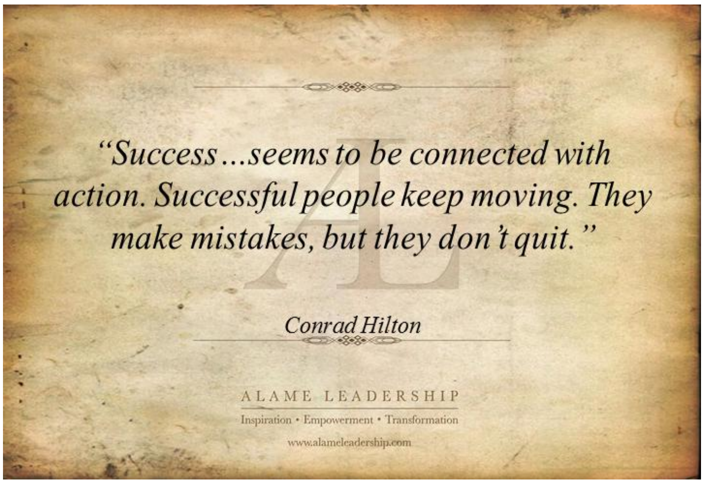
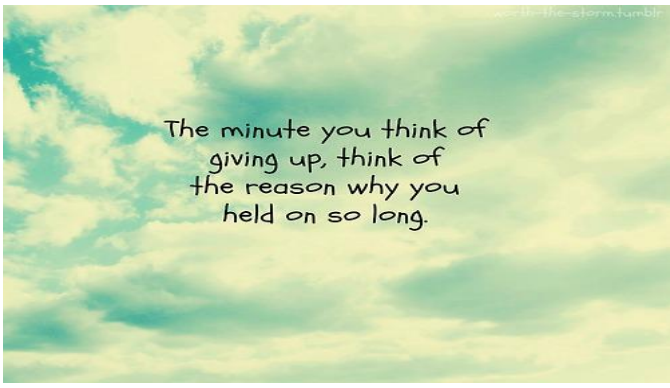
CMA Students Newsletter(For Final Students)

Vol.9C: September 16,2013

"The beautiful thing about learning is that no one can take it away from you." **-B. B. King**



"When you say "It's hard", it actually means "I'm not strong enough to fight for it". Stop saying its hard. Think positive!" - **Anonymous**



Dear Students,

This edition is strategically published a week after release of Practice Test Papers, of Intermediate and Final subjects under Syllabus 2012, Set 1 of which are already uploaded in the website on 16th September,2013.

We are going to upload the Set 2 by 28th September,2013 and Set 3 by 5th October,2013. The Revisionary Test Papers under both the Syllabus 2008 and Syllabus 2012 would be uploaded by 25th October,2013.

By the month of November,2013 the Mock Test Papers would be uploaded which would enable students/prospective examinees to take a test and make a self-analysis to judge their status of progress in studies and preparation for examination.

(1) Paper 13: Corporate Laws & Compliance

(a) OPPRESSION AND MISMANAGEMENT

The Issued, Subscribed and Paid Up Share Capital of Ananda Nidhi Company Ltd is ₹10 lakhs consisting of 90,000 Equity Shares of ₹10 each fully paid up, and 10,000 Preference Shares of ₹10 each fully paid up. Out of the Members of the Company, 400 Members holding one Preference Share each and 50 Members holding 500 Equity Shares applied for relief u/s 397 & 398. As on the date of petition, the Company had 600 Equity Shareholders and 5,000 Preference Shareholders.

Examine whether the above petition is maintainable. Will your answer be different, if Preference Shareholders have subsequently withdrawn their consent?

Sol^{n}:

1. **Eligibility condition:** The following Members shall have the right to apply to Tribunal u/s 397 & 398 –

Company	Eligible Members
(a) Having Share Capital	Least of the following :– • Not less than 100 Members of the Company, or • Not less than 1/10th of the total number of its Members, or • Any Member(s) holding not less than 1/10th of the Issued Share Capital. Note: Members are eligible to apply only if all moneys / calls due on their Shares have been paid.
(b) Not having Share Capital	Not less than 1/5th of the total number of its Members.

2. **Analysis:** Preference Shareholders are also "Members". In the above case, the eligible applicant(s) are least of the following –

(a) Minimum Number of Members =100 Members.
(b) Total Number of Members =600 + 5,000 =5,600.
1/10th thereon = 560 Members.
(c) Total Issued Capital = ₹10,00,000.

