IVC Course Code : 212

ACCOUNTING & TAXATION (A&T)

First Year

(w.e.f. 2018-19)

Intermediate Vocational Course

Paper I : **Business Organisation**

Paper II : **Accountancy & Computers**

Paper III : **Taxation - 1**

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ANNUAL SCHEME OF INSTRUCTION AND EXAMINATION FOR ACCOUNTING & TAXATION

1 YEAR

Part-A		No. of periods			Marks		
		Theory	Practicals	Total	Practicals	Theory	Total
1.	General Foundation course	150	-	150	-	50	50
2.	English	150	-	150	-	50	50
Part-B							
3.	**Paper-1** Business Organization	135	135	270	50	50	100
4.	**Paper-II** Accountancy-I	135	135	270	50	50	100
5.	**Paper-III** Taxation -I	135	135	270	50	50	100
	Total			**1110**	**150**	**250**	**400**
	On the Job Training (363) periods						**100**
	Total						**500**

Theory Instruction Months: June, July, August, September, October, January & February

On the Job Training : November & December

MARCH - IPE EXAMINATIONS

EVALUATION OF ON THE JOB TRAINING:

The "On the Job Training" shall carry 100 marks for each year and pass marks is 50. During on the job training the candidate shall put in a minimum of 90 % of attendance.

The evaluation shall be done in the last week of January.

Marks allotted for evaluation:

S.No	Name of the activity	Max. Marks allotted for each activity
1	Attendance and punctuality	30
2	Familiarity with technical terms	05
3	Familiarity with tools and material	05
4	Manual skills	05
5	Application of knowledge	10
6	Problem solving skills	10
7	Comprehension and observation	10
8	Human relations	05
9	Ability to communicate	10
10	Maintenance of dairy	10
	Total	100

NOTE: The On the Job Training mentioned is tentative. The spirit of On the Job training is to be maintained. The colleges are at liberty to conduct on the job training according to their local feasibility of institutions & industries. They may conduct the entire on the job training periods of I year and (450) II year either by conducting classes in morning session and send the students for OJT in afternoon session or two days in week or weekly or monthly or by any mode which is feasible for both the college and the institution. However, the total assigned periods for on the job training should be completed. The institutions are at liberty to conduct On the Job training during summer also, however there will not be any financial commitment to the department.

ACCOUNTING & TAXATION

Paper - I

BUSINESS ORGANISATION

INDEX

UNIT-1

Basic Concepts

Business organization and its scope – Business, Profession, Industry, Trade, types of trade and aids to trade, Classification of Industries, Forms of Business organization.

Business Organisation

Meaning

A business organisation is an entity aimed at carrying on commercial enterprise by providing goods or services to meet needs of the customers. Some business organisations are formed to earn income for owners, other business organisations called non-profits, are formed for public purposes.

All business organisations have the common features such as formal structure; aim to achieve objectives, use of resources, and requirement of direction and legal regulations controlling them.

Business organization and its scope

The scope of business organization has largely expanded after the industrial revolution. The process of production is needed to determine what each person will do and how much authority each will have.

Business

Meaning

The term 'Business' means to be 'busy' or 'occupied'. Business refers to a set of organized activities for production and exchange of goods and services with the purpose of selling them at a profit. It includes activities concerned with manufacturing, trading, transportation, insurance, warehousing, banking, finance etc.

Definition

Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling goods.

– L. H. Haney.

Business may be defined as an activity in which different persons exchange something of value whether goods or services, for mutual gain or profit.

- Peterson and Plowman

Characteristics of Business

The basic features common to all business enterprises are:

- **Entrepreneur:** There must be someone to take initiative for establishing a business. The person who recognises the need for a product or service is known as entrepreneur. He visualises a business, combines various factors of production and puts them into going concern.

- **Economic Activities:** Business includes only economic activities. All those activities relating to the production and distribution of goods and services are called economic activities. These activities are undertaken with economic motive. Business is carried on with a profit motive. Maximisation of profit and minimisation of the costs and expenses of earning it are the dual aims which guide all business enterprises.

