CMA Students Newsletter(For Intermediate Students)

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FINANCIAL ACCOUNTING

Buy Back of Shares

'Buy-back of shares' means acquiring back of own shares by a company from its shareholders. The Companies (Amendment) Act, 1999 made changes by inserting Sections 77A, 77AA and 77B. By virtue of these sections a company can purchase back its own shares at a certain price after fulfilling some basic conditions.

A. Basic Conditions to be fulfilled

1. Company's **Articles of Association** should authorize the buy-back.
2. Company should pass a **Special Resolution** in a general meeting of members authorizing the buy back. Such Special Resolution shall be accompanied by an **Explanatory Statement** containing complete disclosure of material facts, necessity, class of security, amount to be invested and time limit for completion of Buy-Back.
3. Buy-Back should be or less than **25% of total paid-up capital and free reserves** of the company and for **equity shares should not exceed 25% of its total paid-up equity capital**.
4. **Board of Directors** can **authorize** buy-back only if the buy-back is **less than 10% of the total paid-up capital and free reserves** and there is **only one offer** of buy-back in a **period of 365 days**.
5. Every buy-back should be **completed within 12 months** from the **date of passing of the Special Resolution or the Board Resolution**.
6. **Fully paid-up** shares or specified securities **can only be bought back**.
7. **Debt-Equity ratio** should not be more than **2:1 after** such **buy-back**. Central government can prescribe a higher ratio for a particular class/(es) of companies.
8. Every buy-back should **comply** with the **Guidelines** and **Regulations** issued by **SEBI**.
9. Board of Directors should make a **Declaration of Solvency** that the company shall not become insolvent within 1year from the date of making this declaration

B. Mode of Buy-Back

Buy-back may be from:

1. **Existing Security Holders** – On Proportionate Basis
2. **Open Market** – Book Building Process or Stock Exchange
3. **Securities issued to Employees** – Scheme of Stock Option or Sweat Equity
4. **Odd lots** – lot is smaller than marketable lots of Stock Exchange.

C. Funds Utilized for Buy-Back

A Company can purchase its own shares or specified securities out of free reserves or securities premium account or proceeds of any shares or specified securities but should not be from earlier issue of same kind of shares or same kind of specified securities.

D. Objects of Buy-Back

Buy-Back is made with following objects:

1. The Intrinsic value per share increases.
2. The earning per share [EPS] increases.
3. The financial restructuring of the company becomes possible.
4. Over capitalization can be avoided.
5. Shares issued under Employees Option Scheme but the holders are no more in employment, can be withdrawn.

CALCULATIONS RELATED TO BUY- BACK:

1. Buy-back of equity shares at premium:

Illustration 1: M Ltd. decided to buy-back 40,000 of its equity shares of ₹ 10 each at a premium of 20%.Co. issues 3,000, 7% preference shares of ₹ 100 each at par. The company has ₹ 95,000 in General Reserve, ₹ 85,000 in Securities Premium Account, ₹ 55,000 in Capital Reserve.

Solution :
The premium amount per share is
=₹ 10 x 20% =₹ 2.

So, the amount required to buy-back the equity share is
= 40,000 x ₹(10+2)= ₹ 4, 80,000.

Amount provided out of fresh issue of Preference Shares
= 3,000 x ₹ 100 =₹ 3, 00,000.
= ₹ 1,00,000 more for buying back capital and ₹ 80,000 more for paying premium are required.

For this purpose company can utilize General Reserve A/c and Securities Premium A/c. The total being ₹(95,000 + 85,000)= ₹ **1,80,000.**
Company cannot utilize Capital Reserve for buy-back purpose.

2. Buy-back of equity shares at discount:
Illustration 2: S Ltd. has ₹ 1, 00,000 in Securities Premium Account and ₹ 9, 00,000 in General Reserve Account. It opted to buy-back 1, 50,000 Equity shares of ₹ 10 each at a discount of ₹ 2 per share. It issues 5,000 Preference Shares of ₹ 100 each before giving effect to buy-back.

Solution :
The discount amount per share is =₹ 2
So, the amount required to buy-back the equity share is
=1,50,000 x ₹(10-2)= ₹ 12,00,000.
Company has to create Capital Reserve A/c of ₹ 3,00,000 (1,50,000 x ₹ 2) for the discount portion.
Amount provided out of fresh issue of Preference Shares
= 5,000 x ₹ 100 =₹ 5, 00,000.
Company can utilize both Securities Premium A/c and General Reserve A/c for buy-back purpose.
Total ₹(9,00,000+1,00,000)= ₹ 10, 00,000 should be debited and Capital Redemption Reserve A/c should be credited by the same amount.

3. Maximum Possible Buy-Back considering the Debt-Equity Ratio after Buy-back :

Illustration 3 : The Balance Sheet of D Ltd. as on 31.03.2013 is given below:

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	19,00,000
Paid Up		Investments	3,00,000
Equity Shares of ₹ 10 each	3,00,000	Current Assets, Loans and Advances	8,00,000
Reserves and Surplus:			
Capital Redemption Reserve	1,35,000		
Securities Premium	75,000		
General Reserve	3,75,000		
Profit & Loss A/c	90,000		
Revaluation Reserve	1,25,000		

Foreign Exchange Earning Reserve	1,75,000		
Secured Loan:			
10% Debentures	7,50,000		
Bank Loan	6,75,000		
Current Liabilities and Provisions	3,00,000		
Total	30,00,000	Total	30,00,000

Solution :
Sources of free reserves that can used for buy-back
= (Securities Premium +General Reserve+ Profit & Loss)
= ₹ (75,000+3, 75,000+90,000)
= ₹ 5, 40,000

So, Paid –up capital + Sources of free reserve for buy-back
=₹ (3, 00,000 +5, 40,000)
=₹ 8, 40,000

Now the maximum possible Buy-back considering the Debt-Equity Ratio after Buy-back

1. Sources of Buy-back ₹ 5, 40,000

2. 25% of Own Fund = (25% of ₹ 8, 40,000) = ₹ 2, 10,000.

3. Minimum Own Fund to be left after Buy-back i.e. Debt-Equity Ratio should be =2:1 =Debts/2 =₹ (7,50,000 + 6, 75,000)/2 = ₹ 7,12,500

The maximum buy-back amount should be= ` (8, 40,000-7,12,500) = ₹ 1,27,500.

DIRECT TAXATION

AN IMPORTANT ASPECT OF WEALTH TAX: RETURN AND ASSESSMENT

The provisions regarding return of wealth and procedure of assessment of such wealth are similar to the provisions of return of income and procedure of assessment under Income-tax Act.

Return of Wealth [Section 14 of Wealth-tax Act]:

Section 14(1) requires every person to furnish return if his net wealth or the net wealth of any other person in respect of which he is assessable under the Wealth-tax Act, on the valuation date, exceeds the maximum amount (i.e. ₹ 30,00,000) which is not chargeable to tax.

Every person is required to file with the Wealth-tax Officer a return of net wealth in Form BA, and verified in the prescribed manner, on or before the due date mentioned under the explanation to section 139(1) of the Income-tax Act.

Electronic filing of annexure-less return of net wealth: In order to facilitate electronic filing of annexure-less return of net wealth, section 14A and 14B have been inserted and section 46 has been amended by Finance Act, 2013, with effect from June 1, 2013.

Return after Due Date (Belated Return) and Amendment of Return (Revised Return) [Section 15]: If any person has not furnished a return within time allowed under section 14(1) or in response to a notice issued under section 16(4)(i), he may furnish a return at any time before the expiry of one year from the end of the relevant assessment year or before the completion of assessment, whichever is earlier.

Similarly, if a person having furnished the return discovers any omission or wrong statement therein, he may furnish a revised return before the expiry of one year from the end of the relevant assessment year or before the completion of assessment, whichever is earlier.

Reference to a case law: [CIT v Maharaja Amarinder Singh (2005) 275 ITR 356 (P&H)] — The case fact was that the return of net wealth for the assessment years 1982-83 and 1983-84 were due to be filed by the assessee under Section 14(1) of the Wealth-tax Act, 1957, on or before June 30, 1982, and June 30, 1983, respectively. The return for the assessment year 1982-83 declaring a net wealth of ₹ 7,60,400 was filed on March 13, 1987, i.e., after a delay of 56 months whereas the return for the assessment year 1983-84 declaring net wealth of ₹ 7,77,900 was filed on November 30, 1983, involving a delay of four completed months. While completing the assessments, penalty proceedings under Section 18(1)(a) of the Act were initiated for levy of penalty for the delay in filing the returns. The assessee, in response to the show-cause notices, contended that substantial wealth had been assessed in his hands on protective basis but for which he was not required to file any return under Section 14(1) of the Act. It was further pleaded that there was a delay in filing the income-tax returns for the two years in question as well and thus, the delay up to the date of filing of those returns should be considered as a reasonable cause for delay in filing the wealth-tax returns, which could not have been filed without the determination of tax liability under the Income-tax Act. The assessing officer rejected the explanation and levied the penalty at the rate of 2 per cent, per month for the delay involved in the two years. The Commissioner of Wealth Tax had accepted the contention of the assessee that since the assessments had been framed on protective basis, no penalty was leviable. After that the Tribunal has rejected the first plea of the assessee that no penalty was leviable as the assessment had been made on protective basis but the Tribunal accepted the second contention of the assessee that the delay up to the date of filing of the income-tax returns should be considered as attributable to a reasonable cause as wealth tax returns could not have been filed without the determination of the income-tax liability. However in the present case, there is no material on record to show as to why the income-tax returns had been delayed or as to why the wealth-tax return could not be prepared without the finalization of the income-tax return. So the Court held that the assessee was liable to penalty for the entire period of delay of 56 months in the assessment year 1982-83 and four months in the assessment year 1983-84. So, we can conclude that delay in filing Income Tax Return cannot be an automatic reasonable cause for delay in filing of Wealth Tax return.

