



## **BANK RECONCILIATION STATEMENT**



### **(A) Example on Two Bank Accounts:**

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

Account-I ₹ 1,25,000 Debit balance.

Account-II ₹ 1,11,250 Debit balance.

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

- The Bank has credited Interest on Account-I ₹1,250, but not recorded by the accountant.
- ₹12,500 drawn on Dec.10, 2013, from Account-I was recorded in the books of Account-II.
- A deposit of ₹ 17,500 in Account-I was wrongly entered in Account-II in the books.
- Cheques issued for ₹20,000 and ₹15,000 from Account-I and Account-II, respectively, were not presented until Jan. 5, 2014.



**Solution:**

**Bank Reconciliation Statement for the year ended 31.12.2013**

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

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

**(B) Example on Amendment Cash Book**

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

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



**Treatment**

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

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

**Treatment**

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

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

**Treatment**

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

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

**Treatment**

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

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

**Treatment**

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

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

**Treatment**

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

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



**Treatment**

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

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

**Treatment**

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

**Solution:**

**Dr. Cash Book (Bank Column only) Cr.**

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

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



# ONE PERSON COMPANY

## Meaning

- 1. Meaning:** One Person Company (OPC) is a type of Private Company, formed by 1 person subscribing his name to a Memorandum, and complying with the other requirements of the Act and Rules.
- 2. Sole Member / Nominee:**
  - (a) OPC requires a Subscriber to incorporate (i.e. Sole Member), and a Nominee for the Sole Member.
  - (b) Memorandum of OPC shall indicate the name of the other person(Nominee), who shall, in the event of the subscriber's death or his incapacity to contract, become the Member of that OPC.

## Qualifications of Sole Member / Nominee

The Sole Member / Nominee -

1. must be a natural person, i.e. individual. [Legal Entities, Artificial Juridical Persons are excluded.]
2. must be an Indian Citizen.
3. must be a Resident in India. [Note: "Resident in India" means a person who has stayed in India for a period of not less than 182 days during the immediately preceding one calendar year.]

## Restrictions w.r.t. OPC

- 1. Restrictions on Sole Member / Nominee:**
  - (a) **Unique OPC:** A person shall not be eligible to incorporate more than one OPC, or become Nominee in more than one OPC. So, when an individual, being a Member of a OPC becomes a Member / Nominee in another OPC, he shall ensure compliance with the Rule as to single OPC, within 180 days.
  - (b) **Minor:** A Minor shall not become Member or Nominee of OPC, or can hold share with beneficial interest.



**2. Restrictions on OPC:** OPC -

- (a) cannot be incorporated or converted into a Company u/s 8, i.e. Companies with Charitable Objects, etc.
- (b) cannot carry out Non-Banking Financial Investment activities, including Investment in Securities of any Body Corporate.
- (c) cannot convert voluntarily into any kind of Company (Private / Public) for 2 years from the date of incorporation of OPC, except if Paid Up Share Capital is increased beyond ₹50 Lakhs, or its Average Annual Turnover of the immediately preceding 3 years exceeds ₹2 Crores.

**Nominee of OPC**

**1. Nominee:**

- (a) **MOA:** Name of Nominee shall be mentioned in the MOA of the OPC.
- (b) **Form:** Nomination shall be made in Form No.INC.2, and filed with ROC.
- (c) **Consent:** Prior written consent of Nominee shall be obtained in Form No.INC.3, and filed with ROC.
- (d) **Change in Nominee:** Change in Nominee may arise due to - (i) withdrawal of Nominee's consent, or (ii) change in Name of Nominee by Sole Member. Any such change in the name of the Person shall not be deemed to be an alteration of the Memorandum.

**2. Withdrawal of Consent by Nominee:**

- (a) Nominee may withdraw his consent by giving a notice to - (i) the Sole Member, and (ii) to the OPC.
- (b) In such case, the Sole Member shall nominate another person within 15 days of receipt of notice of withdrawal.
- (c) Within 30 days of receipt of notice of withdrawal, OPC shall file with ROC - (i) notice of withdrawal of consent, and (ii) intimation of another Nominee (Form No.INC.4), along with written consent of New Nominee.

**3. Change in Name of Nominee:**

- (a) The Subscriber /Sole Member of OPC may, by intimation in writing to the Company, change the name of the person nominated by him at any time for any reason, including in case of death or incapacity to contract of Nominee.
- (b) He may nominate another person after obtaining the prior consent of such another person.
- (c) Within 30 days of receipt of intimation, OPC shall file with ROC a notice as to change of Nominee (Form No.INC.4), along with written consent of New Nominee.

**4. On Nominee becoming Member:**

- (a) Where the Sole Member of OPC ceases to be the Member in the event of death or incapacity to contract, his Nominee becomes the Member of such OPC.
- (b) Within 15 days of becoming Member, such New Member (i.e. ex-Nominee) shall nominate a person who shall in the event of his death or his incapacity to contract become the Member of OPC.
- (c) Within 30 days of change in Membership, OPC shall file with ROC an intimation of cessation and nomination, (Form No.INC.4), along with written consent of New Nominee.