- **Exchange of Goods and Services:** A business must involve exchange of goods and services. The goods to be exchanged may be produced or procured from other sources. The exchange of goods and services is undertaken with a profit motive.

- **Continuity of Transactions**: A single transaction shall not be treated as business. An activity is treated as business only when it is undertaken continually or at least recurrently. For example a person builds a house for himself but later on sells it on profit. We will not call it business. On the other hand, if a house-building society builds houses and sells them, this is called business.

- **Profit Motive:** Earning profit is the primary motive of business. Profits are essential to enable the business to survive, to grow, expand and to get recognition. The profit motive does not entitle a businessman to start exploiting the consumers. The business activity will flourish more when the business serves the society.

(6) Element of Risk: In every business, there is a possibility of incurring loss. This possibility of incurring loss is termed as risk. There are two kinds of risks:

- Risks whose probability can be calculated and can be insured. Ex: Losses due to fire, floods, thefts, etc.

- Risks whose probability cannot be calculated and cannot be insured. Ex: Changing technology, fall in demand, changing fashions, short supply of raw materials, etc.

Profession

A profession is the systematized body of knowledge, which is studied in specialized institutions and practiced in the real life situations. A profession is an occupation which involves the rendering of personal services of a specialized nature. Services rendered by doctors, lawyers, chartered accountants, tax consultants etc., come under this category.

Important Professional Bodies in India

S.No	**Profession**	**Profession Body/Association**
1.	Accountancy	The institution of Chartered Accountants of India
2.	Company Secretary	The institution of Company Accountants of India.
3.	Cost Accountancy	The Institution of Cost and Work Accountants of India
4.	Legal	Bar Council of India
5.	Medical	Medical Council of India

Industry

Industry refers to an activity which converts raw materials into finished goods or useful products. It is concerned with raising, producing, processing or manufacturing of products.

The products are consumer goods as well as producer goods. Consumer goods are goods which are used finally by consumers. Ex. Food grains, textiles, cosmetics etc. Producer goods are the goods used by manufacturers for producing some other goods. Ex. Machinery, tools, equipment etc.

Expansion of trade and commerce depends on industrial growth. It represents the supply side of market.

Trade

Trade refers to buying and selling of goods and services for money or money's worth. It involves transfer or exchange of goods and services for money. The producer produces the goods then moves on to the wholesaler then to retailer and finally to the ultimate consumer.

Trade has taken birth with the beginning of human life and shall continue as long as human life exists on the earth. It enhances the standard of living of consumers. Thus, we can say that trade is a very important social activity.

Types of Trade

- **Internal Trade**

Internal trade is also known as Home trade. It is conducted within the political and geographical boundaries of a country. It can be at local level, regional level or national level. Hence, trade carried on among traders of Delhi, Mumbai etc., is called home trade.

Internal trade can be further sub-divided into two groups, viz.

- Wholesale trade
- Retail trade

- **Wholesale Trade:** It involves buying in large quantities from producers or manufacturers and selling in lots to retailers for resale to consumers. The wholesaler is a link between manufacturer and retailer. A wholesaler occupies prominent position since manufacturers as well as retailers both are dependent upon him. Wholesaler acts as an intermediary between producers and retailers.

A wholesaler is generally specialised in one line of product and maintains large stocks.

- **Retail Trade:** Retailing means the sale of goods in small quantities to the final consumers. A person engaged in retail trade is called a 'retailer'. Retailers buy goods from the wholesaler and sells them in relatively smaller quantities to the consumers. Retailers establish link between wholesalers and consumers.

A retailer deals in a variety of good and makes purchases from different wholesalers.

2. External Trade: External trade also called as Foreign Trade. It refers to exchange of goods and services between two or more countries. External trade can be further sub divided into three groups.

- Export trade
- Import trade
- Entrepot trade

a. Export Trade: When a trader from home country sells his goods to a trader located in another country it is called as export trade. For ex. a trader from India sells his goods to a trader located in china.

b. Import Trade: When a trader in home country obtains or purchases goods from a trader located in another country, it is called as import trade. For ex. a trader from India purchases goods from a trader located in Canada.

c. Entrepot Trade: When goods are imported from one country and then re-exported after doing some processing, it is called as entrepot trade. In brief, it can be also called as re-export of processed imported goods. For example an Indian trader from India purchases some raw material or spare parts from a Japanese trader from Japan then assembles it i.e. converts into finished goods and then re-export to an American trader in U.S.A.