Procedure for Assessment [Section 16 of Wealth-tax Act]:
After submission of return of net wealth by the assessee, the process of assessment commences. In some cases, the assessment may be taken up by the Assessing Officer even though the return of net wealth is not submitted, although the

assessee was required to do so. The assessing officer can make the assessment in any of the following ways:

(i) Summary Assessment: on the basis of the return of the net wealth. [Section 16(1)].
(ii) Scrutiny Assessment: on the basis of the return of net wealth and hearing further additional evidence. [Section 16(3)].
(iii) Best Judgment Assessment: [Section 16(5)].

The assessee is required to pay the tax before filing of the return and such return is to be accompanied by the proof of such payment. Provisions of regular assessment, as applicable under Income Tax, will apply to wealth tax also.

Assessment proceeding under Income Tax Act, 1961 & Wealth Tax Act, 1957 —

Activity	Income Tax Act, 1961	Wealth Tax Act, 1957
Return	Section 139(1)	Section 14
Return of Loss	Section 139(3)	—
Belated return	Section 139(4)	Section 15
Revised return	Section 139(5)	Section 15
Return by whom to be signed	Section 140	Section 15A
Self Assessment	Section 140A	Section 15B
Scrutiny Assessment	Section 143(3)	Section 16(2) & (3)
Best Judgment Assessment	Section 144	Section 16(5)
Escaping Assessment	Section 147	Section 17
Time limit for completion of assessment	Section 153	Section 17A

Time Limit for Completion of Assessment [Section 17A]: Section 17A prescribes the time limit for completion of various assessments which is as follows:

	Time Limit for Completion
Assessment u/s 16 [Section 17A(1)]	2 years from end of relevant assessment year. (21 months from the end of assessment year 2004-05 to assessment year 2009-10).
Assessment / re-assessment u/s 17 [Section 17A(2)]	1 year from the end of financial year in which the notice u/s 17 was served. (9 months from the end of assessment year 2005-06 to assessment year 2010-11)
Fresh assessment where original assessment has been set aside or cancelled by any Appellate Authority or CIT. [Section 17A(3)]	1 year from the end of financial year in which such order was received by CIT / was passed by the CIT, as the case may be. (9 months from the end of financial year 2005-06 to financial year 2010-11)
Assessment / re-assessment to give effect to any finding or direction contained in an order passed by any Appellate Authority.	21 months from the end of the financial year in which such order was passed by the relevant authority.

PROFITS AND GAINS FROM BUSINESS OR PROFESSION

Example on computation of income from profession

(1) Mr. Rishikesh Agarwal, a practicing doctor, runs a multi speciality hospital. He furnishes the following information in respect of his medical profession, during the financial year 2013-14:

(i) Medical instruments worth ₹ 20 Lakhs, (cleared on payment of duty of ₹ 10 Lakh on 18.03.2014) were imported from US, and were ready for use by 20.03.2014. 2 operations were performed using these instruments.
(ii) The employees of the hospital were paid salaries of ₹10 Lakh.
(iii) The anesthetist was paid a salary of ₹20,000 per month.
(iv) Medicines were purchased in cash for ₹50,000.
(v) Capital expenditure of ₹10,000 was incurred for promoting family planning amongst its employees.
(vi) Interest of ₹3,000 was paid in an overdraft of ₹ 1 Lakh taken for making payment of installment of advance tax of ₹1.25 Lakhs.
(vii) Fees charged during the financial year 2013-14 amounted to ₹30 Lakhs.

Compute the total income of Mr. Rishikesh Agarwal for the financial year 2013-14.

Solution:

Computation of total income of Dr. Rishikesh Agarwal for the Assessment Year 2014-15

Particulars	Amoun (₹ in lakhs)	Amount (₹ in lakhs)
Income earned during the financial year 2013-14		30
Less: Expenses admissible under the Income Tax Act, 1961		
(i) Depreciation on imported machinery [NOTE 1]	2.25	
(ii) Salary paid to hospital staff	10	
(iii) Salary paid to anesthetist	2.40	
(iv) Purchase of medicines [NOTE 2]	---	
(v) Capital expenditure for promoting family planning [NOTE 3]	---	14.65
TOTAL INCOME		15.35

NOTE:

(1) Depreciation to be charged on the imported machinery
= ₹(30 Lakhs x 15% x ½) = ₹2,25,000

(2) Section 40A(3) provides for 100 % disallowance of an expenditure, in respect of which payment is made in a sum exceeding ₹20,000, otherwise than by way of account payee cheque or an account payee bank draft. Therefore, the entire amount of ₹50,000 incurred for purchase of medicines in cash shall stand disallowed.

(3) Section 36(1)(ix) provides for deduction of 1/5th of capital expenditure incurred by companies to promote family planning amongst its employees. However, such expenses are not allowable as deduction under Section 36(1)(ix) for non-corporate assessee.

DEDUCTIONS FROM TOTAL INCOME

(2) Mr. Sukhwinder Singh, an individual resident, aged 70 years, furnishes the following information for the year ended 31.03.2014:

(i) Life Insurance premium of ₹50,000 paid, capital sum of the policy assured - ₹2,00,000.
(ii) Contribution to the Public Provident Fund- ₹ 30,000, in the name of father.
(iii) Tuition fee payment of ₹10,000 each for 3 sons pursuing graduation.
(iv) Housing loan principal repayment for house under construction in Pune - ₹ 24,000 to Axis Bank.
(v) Principal repayment of housing loan taken from friend - ₹ 50,000. His loan pertains to the self- occupied property in Delhi.
(vi) Deposit under the senior Citizens Scheme- ₹25,000.
(vii) Deposit under the Post Office Time Deposit Scheme- ₹ 30,000.
(viii) Investment in the National Savings Certificate- ₹ 50,000.
(ix) Subscription to the bonds issued by NABARD- ₹25,000.
(x) Term deposit of ₹25,000 with a scheduled bank for a period of 5 years, which has been pledged for raising son's education loan.
(xi) Deposit in Pension Scheme notified by the Central Government- ₹ 60,000.
(xii) Contribution to the approved pension fund of LIC- ₹ 30,000.

Compute the amount eligible for deduction under Section 80C for the A.Y. 2014-15.

Solution:

Computation of the amount eligible for deduction under Section 80C for the A.Y 2014-15

Section No.	Particulars	₹	₹
80C	(i) Life insurance premium paid **(NOTE 1)** (ii) Contribution to the PPF **(NOTE 2)** (iii) Tuition fees for children **(NOTE 3)** (iv) Housing Loan principal repayment **(NOTE 4)** (v) Post Office Time deposit Scheme (vi) Contribution to NSC (vii) Subscription to bonds by NABARD (viii) Senior Citizen Scheme Deposit (ix) Term Deposit **(NOTE 5)**	20,000 Nil 20,000 Nil 30,000 50,000 25,000 25,000 Nil	1,70,000
80CCC	Contribution to the approved Pension Fund of LIC		30,000
80CCD	Deposit in Pension Scheme notified by the Central Government		60,000
	GROSS TOTAL		2,60,000
80CCE	The deductions granted under Sections 80C, 80CCC, 80CCD shall be limited to ₹ 1,00,000.		1,00,000
Deductions allowed under Section 80C, 80CCC, 80CCD is ₹ 1,00,000.			

NOTE:

(1) Life Insurance Premium paid shall be restricted to 10% of capital sum assured for the purpose of granting deduction under Section 80C.

(2) Contribution to the PPF shall not be allowed, as it has not been effected in the name of self, spouse or children.

(3) Tuition fees allowed for a maximum of 2 children.

(4) Repayment of housing loan shall not be allowed as deduction, to the assessee, because:
(i) The construction of the property should have been completed and the income should be chargeable under the head "Income from House Property". The property located in Pune is under construction.
(ii) In respect of the self-occupied house located in Delhi, the loan is taken from a friend. Repayment of principal of loan to a friend is not allowed as deduction.

(5) Term deposit with Scheduled bank is eligible for deduction under Section 80C, if the same has not been pledged as security.

(3) Arif, an individual resident, aged 35 years, is an employee of Sterling Industries Limited. He provides the following information relating to his income for the financial year 2013-14:

(i) He receives salary of ₹ 30,000 per month including conveyance allowance @ ₹3,000 per month for official purposes.
(ii) Equity shares having Fair Market Price of ₹1,00,000 (on the date of exercise of option) were allotted to him by the company at a concessional price of ₹20,000 on 30.05.2013, which were sold by him ₹1,80,000 on 28.02.2014.
(iii) He deposited ₹2,500 per month in his account under a pension scheme notified by the Central Government.
(iv) Contribution to the Public Provident fund - ₹ 140000.
(v) Contribution to the approved Pension Fund of LIC- ₹ 64,000.
(vi) Contribution to Central Government Health Scheme during the previous year- ₹36000

(vii) He paid a sum of ₹55,000 during the year as interest on loan taken in April, 2008 from bank for the higher studies of his son.
(viii) He invested ₹40,000 in notified bonds issued by NABARD in July, 2013.
(ix) Payment of medical Insurance premium, for non-resident mother (who is not dependent on her and is a senior citizen) - ₹ 21,000.
(x) Arif incurred ₹45,000 for the medical treatment of wife in a Government Hospital for a specified disease. The amount recovered from the insurance company and the employer, for such medical treatment amounted to ₹10,000 and ₹5,000 respectively.
(xi) Donation to the Government for family planning- ₹1,20,000
(xii) Donation to the Central Welfare Fund of Indian army - ₹4,000

Compute the total income of Arif for A.Y 2014-15.

