:

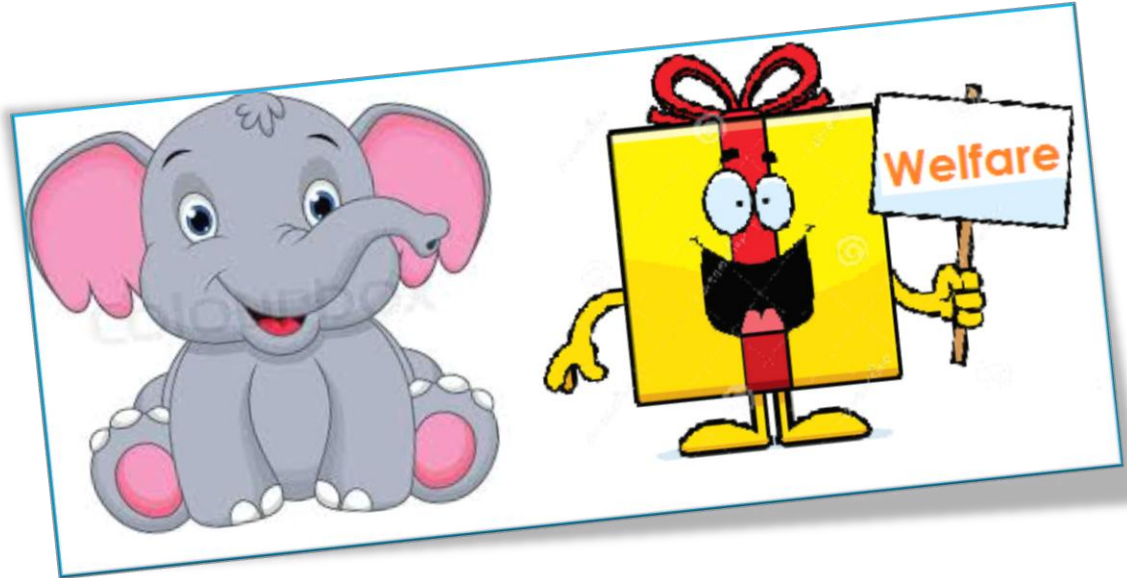
- Some general administration cost/for which reimbursement is specified.
- Development cost.
- Reimbursement of any other cost.

Cost excluded

Following costs are excluded from contract cost unless specifically chargeable under terms of contract :

- General administration cost
- Selling cost
- Research and development
- Depreciation cost of idle plant and equipment
- Cost incurred in securing the contract. Pre-contract cost - if it is not probable that contract will be obtained.

WELFARE OF EMPLOYEES, FACTORIES ACT, 1948



Chapter V (Sees. 42 to 50) of the Act deals with facilities for the welfare of workers. The various provisions in this regard are as follows:

1. Washing facilities (Sec. 42).

In every factory (a) adequate and suitable facilities (separately and adequately screened for the use of male and female workers) shall be provided and maintained for the use of the workers therein; and (b) such facilities shall be conveniently accessible and shall be kept clean.

2. Facilities for storing and drying clothing (Sec. 43).

The State Government may make rules requiring the provision of suitable places for keeping clothing of workers not worn during working hours and for the drying of wet clothing in respect of any factory or class of factories.

3. Facilities for sitting (Sec. 44).

(1) Provision of sitting arrangement for workers obliged to work in a standing position. In every factory, suitable arrangements for sitting shall be provided and maintained for all workers who are obliged to work in a standing position. This has been done in order that the workers may take advantage of any opportunities for rest which may occur in the course of their work [Sec. 44 (1)].



- (2) Provision of seating arrangement for workers doing work which can be done in a sitting position. If the workers in any factory engaged in a particular manufacturing process or working in a particular room are able to do their work efficiently in a sitting position, the Chief Inspector may require the occupier of the factory to provide such seating arrangements as may be practicable [Sec. 44 (2)].
- (3) Exemption. The State Government may, by notification in the Official Gazette, exempt any factory or class of factories or manufacturing process from the application of the provisions of Sec. 44 [Sec. 44 (3)].

4. First-aid appliances (Sec. 45).

- (1) At least one first-aid box with prescribed contents for every 150 workers. There shall in every factory be provided and maintained so as to be readily accessible during all working hours, first-aid boxes or cupboards with the prescribed contents. There shall be at least one such box for every 150 workers ordinarily employed at any one time in the factory [Sec. 45 (1)].
- (2) First-aid box to have prescribed contents. Only the prescribed contents shall be kept in a first-aid box or cupboard [Sec. 45 (2)].
- (3) First-aid box to be in the charge of responsible person. Each first-aid box or cupboard shall be kept in the charge of a separate responsible person who holds a certificate in the first-aid treatment recognised by the State Government. Further, such person shall always be readily available during the working hours of the factory [Sec. 45 (3)].
- (4) Ambulance room in a factory employing more than 500 workers. In every factory wherein more than 500 workers are ordinarily employed there shall be provided and maintained an ambulance room containing the prescribed equipment.
The room shall be in the charge of such medical and nursing staff as may be prescribed and those facilities shall always be made readily available during the working hours of the factory [Sec. 45 (4)].

5. Canteens (Sec. 46).

- (1) Canteen in factory employing more than 250 workers—the State Government may make rules. The State Government may make rules requiring that in any specified factory wherein more than 250 workers are ordinarily employed, a canteen or canteens shall be provided and maintained by the occupier for the use of the workers [Sec. 46 (1)].
- (2) Provisions in rules. The rules made by the State Government as to canteens may provide for (a) the date by which canteen shall be provided, (b) the standards in respect of construction, accommodation,



furniture and other equipment of the canteen, (c) the foodstuffs to be served therein and the charges which may be made thereof, (d) the constitution of a managing committee for the canteen and representation of the workers in the management of the canteen, (e) the items of expenditure in the running of the canteen which are not to be taken into account in fixing the cost of foodstuffs and which shall be borne by the employer, and (f) the delegation to the Chief Inspector, subject to such conditions as may be prescribed, of the power to make rules under Clause (c) [Sec. 46 (2)].