Value of shares held by the Applicants =

(500 Equity Shares x ₹10) + (400 Members x 1 Preference Share x ₹10) = ₹9,000.
(Minimum required = ₹1,00,000)

3. **Conclusion:** Since the application has been made by 450 Members, least of the above (not less than 100 Members) condition is satisfied. Hence, the application is valid and maintainable. Subsequent withdrawal of consent does not affect the maintainability of the petition.

(b) Whether 2 votes in favour will carry a Board resolution if 8 directors are present in Board meeting?

Aditya Ltd. has 12 Directors on its Board and has the following clause in its Article of Association:

"The question arising at any meeting of the Board of Directors or any Committee thereof shall be decided by a majority of votes, except in cases where the Companies Act, 1956 expressly provides otherwise."

In one of the meeting of the Board of Directors of Aditya Ltd., 8 Directors were present. After completion of discussion on a matter, voting was done. 3 Directors voted in favour of the motion, 2 Directors voted against the motion while 3 Directors abstained from voting.

State whether the motion was carried or not. It is clarified that the motion being voted up to was not concerning a matter which requires consent of all the Directors present in the meeting.

Sol^{n}:

As per Regulation 74 of Table A, except where the Act requires a unanimous resolution, questions arising at a Board meeting shall be decided by a majority of votes.

In the given case, the articles of Aditya Ltd. contain a Regulation similar to Regulation 74 of Table A. The articles of ABC Ltd. state that a resolution shall be deemed to be passed in a Board meeting if it is approved by a majority of votes. In this regard, following points are worth noting:

(a) In a Board meeting, every director has one vote only.

(b) Only those directors who are present in the meeting and vote on a resolution are considered while determining majority, i.e., following directors are considered while ascertaining the result of a resolution:

- A director who is absent at a Board meeting.
- A director who abstains from voting.

In the given case, the company has 12 directors, out of which only 8 are present in the Board meeting. Out of 8 directors present, 3 directors have voted in favour, 2 directors have voted against the resolution, and 3 directors have abstained from voting. The directors absent in the Board meeting, and the directors present but abstaining from voting shall be ignored. The number of votes cast in favour of the resolution exceeds the number of votes cast against the resolution, and therefore the said resolution has been carried.

Following assumptions have been made in the above case:

(a) No director voting in favour of the resolution is interested in the resolution, as per the provisions of section 299.

(b) At least 4 disinterested directors are present in the Board meeting to form the quorum required at the time of passing the resolution (section 287 read with section 300).

(c) The resolution does not require consent of all the directors present in Board meeting (viz., in case of sections 316, 386 and 372A).

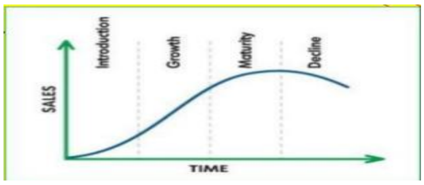
(2) Paper 15: Business Strategy & Strategic Cost Management

Product Life Cycle – Maggi

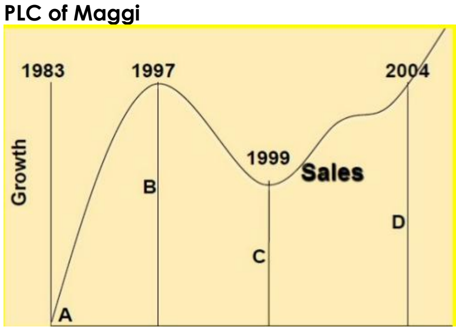
The course of a products sales and profits over its lifetime is called the Product Life Cycle (PLC). Product Life Cycle is a concept that provides a way to trace the stages of a product's acceptance, from its introduction (birth) to its decline.

Stages in PLC:

Introduction → Growth → Maturity → Decline



PLC of Maggi



INTRODUCTION STAGE……….

- Sales growth tends to be slow at this stage.
- Cost per customer is high.
- Negative profits.
- Competitors are few.
- The marketing objective is to create product awareness.

INTRODUCTORY STAGE OF MAGGI

The product launched keeping in mind the working women and children………

- No competition
- It was the pioneer in the instant noodle market.
- Distribution channel

Producer --- Distributor --- Retailer --- Consumer.

Pricing

The initial pricing strategy was low pricing strategy to make product affordable.