Solution:

Computation of total income of Mr. Ayush for the Assessment Year 2014-15

Particulars	₹	₹
SALARIES Gross salary received **Add:** Shares allotted at concessional price = Fair market price- the amount recovered from employee. **Less:** Conveyance allowance exempt under Section 10(14)	3,60,000 80,000 36,000	4,04,000
CAPITAL GAINS Sale consideration of equity shares Less: Fair Market Value of shares on the date of exercise of option	1,80,000 1,00,000	80,000

(A) GROSS TOTAL INCOME		4,84,000
Less: Deductions under Chapter VI A		
Under Section 80C		
(i) For investment in notified bonds of NABARD.	40,000	
(ii) Deposit in PPF.	1,40,000	
Under Section 80CCD For deposit in pension scheme notified by the Central Government.	30,000	
Under Section 80CCC Contribution to the approved Pension Fund of LIC.	64,000	
Under Section 80CCE The aggregate deduction under Sections 80C, 80CCC, 80CCE limited to ₹ 1,00,000.	2,74,000	1,00,000
Under Section 80D		
(i) Contribution to Central Government Health Scheme. **[NOTE 1]**	15,000	
(ii) Medical insurance premium paid for non-resident mother, not dependent on him. **[NOTE 2]**	15,000	30,000
Under Section 80DDB Medical treatment of wife in Government Hospital for a specified disease **[NOTE 3]**		25,000
Under Section 80E Payment of interest for higher education loan for son.		55,000
Under Section 80G [NOTE 4] Donation to:		
(i) the Government for family planning	19,400	
(ii) the Central Welfare Fund of Indian army	4,000	23,400
	55,000	
(B) GROSS DEDUCTIONS		**2,33,400**
TOTAL INCOME		**2,50,600**

NOTE:

(1) Contribution to Central Government Health Scheme is eligible for deduction under **Section 80D**, to the extent of ₹ 15,000.

(2) Medical insurance premium paid for non-resident mother who is a senior citizen, shall be eligible for deduction under **Section 80D**, to the extent of ₹ 15,000. If his mother was a resident senior citizen, the deduction was allowable to the extent of ₹ 20,000.

(3) The amount eligible for deduction in the case of Mr. Arif, under **Section 80DDB**, is restricted to the lower of the following:

a) Actual expenditure = ₹45,000

b) ₹40,000, as reduced by the reimbursement received from insurance company and the employer.

Hence, the amount eligible for deduction would be ₹(40,000 - 10,000 - 5,000) = ₹ 25,000.

(4) Computation of deduction allowed under section 80G:

Adjusted Gross Total Income:

Particulars	₹
Gross Total Income	4,84,000
Less: Short term capital gain	(80,000)
Less: Deductions under Chapter VI-A, except Section 80G	(2,10,000)
Adjusted Gross Total Income	1,94,000
10% of Adjusted Gross Total Income	19,400

Quantum of deduction allowed:

Nature of donation	Actual donation (₹)	Qualifying Limit	Amount (₹)
Donation to the Government for family planning	1,20,000	Lower of ₹ 19,400 or, ₹1,20,000	19,400
Donation to the Central Welfare Fund of Indian army	4,000	100% deduction	4,000
TOTAL			**23,400**

SET-OFF AND CARRY FORWARD OF LOSSES

(5) Mrs. Alka Sharma submits the following information for the year ending 31.03.2014:

Particulars	₹
Income from salaries (₹ 50,000 per month)	**6,00,000**
Income from house property	
House 1	**1,60,000**
House 2	**(2,00,000)**
House 3 (self-occupied property)	**(1,20,000)**
Profits and gains of business /profession	
Business A	**(2,50,000)**
Business B (Speculative)	**3,50,000**
Capital Gains	
Long term Capital Gain	**1,00,000**
Short term Capital Loss	**(180,000)**
Income from other sources	
Income from betting	**90,000**
Loss on maintenance of race horses	**(1,20,000)**
Interest on securities	**1,80,000**
Interest on loan borrowed to invest in securities	**2,00,000**

Determine the Gross Total Income for the Assessment Year 2014-15.

Solution:

Computation of the Gross Total Income for the A.Y 2014-15

Particulars	₹	₹
Income from salaries (₹ 50,000 per month)	6,00,000	6,00,000
Income from house property		
House 1	1,60,000	
House 2	(2,00,000)	
House 3 (self-occupied property)	(1,20,000)	(1,60,000)
Profits and gains of business /profession		
Business A	(2,50,000)	
Business B (Speculative)	3,50,000	1,00,000
Capital Gains		
Long term Capital Gain	1,00,000	
Short term Capital Loss	(180,000)	Nil

Loss to be carried forward to A.Y 2015-16	**(80,000)**	
Income from other sources Income from betting Loss on maintenance of race horses Interest on securities Less: Interest on loan borrowed to invest in securities	 90,000 (1,20,000) 1,80,000 (2,00,000)	 90,000 (20,000)
Loss on maintenance of race horses to be carried forward to A.Y 2015-16	**(1,20,000)**	
GROSS TOTAL INCOME		**6,10,000**

(6) Mr. Abraham submits the following information for the A.Y 2014-15:

Particulars	**₹**
Income from salaries (₹ 50,000 per month)	**4,80,000**
Income from house property **House 1** **House 2**	 **3,70,000** **(2,70,000)**
Profits and gains of business /profession **Textile Business (discontinued on 15.09.2013)** **Brought forward Loss of textile business**	**(2,00,000)** **(8,00,000)**
Details of Chemical Business: (discontinued on 10.10.2013) **(i) Brought forward loss of Previous Year 2011-12** **(ii) Unabsorbed Depreciation of Previous Year 2011-12** **(iii) Bad debts earlier deducted recovered in August 2013**	 **(2,50,000)** **(1,50,000)** **4,00,000**
Leather Business **Interest on securities held as stock-in-trade**	**6,20,000** **1,00,000**

Determine the Gross Total Income for the A.Y 2014-15 and also compute the amount of loss that can be carried forward to the subsequent years.

Solution:

Computation of Gross Total income of Mr. Abraham for the A.Y 2014-15 and the amount of loss that can be carried forward to the subsequent years.

Particulars	**₹**	**₹**
Income from salaries (₹ 50,000 per month)	4,80,000	4,80,000
Income from house property House 1 House 2	 3,70,000 (2,70,000)	 1,00,000
Profits and gains of business /profession (i) Textile Business Loss (ii) Chemical Business : Bad debts recovered Less: Set-off of brought forward loss (iii) Leather Business (iv) Interest on securities held as stock-in trade	 (2,00,000) 4,00,000 (2,50,000) 6,20,000 1,00,000	
	6,70,000	
Brought Forward Business Loss of textile business restricted to	**(6,70,000)**	**Nil**
		5,80,000
Unabsorbed depreciation restricted to ₹ 1,00,000 **[NOTE 1]**	**(1,00,000)**	(1,00,000)
GROSS TOTAL INCOME		**4,80,000**

NOTE:

1. The unabsorbed depreciation of ₹ 1,50,000 shall be set off against income under any head, except for 'Salaries', hence, the amount has been restricted to ₹ 1,00,000.
2. The unabsorbed loss of ₹ 1,30,000 (₹ 8,00,000- ₹ 6,70,000) of textile business can be carried forward to A.Y 2015-16, for set-off under Section 72, even though the business is discontinued.

COST ACCOUNTING

MAKE OR BUY DECISION

Make-or-Buy decision (also called the outsourcing decision) is a judgment made by management whether to make a component internally or buy it from the market. While making the decision, both qualitative and quantitate factors must be considered.

Examples of the qualitative factors in make-or-buy decision are: control over quality of the component, reliability of suppliers, impact of the decision on suppliers and customers, etc.

The quantitative factors are actually the incremental costs resulting from making or buying the component. For example: incremental production cost per unit, purchase cost per unit, production capacity available to manufacture the component, etc.

The following example illustrates the numerical part of a simple make-or-buy decision.

Example 1:

The estimated costs of producing 6,000 units of a component are:

	Per Unit	Total
Direct Material	₹10	₹60,000
Direct Labor	8	48,000
Applied Variable Factory Overhead	9	54,000
Applied Fixed Factory Overhead	12	72,000
₹1.5 per direct labor dollar		
	₹39	₹234,000

The same component can be purchased from market at a price of ₹29 per unit. If the component is purchased from market, 25% of the fixed factory overhead will be saved.

Should the component be purchased from the market?

Solution

	Per Unit		Total	
	Make	Buy	Make	Buy
Purchase Price		₹29		₹174,000
Direct Material	₹10		₹60,000	
Direct Labor	8		48,000	
Variable Overhead	9		54,000	
Relevant Fixed Overhead	3		18,000	
Total Relevant Costs	₹30	₹29	₹180,000	₹174,000
Difference in Favor of Buying		₹1		₹6,000

Example 2:

Shrish & Co. Ltd. has three divisions each of which makes a different product. The budgeted data for the next year is as follows:

Division	A	B	C
Sales	₹1,12,000	₹56,000	₹84,000
Direct material Direct labour Variable overhead Fixed cost	14,000 5,600 14,000 28,000	7,000 7,000 7,000 14,000	14,000 22,400 28,000 28,000
Total cost	61,600	35,000	92,400

The management is considering to close down Division C. There is no possibility of reducing variable costs. Advise, whether or not Division C should be closed down.

Solution:

Marginal Cost Statement

Division	A	B	C
Sales	₹1,12,000	₹56,000	₹84,000
Marginal cost	33,600	21,000	64,400
Contribution	78,400	35,000	19,600
Fixed cost	28,000	14,000	28,000
Profit	50,400	21,000	(8,400)

Total net profit from all products = ₹ 63,000.