## CMA Students Newsletter (For Intermediate Students)

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### Incorporation of OPC:

Step	Description
1. Name Availability	Refer Note :1 below
2. Documents to be filed	(a) MOA and AOA (as per Schedule I), (b) Compliance Declaration (Form No. INC.8), (c) Affidavit as to No Offence, etc. (Form No. INC.9), (d) Address / Registered Office (Form No. INC.22), (e) Names, etc. of Subscribers (f) Additional Particulars of Subscribers in certain cases (Form No. INC.10), (g) Details of First Directors (Form No. DIR.12), (h) Interest and Consent of First Directors (Form No. DIR.2), (i) Particulars of Nominee (Form No. INC.2), (j) Prior Consent of Nominee (Form
3. Registration	Refer Note :2 below

### NOTE 1: Name Availability [Sec.4]

Point	Description	
<b>Name Application [Sec.4(4)]</b>	A person may make an application (along with Fees), in Form No. INC.1 to the ROC, for the reservation of a name set out in the application as - (a) the name of the proposed Company, or (b) the name to which the Company proposes to change its name.	
<b>Reservation [Sec.4(5)]</b>	On the basis of information and documents furnished along with the application, the ROC may reserve the name for a period of 60 days from the date of the application.	
<b>Effect of wrong or incorrect information [Sec.4(5)]</b>	If after reservation of name as above, it is found that the name was applied by furnishing wrong or incorrect information, then, the effects are as under -	
	If Company has <b>not</b> been incorporated	If Company <b>has been incorporated</b>
	(a) The reserved name shall be cancelled. (b) The Applicant shall be liable to a penalty upto ₹1 Lakh.	After giving the Company an opportunity of being heard, the ROC may- (a) either direct the Company to change its name within 3 months, after passing an ordinary resolution, (b) take action for striking off the name of the Company from the Register of Companies, or (c) make a petition for winding up of the Company.



**NOTE 2: Certificate of incorporation [Sec.7]**

Particulars	Description
<b>Certificate of Incorporation [Sec.7(2)]</b>	(a) ROC shall register all the documents and information filed u/s 7(1), in the Register. (b) ROC shall issue a Certificate of Incorporation in Form No. INC. II to the effect that the Proposed Company is incorporated under this Act.
<b>Allotment of CIN Number [Sec.7(3)]</b>	(a) ROC shall allot a distinct identity number to the Company called Corporate Identity Number (CIN). (b) CIN shall be included in the Certificate of Incorporation. (c) CIN shall have effect from the date of incorporation mentioned in the Certificate.

**DEDUCTION UNDER CHAPTER VI-A**

Sec.	Applicability	Points to Remember
<b>80A</b>	All Assessees	1. Chapter VI-A Deductions cannot exceed GTI. 2. No Deduction if claim not made in Return of Income. 3. No deduction if not claimed under specified sections. 4. Transfer of Goods from Eligible Undertakings to be taken as at Market Value. 5. No Deduction against -(a) LTCG, (b) STCG subject to STT, (c) NR Presumptive Taxation. 6. No deduction if Return not filed for Sec.80-IA/IAB/IB/IC/ID/IE.
<b>80A</b>	Members of AOP/BOI	If deduction is allowed on total income of AOP/ BOI, then no deduction for Members.

**BRIEF HIGHLIGHTS OF DEDUCTIONS**

Section	Applicability	Nature of Payment/ Receipt	Amount of Deduction
<b>80C</b>	Individuals/HUF	Prescribed Investments / Savings	Max. ₹ 1,50,000 including 80CCC/80CCD(1).
<b>80CCC</b>	Individuals	LIC or other Insurance Pension Plan	Maximum of ₹ 1,50,000
<b>80CCD</b>	Salaried Employees or any Other Individual.	Contribution to approved Pension Plan	<b>Employees:</b> Least of: Amount paid or 10% of Salary. <b>Others:</b> Least of: Amount paid or 10% of Gross Total Income. <b>W.e.f. AY 2016-17,</b> Additional Deduction u/s 80CCD(1B) for Employee Contribution to National Pension Scheme (NPS) ₹ 50,000. <b>[Note:</b> This is an Additional Deduction and shall not be included in the overall ceiling limit of ₹ 1,50,000 u/s 80CCE.]