6. Shelters, rest rooms and lunch rooms (Sec. 47).

- (1) Provision for shelters, rest rooms, lunch rooms in factories employing more than 150 workers. In every factory wherein more than 150 workers are ordinarily employed, there shall be a provision for shelters, rest rooms and a suitable lunch room where workers can eat meals brought by them with provision for drinking water. However, any canteen maintained in accordance with the provisions of Sec. 46 shall be regarded as part of this requirement. Where a lunch room exists, no worker shall eat any food in the workroom [Sec. 47 (1)].
- (2) Shelters, etc. to be sufficiently lighted, ventilated and cooled. The shelters or rest rooms or lunch rooms shall be sufficiently lighted and ventilated and shall be maintained in a cool and clean condition [Sec. 47 (2)].

7. Creches (Sec. 48).

- (1) Provision of creches in factories employing more than 30 women workers. In every factory wherein more than 30 women workers are ordinarily employed, there shall be provided and maintained a suitable room or rooms for use of children under the age of 6 years of such women [Sec. 48 (1)].
- (2) Creches to be adequately lighted and ventilated and to be under the charge of trained women. Rooms for use of children shall provide adequate accommodation, shall be adequately lighted and ventilated. Further they shall be maintained in a clean and sanitary condition and shall be under the charge of women trained in the care of children and infants [Sec. 48 (2)].
- (3) Prescription of rules by the State Government. The State Government may make rules prescribing the location and the standards in respect of construction, accommodation, furniture and other equipment of rooms for use of children. It may also make rules for the provision of additional facilities for the care of children belonging to women workers, including suitable provision of facilities (a) for washing and changing their clothing, (b) of free milk or refreshment or both for the children, and (c) for the mothers of children to feed them at the necessary intervals [Sec. 48 (3)].



8. Welfare officers (Sec. 49).

- (1) Employment of welfare officers in factories employing 500 or more workers. In every factory wherein 500 or more workers are ordinarily employed the occupier shall employ in the factory such number of welfare officers as may be prescribed [Sec. 49 (1)].
- (2) Duties, qualifications and conditions of service to be prescribed by the State Government. The State Government may prescribe the duties, qualifications and conditions of service of welfare officers [Sec. 49 (2)].

Even if a factory (say, a sugar factory) employs over 500 workers only for a few months in the year and not continuously, the occupier shall employ the prescribed number of welfare officers [Employers' Assn. of Northern India v. Secretary of Labour, A.I.R. (1952) All. 109].

Power to make rules (Sec. 50)

The State Government may make rules—

- (a) exempting, subject to compliance with such alternative arrangements for the welfare of workers as may be prescribed, any factory or class or description of factories from compliance with any of the provisions of Sees. 42 to 49 ;
- (b) requiring in any factory or class or description of factories that representatives of the workers employed in the factory shall be associated with the management of the welfare arrangements of the workers.



INCOME COMPUTATION AND DISCLOSURE STANDARDS

Central Government vide **Notification No. 32/2015, dated 31-3-2015** has notified the "Income Computation and Disclosure Standards" as specified below to be followed by all assessees, following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head "**Profit and Gains of Business or Profession**" or "**Income from Other Sources**". This notification shall come into force with effect from 1st day of April, 2015, and shall accordingly apply to the assessment year 2016-17 and subsequent assessment years.

List of Standards are as follows:

- (1) Income Computation and Disclosure Standard I relating to accounting policies Preamble
- (2) Income Computation and Disclosure Standard II relating to valuation of inventories
- (3) Income Computation and Disclosure Standard III relating to construction contracts
- (4) Income Computation and Disclosure Standard IV relating to revenue recognition Preamble
- (5) Income Computation and Disclosure Standard V relating to tangible fixed assets Preamble
- (6) Income Computation and Disclosure Standard VI relating to the effects of changes in foreign exchange rates
- (7) Income Computation and Disclosure Standard VII relating to government grants Preamble
- (8) Income Computation and Disclosure Standard VIII relating to securities Preamble
- (9) Income Computation and Disclosure Standard IX relating to borrowing costs Preamble
- (10) Income Computation and Disclosure Standard X relating to provisions, contingent liabilities and contingent assets

G. Income Computation and Disclosure Standard VII relating to government grants Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of account.

In case of conflict between the provisions of the Income Tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

1. Scope

This Income Computation and Disclosure Standard deals with the treatment of Government grants. The Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, waiver, concessions, reimbursements, etc.



2. This Income Computation and Disclosure Standard does not deal with:—

- (a) Government assistance other than in the form of Government grants; and
- (b) Government participation in the ownership of the enterprise.

3. Definitions

- (1) The following terms are used in the Income Computation and Disclosure Standard with the meanings specified:
 - (a) "Government" refers to the Central Government, State Governments, agencies and similar bodies, whether local, national or international.
 - (b) "Government grants" are assistance by Government in cash or kind to a person for past or future compliance with certain conditions. They exclude those forms of Government assistance which cannot have a value placed upon them and the transactions with Government which cannot be distinguished from the normal trading transactions of the person.
- (2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

4. Recognition of Government Grants

- (1) Government grants should not be recognised until there is reasonable assurance that (i) the person shall comply with the conditions attached to them, and (ii) the grants shall be received.
- (2) Recognition of Government grant shall not be postponed beyond the date of actual receipt.

5. Treatment of Government Grants

Where the Government grant relates to a depreciable fixed asset or assets of a person, the grant shall be deducted from the actual cost of the asset or assets concerned or from the written down value of block of assets to which concerned asset or assets belonged to.