Aids or Auxiliaries to Trade

A great deal of difficulties are experienced in course of exchange of goods and services. The activities or agencies which helps in overcoming those difficulties or hindrances are called Aids to Trade. The examples of aids - to - trade are banking, insurance, warehousing, transport and advertising.

- **Banking:** Banks help in overcoming the financial problems of the business enterprise. Banks provide finance for holding stock between the time of purchase to the time of sale. Commercial banks and financial institutions help trade in the form of overdraft, loans or cash credits.

- **Warehousing:** Goods are generally produced in the anticipation of demand. All the goods produced are not consumed at the same time, warehousing provides suitable arrangement for storing the goods. Agricultural products are produced seasonally, but they are required throughout the year. So, there is a need to store them, so that they may be supplied according to demand.

- **Insurance:** It is the best means of reducing risks of the business. Insurance covers the risks of loss to goods in transit and in warehouse on account of theft and fire. The insurance companies provide a coverage for all types of losses of goods, not only to the national trade but also to the international trade.

- **Transport:** It creates place utility of the products. It helps in carrying the goods from the place of production to the place of consumption and thereby create place utility for the products. The various modes of transport i.e., road, rail, sea, air have helped the growth of commerce and industries.

- **Advertisement:** Consumers are unaware of the new products, availability of various goods in the market, their advantages, features, price etc. Advertisement and publicity helps to know the availability and usefulness of various goods to the notice of the consumer.

Hindrances to Trade and Aid-to-trade for removing these Hindrances

Hindrances to Trade	Aids-to-Trade
• Personal contact	Traders and Mercantile agents
• Place or distance	Transport and communication
• Time	Warehousing
• Risk	Insurance
• Finance	Banking
• Information or knowledge	Advertising and salesmanship

Types of Industries

There are various types of industries. 1. Primary Industry 2. Genetic Industry 3. Extractive Industry 4. Manufacturing Industry 5. Construction Industry 6. Service Industry.

- **Primary Industry:** Primary industry is concerned with production of goods with the help of nature. It is a nature oriented industry, which requires very little human efforts. Ex. agriculture, farming, forestry, fishing, horticulture etc.

- **Genetic Industry:** Genetic industry are engaged in reproduction and multiplication of certain spices of plants and animals with the object of sale. The main aim is to earn profit from such sale. Ex. Plant nurseries, Cattle rearing, poultry, Cattle breeding etc.

- **Extractive Industry:** Extractive industry is concerned with extraction or drawing out goods from the soil, air or water. Generally products of extractive industries are used by manufacturing and construction industries for producing finished products. Ex: mining industry, coal mineral, oil industry, iron ore, extraction of timber and rubber from forests etc.

- **Manufacturing Industry:** Manufacturing industries are engaged in transforming raw material into finished products with the help of machines and man power. The finished goods can either consumer goods or producer goods. Ex. Textiles, chemicals, sugar industry, paper industry etc.

- **Construction Industry:** Construction industries take up the work of construction of buildings, bridges, roads, dams, canals etc. This industry is different from all other types of industry because in case of other industries goods can be produced at one place and sold at another place. But goods produced and sold by constructive industry are executed at one place.

- **Service Industry:** In modern times service sector plays an important role in the development of the nation and therefore it is named as service industry. Service industry supplements the activities of primary and secondary industries. Service sector deals with all those activities (like banking, transport, insurance, warehousing, and advertising) which smoothen the flow of goods and services from the manufacturers to the consumers. Hotel industry, tourism industry, entertainment industry etc., also falls under this sector.

Short answer type questions

- Define the term Business Organisation.
- Define the term Business.
- Define the term Profession.
- What is an Industry?
- Define Trade.

Long answer type questions

- Explain briefly about different types of Trade.
- Briefly describe the various Aids to Trade.
- What are the different types of Industries? Explain them in brief withexamples.