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<b>80CCG</b>	Resident Individual	Acquisition of Listed Equity Shares in accordance with a scheme notified by CG	<b>Least</b> of 50% of amount invested, or ₹ 25,000. GTI should not exceed ₹ 12 Lakhs.	
<b>80D</b>	Individuals <b>[Note:</b> HUF are eligible to claim for Mediclaim policy and Medical Expenditure only]	Mediclaim Policy (or) Contribution to the CGHS or other notified scheme (or) Payment for Preventive Health Check-up (or) Medical Expenditure for Very Senior Citizen	<ul style="list-style-type: none"> <li>• Self, Spouse, and Dependent Children (aggregate) - ₹ 25,000</li> <li>• Parents - ₹ 25,000, Senior Citizen - ₹ 30,000</li> <li>• Max. ₹ 5,000 for Preventive Health Checkup included in above limits.</li> <li>• Payment in any mode other than cash (except Checkup).</li> <li>• Medical Expenditure for very Senior Citizen on whom Health Insurance not eligible or paid Maximum ₹ 30,000</li> </ul>	
<b>80DD</b>	Resident Individual/ HUF	Expenditure on Handicapped Dependents. Fixed Deduction irrespectively amount spend	<b>General:</b> ₹ 75,000 <b>Severe Disability:</b> ₹ 1,25,000	
<b>80DDB</b>	Resident Individual/ HUF	Expenditure on Specified Diseases	<b>Expenditure for</b>	<b>Maximum</b>
			(a) General - other than (b) & (c)	₹ 40,000
			(b) Senior Citizen	₹ 60,000
			(c) Very Senior Citizen	₹ 80,000
(Actual Expenditure subject to Max. limits as above)				
<b>80E</b>	Individuals	Interest on Repayment of loan taken for Higher Education.	<ul style="list-style-type: none"> <li>• No Limit as to amounts</li> <li>• Education of Self, Spouse, Children, Student for whom Assessee is a Legal Guardian.</li> </ul>	
<b>80EE</b>	Individuals	Interest on Loan taken for Residential House property	(a) Max ₹ 1,00,000 for AY 2014-2015 & AY 2015-2016, (b) Loan ≤ ₹ 25 Lakhs, (c) Property ≤ ₹ 40 Lakhs,	
<b>80G</b>	All Assesseees	Donation to Notified Funds Other Donations	<ul style="list-style-type: none"> <li>• 100% or 50% of Donation-Depending on the Fund.</li> <li>• <b>Qualifying Amt</b> = 10% of Adjusted Total Income</li> </ul>	
<b>80GG</b>	Individuals	Rental Payment in case of Non-receipt of HRA	<b>Least of</b> (a) Rent paid less 10% of Adjusted GTI, or (b) ₹ 2,000 p.m. or (c) 25% of Adjusted GTI.	
<b>80GGA</b>	All Assesseees	Donations	Eligible Instn. / Fund u/s 35 / 35CCA / 35AC	



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<b>80GGB</b>	Indian Company	Donation to Political Party or an Electoral Trust	Actual Amount donated, in any mode other than Cash.
<b>80GGC</b>	Any person except Local Authority or AJP funded by Govt.	Donation to Political Party or an Electoral Trust	Actual Amount donated, in any mode other than Cash.
<b>80JJA</b>	All Assesseees	Treating Bio-Degradable Waste	100% of Profit for first 5 AYs.
<b>80JJAA</b>	All Assesseees	Providing Additional Employment	30% of Additional Wages Paid for 3 AYs.
<b>80LA</b>	Off Shore Banking Units of Banks and Fin. Instns.	Income from Off-Shore Banking Unit	First 5 Years: 100% Next 5 Years: 50% of such income
<b>80QGB</b>	Resident Individual	Royalty Income from Books	Least of - Whole of such Income or ₹ 3,00,000
<b>80RRB</b>	Resident Individual	Income from Patent registered on or after 1.4.03	Least of - Whole of such Income or ₹ 3,00,000
<b>80P</b>	Co-operative Society	Income from specified activities	Whole of Such Income
<b>80TTA</b>	Individual or HUF	Interest on Deposits in a Savings A/c (Bank, Post Office, Co-Op)	Least of Interest Income or ₹ 10,000
<b>80U</b>	Handicapped Res. Individuals	NA	<b>General:</b> ₹ 75,000 <b>Severe Disability:</b> ₹ 1,25,000

**Note:**

- **Payment out of Taxable Income:** Deductions u/s 80CCC, 80D, 80E, 80EE, is available only if the payment / contribution / expenditure is made out of Income chargeable to tax.
- **For Sec.80G,80GGA,** no deduction shall be allowed in respect of any sum exceeding ₹ 10,000, unless such sum is paid by any mode other than cash.