As division C is making a contribution of ₹19.600 towards recovery of fixed cost, it will not be in the interest of the company to discontinue product C.

COST INDIFFERENCE POINT

The cost indifference point analysis tool determines the point at which there is no difference in cost between two alternative methods. Used to compare two strategies, this analysis can be used to decide between different cost structures or selling prices.

Example:

Sturdy Horse Ltd., a cycle manufacturing company, has drawn up a programme for the manufacture of a new product for the purpose of fuller utilisation of its capacity. The scheme envisages the manufacture of baby tricycle fitted with a bell. The company estimates the sales of tricycles at 10,000 during the first year and expects that from the second year onwards the sales estimates will stabilise at 20,000 tricycles. Since the company has no provision for the manufacture of the small bells specially required for the tricycles, the requirement of the bells is initially proposed to be met by way of purchase from the market at ₹ 8 each. However, if the company desires to manufacture the bell in its factory by installation of new equipment, it has two alternative proposals as under:

	Installation of Super X Machine	**Installation of Janta Machine**
Initial cost of machine	**₹ 3,00,000**	**₹ 2,00,000**
Life	**10 Years**	**10 Years**
Fixed overheads other than depreciation on machines p.a.	**₹ 54,000**	**₹ 28,000**
Variable expense per bell	**₹ 4.00**	**₹ 5.00**

Depreciation on machine should be charged on straight line basis.

Required:

(i) For each of the two levels of output namely 10,000 and 20,000 bells state with suitable workings whether the company should purchase the bells from market or install new equipment for manufacture of bells. If your decision is in favour of the installation of new equipment, which of the two new machines should be installed?

(ii) What would be your decision in case the forecast of requirement from the second year onwards is estimated at 40,000 bells instead of 20,000 bells?

(iii) At what volume of bells will the installation of the two machines break even?

Solution:

(i) Cost-Benefit Analysis of Two 'machines at Output Level of 10,000 and 20,000 units

Output	10,000 units		20,000 units	
Details	Super-X	Janta	Super-X	Janta
Cost of Buying @ ₹ 8 from the Market	₹ 80,000	₹ 80,000	₹ 1,60,000	₹ 1,60,000
'Cost of Manufacturing Variable Cost Depreciation on Machine Fixed Overhead	 40,000 30,000 54,000	 50,000 20,000 28,000	 80,000 30,000 54,000	 1,00,000 20,000 28,000
Total cost	1,24,000	98,000	1,64,000	1,48,000
Decision	Buy from the market		Install Janata Machine	

(ii) Buy/Manufacture Decision at Level of 40,000 Units

	Super - X	**Janata**
Cost of Buying @ ₹ 8	₹3,20,000	₹3,20,000
Manufacturing Cost Variable Cost Depreciation on Machinery Fixed Overhead	 1,60,000 30,000 54,000	 2,00,000 20,000 28,000
Total Cost Manufacture	2,44,000	2,48,000
Cost Saving on Manufacture	76,000	72,000

Decision: As Super-X Machine results in higher cost saving, it should be installed at an estimated volume of 40,000 units.

(iii) Break-even volume of two machines

It is that volume of production at which a manufacturer is indifferent as to which machine he should install as total cost on both machine is the same. This point is known as cost indifference point.

Let Break-even volume = x units.

Cost on Super-X Machine for x units = 54,000 + 30,000 + 4x
= 84,000 + 4x ...(1)

Cost on Janata Machine for 'x' units = 20,000 + 28,000 + 5x
= 48,000 + 5x ...(2)

At cost indifference point, total cost under two alternatives will be equal. Therefore,

84,000 + 4x = 48,000 + 5x or x = 36,000 units.

So at 36,000 units, the installation of the two machines will break even.

RECONCILIATION OF COST AND FINANCIAL ACCOUNTS

Reconciliation of Cost and Financial Accounts is process to find all the reasons behind disagreement in profit which is calculated as per cost accounts and as per financial accounts. There are lots of items which are shown in the profit and loss account only when we make it as per financial accounting rules. There are lots of items which are shown in costing profit and loss account only when we calculate profit as per cost accounting.

Suppose, we have taken the profit or loss as per financial accounts, we adjust it as per cost accounts. In the end of adjustments, we see same profit as per cost accounts. If we have taken profit as per cost account, we have to adjust items as per financial accounts. For this purpose, we make reconciliation Statement

1st Case. When we have to adjust items as per financial accounts

		(+) in ₹	(-) in ₹
(A)	**Profit as per cost accounts**	**XXXXX**	
Add		XXXXX	
1	Profit on sale of asset	XXXXX	
2	Dividend received	XXXXX	
3	Imputed Rent Charges	XXXXX	
4	Overvaluation of opening stock in cost accounts	XXXXX	
5	Undervaluation of closing stock in cost accounts	XXXXX	
6	Excess of material, Labour and overhead cost which is shown as per cost accounts or Overcharge of Material, Labour and overhead cost as per cost accounts or Over-absorption any expense as per cost accounts	XXXXX	
7	Interest Received on Investment	XXXXX	
8	Bank Interest Received	XXXXX	
9	Under valuation of Closing Stock as per cost accounts	XXXXX	

(B)			
Less			
1	Loss on Sale of Asset		XXXXX
2	Dividend Paid		XXXXX
3	Financial Expenses a) discount (b) fine and penalties (c) bank interest (d) underwriter's commission (e) Donations (f) interest paid on capital		XXXXX
4	Undercharge or under absorption of any expense or loss as per cost account		XXXXX
5	over valuation of closing stock as per cost accounts		XXXXX
	Profit as per Financial Accounts (A)-(B)		**xxxxx**

2nd Case. When we have to adjust items as per cost accounts

In this, we take the profit as per financial accounts in the beginning, we add all the times which we have shown in less in above 1st Case. We deduct all the items which we have shown above in Add in 1st Case. After this, balance will be the profit or loss as per cost accounts

Example:

AVS Ltd., made a Net Profit of ₹ 5,71,000 during the year 2013 as per the their financial system. Whereas their cost accounts disclosed a profit of ₹ 7,77,200. On reconciliation, the following differences were noticed :

(i) Directors fees charged in financial account, but not in cost account ₹ 13,000.

(ii) Bank interest credited in financial account, but not in cost account ₹ 600.

(iii) Income Tax charged in financial account, but not in cost account ₹ 1,66,000.

(iv) Bad and doubtful debts written off ₹ 11,4oo in financial accounts.

(v) Overheads charged in costing books ₹ 1,70,000 but actual were ₹ 1,66,400.

(vi) Loss on sale of old machinery ₹20,000 charged in financial accounts.

Solution:

Reconciliation statement

Particulars	Amount (₹)	Amount (₹)
Profit as per Financial Account		5,71,000
Add:		
Director fees charged in financial account but not in cost account	13,000	
Income tax charged in financial account but not in cost account	1,66,000	
Bad and doubtful debts written off	11,400	
Loss on sale of old machinery	20,000	2,10,4000
Less:		
Bank interest credited in financial account but not in cost account	600	
Overheads over absorbed in cost A/c (1,70,000-1,66,400)	3,600	4,200
Profit as per Cost Account		7,77,200

FINANCIAL MANAGEMENT

CAPITAL BUDGETING

Capital Budgeting is a process of long range planning involving investment of funds in long term activities whose benefits are expected over series of years. For example 'setting up of factories, installing machinery, creating additional capacity to manufacture a part which at present is purchases from outside.

How to compare mutually exclusive projects which are of unequal lives?

The steps involved in the selection of projects having unequal lives are given below:

Step 1: Calculate the Present Value of Cash Flows After Tax (CFAT) at the given discount rate.

Step 2: Calculate Annualized Equivalent Present Value as follows:

Annualized Equivalent Present Value = Total Present Value / Present Value Factor of Annuity of ₹ 1 at given Rate of Interest at the end of the life of the project.

Annualized Equivalent Present Value = Total Present Value x Capital Recovery Factor at given Rate of Interest at the end of the life of the project.

Note: Capital Recovery Factor is equal to the reciprocal of Present Value Factor of Annuity of ₹ 1 at given Rate of Interest at the end of the life of the project.

Note: Annualized Equivalent Present Value is the Equated Annual Installment of present value over the useful life of the project.

Step 3: Select the Project as follows:

When Net Present value of Cash Inflows is considered	Select the project having the highest Annualized Equivalent Present Value
When Present value of Cash Outflows is considered	Select the project having the lowest Annualized Equivalent Present Value

Example:

Tulsian Ltd. provides you the following information:

	Machine X	Machine Y
1. Purchase Price of Machine	**₹ 5,00,000**	**₹ 8,00,000**
2. Useful Life of the machine	**5 years**	**8 years**
3. Estimated Savings Value at the end of useful life	**Nil**	**Nil**
4. Method of Depreciation	**Straight line**	**Straight line**
5. Tax Rate	**30%**	**30%**
6. Variable Cost	**₹ 4,00,000**	**₹ 3,00,000**
7. Fixed cost (Other than Depreciation)per annum	**₹ 1,00,000**	**₹ 2,00,000**
8. Annuity Factor for 5/8 years @ 10%	**3.791**	**5.335**

Required: Which of the above machines should be purchased on the basis of Present Value.