- 6. Where the Government grant relates to a non-depreciable asset or assets of a person requiring fulfillment of certain obligations, the grant shall be recognised as income over the same period over which the cost of meeting such obligations is charged to income.
- 7. Where the Government grant is of such a nature that it cannot be directly relatable to the asset acquired, so much of the amount which bears to the total Government grant, the same proportion as such asset bears to all the assets in respect of or with reference to which the Government grant is so received, shall be deducted from the actual cost of the asset or shall be reduced from the written down value of block of assets to which the asset or assets belonged to.
- 8. The Government grant that is receivable as compensation for expenses or losses incurred in a previous financial year or for the purpose of giving immediate financial support to the person with no further related costs, shall be recognised as income of the period in which it is receivable.
- 9. The Government grants other than covered by paragraph 5, 6, 7, and 8 shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate.
- 10. The Government grants in the form of non-monetary assets, given at a concessional rate, shall be accounted for on the basis of their acquisition cost.



11. Refund of Government Grants

The amount refundable in respect of a Government grant referred to in paragraphs 6, 8 and 9 shall be applied first against any unamortised deferred credit remaining in respect of the Government grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount shall be charged to profit and loss statement.

12. The amount refundable in respect of a Government grant related to a depreciable fixed asset or assets shall be recorded by increasing the actual cost or written down value of block of assets by the amount refundable. Where the actual cost of the asset is increased, depreciation on the revised actual cost or written down value shall be provided prospectively at the prescribed rate.

13. Transitional Provisions

All the Government grants which meet the recognition criteria of para 4 on or after 1st day of April, 2015 shall be recognised for the previous year commencing on or after 1st day of April, 2015 in accordance with the provisions of this standard after taking into account the amount, if any, of the said Government grant recognised for any previous year ending on or before 31st day of March, 2015.

14. Disclosures

Following disclosure shall be made in respect of Government grants, namely:—

- (a) nature and extent of Government grants recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets during the previous year;
- (b) nature and extent of Government grants recognised during the previous year as income;
- (c) nature and extent of Government grants not recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets and reasons thereof; and
- (d) nature and extent of Government grants not recognised during the previous year as income and reasons thereof.

H. Income Computation and Disclosure Standard VIII relating to securities Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of account.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

1. Scope

This Income Computation and Disclosure Standard deals with securities held as stock in-trade.

2. This Income Computation and Disclosure Standard does not deal with:



- (a) the bases for recognition of interest and dividends on securities which are covered by the Income Computation and Disclosure Standard on revenue recognition;
- (b) securities held by a person engaged in the business of insurance;
- (c) securities held by mutual funds, venture capital funds, banks and public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 or the Companies Act, 2013.

3. Definitions

- (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:
 - (a) "Fair value" is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.
 - (b) "Securities" shall have the meaning assigned to it in clause (h) of section 2 of the Securities Contract (Regulation) Act, 1956, other than Derivatives referred to in sub-clause (la) of that clause.
- (2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

4. Recognition and Initial Measurement of Securities

A security on acquisition shall be recognised at actual cost.

5. The actual cost of a security shall comprise of its purchase price and include acquisition charges such as brokerage, fees, tax, duty or cess.
6. Where a security is acquired in exchange for other securities, the fair value of the security so acquired shall be its actual cost.
7. Where a security is acquired in exchange for another asset, the fair value of the security so acquired shall be its actual cost.
8. Where unpaid interest has accrued before the acquisition of an interest-bearing security and is included in the price paid for the security, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion of the interest is deducted from the actual cost.

9. Subsequent Measurement of Securities

At the end of any previous year, securities held as stock-in-trade shall be valued at actual cost initially recognised or net realisable value at the end of that previous year, whichever is lower.

10. For the purpose of para 9, the comparison of actual cost initially recognised and net realisable value shall be done categorywise and not for each individual security. For this purpose, securities shall be classified into the following categories, namely:
 - (a) shares;
 - (b) debt securities;
 - (c) convertible securities; and



- (d) any other securities not covered above.
11. The value of securities held as stock-in-trade of a business as on the beginning of the previous year shall be:
- (a) the cost of securities available, if any, on the day of the commencement of the business when the business has commenced during the previous year; and
 - (b) the value of the securities of the business as on the close of the immediately preceding previous year, in any other case.
12. Notwithstanding anything contained in para 9, 10 and 11, at the end of any previous year, securities not listed on a recognised stock exchange; or listed but not quoted on a recognised stock exchange with regularity from time to time, shall be valued at actual cost initially recognised.
13. For the purposes of para 9, 10 and 11 where the actual cost initially recognised cannot be ascertained by reference to specific identification, the cost of such security shall be determined on the basis of first-in-first-out method.

I. Income Computation and Disclosure Standard IX relating to borrowing costs Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of account.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

1. Scope

- (1) This Income Computation and Disclosure Standard deals with treatment of borrowing costs.
- (2) This Income Computation and Disclosure Standard does not deal with the actual or imputed cost of owners' equity and preference share capital.

2. Definitions

- (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:
 - (a) "Borrowing costs" are interest and other costs incurred by a person in connection with the borrowing of funds and include:
 - (i) commitment charges on borrowings;
 - (ii) amortised amount of discounts or premiums relating to borrowings;
 - (iii) amortised amount of ancillary costs incurred in connection with the arrangement of borrowings;
 - (iv) finance charges in respect of assets acquired under finance leases or under other similar arrangements.
 - (a) "Qualifying asset" means:
 - (i) land, building, machinery, plant or furniture, being tangible assets;
 - (ii) know-how, patents, copyrights, trade marks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets;
 - (iii) inventories that require a period of twelve months or more to bring them to a saleable condition.



- (2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

3. Recognition

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with this Income Computation and Disclosure Standard. Other borrowing costs shall be recognised in accordance with the provisions of the Act.

4. For the purposes of this Income Computation and Disclosure Standard, "capitalisation" in the context of inventory referred to in item (iii) of clause (b) of sub-paragraph (1) of paragraph 2 means addition of borrowing cost to the cost of inventory.