### HIGHLIGHTS OF SEC. 80-IA, 80-IAB, 80-1B, 80-IC, 80-ID, 80-IE

Particulars	80-IA	80-IAB	80-1B	80-IC	80-ID	80-IE
<b>Nature of Business</b>	Engaged in Infrastructure Development	Developers of Special Economic Zone	Other Undertakings engaged in misc. business, not covered u/s 80-IA	Manufacture of articles specified in Sch. XIV (not in Sch. XIII) or undertaking Substantial Expansion	Hotel (located in specified area/ district having World Heritage Site), Convention Centre	Production of Eligible Articles (or) Substantial Expansion of Eligible Business



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Eligible Assessee	Any Assessee	Any Assessee	Any Assessee	Undertakings in Special Category Backward States	Undertaking in specified areas	Undertaking in North-Eastern States
<b>Period of Deduction</b>	10 consecutive Asst. Yrs. (in some cases 10 out 15 AYs)	10 consecutive Asst. Yrs. Out of 15 Asst. Years.	Varies for different undertakings	10 Assessment Years	5 consecutive Assessment years	10 consecutive Assessment years
<b>Quantum of Dedn. Years 1 to 5</b>	100%	100%	Varies for different undertakings	100%	100%	100%
Years 6 to 10	Companies - 30% Others - 25%	100%		For Sikkim and NE States - 100%, For Himachal Pradesh & Uttaranchal 30% for Co's, 25% Others	NA	100%
<b>Form of Audit Report</b>	Form 10CCB	10CCBA / 10CCBB / 10CCBC	Not Prescribed	Not Applicable	10CCBBA	Not Applicable
<b>Tfr of Business</b>	Transferee entitled to deduction for the remaining period					

### Important Case Decisions

#### **80-IA /80-IAB / 80-IB, etc. - General**

- Ministry of Commerce vs CBDT Approval:** Once approval is granted by Ministry of Commerce to an Industrial Park, CBDT is required to notify same for purpose of Sec.80-IA, and that the deduction u/s 80-IA cannot be denied based on the reason that it is not notified by CBDT. **DCIT vs Ganesh Housing Corporation Ltd 25 Taxmann.com 305 (SC)**
- Period of Exemption:** Sec.80-IB should be allowed to the Assessee for the remaining years up to the period for which his entitlement would accrue, provided the condition mentioned in Sec.80-IB is fulfilled. **[Praveen Soni vs CIT (2011) 333 ITR 324 (Del.)]**
- Housing Project - Essence of Activities:** An Assessee, engaged in the business of developing a Housing Project, cannot be denied deduction u/s 80-IB(10) on the ground that the ownership of land has not yet been transferred to the Assessee and the approval to build the Housing Project has been taken in the name of the Land Owner, though the Assessee assumes the entire risks and rewards of the project. **[Radhe Developers (2012) 341ITR 403 (Guj.)]**



4. **Extension of Certain Housing Projects - eligible:** An additional building was constructed on a plot of land and approval for the same is obtained in the year 2002, deduction u/s 80-IB(10) cannot be denied in respect of the said building on the contention that it was an extension of an earlier project for construction of four buildings, in respect of which approval was obtained before 1.10.1998. [**Vandana Properties (2012) 206 Taxman 584 (Bom.)**]
5. **Partly approved Housing Project:** Deduction u/s 80-IB to be given proportionately for eligible units though the Housing Project may consist of both eligible and ineligible units.[**Viswas Promoters (P) Ltd 255 CTR 149 (Mad) (2013)**]
6. **New Undertaking vs New Assessee:** Deduction u/s 80-IB is available only to a new industrial undertaking and not to a New Assessee. [**Textile Machinery Corporation Ltd 107 ITR 195 (SC)**]
7. **Eligible Industrial Undertaking:** Deduction u/s 80-IB is available in respect of the profit or gain derived from the **eligible industrial undertaking** of the Assessee. [**Canara Workshops P Ltd 161 ITR 320 (SC)**]
8. **Loss to be set off - Contrary View:** If the Assessee is **incurring loss from one unit** and making **profits from other unit**, **loss** of the unit is **to be adjusted** before determining the Gross Total Income. If the Gross Total Income is 'Nil', Assessee is not entitled to claim deductions under Chapter VI-A. [**Synco Industries Ltd 299 ITR 444 (SC) 168 Taxmann 224**]

### **80-IA /80-IAB / 80-IB, etc. - Incomes eligible / not eligible for deduction**

9. **Freight Subsidy:** Freight Subsidy received from Government cannot be treated as Profit derived from Business, for the purpose of Sec.80-IA [**CIT vs Kiran Enterprises 327 ITR 520 (HP.)**]
10. **Interest Subsidy:** Interest Subsidy received from State Government cannot be treated as "Profits derived from Industrial Undertaking" and hence not eligible for deduction u/s 80-IB [**CIT vs Gheria Oil Gramudyog Workers Welfare Association (2011) 330 ITR 117**]
11. **Int on Deposits - Not Income:** Interest derived from deposit with Electricity Board is not Business Income, and not entitled to tax deduction u/s 80-IB. [**Pandian Chemicals Ltd 262 ITR 278 (SC)**]
12. **Service Income and Commission:** Assessee engaged in manufacture and selling of additives on Commission basis, was not entitled to deduction u/s 80-IB in respect of Service Income and Commission, because those incomes were not derived from activity of industrial undertaking. [**Indian Additives Ltd vs DCIT 25 Taxmann.com 412 (SC)**]
13. **Duty Drawback:** Duty Drawback Receipt / DEPB benefits do not form part of the Net Profits of Eligible Industrial Undertaking for the purpose of Sec.80-I/80-IA/80-IB. [**Liberty India vs CIT (SC) 183 Taxman 349**] [**CIT vs Orchev Pharma (P) Ltd 25 taxmann.com 518 (SC)**]
14. **Refund of Excise Duty:** The payment of Central Excise Duty had a direct nexus with the manufacturing activity and similarly, the refund of the Central Excise Duty also had a direct nexus with the manufacturing activity, being a profit-linked incentive, since payment of the Central Excise Duty would not arise in the absence of