Solution:

Statement showing the Calculation of Cash Outflow after Tax Saving (COAT)

Particulars	Machine X	Machine Y
Variable Costs	4,00,000	3,00,000
Depreciation	1,00,000	1,00,000
Fixed Costs other than Depreciation	1,00,000	2,00,000
Total Cost	6,00,000	6,00,000
Less: Tax Saving @ 30%	(1,80,000)	(1,80,000)
Cost after Tax Saving	4,20,000	4,20,000
Less: Depreciation being non-Cash Cost	(1,00,000)	(1,00,000)
Cash Cost after Tax Saving	3,20,000	3,20,000

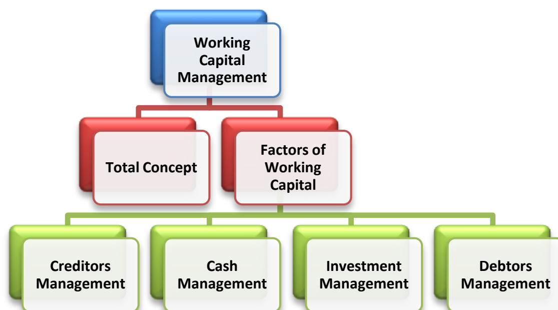
Statement showing Annualized Present Value of Cash Outflow

Particulars	Year	PV factor at 10%	Machine X		Machine Y	
			Amount	PV	Amount	PV
Purchase Price	0	1	5,00,000	5,00,000	8,00,000	8,00,000
COAT for 1 –	1 to 5	3.791	3,20,000	12,13,120		

5 years						
COAT for 1 – 8 years	1 to 8	5.335			3,20,000	17,07,200
Total PV of Cash Outflow				17,13,120		25,07,200
Annuity Factor for 5/8 years		3.791/5 .335		3.791		5.335
Annualized PV of Cash Outflow (PV/Annuity Factor)				4,51,891		4,69,953

Recommendation: Machine X should be purchased since Machine X has lower annualized PV of cash outflow than that of Machine Y.

WORKING CAPITAL MANAGEMENT



Need for Working Capital

The basic objective of financial management is to maximize shareholder's wealth. This is possible only when the company earns sufficient profit. The amount of such profit largely depends upon the magnitude of sales. However, sales do not covert into cash instantaneously. There is always a time gap between the sale of goods and receipt of cash. Working Capital is required for this period in order to sustain the sales activity. In case adequate working capital is not available for this period, the company will not be in a position to sustain the sales since it may not be in a position to purchase raw materials, pay wages and other expenses required for manufacturing the goods to be sold.

Example:

Annual Production = 90,000 units.

Cost per unit : -

Material	**100.00**
Labour	**60.00**
O/h	**40.00 (including depreciation ₹20)**
Total Cost	**200.00**
Profit	**50.00**
Selling Price	**250.00**

Raw materials in Store = 2 Month
WIP = 1 Month
Finished Goods (FG) = 2 Month
Debtors (Dr.) = 3 Month
Creditors (Cr.) = 2 Month
Production carried out evenly throughout the year.

Solution: -
Production per month:-
= 90,000/12
= 7,500 units

Note: Degree of completion is not mentioned; so assume 50%. Done in WIP of Lab and OH.

** Debtors (200-20) i.e. (cost of goods sold – Dep) in cash cost basis
in total cost basis :- Dr.200
In profit Basis: Dr. 250

Statement Showing Working Capital Requirement Cash Cost basis) : -		
Particular	**Details (₹ In lakh)**	**Amount (₹ in lakh)**
Current Assets: -		
1) Raw Materials (In store: 2 month) 7500 units x 2 month x Rs. 100	15,00,000	
2) W.I.P (1 month) R.M = (7500 x 1 month x Rs. 100)=7,50,000 Lab = (7500 x 1 month x Rs.60 x50%) =2,25000 O/H = (7500x1 month x Rs. 20x 50%)=75,000 [excluding Dept]	10,50,000	
3) Finished Goods (2 months) i.e. {Cost of Goods Sold- Dep} 750 units x 2 month x Rs.(200-20)	27,00,000	
4) Debtors (3 months) 750 units x 3 month x Rs. 180	40,50,000	93,00,000
Current Liabilities : -		
1) Creditors (2 month) RM= 7500 units x 2 month x Rs. 100		15,00,000
Gross Working Cap.		78,00,000
Add : - Safely merging or Cash Balance		8,66,667
Net Working Capital		**86,66,667**

OR; Working Capital (Operation Cycle Approach): -

	R.M	Lab	OH
Store	2	-	-
WIP	1	0.5 (50%)	0.5 (50%)
F.G	2	2	2
Dr.	3	3	3
	8	5.5	5.5
(-) Creditors	2	-	-
	6 months	5.5 months	5.5 months
Net operating Cycle	X7500x100= 45,00,000	X7500x60 =24,75,000	X7500x20 =8,25,000
Gross working Capital			78,00,000
(+) Safety of Margin			8,66,667
Net Working Capital			86,66,667

INDIRECT TAXATION

VALUATION OF GOODS UNDER CENTRAL EXCISE ACT, 1944

(1) Transaction value means the price actually paid or payable for goods, when sold, and
(2) includes in addition to the amount charged as price, any amount that -
- (a) the buyer is liable to pay to, or on behalf of, the assessee,
- (b) by reason of, or in connection with the sale,
- (c) whether payable at the time of the sale or at any other time,

(3) including, but not limited to, any amount charged for, or to make provision for, -
- (a) advertising or publicity,
- (b) marketing and selling organization expenses,
- (c) storage,
- (d) outward handling,
- (e) servicing,
- (f) warranty,
- (g) commission, or

(h) any other matter;

(4) but does not include the amount of -

(a) duty of excise,

(b) sales tax, and

(c) other taxes,

if any, actually paid or actually payable on such goods.

Analysis: Transaction value is the actual price charged between the parties (including any sum charged in any name) **(but** excluding **all kinds of taxes).** It is the price paid by the buyer and payment may be made -

(i) to the seller or seller's agent or on seller's behalf to some other person;

(ii) before (in advance), at the time of, or, after, sale.

Inclusions in, and exclusions from, transaction value are discussed later in details.

Inclusion in Transaction Value

List of items includible in transaction value is already given earlier in definition of transaction value under section 4(3)(d) of the Act. The detailed analysis of various items is given below –

Charges/ Item	Includible?	Reason/Condition
(1) Bought out 'Parts' and Bought out 'accessories'	Parts - Includible; Accessories - Includible only if it makes value-addition and is sold as a package	**Part:** If final product cannot function without bought-out goods, then, such goods shall be regarded as 'part' of the final product and its cost will be includible in value. **For example, UPS system cannot function without battery; hence, cost of bought-out battery is includible in value of UPS. - Electronics & Controls Power Systems P. Ltd. v. CCEx. [2011] 270 ELT A127 (SC).** **Accessories:** Bought out accessories are not necessary for functioning of final product; they merely add to beauty/ effectiveness of final product. Purchase and sale thereof amounts to 'trading activity' of assessee and is not related to 'manufacturing activity'. Hence, it is not includible in assessable value. **For example, plastic caps are not integral part of plastic tubes; they are merely accessory. Hence, caps bought-out/received from customer cannot form part of value of tubes manufactured by assessee. - Essel Propack Ltd. v. CCEx. [2011] 274 ELT 3 (SC).** But, if the accessories along with bought-out items make value addition to the product and are sold as a package, then, they are includible in value. **For example, a remote of a ceiling fan makes value-addition to the ceiling - Essel Propack Ltd. v. CCEx. [2011] 274 ELT 3 (SC).**
(2) Warranty charges	Includible	It is an item listed in definition of transaction value u/s 4(3)(d). Warranty charges are includible in assessable value - ♦ even if shown separately in invoice or ♦ even if warranty is optional or compulsory ; ♦ but, it must be paid by buyer to seller-manufacturer.
(3) Design and Engineering charges	Includible	They are includible because - ♦ they are specific to goods produced and ♦ goods cannot be produced without them.
(4) Consultancy charges	Includible	They are includible if they relate to - ♦ design, layout, etc. of final product; and ♦ such activity is done upto place of removal.
(5) Testing & Inspection charges	Includible	They are includible - ♦ if they are recovered by assessee from buyer for testing of final product done by assessee in terms of contract prior to sale ; or ♦ additional testing/ inspection is got done by assessee from a third party at the request of the buyer as a condition of sale. - **CCEx. v. Southern Structurals Ltd. [2008] 229 ELT 487 (SC).** However, independent testing got done by the buyer himself from a third party is not includible.
(6) Royalty-charges for trademark used on final product	Includible	If the assessee sells its final product subject to condition of payment of royalty charges by buyer for the trademark/brand name used by the assessee on the final product, such royalty is includible in assessable value, because final product is not sold without it. **-Pepsi Foods Ltd. v. CCEx. [2003] 158 ELT 552 (SC).**
(7) 'Dharmada' or charity	Includible	If Dharmada/charity or any such sum is collected by the assessee from the buyer as a pre-condition of sale of goods, then, such charges shall form part of assessable value. - **CCEx. v. M/s Panchmukhi Engg. Works & Ors. [2003] 158 ELT 550 (SC).**