PROMOTION

Promotion focuses on awareness and information

Promoted with the tag line

"BAS 2 MINUTE."

Promotion done by - Giving gifts on empty

GROWTH STAGE …….

- Rapid rising sales.
- Rising profits
- Unit manufacturing cost declines.
- The marketing objective is to maximize market share.

MAGI GROWTH STAGE……

- Sales increased.
- 50% market share.
- No. 1 brand.

PRICE – prices were kept normal.
PRODUCT – no any new changes
PROMOTION – "**GOOD TO EAT FAST TO COOK**"
Market penetration strategies

- Promotional campaigns in school.
- Advertising strategies:
  - Focusing on kids
- New product innovation according to the need to consumers:
  - Veg. Atta Noodles
  - Dal Atta Noodles
  - Cuppa Mania
- Availability of different packages:
  - -50 gms
  - -100 gms
  - -200 gms
  - -family packs (400gms)
- Conducting regular market research

MATURITY STAGE ….

- Sales are at peak.
- Profits are high.
- Cost per customer low.
- The marketing objective is to maintain or extend the market share.

MAGGI MATURITY STAGE

- Introduced new Variety.
- Price ₹ 5 onwards.
- Big Time Promotional Offers.
- Slow Down In Sales.
- Market Saturation.

PRODUCT - Maggi introduced wide variety of products like Dal atta noodles, Chicken maggi, cuppa mania.

PRICE - Maggi still comes in very affordable prices starting from Rs. 5., they reduced the quantity instead of increasing price.

DISTRIBUTION - Distribution became more intensive. Adopted various intensive programme for encouraging the product over their competitions in the market.
Segmentation to Differentiation

- Classic Noodles – 5 to 10 years.
- Veg. Atta Noodles – health conscious.
- Rice Mania – teenagers.
- Cuppa Mania – office goers.

DECLINE STAGE…………

- Sales started declining
- Profits are at decline
- Cost per customer still at low
- The marketing objective is to reduce the expenditure

MAGGI DECLINE STAGE……

- Sales saw a decline in 1990's
  - Formulation changed from fired base to air dried base.
- New product launched but failed
  - Dal atta noodles of sambur flavour.
- Tough competition from TOP RAMEN.

REINTRODUCTION OF MAGGI NOODLE

- Reintroduced in 1999
- Increased distribution
- Focus on new segments of society
- New & Interesting TV Commercial

CURRENT SCENARIO OF MAGGI

- Leading Brand in India as well as World.
- Reasonable competitive pricing.
- Maggi's share of instant noodles, on an all-India basis, across urban markets, has slipped consistently between December '09 to July '10. While Maggi instant noodles had a 90.7% share in December '09, the share dropped to 86.5% in July '10 on an all-India basis.
- Maggi's market share is certain to get impacted, but add that Nestle has the potential to expand the ₹ 1,300-crore instant noodles category – which itself is growing at a rapid 15% annually.

(3) Paper 18: Corporate Financial Reporting

(a) Reversal of Impairment Loss

Expectation Industries Ltd. a manufacturing company exports its products to different countries outside India. Sometimes, back in 2010, Expectation Industries Ltd. impaired its assets due to some legal restriction that was imposed on the use of that asset. At the end of 2006 Expectation Industries Ltd. paid ₹18,000 lakhs of which ₹12,000 lakhs was for the identifiable asset, balance was treated as goodwill. Useful life of the asset were 10 years. Depreciation on the asset is on straight line basis. The company recognized impairment loss by determining the recoverable amount of asset as ₹6,500 lakhs. In 2012 the legal restriction was lifted as there was a favourable change in the value of asset, at that time the written down value of the goodwill was ₹1,200 and that of the identifiable asset was ₹4,800. Expectation Industries Ltd. re-estimated the recoverable amount, which was ₹8,600.

Required:

Reversal of an impairment loss and its allocation as per AS – 28 in 2012.