any industrial activity. Therefore, the refund of Excise Duty had to be taken into account for purposes of Sec.80-IB. **[Meghalaya Steels Ltd. (2011) 332 ITR 91]**

- 15. Standing Charges not eligible for Sec.80-IC:** The standing charges are in the nature of compensation for non-utilization or under-utilization of Plant and Machinery due to lack of orders. The said charges were paid to compensate the Assessee for failure to produce and market its products. Therefore, such standing charges are not eligible for deduction u/s 80-IC. **[Pine Packaging (P) Ltd (2012) 209 Taxman 74]**

### **80-IA /80-IAB / 80-IB, etc. - Meaning of Manufacture**

- 16. Starting Period of Exemption:** Manufacturing for the purpose of marketing starts only with Commercial Production, namely, when the final product to the satisfaction of the Manufacturer has been brought into existence and it is fit for marketing, and not with mere trial production. **[CIT vs Nestor Pharmaceuticals Ltd 322 ITR 631 (Del.)]**
- 17. Manufacture:** Procurement of parts and assembling them to make Windmill falls within the meaning of "Manufacture" and "Production" to be entitled for deduction under Sec.80-IB. **[CIT vs Chiranjeevi Wind Energy Ltd (2011) 333 ITR 192 (Mad.)]**
- 18. Job Work:** No deduction u/s 80-IB if the Assessee gets the work done on Jobwork basis. **Mahender Kumar Aggarwal [2005] TIOL 131 (All.)**
- 19. Sawing Marble Blocks into Slabs and Tiles and polishing amounts to "Manufacture or Production". **[Arihant Tiles and Marbles 320 ITR 79 (SC)]****
- 20. Duplication of Blank CD with Master Media amounts to "manufacture". Deduction u/s 80- IA is available. **[CIT vs Oracle Software India Limited 320 ITR 546 (SC)]****
- 21. Manufacture or Production:** According to Sec.80-IB, the Assessee Company must be engaged in the business of manufacture or production of any article or thing. **[Hotel & Allied Trade P Ltd 245 ITR 538, Indian Hotels Co. Ltd and Others 245 ITR 538 (SC)]**
- 22. Activities held as Manufacture:** Blending & Bottling of Indian Manufactured Foreign Liquor (IMFL) would amount to manufacture for purpose of claiming deduction u/s 80-IB **[CIT Vs Vinbros & Co 25 taxmann.com 367 (SC)]** The process of bottling of gas into gas cylinders, which requires a very specialised process and independent plant and machinery, amounts to production of "gas cylinders" containing gas for the purpose of claiming deduction u/s 80-IB. **[Puttur Petro Products P. Ltd. v. ACIT [2014] 361 ITR 290 (Kar.)]** Conversion of Gram Dal into Besan amounts to Manufacture' u/s 80-IB (4) **[[Shree Triveni Foods [2015] 59 taxmann.com 292 (HP)(HC)]]**
- 23. Manufacture:** Texturing & Twisting of Polyester Yarn amounts to manufacture for purpose of deduction u/s 80-IA **[CIT Vs Yashasvi Yarn Ltd 25 taxmann.com 266 (SC)]**
- 24. Meaning of Production:** Conversion of Jumbo Rolls of Photographic Films into small flats and rolls in the desired



sizes amounts to production. The word production or produce when used in juxtaposition with the word 'manufacture' takes in bringing into existence new goods by a process, which may or may not amount to manufacture. It also takes in all the by-products, intermediate products and residual products, which emerge in the course of manufacture of goods. **[Computer Graphics Ltd vs 308 ITR 98 (SC)]**

**25. Ineligible Activities under Manufacture**

- **Peeling and Freezing of Shrimps** does not amount to manufacture and not eligible for deduction u/s 80-IB. **[Relish Foods 237 ITR 579 (SC)]**
- Since no manufacture of articles or things is carried out in **Hatcheries**, it is not eligible for deduction u/s 80-IB. **[Venkateswara Hatcheries (P) Ltd 237 ITR 174 (SC)]**
- Mere change in the form of the same commodity does not necessarily involve change of identity and the process is not treated as manufacture. Hence, conversion of **Chicory Root into Chicory Powder** by roasting and powdering is not manufacture for deduction u/s 80-IB. **[Sacs Eagle Chicory 255 ITR 178 (SC)]**
- Mixing of different kinds of tea is blending, but is not manufacture or production under the Income Tax Act. **[CIT vs M/s Tara Agencies 292 ITR 444 (SC)]**