5. Borrowing Costs Eligible for Capitalisation

To the extent the funds are borrowed specifically for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised on that asset shall be the actual borrowing costs incurred during the period on the funds so borrowed.

6. To the extent the funds are borrowed generally and utilised for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised shall be computed in accordance with the following formula namely:—

$$A \times \frac{B}{C}$$

Where

A = borrowing costs incurred during the previous year except on borrowings directly relatable to specific purposes;

B = (i) the average of costs of qualifying asset as appearing in the balance sheet of a person on the first day and the last day of the previous year;

(ii) in case the qualifying asset does not appear in the balance sheet of a person on the first day or both on the first day and the last day of previous year, half of the cost of qualifying asset;

(iii) in case the qualifying asset does not appear in the balance sheet of a person on the last day of previous year, the average of the costs of qualifying asset as appearing in the balance sheet of a person on the first day of the previous year and on the date of put to use or completion, as the case may be, other than those qualifying assets which are directly funded out of specific borrowings; or

C = the average of the amount of total assets as appearing in the balance sheet of a person on the first day and the last day of the previous year, other than those assets which are directly funded out of specific borrowings;



7. Commencement of Capitalisation

The capitalisation of borrowing costs shall commence:

- (a) in a case referred to in paragraph 5, from the date on which funds were borrowed;
- (b) in a case referred to in paragraph 6, from the date on which funds were utilised.

8. Cessation of Capitalisation

Capitalisation of borrowing costs shall cease:

- (a) in case of a qualifying asset referred to in item (i) and (ii) of clause (b) of subparagraph (1) of paragraph 2, when such asset is first put to use;
 - (b) in case of inventory referred to in item (Hi) of clause (b) of sub-paragraph (1) of paragraph 2, when substantially all the activities necessary to prepare such inventory for its intended sale are complete.
9. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalization of borrowing costs in relation to a part shall cease:—
- (a) in case of part of a qualifying asset referred to in item (i) and (ii) of clause (b) of sub-paragraph (1) of paragraph 2, when such part of a qualifying asset is first put to use;
 - (b) in case of part of inventory referred to in item (Hi) of clause (b) of sub-paragraph (1) of paragraph 2, when substantially all the activities necessary to prepare such part of inventory for its intended sale are complete.

10. Transitional Provisions

All the borrowing costs incurred on or after 1st day of April, 2015 shall be capitalized for the previous year commencing on or after 1st day of April, 2015 in accordance with the provisions of this standard after taking into account the amount of borrowing costs capitalised, if any, for the same borrowing for any previous year ending on or before 31st day of March, 2015.

11. Disclosure

The following disclosure shall be made in respect of borrowing costs, namely:—

- (a) the accounting policy adopted for borrowing costs; and
- (b) the amount of borrowing costs capitalised during the previous year.

J. Income Computation and Disclosure Standard X relating to provisions, contingent liabilities and contingent assets

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts.



In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

1. Scope

This Income Computation and Disclosure Standard deals with provisions, contingent liabilities and contingent assets, except those:

- (a) resulting from financial instruments;
 - (b) resulting from executory contracts;
 - (c) arising in insurance business from contracts with policyholders; and
 - (d) covered by another Income Computation and Disclosure Standard.
- 2.** This Income Computation and Disclosure Standard does not deal with the recognition of revenue which is dealt with by Income Computation and Disclosure Standard - Revenue Recognition.
- 3.** The term 'provision' is also used in the context of items such as depreciation, impairment of assets and doubtful debts which are adjustments to the carrying amounts of assets and are not addressed in this Income Computation and Disclosure Standard.

4. Definitions

- (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:
- (a) "Provision" is a liability which can be measured only by using a substantial degree of estimation.
 - (b) "Liability" is a present obligation of the person arising from past events, the settlement of which is expected to result in an outflow from the person of resources embodying economic benefits.
 - (c) "Obligating event" is an event that creates an obligation that results in a person having no realistic alternative to settling that obligation.
 - (d) "Contingent liability" is:
 - (i) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person; or
 - (ii) a present obligation that arises from past events but is not recognised because:
 - A. it is not reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - B. a reliable estimate of the amount of the obligation cannot be made.
 - (e) "Contingent asset" is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person.
 - (f) "Executory contracts" are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.
 - (g) "Present obligation" is an obligation if, based on the evidence available, its existence at the end of the previous year is considered reasonably certain.



- (2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

Recognition

5. Provisions

A provision shall be recognised when:

- (a) a person has a present obligation as a result of a past event;
- (b) it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

- 6. No provision shall be recognised for costs that need to be incurred to operate in the future.
- 7. It is only those obligations arising from past events existing independently of a person's future actions, that is the future conduct of its business, that are recognised as provisions.
- 8. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is enacted.

9. Contingent Liabilities

A person shall not recognise a contingent liability.

10. Contingent Assets

A person shall not recognise a contingent asset.

- 11. Contingent assets are assessed continually and when it becomes reasonably certain that inflow of economic benefit will arise, the asset and related income are recognised in the previous year in which the change occurs.

Measurement

12. Best Estimate

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the previous year. The amount of a provision shall not be discounted to its present value.

- 13. The amount recognised as asset and related income shall be the best estimate of the value of economic benefit arising at the end of the previous year. The amount and related income shall not be discounted to its present value.

14. Reimbursements

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when it is reasonably certain that reimbursement will be



received if the person settles the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision.

15. Where a person is not liable for payment of costs in case the third party fails to pay, no provision shall be made for those costs.
16. An obligation, for which a person is jointly and severally liable, is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

17. Review

Provisions shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate. If it is no longer reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

18. An asset and related income recognised as provided in para 11 shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate. If it is no longer reasonably certain that an inflow of economic benefits will arise, the asset and related income shall be reversed.

19. Use of Provisions

A provision shall be used only for expenditures for which the provision was originally recognised.