Solution:
Calculation and allocation of impairment loss for assets at the end of 2010 **(₹ in lakhs)**

End of 2010	Goodwill	Identifiable Asset	Total
Carrying amount	1,200	7,200	8,400
Recoverable amount at the end of 2010			6,500
Impairment Loss (₹8,400 – ₹6,900)			1,900
Impairment loss was first allocated to goodwill & balance to other assets	1,200	700	1,900
Carrying amount after Impairment Loss	NIL	6,500	6,500

Reversal of Impairment Loss **(₹ in lakhs)**

End of 2012	Goodwill	Identifiable Asset	Total
Carrying Amount	NIL	6,500 – 2,167	4,333
Recoverable amount			8,600
Excess of recoverable amount over carrying amount			4,267

As per AS 28 the impairment loss to be reversed in 2012 will be as under: **(₹ in lakhs)**

	Amount
(a) Carrying amount of the asset at the end of 2012 (if there were no impairment loss on 2010) i.e. [₹12,000 less (₹12,000/10)× 6]	4,800
(b) Carrying amount of the asset at the end of 2012 (after recognizing the impairment loss and depreciation for next two years)	4,333
Now it is clear that there is a scope of reversal of impairment loss , which is equal to (a) – (b) i.e. ₹4,800 - ₹4,333	467

₹ 467 lakhs will be credited to Profit / Loss Statement.

(b) Leverage Effect on Goodwill

Future maintainable profit before interest is ₹ 154 lakhs, normal rate of return on long term fund is 20 and on equity fund is 25% . Long term fund is of the company is ₹640 lakhs and equity fund is ₹420 lakhs. Interest on long term fund is 18% . Find out leverage effect of goodwill.

Solution:

Valuation of Goodwill **(₹ in lakhs)**

Particulars	Shareholders fund approach	Long term funds approach
a. Future maintainable profits	114.40	154.00
b. Normal rate of return	25%	20%
c. Normal capital employed	457.60	770.00
d. Actual capital employed	420.00	640.00
e. Goodwill	37.60	130.00
f. Leverage effect of Goodwill	92.40	

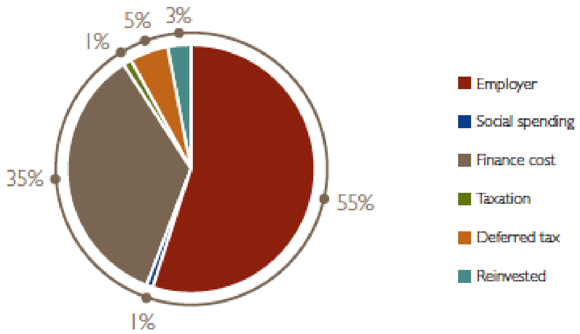
WN # 1: Ascertainment of Long Term Fund (interest thereon) **(₹ in lakhs)**

Particulars	Amount
a. Total long term funds	640.00
b. Less: Equity funds	(420.00)
c. Long term fund	220.00
d. Interest @ 18%	39.60

WN # 2: Future Maintainable Profit **(₹ in lakhs)**

Particulars	Shareholders fund approach	Long term funds approach
a. Profit before interest	154.00	154.00
b. Less: Interest	39.60	N.A.
c. Future maintainable profits	114.40	154.00

Effect of Value Added Statement on Performance of Employees



Oscar Corporation had been preparing value added statements for the past five years. The personnel manager of the company has suggested that a value added incentive scheme when introduced will motivate employees to perform better than before. To introduce the scheme, it is proposed that the best index performance, i.e., employee costs to added value for the last 5 years will be used as the target index for future calculations of the bonus to be earned.

After the target index is determined, any actual improvement in the index will be rewarded the employer and employees sharing any such bonus in the ratio 1: 2. The bonus is given at the end of the year, after the profit for the years is determined.

From the following details, find out the bonus to be paid to the employees, if any, for 2012:

Valuation Added Statement for 5 years **(₹ '000)**

Year	2007	2008	2009	2010	2011
Sales	4,200	5,700	6,900	7,800	9,000
Less: Bought in goods Service	1,920	3,000	3,750	4,200	4,800
Added value	2,280	2,700	3,150	3,600	4,200
Employees costs	975	1,140	1,260	1,476	1,680
Dividend	150	225	300	360	450
Taxes	480	570	540	750	840
Depreciation	390	465	60	660	840
Debenture interest	60	60	375	60	60
Retained earnings	225	240		294	300
Added value	2,280	2,700	3,150	3,600	4,200

Summarized P & L for 2012

Particulars	₹ '000	₹'000
Sales		10,950
Cost of material	3,750	
Wages	1,050	
Production Salaries	300	
Production Expenses	1,050	
Depreciation of machinery	750	
Adm. Salaries	450	
Adm. Expenses	450	
Adm. Depreciation	300	
Deb. Interest	60	
Salaries (Sales Deptt.)	90	
Selling Expenses	300	
Depreciation (Sales Deptt. Assets)	90	8,640
Profit		2,310