(8) Erection, installation and commission-ning charges	Includible if results in movable property	They are includible in assessable value only if incurred to bring into existence any excisable goods. They are not includible if - ♦ if the final product is non-excisable (e.g., since a Steel Plant, as a whole, is an immovable property and non-excisable, no duty is payable on cost of its erection, installation and commissioning); ♦ goods cleared from a factory on payment of appropriate duty are taken to premises of buyer for installation/ erection and commissioning into an immovable property.
(9) Pre-Delivery Inspection & After sales service	Includible if collected by manufacturer	Servicing is an item listed in transaction value u/s 4(3)(d). Hence, charges collected by manufacturer from buyer for - ♦ pre-delivery inspection (PDI); or ♦ after-sales service (optional or compulsory) to be provided by the assessee himself or by dealers on behalf of assessee shall be includible in assessable value. **Thus, inclusion arises only when charges are collected by manufacturer.**
(10) Advertisement and publicity charges	Includible if incurred by buyer as a condition of sale	This is one of the items listed in transaction value u/s 4(3)(d). It is included in value of goods manufactured by assessee – ♦ if there is an oral/written agreement that buyer will incur certain expenditure for advertising the goods of the assessee, ♦ even if dealings are on principal to principal basis, ♦ as transaction value includes all sums which the buyer is liable to pay to assessee or to any other person on assessee's behalf, ♦ further in such cases price would not be sole consideration for sale and value would be determined as per rules. However, expenditure incurred by buyer/dealer on his own account at his will without any condition of sale is not includible. Similarly, if – ♦ brand name/copyright owner gets his goods manufactured from outside (on job-work or otherwise), and ♦ such brand name/copyright owner incurs expenditure on advertisement and publicity of the said goods, it will not be added to assessable value, as such expenditure is not incurred on behalf of the manufacturer-assessee viz. Job- worker.
(11) Packing	All forms of packing includible	♦ Packing is a part of process of manufacture. Cost of all forms of packing (viz Primary-packing, secondary packing, protective packing for safe transport, special packing, durable packing, returnable packing) forms part of cost of production/value. **For example, packing to avoid scratch and breakage to goods will be included in assessable value.** ♦ **Durable/Returnable/ Reusable Packing**: Cost of such packing (glass bottles, crates, etc.) is depreciated/deferred and is already included in cost; hence, it need not be added separately. However, if audit of accounts reveals that value has been understated by **not** including them, then, they are included. ♦ **Rental charges or cost of maintenance of reusable metal containers like gas cylinders etc.**: **In** view of CBEC, such amounts are includible as the amount has been charged by reason of, or in connection with the sale of goods. ♦ **Containers supplied by buyer**: If packing material is supplied by buyer, then, the price is not the sole consideration for sale. Hence, in such cases, as per rules, value of such additional consideration i.e. value of packing materials shall be included.

(12) Outward handling charges	Includible upto place of removal	♦ **Meaning**: It means expenses incurred upto the factory gate/place of removal for loading of goods in the vehicle. ♦ **Inclusion**: It is listed in definition of transaction value u/s 4(3)(d) and is, therefore, includible in assessable value. ♦ **Non-inclusion:** Any cost of handling/transport incurred after removal of goods from the place of removal is not includible.

Exclusion from Transaction Value

Charges/Item	Excludible?	Reason/Condition
(1) Discount	All forms of discount excludible, if known at time of removal	♦ Transaction value means price actually paid or payable for the goods by the buyer. Thus, in case of discount allowed to the buyer, price to such extent is not paid/payable by the buyer and, therefore, such sum is deductible from transaction value. ♦ **All forms of discount excludible**: **All** forms of discount viz. ➢ trade discount, ➢ cash discount, ➢ quantity discount, ➢ turnover discount, ➢ differential discounts to different buyers, ➢ discount allowed by way of credit notes, ➢ discount allowed in name of commission to buyer, ➢ area-wise different discounts, etc. are deductible, provided they are allowed to buyer. ♦ **Discount must be known at time of removal**: Since goods are to be valued at the time of removal, the discount must be known at the time of removal; actual quantification may be done later on. If actual quantification is not available at the time of removal, assessee may resort to provisional assessment. ♦ **Commission paid to selling agent** - Not deductible: Commission paid to selling agents is not deductible, as the same is not a discount allowed to the buyer.
(2) Damage discount	Excludible if allowed at time of removal	♦ If damage discount is allowed to the buyer at the time of removal of goods from the price actually paid or payable for not returning any defective goods, then, it is deductible. ♦ But, any warranty/ damage discount/ charges payable/ refundable to the buyer in the form of compensation for damage, breakage or losses or defects after removal from the factory, will not be deductible. - **CCE v. Vikram Detergent Ltd. [2001] 127 ELT 641 (SC)**
(3) Bank charges for outstation cheques	Not includible	Value includes all expenses upto the time and place of removal. Hence, bank charges for clearance of outstation cheques are not includible/ excludible from assessable value. **-A. Infrastructure Ltd.** v. **CCEx. [2004]** 167 ELT 369 (SC).
(4) Interest on Receivables (for delayed payment)	Excludible if interest charged separately from price	Deduction is allowed, as "transaction value" relates to the price paid or payable for the **goods.** However, - (i) delayed payment charge or (ii) interest on the price of the goods which is not paid during the normal credit period, is deductible if - ♦ it is separately shown or indicated in the invoice and ♦ is charged over and above the sale price of the goods.
(5) Excise Duty	Excludible on actual basis	All kinds of excise duties, whether payable under Central Excise Act or any other law, are excludible - ➢ to the extent actually paid/payable on the goods; ➢ only if the price is inclusive of excise duty; ➢ only effective excise duty (net of exemptions) is excludible; ➢ thus, no deduction is available, if excise duty is not payable.

(6) Sales-tax	Excludible on actual basis	All kinds of sales-tax, whether Sales-tax, VAT, turnover tax, surcharges thereon, additional sales-tax, etc., are excludible - ➢ to the extent actually paid/payable on the goods, ➢ only if the price includes such taxes ; and ➢ only effective tax (net of exemptions) is excludible. Actual Tax charged is deductible: The tax charged/chargeable by a seller is deductible. It is not that the tax actually paid by seller in cash (after adjusting input credit) is deductible. **Thus, if cum-duty-price is ₹ 1,000** on which sales tax @ 10% i.e. f 100 is charged, but, seller pays only f 80 in cash (setting of €20 from input credit), then, f700 is deductible.
(7) Other Taxes	Excludible on actual basis	All other taxes included in the price actually paid or payable by the buyer shall be deductible on actual basis i.e., to the extent they are actually paid or payable.

CLASSIFICATION OF GOODS UNDER CENTRAL EXCISE AND CUSTOMS

Excise duty is levied under section 3 of the Central Excise Act, 1944. However, the rate at which the duty is to be levied are provided in First Schedule to the Central Excise Tariff Act, 1985 (CETA) and also the Second Schedule of the said Act.

(1) Division/Grouping of goods
The said first schedule lists all the possible goods and for ease of reference has been classified as follows –

(a) **the tariff is divided in 21 Sections;**
(b) **which are further divided in 98 chapters;**
(c) **such chapters are divided into headings (called Tariff Heading);**
(d) **Tariff Headings are divided into sub-headings ; and**
(e) **such sub-headings are further divided into various Tariff Items.**
The goods have been grouped industry-wise/nature-wise.

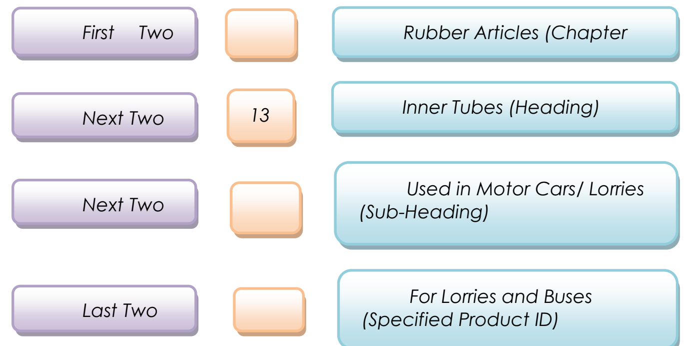
(2) Coding system**:**
As the number of goods listed in the First Schedule are too many, hence, for reference purposes, an 8-digit coding system has been adopted as follows (say, 8528 71 10) -

first two digits (85)	**refer to Chapter No.**
first four digits (8528)	**refer to Tariff Heading**
first six digits (8528 71)	**refer to Sub-Heading within a Heading**
8-digit code (8528 71 10)	**refers to Tariff Item.**

8-digit code is technical transition from old 6-digit coding system: **It has been held in** Eco Valley Farms & Foods Ltd. v. CCE [2013] 290 ELT 49 (Bom.) **that 8-digit coding system (prevalent since 2004) is merely a technical transition from 6-digit coding system prevalent earlier. Thus, change in classification of Fresh Mushrooms from Residuary Heading 07.02 (under old system) to Special Heading 07095100 (under 8-digit system) does not make Fresh Mushrooms excisable for the first time to prove that they were not excisable before 2004.**

Example 1:

Tariff No. 4013 10 20 denotes as



Each Chapter contains a provision for residual entries under each Heading/ Sub-Heading.

(3) Tariff is based on HSN:

(a) **So as to maintain uniformity in manner of classification of goods across the world, the Central Excise Tariff has been prepared on the basis of Harmonised System of Nomenclature (HSN viz. a product naming and coding system accepted internationally).**

(b) Extent of reliance on HSN: **Since tariff is based on HSN, hence, in case of any doubt as regards interpretation of tariff, HSN may be referred to for guidance purposes subject to specific provisions in the Tariff itself.**

(4) Four column headings of Central Excise Tariff Schedules :

(a) Tariff Item **i.e. 8-digit code of the goods;**
(b) Description **of goods covered;**
(c) Standard Unit of Quantity **i.e., a unit of measurement of quantity of goods which is specified for each tariff item so as to facilitate collection, comparison and analysis of trade statistics. This column contains abbreviations for unit of quantity, some of whose examples are :**
  (i) g for gram,
  (ii) l for litre,
  (iii) u for number and so on.
(d) Rate of Duty:
  (i) In case rate of duty contains abbreviation "%", it means duty is leviable on such goods based on value of the goods computed as per the provisions of section 3(2) or 4 or 4A of the Central Excise Act, 1944. Duty = Value X Rate of Such Duty.
  (ii) In certain cases, specific-cum-advalorem duty is given such as: ₹10 + 5%. In such case, duty is computed @ ₹10 per unit of quantity + 5% of value.