**26. Industrial undertakings other than infrastructure developments:** If cameraman, editor, sound technicians are engaged by the assessee, and they used their own equipments for filming, processing, sound recording and mixing or machines are hired on contract basis but they do not transfer these equipments to assessee. Rim production unit or a Company is an industrial undertaking and, therefore, sec. 80IB can be invoked by it. **[CIT vs. Shri Jyoti Prakash Dutta 25<sup>th</sup> July 2014 (BOM)]**

**27. Workers employed in manufacturing process:** Drivers & Cleaners could not be treated as workers employed in the manufacturing process, complying with condition specified u/s 80-IB(2)(iv) **[Shree Triveni Foods [2015] 59 taxmann.com 292 (HP)(HC)]**

**28. Sec.80-IB(10) is prospective in Nature:** Restriction on extent of commercial space in Housing Project imposed by way of amendment to Sec. 80-IB(10) with effect from 1-4-2005, does not apply to Housing Project approved before 1-4-2005 even though completed after 1-4-2005. **[Sarkar Builders [2015] 57 taxmann.com 313 (SC)]**



## PRICING DECISION FOR SPECIAL ORDER

Organizations producing goods and services need to set the price for their product. Setting the price for an organization's product is one of the most important decisions a manager faces. It is one of the most crucial and difficult decisions a firm's manager has to make. Pricing is a profit planning exercise.



Special order pricing is a technique used to calculate the lowest price of a product or service at which a special order may be accepted and below which a special order should be rejected. Usually a business receives special orders from customers at a price lower than normal. In such cases, the business will not accept the special order if it can sell all its output at normal price. However when sales are low or when there is idle production capacity, special orders should be accepted if the incremental revenue from special order is greater than incremental costs.

This method of pricing special orders, in which price is set below normal price but the sale still generates some contribution per unit, is called contribution approach to special order pricing. The idea is that it is better to receive something above variable costs, than receiving nothing at all.



The following example is used to illustrate special order pricing:

### **Example:**

Marlson Chair Company received an offer in October 2014 to sell 25,000 outdoor patio chairs to Easy Life Corporation. Easy Life will like Marlson & Co. to bid for the proposed sales order and indicates that this is a one-time order.

Marlson Company produces 4,00,000 chairs annually by operating at 80% of full capacity. Regular selling price for the type of chairs is ₹33. The chairs required are similar to those currently being produced by Marlson & Co. Budgeted annual production costs and other expenses for 2014 are as follows:

Volume of 4,00,000 chairs	Total	Per unit
Raw Material	₹17,00,000	₹4.25
Direct Labour	23,00,000	5.75



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Variable factory overhead	31,00,000	7.75
Fixed factory overhead	25,00,000	
Variable selling costs	5% of selling price	
Fixed selling & Administration overhead	₹14,50,000	

Marlson Company wants to earn a minimum profit of Re.1 per chair and no selling expenses will be incurred for special order transactions. Assume that normal operations will not be affected by the special order and that regular sales volume for 2014 is 4,00,000 chairs as initially planned.

**Required:**

- (i) What should be minimum price to be quoted by Marlson & Co.?
- (ii) Prepare an income statement analysis showing the position of Marlson & Co. Without special order, for special order and with special order.

**Solution:**

**(i)**

Variable cost to be incurred	(Per unit)
Raw Material	₹4.25
Direct Labour	5.75
Variable Overhead	7.75
Total Variable cost per unit	17.75
Total incremental cost for 25,000 units (25,000 × ₹17.75)	₹4,43,750
Desired Profit (25,000 × Re.1.00)	25,000
	4,68,750
Units selling price to be quoted by Marlson & Co. (4,68,750 ÷ 25,000)	₹18.75

**(ii) Income Statement Analysis**

Details	Without special order	For special order	With special order
Sales	₹1,32,00,000	₹4,68,750	₹1,36,68,750
Less: Variable costs:			
Raw Material	₹17,00,000	₹1,06,250	₹18,06,250
Direct Labour	23,00,000	1,43,750	24,43,750
Variable Factory Overhead	31,00,000	1,93,750	32,93,750
Variable Selling Costs	6,60,000	-	6,60,000
Total Variable Costs	77,60,000	4,43,750	82,03,750
Total Contribution	54,40,000	25,000	54,65,000
Fixed Factory Overhead	25,00,000	-	25,00,000
Fixed Selling & Adm. Overhead	14,50,000	-	14,50,000
Total Fixed Overhead	39,50,000	-	39,50,000
Profit	14,90,000	25,000	15,15,000

In short run, as long as relevant revenues are in excess of relevant costs for each decision, profit will be increased or losses decreased. A policy of minimizing losses can also be continued for short period, as in the long term, a company must generate profits, if it is to stay in business.