20. Transitional Provisions

All the provisions or assets and related income shall be recognised for the previous year commencing on or after 1st day of April, 2015 in accordance with the provisions of this standard after taking into account the amount recognised, if any, for the same for any previous year ending on or before 31st day of March, 2015.

21. Disclosure

- (1) Following disclosure shall be made in respect of each class of provision, namely:
 - (a) a brief description of the nature of the obligation;
 - (b) the carrying amount at the beginning and end of the previous year;
 - (c) additional provisions made during the previous year, including increases to existing provisions;
 - (d) amounts used, that is incurred and charged against the provision, during the previous year;
 - (e) unused amounts reversed during the previous year; and
 - (f) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.
- (2) Following disclosure shall be made in respect of each class of asset and related income recognised as provided in para 11, namely:—
 - (a) a brief description of the nature of the asset and related income;
 - (b) the carrying amount of asset at the beginning and end of the previous year;
 - (c) additional amount of asset and related income recognised during the year, including increases to assets and related income already recognised; and
 - (d) amount of asset and related income reversed during the previous year.



SIMULATION



According to T.H. Naylor: Simulation is a numerical technique for conducting experiments on a digital computer which involves certain types of mathematical and logical relationships necessary to describe the behavior and structure of complex real world system over extended period of time."

It is a quantitative technique that utilizes a computerized mathematical model in order to represent actual decision making under conditions of uncertainty for evaluating alternative courses of action based upon facts and assumptions.

Simulation provides a trial and error movement toward the optimal solution. The decision maker selects an alternative, experiences the effect of the selection, and then improves the selection. In this way, the selection is adjusted until it approximates the optimal solution.

Simulation can serve as a preservice test to try out new policies and decision rules for operating a system, before running the risk of experimenting on the real system.

Reasons for Simulation

Major reasons for applying simulation:

1. Simulation applications have broadened in scope
2. Simulation softwares have become easy to use.
3. Cost of simulation is much less than the real life experiments.
4. Sometimes real life experiment is not feasible. For example, if we have to find the effects of different types of car accidents, doing actual experiments with the passengers in the car will be infeasible.
5. Sometimes the real life experiments are quite unsafe. For example, we have to study the effect of radiation leakage.
6. Simulation's greatest strength is its ability to answer "what if" questions.

Steps of Simulation Process

Main steps in Simulation Method

Step-1 Preliminary survey is performed to know the past behavior of the system.

Step- 2 Flow diagram is drawn to have the general idea of the system.

Step- 3 Sample observations are drawn to choose some suitable model of the system.

Step-4 Probability distributions for the variables of interest are determined and then converted into cumulative distribution function.



Step-5 A set of random numbers is drawn from random number tables.

Step-6 Determine the sequence of values of the variable of interest with the set of random numbers drawn in step 5.

Step-7 Fit some standard mathematical function to the values obtained in step 6.

Monte Carlo Simulation

Monte Carlo Method of Simulation

The Monte Carlo method is a very significant method of simulation. It is also the earliest method of simulation. Its significance can also be known from the fact that the term often use interchangeably with simulation. The Monte Carlo simulation is a numerical technique that employs random numbers and is used to solve problems that depend upon probability, where physical experimentation is impracticable and the creation of a mathematical formula impossible. It is method of Simulation by the sampling technique.

The Monte Carlo technique of simulating events breaks down into four simple steps.

1. Setting up a probability distribution for possible outcomes.
2. Establishing an interval of random numbers for each outcome.
3. Generating random numbers.
4. Actually simulating a series of trials.

The basis of Monte Carlo simulation is the generation of values for the variables comprising the model under study. Examples of variables whose outcomes we may want to simulate include

- Times between machines breakdowns
- Times between arrivals at a service facility
- Service times
- Inventory demand on a daily or weekly basis.
- Lead time for inventory orders to arrive
- Project completion times.



Advantages of Simulation

Some of the important advantages of simulation are summarized as below:

1. Simulation is a flexible model and can be modified to adjust different variations.
2. It can be used for strategic planning models.
3. It is easier technique to use than other mathematical models.
4. Training people on simulation model is easier.
5. This technique removes the requirement of costly trial and error methods of trying out new idea on new machines, equipment etc.

Disadvantages of Simulation

Disadvantages of using simulation techniques are summarized as below:

1. Simulation is not a precise method.
2. It cannot be applied in all situations.
3. Simulation model package may be very expensive.
4. It is a non-optimizing technique.

PROBLEM SOLUTION

1. ADS Cooperative Bank receives and disburses different amount of cash in each month. The bank has an opening cash balance of ₹15 crores in the first month. The pattern of receipts and disbursements from the past data is as follows:

Monthly cash receipts		Monthly cash payments	
₹ crores	Probability	₹ crores	Probability
30	0.20	33	0.15
42	0.40	60	0.20
36	0.25	39	0.40
99	0.15	57	0.25

- (i) Calculate probability that the ADS Cooperative Bank will fall short in payments.
- (ii) Calculate average monthly shortfall.
- (iii) If the ADS Cooperative Bank can get an overdraft facility of ₹45 crores from some other bank, what is the probability that they will fall short in monthly payments?