(5) The dashes preceding a Tariff Heading or Tariff Item under the HSN Tariff System signify the following –

Type	Denoted by	Significance/ Meaning
Single Dash	**–**	**Indicates that the article or Group of Articles is covered by the Heading under which they are specified.**

Double Dash	--	Indicates a Sub-Group or Article which is part of a Group with Single Dash. They are sub-classifications of immediately preceding Article/Group with single Dash.
Triple Dash or Quadruple Dash	---/----	Indicates a Sub-Sub-Group or Article which is part of a Group with Single or Double Dash. They are taken to be sub-Classifications of immediately preceding Article/Group with single or Double Dash.

Only Sub-Heading at the same level is comparable. The "Dash" before an item or Article in the Tariff Schedule denotes the level of Article.

Example 2:

Chapter 64 – Footwear, Gaiters and the like.

Tariff Item	Description of Goods	Unit	Rate of Duty
6403	**Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather**		
6403 12	- **Sports Footwear:**		
6403 12 10	- - **Ski-boots, cross country ski footwear and snowboard boots**	Pa	12%
6403 19	**- - Others:**		
6403 19 10	**- - - With outer soles of leather**	pa	12%
6403 19 20	**- - - With outer soles of rubber**	Pa	12%
6403 19 90	**- - - Other**	Pa	12%

Note: **(i) Rate of Duty is 12%.**
(ii) "pa" means "Per Article".

In the above extract, items with Triple Dash cannot be compared with items with Double Dash or Quadruple Dash. Items with Triple Dash are alone comparable with one another.

(6) Burden of Classification:

Under self-assessment principle prevalent under Central Excise, classification is done by manufacturer himself. But, if Department wants to classify the goods under some other Tariff Heading, then, burden to prove such classification shall be on the Department.

However, once Department discharges its prima facie burden that assessee's classification is incorrect, the burden of proof shifts back to assessee where he has to prove that classification done by him was correct.

(7) Provisions of Customs Tariff Schedule are identical :

The provisions of the Customs Tariff Schedule are identical to the provisions of the Central Excise Tariff, as both of them are based on HSN. The classification and principles therefor are similar under the two laws.

REFUND UNDER CENVAT CREDIT

Rule 5: Refund of CENVAT Credit –

(1) **A manufacturer who clears a final product or an intermediate product for export without payment of duty under bond or letter of undertaking or a service provider who provides an output service which is exported without payment of service tax, shall be allowed refund of CENVAT credit as determined by the following formula subject to procedure, safeguards, conditions and limitations, as may be specified by the Board by notification in the Official Gazette:**

Refund amount =

$$\frac{(\text{Export turnover of goods} + \text{Export turnover of services})}{\text{Total Turnover}} \times \text{NET CENVAT Credit}$$

Where,—

(A) "Refund amount" means the maximum refund that is admissible;

(B) "Net CENVAT credit" means total CENVAT credit availed on inputs and input services by the manufacturer or the output service provider reduced by the amount reversed in terms of sub-rule (5C) of rule 3, during the relevant period;

(C) "Export turnover of goods" means the value of final products and intermediate products cleared during the relevant period and exported without payment of Central Excise duty under bond or letter of undertaking;

(D) "Export turnover of services" means the value of the export service calculated in the following manner, namely:-

Export turnover of services = payments received during the relevant period for export services + export services whose provision has been completed for which payment had been received in advance in any period prior to the relevant period - advances received for export services for which the provision of service has not been completed during the relevant period;

(E) **"Total turnover" means sum total of the value of -**

(a) all excisable goods cleared during the relevant period including exempted goods, dutiable goods and excisable goods exported;

(b) export turnover of services determined in terms of clause (D) of sub-rule (1) above and the value of all other services, during the relevant period; and

(c) all inputs removed as such under sub-rule (5) of rule 3 against an invoice, during the period for which the claim is filed.

(2) **This rule shall apply to exports made on or after the 1st April, 2012:**

Provided **that the refund may be claimed under this rule, as existing, prior to the commencement of the CENVAT Credit (Third Amendment) Rules, 2012, within a period of one year from such commencement:**

Provided **further that no refund of credit shall be allowed if the manufacturer or provider of output service avails of drawback allowed under the Customs and Central Excise Duties and Service Tax Drawback Rules, 1995, or claims rebate of duty under the Central Excise Rules, 2002, in respect of such duty; or claims rebate of service tax under the Services Tax Rules, 1994 in respect of such tax.**

Explanation 1. - **For the purposes of this rule,-**

(1) "export service" means a service which is provided as per rule 6A of the Service Tax Rules 1994;

(2) "relevant period" means the period for which the claim is filed.

Explanation 2.- **For the purposes of this rule, the value of services, shall be determined in the same manner as the value for the purposes of sub-rule (3) and (3A) of rule 6 is determined.**

Illustration 1 –

M/s. Kalaji Manufacturers & Exporters Pvt. Ltd. furnishes following information and requests you to compute the maximum refund eligible under Rule 5 of CENVAT Credit Rules for the relevant period (amounts in ₹) :

(i)	**Total CENVAT Credit taken on inputs**	**2,50,000**
(ii)	**Amount of Cenvat credit reversed under Rule 3(5C)**	**50,000**
(iii)	**Total CENVAT Credit taken on input services**	**80,000**

(iv)	Total CENVAT Credit taken on capital goods	2,00,000
(v)	Value of final products exported without payment of duty	6,00,000
(vi)	Value of goods cleared for home consumption	20,00,000
(vii)	Amounts received towards services exported (includes ₹ 50,000 of advance towards services to be provided/exported after the current relevant period)	2,50,000
(viii)	Value of other services provided	2,00,000
(ix)	Value of inputs removed as such under Rule 3(5)	30,000

Solution:

Computation of maximum refund eligible u/s 5 of the CENVAT Credit Rules, 2004:

(i)	NET CENVAT Credit taken = CENVAT credit on inputs and input services - Credit reversed under Rule 3(5C) (Note that credit of capital goods is not included)	2,80,000
(ii)	Export Turnover of goods (only goods cleared without payment of duty are included)	6,00,000
(iii)	Export turnover of services (advance received towards services to be provided/exported after the current relevant period shall not be included, hence : ₹ 2,50,000- ₹50,000)	2,00,000
(iv)	Total Turnover: - Total of all excisable goods (exports + exempted + dutiable) ₹ 26,00,000 - Export turnover of services (as computed above) + Value of other services ₹ 4,00,000 - Value of inputs removed as such under Rule 3(5) ₹ 30,000	30,30,000
(v)	Maximum refund = [(Item (ii) + Item (iii)) + Item (iv)] x item (i)	73,927

Rule 5A: Refund of CENVAT credit to units in specified areas.

Notwithstanding anything contrary contained in these rules, where a manufacturer has cleared final products in terms of notification of the Government of India in the Ministry of Finance (Department of Revenue) No. 20/2007-Central Excise, dated the 25th April, 2007 and is unable to utilize the CENVAT credit of duty taken on inputs required for manufacture of final products specified in the said notification, other than final products which are exempt or subject to nil rate of duty, for payment of duties of excise on said final products, then the Central Government may allow the refund of such credit subject to such procedure, conditions and limitations, as may be specified by notification.

Explanation: **For the purposes of this rule, "duty" means the duties specified in sub-rule (1) of rule 3 of these rules.**

Rule 5B: **Refund of CENVAT credit to service providers providing services taxed on reverse charge basis. - A provider of service providing services notified under sub-section (2) of section 68 of the Finance Act and being unable to utilise the CENVAT credit availed on inputs and input services for payment of service tax on such output services, shall be allowed refund of such unutilised CENVAT credit subject to procedure, safeguards, conditions and limitations, as may be specified by the Board by notification in the Official Gazette.**

Illustration 2 - Mr. A is service provider and service tax on services provided by him is payable on partial reverse charge. 40% of service tax on services provided by Mr. A is payable by service recipient and balance tax is paid by him. The total service tax on services provided by him is ₹ 2,00,000 out of which his liability is ₹ 1,20,000. He receives inputs and input services on which credit of ₹ 2,20,000 is available. Discuss whether he can claim refund under Rule 5B?

What will be your answer, if 100% of the service tax is payable by the receiver of service.

Solution:

The two situations are discussed below -

Case I - **Partial Reverse charge: If Mr. A is liable to pay 60% of service tax, which amounts to ₹1,20,000, then, such service will amount to output service and, hence, he can taken credit of ₹2,20,000; utilise it for payment of service tax of ₹1,20,000 and balance ₹1,00,000 of credit can be claimed as refund under Rule 5B.**

Case II - **100% reverse charge: If whole of service tax on services provided by Mr. A is payable by recipient of services, then, such service is not output service under Rule 2(p) for Mr. A. Hence, he cannot take credit. When credit cannot be taken, there is no question of refund under Rule 5B.**

ANTI-DUMPING DUTY

Anti-dumping duty is levied when an exporter, exports a product at a price lower than the price it normally charges on its own home market, it is said to be "dumping" the product and an application for imposition of Anti-dumping duty can be moved in the country of import by Domestic producers of the product which is being dumped, claiming injury on account of dumping. It should be noted that the dumping of a product per se is not actionable, rather it is actionable only when it either causes material injury or threatens material injury to any established industry in India or materially retards the establishment of any industry in India.

Example:

An importer imported certain goods CIF value was US $30,000 and quantity 1,000 Kgs. Exchange rate was 1 US $ = ₹ 50 on date of presentation of Bill of Entry. Customs Duty rates are— (i) Basic Customs Duty 10%, (ii) Education Cess 2%, (iii) SAH Education Cess – 1%. There is no excise duty payable on these goods if manufactured in India. As per Notification issued by the Government of India, anti-dumping duty has been imposed on these goods. The anti-dumping duty will be equal to difference between amount calculated @ US $40 per kg and 'landed value' of goods. Compute Customs Duty liability and anti-dumping liability.