UNIT-2

Sole trader

Sole Trader-Characteristics of Sole Proprietorship form or organization.-Merits of Sole trading concern.-Demerits of Sole trading concern.-Joint Hindu Family-Merits of Joint Hindu Family Firm.-Demerits of Joint Hindu Family Firm

Sole Trader

The person who manages the sole proprietorship firm is called 'Sole Proprietor' or 'Sole trader'. He is the sole trader is the sole owner, controller, financier, organiser, manager, decision-maker and risk bearer.

Definition

A sole proprietor is a person who carries on business exclusively by and for him. He is not only the owner of the capital of the undertaking, but it is usually the organiser and manager and takes all the profits or responsibility for losses.

- **James Stephenson**

Characteristics of Sole Trader

- **Single Ownership :** The sole trader is the sole owner of the firm. He fully owns the business.
- **Management and Control :** the proprietor independently manages and controls the business without any interference from others. He is solely responsible for the decisions taken by him.
- **Undivided risk :** The sole trader takes all profits and bears losses if any. Nobody shares his profits or losses.
- **Unlimited Liability :** The liability of the proprietor is unlimited. If he makes a heavy loss, he may lose his capital and even his entire private property.
- **Limited area of operation :** The sole trade business has generally a limited area of operation. The reason being the limited resources and managerial abilities of the sole-trader.
- **Free from Government Regulations :** There is no special act governing the work of a sole proprietor. He will be subject to the general laws of the country. The business is free from government regulations.
- **Registration:** since there is no separate Act for governing the sole trading concerns in India, it doesn't require any registration like a partnership firm or a company. He just has to obtain a licence from a local authority like municipality or panchayat.

Merits of Trading Concern

- **Easy to form :** It is very easy and simple to form a sole trading concern. Registration is not required. Anyone with necessary capital and skill can start any lawful business he likes.

- **Direct Motivation :** The sole proprietor takes keen interest in the working of the business. He manages the business to the best of his ability. There is direct relationship between efforts and reward. The move the efforts, the higher the rewards will be. The proprietor is, therefore, inspired, induced and motivated to give his best of efforts and skills in running the business.

- **Promptness in Decision Making :** The sole trader can take quick and clear decisions. He can also execute his decisions promptly. Quick decisions and prompt execution are very essential for the success of business.

- **Maintenance of Secrecy :** Secrecy is of vital importance for the success of a small scale concern. A sole trader can maintain strict secrecy of his business conditions and methods.

- **Personal contact with customers :** The sole trader can establish and maintain personal contact with his customers. He can easily study the tastes and requirements of the customers. Personal contact with customers results in high sales and good will of the firm.

- **Social Utility :** Sole trading concern has also great social utility. It creates employment opportunities to many people. It suits best those who want to be their own masters. Hence, sole proprietorship is socially desirable.

- **Effective control:** in sole trading concern, all decisions are centralised by the sole trader himself. Thus, sole trader himself plans all the important activities, executes and control them.

Demerits of Trading Concern

- **Limited Capital and Credit :** A sole trader finds it difficult to provide necessary capital for the development of his business. Therefore, the size of the business must remain small. Small business means small profits.

- **Limited Managerial Ability :** The managerial ability of the sole proprietor is also limited. He may not be an expert in each and every function of the business. He has to depend upon paid employees. He may find it difficult to manage and supervise efficiently as business expands.

- **Unlimited liability :** The liability of a sole trader is unlimited. It extends to his private property also. Hence, the sole trader tries to be cautious in taking risks. Unlimited liability is a thorn on the side of the sole trader.

- **No Continuous Existence :** The life of the business is limited to the life of the proprietor. The business may suddenly come to an end with the death of the proprietor. So a sole trading concern has no stability or continuity.

- **Absence of Specialisation :** The sole trader is overburdened with a number of duties. He may not be efficient in all these activities. As a result, the management may not be efficient. So, this type of business organization cannot enjoy the benefits of specialisation.