## CONDITIONS FOR ALLOWING CENVAT CREDIT [RULE 4 OF CENVAT CREDIT RULES, 2004]

### Time limit for availment of CENVAT credit in respect of inputs —

- **Timing of taking credit in case of manufacturer or provider of output service:** The CENVAT credit in respect of inputs may be taken immediately on receipt of the inputs in the factory of the manufacturer or in the premises of the provider of output service or in the premises of the job worker, in case goods are sent directly to the job worker on the direction of the manufacturer or the provider of output service, as the case may be.
- **Time limit of taking credit:** Credit to be taken within 1 year from date of issue of duty paying documents. The manufacturer or the provider of output service shall not take CENVAT credit after 1 year of the date of issue of any of the documents specified in Rule 9(1) of Cenvat Credit Rules, 2004.

In case of bill of entry, 1 year would start from date of 'clearance order'.

**Example 1:** Assessee files bill of entry on 01-09-2014, which is returned 'assessed' by Customs Department on 05-09-2014. The assessee pays customs duty with CVD, etc. on 07-09-2014 and clearance order is passed on 08-09-2014. The assessee takes credit on said bill of entry on 08-09-2015. Whether credit is valid?

**Answer:** It was held in **Mangalore Refinery & Petrochemicals Ltd. v. CCE 2012 (278) E.L.T. 289 (Kar.)** that 1 year period has to be computed from date of handing over to importer clearance (out-of-charge) order, as without that they cannot get goods for home consumption. If, after handing over of that order, assessee commits any delay in getting the goods, assessee cannot take advantage thereof. Hence, credit is valid, as it is taken within 1 year from 08-09-2014.

- **Time-limit applies to credit and not for 're-credit' [Circular No. 990/14/2014-CX-8, dated 19-11-2014] :** Purpose of amendment is to ensure that after issue of a document under rule 9(1), credit is taken for the first time within 1 year of the issue of the document. Once this condition is met, the limitation has no further application.

### Time limit for availment of CENVAT credit in respect of input services —

- **CENVAT Credit on input service on receipt of invoice [Rule 4(7)]:** The CENVAT credit in respect of input service shall be allowed, on or after the day on which the invoice, bill or, as the case may be, challan referred to in Rule 9, is received.

**Reversal of CENVAT Credit in case the payment is not made within 3 months and re-credit after payment:** In case the payment of the value of input service and the service tax paid or payable as indicated in the invoice, bill or, as the case may be, challan referred to in rule 9 is not made within 3 months of the date of the invoice, bill or, as the case may be, challan, the manufacturer or the service provider who has taken credit on such input service, shall pay an amount equal to the CENVAT credit availed on such input service.

Subsequently if the payment is made, the manufacturer or output service provider shall be entitled to take the credit of the amount equivalent to the CENVAT credit paid earlier subject to the other provisions of these rules.

- **In case of full reverse charge, CENVAT credit admissible only on payment of service tax :** In respect of input



service where whole of the service tax is liable to be paid by the recipient of service, credit shall be allowed after the service tax is paid.

- **In case of partial reverse charge, CENVAT credit admissible on payment service tax thereon:** In respect of input service where part of the service tax is liable to be paid by the recipient of service, credit of service tax shall be allowed as under -
  - (i) For service receiver's portion: Only after payment of service tax to the treasury of the Government by the receiver of service.
  - (ii) For service provider's portion: CENVAT credit shall be allowed, on or after the day on which the invoice, bill or, as the case may be, challan referred to in Rule 9, is received.
- **Discounted payment - Proportionate credit admissible:** Even if the service receiver doesn't pay the full invoice value of taxable services, he can take proportionate credit of the service tax relating to proportionate value of the taxable services paid. - Circular No. 122/03/2010-ST, dated 30-4-2010.
- **Reversal of credit when payment is refunded or credit note is given to manufacturer or service receiver:** If any payment or part thereof, made towards an input service is refunded or a credit note is received by the manufacturer or the service provider, who has taken credit on such input service, he shall pay an amount equal to the CENVAT credit availed in respect of the amount so refunded or credited.

#### **Time limit for availment of CENVAT credit in respect of capital goods:**

- **Availment of credit not exceeding 50% in year of acquisition:** The CENVAT credit in respect of capital goods received in a factory; or in the premises of the provider of output service; or outside the factory of the manufacturer of the final products, for generation of electricity for captive use within the factory; or in the premises of the job worker, in case capital goods are sent directly to the job worker on the direction of the manufacturer or the provider of output service, as the case may be, at any point of time in a given financial year shall be taken only for an amount not exceeding 50% of the duty paid on such capital goods in the same financial year.

CENVAT credit in respect of capital goods may be taken by the provider of output service when the capital goods are delivered to such provider, subject to maintenance of documentary evidence of delivery and location of the capital goods, irrespective of whether it is received in the premises or not.