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Use the following sequence of paired random numbers:

17,78	43,16	74,35	31,23	72,44	46,92
51,58	68,08	93,58	54,78	96,54	09,77

Solution:

Probability Distribution (cash receipts)

Cash Receipts	Probability	Cum. Probability	Range	Range for simulation
30	0.20	0.20	0 - 0.20	0 - 0.19
36	0.25	0.45	0.20 - 0.45	0.20 - 0.44
42	0.40	0.85	0.45 - 0.85	0.45 - 0.84
99	0.15	1.00	0.85 - 1.00	0.85 - 0.99

Probability Distribution (cash payments)

Cash Payments	Probability	Cum. Probability	Range	Range for simulation
33	0.15	0.15	0 - 0.15	0 - 0.14
39	0.40	0.55	0.15 - 0.55	0.15 - 0.54
57	0.25	0.80	0.55 - 0.80	0.55 - 0.79
60	0.20	1.00	0.80 - 1.00	0.80 - 0.99

Month wise Cash Flow projections (₹ crores)

Month	Opening balance	Receipts	Payments	Closing Balance
1	15	30	57	-12
2	-12	36	39	-15
3	-15	42	39	-12
4	-12	36	39	-15
5	-15	42	39	-12
6	-12	42	60	-30
7	-30	42	57	-45
8	-45	42	33	-36
9	-36	99	57	6
10	6	42	57	-9
11	-9	99	39	51
12	51	30	57	24

- (i) Probability of falling short of cash = No. of short balance projected months/total number of months = $9/12=0.75$.
- (ii) Average monthly shortfall = $(12+15+12+15+12+30+45+36+9)/9= ₹20.67$ crores.
- (iii) In this situation, there shall be no shortfall. As such the probability of cash shortfall (with overdraft facility) = nil

2. **A single counter ticket booking centre employs one booking clerk. A passenger on arrival immediately goes to the booking counter for being served if the counter is free. If, on the other hand, the counter is engaged, the passenger will have to wait. The passengers are served on first come first served basis. The time of arrival and the time of service varies from one minute to six minutes. The distribution of arrival and service time is as under:**



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Arrival/Service Time (Minutes)	Arrival (Probability)	Service (Probability)
1	0.05	0.10
2	0.20	0.20
3	0.35	0.40
4	0.25	0.20
5	0.10	0.10
6	0.05	0

- (i) Simulate the arrival and service of 10 passengers starting from 9 A.M. by using the following random numbers in pairs respectively for arrival and service. Random numbers 60 09, 16 12, 08 18, 36 65, 38 25, 07 11, 08 79, 59 61, 53 77, 03 10.
- (ii) Determine the total duration of:
 (1) Idle time of booking clerk and (2) waiting time of passengers.

Solution:

Probability Distribution (Arrival)

Time	Probability	Cum. Probability	Range	Range for simulation
1m	0.05	0.05	0 – 0.05	0 – 0.04
2m	0.20	0.25	0.05 – 0.25	0.05 – 0.24
3m	0.35	0.60	0.25 – 0.60	0.25 – 0.59
4m	0.25	0.85	0.60 – 0.85	0.60 -0.84
5m	0.10	0.95	0.85 – 0.95	0.85 – 0.94
6m	0.05	1.00	0.95 – 1.00	0.95 -0.99

Probability Distribution (Service)

Time	Probability	Cum. Probability	Range	Range for simulation
1m	0.10	0.10	0 – 0.10	0 – 0.09
2m	0.20	0.30	0.10 - 0.30	0.10 - 0.29
3m	0.40	0.70	0.30 - 0.70	0.30 – 0.69
4m	0.20	0.90	0.70 – 0.90	0.70 -0.89
5m	0.10	1.00	0.90- 1.00	0.90 – 0.99

Passenger S. No.	Arrival time	Service begins	Service completes	Waiting time	Idle time
1	9.04	0.04	9.05	Nil	4m
2	9.06	9.06	9.08	Nil	1m
3	9.08	9.08	9.10	Nil	Nil
4	9.11	9.11	9.14	Nil	1m
5	9.14	9.14	9.16	Nil	Nil
6	9.16	9.16	9.18	Nil	Nil
7	9.18	9.18	9.22	Nil	Nil
8	9.21	9.22	9.25	1m	Nil
9	9.24	9.25	9.29	1m	Nil
10	9.25	9.29	9.31	4m	Nil
Total				6m	6m



3. An investment corporation wants to study the investment project based on three factors: market demand in units, contribution (sales price- variable cost) per unit and investment required. These factors are felt to be independent of each other. In analyzing a new consumer product for a washing powder factory the corporation estimates the following probability distributions:

Annual demand		Contribution per unit		Required investment	
Units	Probability	₹	Probability	₹	Probability
20,000	0.05	3.00	0.10	17,50,000	0.25
25,000	0.10	5.00	0.20	20,00,000	0.50
30,000	0.20	7.00	0.40	25,00,000	0.25
35,000	0.30	9.00	0.20		
40,000	0.20	10.00	0.10		
45,000	0.10				
50,000	0.05				

Using Monte-Carlo simulation for 10 runs, estimate the percentage of return on investment (ROI%) defined by

$$ROI\% = \frac{\text{Cash inflow}}{\text{Investment}} \times 100$$

For each run, recommend an optimum investment strategy based on model value of ROI %.

Use the following sets of random numbers:

28,57,60,17,64,20,27,58,61,30; 19,07,90,02,57,28,29,83,58,41 and 18,67,16,71,43,68,47,24,19,97 respectively for each of the 10 simulation run.

Solution:

To determine a cumulative probability distribution corresponding to each of the three factors, appropriate set of random numbers representing each of the three factors are assigned below:

Annual demand	Probability	Cum. Probability	Random Numbers
20,000	0.05	0.05	00-04
25,000	0.10	0.15	05-14
30,000	0.20	0.35	15-34
35,000	0.30	0.65	35-64
40,000	0.20	0.85	65-84
45,000	0.10	0.95	85-94
50,000	0.05	1.00	95-99

Contribution per unit (₹)	Probability	Cum. Probability	Random Numbers
3.00	0.10	0.10	00-09
5.00	0.20	0.30	10-29
7.00	0.40	0.70	30-69
9.00	0.20	0.90	70-89
10.00	0.10	1.00	90-99



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Investment required (₹)	Probability	Cum. Probability	Random Numbers
17,50,000	0.25	0.25	00-24
20,00,000	0.50	0.75	25-74
25,00,000	0.25	1.00	75-99

New simulated work sheet for 10 trials. The simulated return on investment (ROI) is also calculated by using formula for ROI %. The results of simulation are shown in the table given below:

Trials	RN for demand	Simulated Demand ('000)	RN for Contribution	Simulated Contribution (₹)	RN for investment	Simulated Investment ('000)	Simulated return ROI %
1	28	30	19	5.00	18	1750	8.57*
2	57	35	07	3.00	67	2000	5.25
3	60	35	90	10.00	16	1750	20.00
4	17	30	02	3.00	71	2000	4.50
5	64	35	57	7.00	43	2000	12.25
6	20	30	28	5.00	68	2000	7.50
7	27	30	29	5.00	47	2000	7.50
8	58	35	83	9.00	24	1750	18.00
9	61	35	58	7.00	19	1750	14.00
10	30	30	41	7.00	97	2500	8.40

$$\text{*Simulated Return on Investment ROI \%} = \frac{\text{Cash inflow}}{\text{Investment}} \times 100 = \frac{[(30 \times 5)]}{1750} \times 100 = 8.57\%$$

Rests of the values have been worked out similarly.

The above table shows the highest likely ROI % of 20%, which is corresponding to the annual demand of 35,000 units resulting in a profit of ₹10 per unit and the required investment will be ₹17,50,000.

THANK YOU



REGISTRATION UNDER CENTRAL EXCISE

Category of Persons Required to Obtain Registration: The persons required to obtain registration as per Section 6 of the Central Excise Act, 1944 and Rule 9 of the Central Excise Rules, 2002, are as follows –

- (1) Every manufacturer of dutiable excisable goods (including Central/State Government undertakings or undertakings owned or controlled by autonomous corporations).
- (2) First and second stage dealers (including manufacturer's depots and importers) desiring to issue Cenvatable invoices.
- (3) Persons holding warehouses for storing non-duty paid goods.
- (4) Persons who obtain excisable goods for availing end use based exemption.
- (5) An importer who issues an invoice on which CENVAT Credit can be taken.
- (6) Exporters manufacturing or processing export goods - (i) by using duty paid inputs and intending to claim rebate of such duty; or (ii) by using inputs received without payment of duty, and exporting the finished goods.
- (7) 100% EOU's who procure goods from domestic tariff area or removes goods in domestic tariff area.

Person Exempt from Obtaining Registration: The following categories of persons are exempt from obtaining registration under Central Excise —

- (1) Persons who manufacture the excisable goods, which are chargeable to nil rate of excise duty or are fully exempt from duty by a notification.
- (2) SSI manufacturers having annual turnover below the specified exemption limit. However, in case of SSIs wholly exempted from duty under Notification No. 8/2003-CE, declaration is required only if value of clearances computed as per the said Notification during the preceding financial year was ₹ 90 lakhs or more or, in case of new unit, such clearances are expected to be ₹ 90 lakhs or more during current financial year.
- (3) A principal manufacturer who gets his goods manufactured on his account from any other person (viz. job worker), if job work undertakes to discharge all liabilities under Act. In certain cases, job worker is exempted from registration if principal manufacturer is made liable to pay duty and undertakes to discharge all liabilities under Act.
- (4) Persons manufacturing excisable goods by following the warehousing procedure under the Customs Act, 1962.
- (5) The person who carries on wholesale trade or deals in excisable goods (except first and second stage dealer, as defined in CENVAT Credit Rules, 2004 and the depots of a registered manufacturer).
- (6) A 100% Export Oriented Undertaking or a unit in Free Trade Zone or SEZ, is licensed or appointed, as the case may be, under the provisions of the Customs Act, 1962 other than having dealings with domestic tariff area.



- (7) Persons who use excisable goods for any purpose other than for processing or manufacture of goods availing benefit of concessional duty exemption notification.
- (8) Unregistered premises used solely for affixing a sticker or re-printing or re-labeling or re-packing of pharmaceutical products falling under Chapter 30 of the First Schedule to the Central Excise Tariff Act, 1985 with lower ceiling price to comply with the notifications issued by the National Pharmaceutical Pricing Authority under Drugs (Prices Control) Order, 2013 subject to the conditions specified in the Notification No. 22/2013-CE exempting the pharmaceutical products from payment of Central Excise duty.
- (9) Every manufacturing unit engaged in the manufacture of aluminium roofing panels falling under tariff item 7610 90 10 of the First Schedule to the Central Excise Tariff Act, 1985, subject to the conditions that such roofing panels are consumed at the site of manufacture for execution of the project and the manufacturer of such goods has a centralised billing or accounting system in respect of such goods manufactured by different manufacturing units and opts for registering only the premises or office from where such centralised billing or accounting is done.

Registration for Manufacturer Manufacturing Wholly Exempted Goods: According to Section 6 of the Central Excise Act, 1944, every person who produces or manufactures excisable goods will have to get himself registered. The goods that are exempt from duty of excise by virtue of provisions of Section 5A of the Central Excise Act, 1944 do not become non-excisable goods.

However, an exemption notification has been issued exempting manufacturers who manufacture wholly exempted goods or goods chargeable with NIL rate of duty, subject to fulfillment of conditions specified in the notification.

Thus, as per the current provisions, a manufacturer manufacturing wholly exempted goods need not obtain registration under the Central Excise law.

Procedure for Registration: The procedures for registration are as under:

- (1) **Application for registration:** Every person required to take registration shall get himself registered with jurisdictional Deputy/Assistant Commissioner of Central Excise by applying in the form provided for registration in the website www.aces.gov.in.
- (2) **Registration of different premises of the same registered person:**
 - If the person has more than one premises requiring registration, separate registration certificate shall be obtained for each of such premises.
 - If two or more premises of the same factory are separated by public road, railway line or canal, the Principal Commissioner or Commissioner of Central Excise may, subject to proper account of the movement of goods from one premise to other and such other conditions and limitations, allow single registration.