Solution:

Statements showing Added Value and Amount of Bonus paid to employees: (₹ '000)

Target Index = 40%

Working Note:

Value Added Statement

Particulars	₹ '000	₹'000
Sales		10,950
Less: Cost of bought-out goods and services:		
Materials	3,750	
Production Expenses	1,050	
Administrative Expenses	450	
Selling Expenses	300	5,550
Added value		**5,400**

Particulars	₹ '000	₹'000
Employees costs:		
Wages	1,050	
Production Salaries	300	
Administrative Cost	450	
Selling Salaries	90	1,890

Working showing the bonus for 2012	₹ '000
Employees cost as per target Index (5,400 x 40%)	2,160
Actual employees cost	1,890
Saving/ Improvement	270

Employees share = ₹ 2,70,000 x 2/3 = 1,80,000

(4) Financial Leverage in Financial Analysis

Financial Leverage refers to the use of debt in the capital structure. It arises when a firm deploys debt funds with fixed charge. The financial leverage ratio is expressed as follows:

Financial Leverage = EBIT/EBT

A low ratio indicates a low interest outflow and consequently lower borrowings. A high ratio is risky and constitutes a strain on profits. This ratio should be considered along with the operating ratio, gives a fairly and accurate idea about the firm's earnings, its fixed costs and the interest expenses on long-term borrowings. Sometimes no distinction is made between capital gearing, financial leverage and trading on equity.

The fixed financial charges (such as dividend payable to preference shareholders, interest) do not vary with the firm's earnings before interest and taxes (EBIT). If a firm does not use fixed cost bearing securities, a change in EBIT will be accompanied by a similar change in EPS (Earnings per share). So if there are no fixed financial charges there is no financial leverage.

Year	2007	2008	2009	2010	2011
Employees cost	975	1,140	1,260	1,476	1,680
Added Value	2,280	2,700	3,150	3,600	4,200
Percentage	42.76%	42.2%	40%	41%	40%

Measures and Interpretation

As financial leverage is the firm's ability to use fixed financial charges to magnify the effects of changes in EBIT on the firm's EPS, the Degree of Financial Leverage (DFL) can be measured as follows:

$$DFL = \frac{\text{Percentage change in EPS}}{\text{Percentage change in EBIT}} \succ 1$$

Alternatively, $$DFL = \frac{EBIT}{EBT - \frac{D_P}{(1-t)}} \succ 1$$

Where

EBT= EBIT – Interest

D_P = Preference dividend

(5) Tax Management & Compliance

(a) Trust – a Bird's Eye View

Trusts can broadly be classified into two categories, viz. — Private Trust and Public Trust.

However, there may be trusts which are a blend of both and are known as Public-cum-Private Trusts.

Private Trust

The following are the requisites for creation of a Private Trust:

(i) The existence of the author/settlor of the Trust or someone at whose instance the Trust comes into existence and the settlor to make an unequivocal declaration which is binding on him.

(ii) There must be a divesting of the ownership by the author of the trust in favour of the trustee for the beneficial enjoyment by the beneficiary.

(iii) A Trust property.

(iv) The objects of the trust must be precise and clearly specified.

(v) The beneficiary who may be particular person or persons.

In case of private trust, the beneficiaries are individuals or families.

Private trusts are further broadly classified into:—

(i) Private Specific Trust referred to as Private Discretionary Trust with beneficiaries and shares determinate in respect of both.

(ii) Private Discretionary Trust where the beneficiaries or their share or either is indeterminate.

The trustees of a private trust are assessable at the rates applicable to each beneficiary, if shares of beneficiaries are determinate or known. In case, shares of beneficiaries are indeterminate or unknown, income is taxable at the rates applicable to an AOP subject to fulfillment of the conditions as follows-

- none of the beneficiaries has taxable income or is a beneficiary in any other trust
- the trust is non-testamentary trust created before 1.3.1970
- exclusively for the relative dependents of the settlor; or
- it is the only trust declared by a Will exclusively for the benefit of any dependent relative

In any other cases, maximum marginal rate will apply.