- **Balance credit to be allowed in subsequent years, provided capital goods are in possession:** The balance of CENVAT credit may be taken in any financial year subsequent to the financial year in which the capital goods were received in the factory of the manufacturer, or in the premises of the provider of output service, if the capital goods are in the possession of the manufacturer of final products, or provider of output service in such subsequent years.

In case of components, spares and accessories, refractories and refractory materials, moulds and dies and goods falling under heading No. 6805, grinding wheels and the like, and parts thereof falling under heading 6804 of the First Schedule to the Excise Tariff Act, the assessee can take the balance of CENVAT Credit in subsequent financial year even if the capital goods are not in the possession of the manufacturer/ service provider in such subsequent years.

- **100% Credit shall be allowed in year of acquisition in certain cases:**



- (a) **100% Credit to be allowed if capital goods are removed in the year of acquisition:** If the capital goods are removed as such in the year of acquisition, the credit for the whole amount of duty paid on such goods shall be allowed in the same financial year.
- (b) **100% Credit of Additional duties of customs leviable under section 3(5) of the Customs Tariff Act:** The CENVAT credit of the additional duty leviable under section 3(5) of the Customs Tariff Act in respect of capital goods shall be allowed immediately on receipt of the capital goods in the factory of a manufacturer.
- (c) **100% Credit to units availing SSI Exemption:** Where an assessee is eligible to avail the exemption under a notification based on the value of clearances in a financial year, the CENVAT credit in respect of capital goods received by such assessee shall be allowed for the whole amount of the duty paid on such capital goods in the same financial year.
- **Credit available even if capital goods acquired on lease, hire purchase or loan agreement:** The CENVAT credit in respect of the capital goods shall be allowed to a manufacturer, provider of output service even if the capital goods are acquired by him on lease, hire purchase or loan agreement, from a financing company.
  - **Credit not admissible if depreciation claimed on duty element:** The CENVAT credit in respect of capital goods shall not be allowed in respect of that part of the value of capital goods which represents the amount of duty on such capital goods, which the manufacturer or the provider of output service claims as depreciation under section 32 of the Income-tax Act, 1961.

**Example 2:** Madhu receives a machine in his factory. He utilises 50% of the duty paid thereon as CENVAT credit even before the erection of the machine. Can he do so?

**Answer:** As per Rule 4(2)(a) of Cenvat Credit Rules, credit upto 50% of duty paid on capital goods may be taken on receipt of capital goods in factory of manufacturer. There is no requirement that capital goods must have been installed/erected/put to use or the like. Hence, Madhu can take 50% credit before erection of machine and utilize it in accordance with rules.

**Example 3:** XYZ Pvt. Ltd., a manufacturer, has furnished the following information (inputs/capital goods referred to herein are received in December 2015, except as otherwise directed and all the invoices in respect of input services are received in December 2015). You are required to determine the total CENVAT credit that can be availed by XYZ Pvt. Ltd. during the month of December, 2015 assuming that it is not eligible for SSI-exemption under Excise law .:

No.	Particulars	Date of invoice	Excise duty/ Service tax (₹)
(i)	Input 'A'	Invoice dated 23.11.2014	1,56,000
(ii)	Machinery falling under Chapter 82 — Machinery was received in September 2014 itself	Invoice dated 12.11.2014	3,54,670
(iii)	Input service 'X'	Invoice dated 12.01.2015	45,340
(iv)	GTA service for bringing raw materials to the factory [Payment has not been made to GTA but service tax has been paid under reverse charge]	Invoice dated 14.12.2015 Value of service -3,00,000	11,124



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(v)	Works Contract services for repair and maintenance of finished product [Payment of service/ tax has not been made to contractor who is an Individual but partial service tax (50% of total) has been paid under reverse charge]	Invoice dated 10.12.2015 Value of service in ₹ 1,50,000 (as computed as per rules)	18,540 (total)
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**Answer:**

Credit available during the month of December, 2015

Particulars	Reasons	₹
Input 'A'	Credit not allowed, as time-limit of 1 year from date of issue of invoice already expired	Time-barred
Machinery (Chapter 82)	50% credit was available during year 2014-15 and balance 50% of ₹ 3,54,670 is eligible for credit on 01-04-2015 itself. It is assumed that such balance credit was not taken on 01-04-2015 and is still pending to be taken. Time-limit of 1 year does not apply to 'capital goods' falling under Rule 2(a) of Cenvat Credit Rules.	1,77,335
Input service 'X'	Credit allowable, as within 1 year from date of issue of invoice	45,340
GTA service	It is a case of full reverse charge; hence, credit is allowed on payment of service tax to government — Whether payment is made to service provider or not is not relevant	11,124
Works Contract Services	50% tax payable by service recipient can be taken on payment of tax to Government. Balance tax can be taken as credit on receipt of invoice. Since invoice is received in December, 2015, hence it can be taken as credit on receipt of invoice.	18,540
<b>Total CENVAT credit</b>		<b>2,52,339</b>

THANK YOU