- Separate registration is required for each depot, godown, etc.
 - Textile manufacturers/traders may obtain a single registration for all premises falling within the jurisdiction of one Principal Commissioner or Commissioner.
 - CNG Manufacturers may obtain a single registration for all premises within the jurisdiction of single Principal Chief Commissioner or Chief Commissioner with any of the Principal Commissioner or Commissioner of Central Excise, subject to the condition that prior intimation shall be given before starting any additional premises subsequent to obtaining such registration. If he is registered under the existing provision, he may apply for fresh registration or file amendment to the registration.
 - Every mine engaged in the production or manufacture of goods falling under chapter headings 2701, 2702, 2703, 2704 and 2706 (coal, coke or tar) would be exempt from registration, if the producer or manufacturer of such goods has a centralized billing or accounting system in respect of such goods produced by different mines and opts for registering only the premises or office from where such centralized billing or accounting is done.
- (3) Online filing of application:** Application for registration or de-registration or amendment of the registration application shall be filed only online on the website www.aces.gov.in, in the forms provided in the website.
- (4) PAN based Registration:**
- Applicant for registration shall mandatorily quote Permanent Account Number (PAN) of the proprietor or the legal entity being registered in the specified column in the application form.
 - Government Departments are exempt from the requirement of quoting the PAN in their online application.
 - Existing temporary registrants, except Government Departments shall apply online for conversion of temporary registration to PAN based registration within three months from the date of publication of this notification [Notification No. 35/2001-CE (N.T.), dated 26.06.2001], failing which the temporary registration shall stand cancelled. [Further extension can be granted for one month].
- (5) Applicant to quote e-mail address and mobile number:** Applicant shall quote his e-mail address and mobile number in the requisite column of the application form for communication with the Department.
- (6) Business Transaction Numbers:** Business transaction numbers obtained from other Government departments or agencies such as Customs Registration No (BIN No), Import Export Code (IEC) Number, State Sales Tax / (VAT) Number, Central Sales Tax Number, Company Index Number (ON), Service Tax Registration Number, which have been issued prior to the filing of Central Excise Registration application, shall be filled in the form and for the numbers subsequently obtained, the application shall be amended.
- (7) Registration Number and Certificate:** Pending post-facto verification of premises and documents by the authorized Officers, registration application shall be approved by the Deputy Commissioner or Assistant Commissioner within two days of the receipt of duly completed online application form.
[Registration No. or Excise Control Code -15 digit Alphanumeric Code =10 digits PAN + XM (for manufacturers) or XD (for dealers) + 001 or 002 (for No. of premises)].
- (8) Submission of documents:** The applicant shall tender self attested copies of the following documents at the



time of verification of the premises:

- (i) Plan of the factory premises;
- (ii) Copy of the PAN Card of the proprietor or the legal entity registered;
- (iii) Photograph and Proof of the identity of the applicant;
- (iv) Documents to establish possession of the premises to be registered;
- (v) Bank account details;
- (vi) Memorandum or Articles of Association and List of Directors; and
- (vii) Authorization by the Board of Directors or Partners or Proprietor for filing the application by a third party.

(9) Physical verification:

- The authorized officer shall verify the premises physically within seven days from the date of receipt of application through online. Where errors are noticed during the verification process or any clarification is required, the authorized Officer shall immediately intimate the same to the assessee for rectification of the error within fifteen days of the receipt of intimation failing which the registration shall stand cancelled. The assessee shall be given a reason opportunity to represent his case against the proposed cancellation, and if it is found that the reasons given by the assessee are reasonable, the authorized Officer shall not cancel the registration to the premises.
- On the physical verification of the premises, if it is found to be non-existent, the registration shall stand cancelled. The assessee shall be given a reason opportunity to represent his case against the proposed cancellation, and if it is found that the reasons given by the assessee are reasonable, the authorized Officer shall not cancel the registration to the premises recording the complete and correct address.

(10) Transfer of Business or acquisition of factory: Where a registered person transfers his business to another person, the transferee shall get himself registered afresh. Where an applicant has acquired an old factory from a Bank or a Financial Institution, he shall get himself registered afresh.

(11) Change in the Constitution: Where a registered person is a firm or a company or association of persons, then in the event of any change in the constitution of the firm leading to change in PAN, he shall get himself registered afresh.

(12) De-registration: Every registered person, who ceases to carry on the business for which he is registered, shall de-register himself by making an online application in the website, in the specified form. Where there are no dues pending recovery from the assessee, application for de-registration shall be approved within thirty days from the date of filing of online declaration and the assessee shall be informed, accordingly.

(13) Cancellation of registration: A registration certificate granted under rule 9 may be cancelled after giving a reasonable opportunity to the assessee to represent his case against the proposed cancellation by the Deputy Commissioner or Assistant Commissioner of Central Excise, in any of the following situations, namely:—

- where on verification, the premises proposed to be registered is found to be nonexistent;



- ✚ where the assessee does not respond to request for rectification of error noticed during the verification of the premises within fifteen days of intimation;
- ✚ where there is substantial mis-declaration in the application form; and
- ✚ where the factory has closed and there are no dues pending against the assessee.

Penal Provisions: The penal provisions for non obtaining registration are as under –

(1) Fine and Imprisonment: person who fails to obtain registration when he is so required to do so shall be punishable –

- ✚ **Where the duty leviable on excisable goods exceeds ₹ 50,00,000:** Imprisonment for a term, which may extend to 7 years and with fine. (However, in absence of special and adequate reasons to the contrary to be recorded in judgment of the Court, such imprisonment shall not be for less than 6 months.)
- ✚ **In any other case:** Imprisonment for a term extending to 3 years or with fine or with both.

(2) Confiscation and penalty: Where any manufacturer or producer engages in manufacture, production or storage of any excisable goods without having applied for registration certificate, then, all such goods shall be liable to confiscation. Moreover, such manufacturer or producer shall also be liable to a penalty not exceeding -

- (a) the duty on such excisable goods, or
- (b) ₹ 5,000, whichever is greater.