In short, we can say in the following cases maximum marginal rate will apply:

➢ Where the private trust carries on business

➢ Where shares of beneficiaries are not distinct and known

➢ Where the trust is a discretionary trust which can accumulate the income or where the trust has a choice among the beneficiaries for the benefit

Example:

During the previous year 2012-13, income of RK Trust, declared by a Will exclusively for the benefit of any dependent relative of the settlor, is ₹2,00,000. What is the basis of tax liability of a trust, where individual shares of beneficiaries are not known?

Solution:

Tax will be at normal rate of ₹2,00,000, except in the following cases:

✓ If the trust is created on or after 01.03.1970, tax will be charged at the maximum marginal rate.

✓ If the income consists of profits and gains of business, tax will be charged at the maximum marginal rate.

✓ If one of the beneficiaries is a beneficiary under any other trust or has income exceeding the minimum exemption limit, tax will be charged at the maximum marginal rate.

Public Trust

Public trusts may be created inter vivos or by will. Public trust can be of two types, viz. – Public Charitable Trust and Public Religious Trust.

In the case of Hanmantram Ramnath vs. CIT (1946) 14 ITR 716 (Bom), it was held that although the Indian Trusts Act does not specifically apply to charitable trusts, there are three certainties required to create a charitable trust. They are:

(i) a declaration of trust which is binding on settlor,

(ii) setting apart definite property and the settlor depriving himself of the ownership thereof, and

(iii) a statement of the objects for which the property is thereafter to be held.

It is essential that the transferor of the property viz. the settlor or the author of the trust must be competent to contract. Similarly, the trustees should also be persons who are competent to contract. It is also very essential that the trustees should signify their assent for acting as trustees to make the trust a valid one.

When once a valid trust is created and the property is transferred to the trust, it cannot be revoked. If the trust deed contains any provision for revocation of the trust, provisions of sections 60 to 63 of the Income-tax Act will come into play and the income of the trust will be taxed in the hands of the settlor as his personal income.

Sections which are applicable for charitable or religious trust are as follows:

Section	Details
11	Exemption of Income from property held in trust or other legal exemption for religious or charitable purposes
12	Exemption of income derived by such a trust from voluntary contributions not being contributions made with a specific direction that they shall form part of the corpus of the trust or institution
12A	Prescribes the contributions for registration of a trust etc.
12AA	Prescribes the procedure for registration
13	Enumerates the circumstances under which exemption available u/s 11 and 12 will be denied

Exemption outlined in section 11 is subject to the fulfillment, not only of the various conditions set out in this section but also those set out in section 12, 12A, 12AA, 13 and 60 to 63.

However, any profit or gain of a business carried on by a charitable or religious trust shall not be exempt unless the business is incidental to the attainment of the objectives of the trust and separate books of account are maintained by such trust in respect of such business.

Section 13(8) provides that where the commercial receipt of a charitable trust exceeds ₹25,00,000 in any previous year, there will be no need to cancel the registration of the trust but the exemption u/s 11 and 12 shall not be allowed for that previous year.

Income of a Public Trust, not exempt u/s 11 or 12, is taxable at the rates applicable to an Association of Person. However, if the exemption is forfeited due to contravention of Section 13(1)(c) or 13(1)(d), such income to a Public Trust is taxable at maximum marginal rate.

Public-cum-Private Trusts

Trusts whose part of the income may be applied for public purposes and a part may go to a private person or persons are known as Public-cum-Private Trusts. In this case, in respect of the portion of the income going to private person or persons are assessable as Private Trusts and in respect of the portion of the income, applied for public purposes, shall be eligible for exemption u/s 11.

Oral Trust

Another type of trust is also found which is called Oral Trust. "Oral Trust" means a trust which is not declared by a duly executed instrument in writing including any wakf deed which is valid under the Mussalman Wakf Validating Act, 1913 and which is not deemed to be trust by virtue of explanation 1 to Sec. 160.

Income of Oral Trust is taxable at maximum marginal rate.

However, if Oral Trust is declared to be a trust by furnishing a statement in writing containing purposes, particulars and details of trust, beneficiaries and property to the Assessing Officer within 3 months from the date of declaration of the trust, indicating the share of beneficiaries, the income of the trust is assessable in the hands of trustee at the rates applicable to beneficiaries.

Certain funds of national importance, educational institutions and medical institutions

Income of certain funds of national importance (e.g. The Prime Minister's National Relief Fund, The National Foundation of Communal Harmony etc.), certain educational institutions and certain medical institutions is exempt from tax u/s 10(23C) subject to fulfillment of certain conditions.