Solution :

Part I	**Amount in ₹**
Total CIF Price US $ 30,000 x ₹ 50	15,00,000
Add: Landing charges @ 1% x ₹15,00,000	15,000
Assessable Value	15,15,000
Basic duty @ 10%	1,51,500
Sub total	16,66,500
Add: Education cess 2% on ₹ 1, 51,500	3,030

Add: Secondary and Higher Education Cess [@1% on ₹1, 51,500]	1,515
Value of imported goods	16,71,045
Total Customs Duty payable is ₹1,56,045.	
Part II	
Rate as per Anti Dumping Notification is ₹20,00,000 [US $ 40 per kg x 1,000 Kgs x₹ 50]	
Part III	
Computation of anti-dumping duty	
Rate as per Anti Dumping Notification	20,00,000
Less: Value of imported goods as computed above	(16,71,045)
Anti Dumping Duty payable	3,28,955

Some important notes on Anti-dumping duty

1. The Anti-dumping is an instrument for ensuring fair trade and is not a measure of protection per se for the domestic industry. It provides relief to the domestic industry against the injury caused by dumping and gives domestic industry a level playing field. Therefore it is a measure to protect domestic industry from unfair trade.

2. The duty is imposed as a deterrent effect to discourage dumped imports, so that users can buy material from domestic industry from whom they were not buying earlier on account of availability of cheap dumped imports. The idea is not to collect extra tax, rather to take the landed value of imports to a level where domestic industry can fairly compete with imports and sell the product in the domestic market.

3. Institutional arrangement in India for Anti dumping action against unfair trade practices

Anti-dumping measures in India are administered by the Directorate General of Anti-dumping and Allied Duties (DGAD) functioning in the Dept. of Commerce in the Ministry of Commerce and Industry and the same is headed by the "Designated Authority". The Designated Authority's function is to conduct the Anti-dumping investigation and make recommendation to the Government for imposition of Anti-dumping duty. Such duty is finally imposed/ levied by a Notification of the Ministry of Finance. Thus, while the Department of Commerce recommends the Anti-dumping duty, the duty is effectively imposed by Ministry of Finance notification.

4. Application for imposition of Anti dumping duty

The representative domestic producers of the like product to 'the product which is getting dumped' can file an application seeking imposition of Anti-dumping duty on dumped imports. The Designated Authority can also initiate an investigation suo-moto without an application by domestic industry in certain circumstances.

5. Initiation of application

There is a specific format devised by Designated Authority in which application is to be filed. As clarified by trade notice 2/2009 dated 3.11.2009 two copies of the confidential version of petition along with one non-confidential version thereof need to be filed. At the first stage, only non-confidential version of the petition may be submitted along with a certificate to the effect that confidential copy of the petition has been kept ready and the same shall be submitted to the investigation team of Designated Authority soon after it is called for by the investigation team. As and when the confidential versions of the petition are called for, the same should immediately be submitted directly to the concerned investigation team.

6. Participate in an Anti-dumping investigation

The domestic industry on whose complaint the proceedings are initiated; the exporters or the foreign producers of the like articles subject to investigation; the importers of the article allegedly dumped into India; the Government of the exporting country/ countries, the trade or business associations of the domestic producers/importers/user industries of the dumped product, can participate in the investigation.

7. Period of Investigation in anti-dumping cases

All the information and evidence furnished in the application in relation to dumping, injury and causal link must pertain to a recent period, in any case, not less than six months and not more than eighteen months. The most desirable period of investigation is a financial year provided there is reasonable proximity between the end of the financial year and the filing of the application. However, for the purposes of injury analysis, the domestic industry has to furnish the relevant data for the past three years.

8. Non Injurious Price (NIP) and Injury Margin

The sale price of Domestic Industry which will give a reasonable return on its investment is called Non Injurious Price and if Domestic Industry is able to sale its product at that price it will claim no injury. The difference between NIP and Landed Value of Imports is referred as injury margin for the domestic industry.

9. De-minimis margin of dumping and de-minimus imports

Any exporter whose margin of dumping is less than 2% of the export price shall be excluded from the purview of anti-dumping duties.

Further, investigation against any country is required to be terminated if the volume of the dumped imports, actual or potential, from a particular country accounts for less than 3% of the total imports of the like product. However, in such a case, the cumulative imports of the like product from all these countries who individually account for less than 3%, should not exceed 7% of the import of the like product.

10. Interim relief to the domestic industry pending levy of final Anti-dumping duty

The Designated Authority may recommend an interim relief in the form of provisional Anti-dumping duty pending the finalisation of investigation proceedings. Statutorily, the provisional Anti-dumping duty cannot be levied earlier than 60 days from the date of initiation of proceedings. In normal circumstances, the provisional Anti-dumping duty is recommended in a period of 60-70 days and levied in a period of about 3 months from the date of initiation of the proceedings.

11. Circumvention of Anti-dumping duty

When based on an inquiry it is found that circumvention of anti-dumping duty imposed has taken place, either by altering the description or name or composition of the article subject to such Anti-dumping duty or by import of such article in an unassembled or disassembled form or by changing the country of its origin or export or in any other manner, whereby the anti-dumping duty so imposed is rendered ineffective, Central Government may extend the anti-dumping duty to such articles which are found to be circumventing the Anti-dumping duty already imposed. [See Section 9A(1A), Rule 25 to 28]

12. Circumstances of Anti-dumping investigation and termination

The Designated Authority may suspend or terminate the investigation in the following cases:

- if there is a request in writing from the domestic industry at whose instance the investigation was initiated.
- when there is no sufficient evidence of dumping or injury.
- if the margin of dumping is less than 2% of the export price.
- the volume of dumped imports from a country is less than 3% of the total imports of the like article imported into India, unless the volume of dumped imports collectively from all such countries who individually account for less than 3%, is more than 7% of the total imports.
- if injury is negligible.

13. Period of validity of the Anti-dumping duty imposed

The Anti-dumping duty shall remain in force for a period of five years from the date of imposition of duty. However, such duty can be reviewed by the Designated Authority anytime before the expiry of the said period of five years. As a result of review, the duty once imposed can be withdrawn or modified or extended by Central Government based on the Finding of Designated Authority in the review proceedings.

VALUATION OF TAXABLE SERVICE

(Section 67 of the Finance Act 1994)

(A) Consideration in money for providing the service.

Taxable value of service shall be the gross amount charged by the service provider for the provision of service.

(B) Consideration which is not ascertainable.

➢ Taxable value of service is the amount determined in the prescribed manner.

➢ Such situations arise in cases, where the consideration is embedded in the total amount received for a composite activity involving elements of provision of service and element of sale of goods.

➢ **SECTION 67(2)**: If the **gross amount charged by a service provider**, is inclusive of service tax payable, **the value shall be such amount, as with the addition of the tax payable, is equal to the gross amount charged.**

➢ **SECTION 67(3):** The gross amount charged shall include any amount received towards the taxable service **before, during or after the provision of service.**

(C) Consideration in any form other than money. [Rule 3 of Service Tax (Determination of Value) Rules 2006]

➢ The value of taxable service shall be **the gross amount charged for providing similar service** to any other person in the ordinary course of trade and **the gross amount charged is the sole consideration.**

➢ If determination is not possible under the earlier method, **the equivalent money value of such consideration shall be determined, which shall not be less than the cost of provision of such taxable service.**

➢ Any costs incurred by the service provider in course of providing taxable service shall be treated as consideration for the taxable service provided and shall be included in the value of taxable service.

➢ Expenses of "**Pure Agent"** shall **not be included.**

(D) Consideration not wholly or partly consisting of money.

➢ Taxable value of service shall be **such amount of money as with the addition of service tax charged, is equivalent to the consideration.**

➢ The value of non-monetary consideration needs to be notionally converted into equivalent value in terms of money.

➢ As per Valuation Rules, value is to be determined on the basis of **gross amount charged for similar service.**

➢ The value so determined, cannot be less than the cost of provision of the service.

Meaning of certain important terms used

Gross amount charged	Money	Consideration
➢ The **"gross amount charged"** includes payment by cheque, credit card, deduction from account and any form of payment by issue of credit notes or debit notes and book adjustment, and any amount credited or debited, as the case may be, to any account, whether called "Suspense Account" or by any other name, in the books of account of a person liable to pay service tax, where the transaction of taxable service is with any associated enterprise. ➢ The gross amount charged can be inclusive of service tax. In such a case the value shall be such amount as, with the addition of tax payable, is equal to the gross amount charged. ➢ For example, if **gross amount charged** for the provision of service is ₹ 1500, (inclusive of service tax), then **the taxable value shall be ₹ 1335 (₹1500X 100/112.36) and the tax payable shall be ₹ 165.** ➢ The gross amount charged for taxable service shall include any amount received towards the taxable service before, during or after provision of such service.	**"Money"** includes any currency, cheque, promissory note, letter of credit, draft, pay order, traveller's cheque, money order, postal remittance and other similar instruments but does not include currency that is held for its numismatic value.	➢ **"Consideration"** includes any amount that is payable for the taxable services provided or to be provided. ➢ Consideration has also been defined under the Indian contract act 1872. ➢ The value of non-monetary consideration needs to be notionally converted into equivalent value in terms of money.

ORIGINAL WORKS	Total Amount
"Original works" means: (i) all new constructions; (ii) all types of additions and alterations to abandoned or damaged structures on land that are required to make them workable; erection, commissioning or installation of plant, machinery or equipment or structures, whether pre-fabricated or otherwise;	**"total amount"** means the sum total of the gross amount charged for the works contract and the fair market value of all goods and services supplied in or in relation to the execution of the works contract, whether or not supplied under the same contract or any other contract, after deducting: (i) the amount charged for such goods or services, if any; and (ii) the value added tax or sales tax, if any, levied thereon.