Anonymous Donation

- Anonymous donations received by wholly religious institutions shall remain exempt from tax.
- In the case of partly religious and partly charitable institutions, anonymous donations directed towards a medical or educational institutions run by such entities shall be taxable @ 30% on the aggregate of anonymous donation received in excess of the higher of the following, namely:—
  (a) 5% of the total donations received by the assessee, or
  (b) ₹ 1,00,000.
- In the case of wholly charitable institutions, anonymous donations shall be taxable @ 30% on the aggregate of anonymous donation received in excess of the higher of the following, namely
  (a) 5% of the total donations received by the assessee, or
  (b) ₹ 1,00,000.

(b) Advance Tax

Every income is liable to pay advance tax and it is obligatory to pay advance tax in every case where tax payable is ₹10,000 or more.

However, an assessee who has opted for the scheme of computing business income u/s 44AD on presumptive basis at the rate of 8% of turnover shall be exempt from payment of advance tax related to such business.

A senior citizen (i.e. he or she is at least 60 years of age at any time during the financial year) being a resident individual not having any income from business or profession, is also not liable to pay advance tax.

Advance tax should be paid during a financial year in installments as below:

Due Date of Installment in a	Amount payable by Corporate	Amount payable by Non-
On or before June 15	15% of Advance tax payable	Not Applicable
On or before September 15	45% of Advance tax payable	30% of Advance tax payable
On or before December 15	75% of Advance tax payable	60% of Advance tax payable
On or before March 15	100% of Advance tax payable	100% of Advance tax payable

Where, the amount of Advance Tax Payable can be calculated as under:

Particulars	₹
Tax on Total Income	xxxx
Less: Rebate and Relief	xxxx
	xxxx
Add: Surcharge	xxxx
Tax and Surcharge	xxxx
Add: Education Cess and Higher Education Cess	xxxx
Amount of Advance Tax Payable	xxxx

Note: For the purpose of calculating advance tax, estimated agricultural income of the relevant financial year shall also be included for rate purposes.

Example:

The following are the particulars submitted by different taxpayers for the assessment year 2013-14:

Particulars	A (a resident individual)	B (a Hindu Undivided Family)	C (a firm)	D Ltd. (a company)
Income from business	4,50,000	3,00,000	4,00,000	5,45,000
Income from house property	(25,000)	15,000	25,000	20,000
Income from other sources	15,000	45,000	1,25,000	1,55,000
Gross Total Income	**4,40,000**	**3,60,000**	**5,50,000**	**7,20,000**
Less: Deduction under Chapter VI-A				
U/s 80C	1,00,000	65,000	—	—
U/s 80G	10,000	15,000	20,000	50,000
Net Income	**3,30,000**	**2,80,000**	**5,30,000**	**6,70,000**
Tax on Net Income	13,000	8,000	1,59,000	2,01,000
Add: Surcharge	—	—	—	—
Tax and Surcharge	13,000	8,000	1,59,000	2,01,000
Add: Education Cess	260	160	3,180	4,020
Add: Secondary and Higher Education Cess	130	80	1,590	2,010
Total	**13,390**	**8,240**	**1,63,770**	**2,07,030**
Less: Tax Deducted at Source	3,000	1,540	44,570	57,730
Tax Payable	**10,390**	**6,700**	**1,19,200**	**1,49,300**

From the above information we can calculate the amount of advance tax payable during the previous year 2012-13 by each of them.

Advance Tax to be paid by A, B, C & D Ltd. during the financial year 2012-13 can be calculated in the following way:

Particulars	A (a resident individual)	B (a Hindu Undivided Family)	C (a firm)	D Ltd. (a company)
Amount of Advance Tax payable on or before June 15, 2012	—	—	—	₹22,395 (i.e. 15% of ₹1,49,300)
Amount of Advance Tax payable on or before September 15, 2012	₹3,117 (i.e. 30% of ₹10,390)	—	₹35,760 (i.e. 30% of ₹1,19,200)	₹44,790 (i.e. 45% of ₹1,49,300 **minus** ₹22,395 paid in 1st Installment)
Amount of Advance Tax payable on or before December 15, 2012	₹3,117 (i.e. 60% of ₹10,390 **minus** ₹3,117 paid in 1st Installment)	—	₹35,760 (i.e. 60% of ₹1,19,200 **minus** ₹35,760 paid in 1st Installment)	₹44,790 (i.e. 75% of ₹1,49,300 **minus** ₹22,395 paid in 1st Installment **minus** ₹44,790 paid in 2nd Installment)
Amount of Advance Tax payable on or before March 15, 2013	₹4,156 (i.e. 100% of ₹10,390 **minus** ₹3,117 paid in 1st Installment **minus** ₹3,117 paid in 2nd Installment)	—	₹47,680 (i.e. 100% of ₹1,19,200 **minus** ₹35,760 paid in 1st Installment **minus** ₹35,760 paid in 2nd Installment)	₹37,325 (i.e. 100% of ₹1,49,300 **minus** ₹22,395 paid in 1st Installment **minus** ₹44,790 paid in 2nd Installment **minus** ₹44,790 paid in 3rd Installment)

Note: In the above example, provisions of Mat and AMT are ignored.

It is to be noted that any amount paid before 31st March of the previous year shall also be treated as advance tax paid during the previous year.

(c) Certain Special Cases under Advance Tax

❖ **Last date of payment of installment of advance tax is 15.09.2012 on which the bank was closed. Its fist working day is 17.09.2012. Because of the holidays, Arup cannot pay his due amount of advance tax. He paid the amount on 17.09.2012.**

Though Arup cannot pay advance tax within the due date, the mandatory interest leviable under sections 234B and 234C would not be charged because he has made the payment on the next immediately following working day.

❖ **Karan won a lottery of ₹4,00,000 on 22nd September, 2012. He did not pay any amount as advance tax on 15th September, 2012. Karan has no other income.**

The Act has been provided that if any income arises from capital gains and winning from lotteries, crossword puzzles, etc. after the due date of any installment, then, the entire amount of tax payable (after deducting tax at source, if any) on such capital gains or casual income should be paid in remaining installment of advance tax which are due or where no such installment is due by 31st March of the relevant previous year.

In this case, the tax payable on the lottery income is ₹20,000. Karan has to pay ₹12,000 (i.e. 60% of ₹20,000) on or before 15th December, 2012 and ₹8,000 (i.e. 100% of ₹20,000 minus ₹12,000). He is not liable to pay any interest for non-payment of advance tax on 15th September, 2012.

- **R&T Ltd. is not liable to pay any tax for the previous year 2013-14 on the total income computed as per Income Tax Act, 1961. However, it is liable to pay tax on the Book Profit for that year.**

Companies liable to pay tax on the basis of MAT are required to pay advance tax and failure to pay advance tax in respect of the same will attract interest under sections 234B and 234C.

Hence, in this case, R & T Ltd. is required to pay advance tax on MAT within the stipulated time and in specified manner as discussed earlier.

- **Rahul paid the due amount of advance tax by cheque on 14th September, 2012. However, the cheque is encashed on 18th September, 2012.**

The Supreme Court, in case of CIT vs. Ogale Glass Works Ltd. (1954) 25 ITR 529 (SC), held that the date of payment of amount by a cheque would be the date of the presentation of the cheque and not the date of clearing, if it is not dishonoured.

In the above case, Rahul has paid the cheque on 14th September, 2012 i.e. before 15th September, 2012. Hence, interest under sections 234B and 234C is not leviable.

(d) Tax Deducted at Source

In case of certain income, tax is deducted at source by the payer at the prescribed rate at the time of accrual or payment of such incomes to the payee.

The tax deducted as advance tax in the previous year itself is known as pre-paid taxes. Such pre-paid tax is deductible from the total tax due from the assessee.

Example 1:

The estimated taxable salary of Bina for the previous year 2012-13 is ₹4,50,000. Determine the amount of tax to be deducted at source every month by her employer.

Solution:

Statement showing calculation of the amount of tax deducted at source

Particulars	₹
Tax on ₹4,50,000	25,000
Add: Education Cess	500
Secondary and Higher Education Cess	250
Tax payable (a)	25,750
Amount of tax deductable at source every month [(a)÷12]	**2146**

Example 2:

Abhi won a lottery prize of ₹3,00,000 on 28th March, 2013 out of which ₹30,000 is payable to the agent. Determine amount of tax to be deducted at source.

Solution:

Taxable lottery income = ₹3,00,000 - ₹30,000 = ₹2,70,000

The amount of Tax Deducted at Source = ₹2,70,000 × 30%

= ₹81,000