- **More risks Involved :** A sole trader is the supreme and sole master of his business. He need not consult anyone while taking decisions. So, there is a possibility of taking wrong decisions. Wrong decisions may at times result in heavy losses.
- **No large Scale Economics:** a small scale concern cannot economise in purchase, production and marketing. In a sole trade concern overhead expenses are also more so sole trading concern cannot enjoy the benefits of large scale economies.

Joint Hindu Family

Joint Hindu family business is a unique kind of business organisation, possible only in India, among Hindu families only. The origin of the joint hindu family business lies in the principles of inheritance under the mitakshara school of Hindu law. In this form of business ownership, all members of a Hindu Undivided family do business jointly under the control of the head of the family. The head of the family is called as 'Karta'. The firm is owned by the members of an undivided Hindu family who have inherited an ancestral property. The property inherited by a Hindu from his father, grandfather and great grandfather is regarded as ancestral property.

The members of the family are known as co-partners. The joint Hindu family firm comes into existence by the operation of Hindu Law and not out of contract. Thus the joint Hindu family firm is a business owned by co-partners of a Hindu undivided estate.

Hindu Schools of Thought

There are two schools of thought regarding Joint Hindu Family system:

- Dayabhaga
- Mitakshara

Dayabhaga: dayabhaga system of community is prevalent in West Bengal, Assam and parts of Odisha. This system allows both male and female members as co- parceners.

Mitakshara: this system is prevalent in whole of India except West Bengal, Assam and parts of Odisha. In this system only male members are allowed to be co-parceners. However, an amendment in Hindu succession Act, in 2005, the daughter is allowed as a co-parcener.

Merits of Joint Hindu Family

- **Centralized Management:** The management of a Hindu Joint Family firm is centralised in the hands of one man known as 'Karta'. Karta takes all decisions and gets them implemented with the help of other members.
- **Quick Decisions:** As karta is the only decision maker, he takes quick decisions. The Karta takes not only quick decisions but his decision is final and unchallengeable.
- **Economy:** In a business, for its success, economy is a must. It is well balanced and maintained in joint Hindu family firm. Karta spends money with great caution and economy.
- **Limited Liability:** This is a great advantage of joint Hindu family firm. The liability of all the members of the family is limited. However, Karta's liability is unlimited.

- **Utmost Secrecy:** Karta is the great master of the grand show. He alone manages the business affairs. He can keep a thing secret even from the members of the firm. Secrecy is very vital for small-scale concerns.

- **Natural love between Members:** Members of the joint Hindu family firm are having natural love and affection for each other. Due to this they ignore the short-comings of each other and help to run the business move smoothly and efficiently.

Demerits of Joint Hindu Family

- **Limited Capital:** The investments are limited only upto the resources of one family. They may not be sufficient to meet business requirements for expansion.

- **Limited Management skill:** Only the karta is to manage the family business, He performs the functions of the management. Limited managerial skill of karta will hinder the growth of the concern.

- **No Reward for Efficiency:** All the members of the family are provided with basic needs and other facilities. The persons who work more efficiently and dedicatedly are not rewarded for their work. So efficient workers are also tempted to work less.

- **Suspicion:** The karta is empowered with vast power of secrecy. He can keep things secret even from the members of the firm. But there is no restriction on him that he cannot disclose anything to any person whom he loves. This leads to suspicion among the members.

Short Answer Type Questions

- Define the term Sole Trader.
- What is Joint Hindu Family firm?
- Define 'Karta'?
- Mitakshara
- Dayabhaga

Long Answer Type Questions

- State the characteristics of Sole Proprietorship firm ?
- State the merits of sole trading business ?
- State the demerits of sole trading business ?
- State the merits of 'Joint Hindu Family Firm' ?
- State the demerits of 'Joint Hindu Family Firm'?

UNIT-3

Partner Ship

Partnership - Characteristics of a Partnership Firm-Merits of Partnership-Demerits of Partnership-Partnership Deed-Types of Partners-Rights of Partners-Duties of Partners

Meaning

A partnership is an association of two or more persons to carry on, as co-owners, a business and to share its profits and losses. The partnership may come into existence either as a result of the expansion of the sole-trading concern or by means of agreement between two or more persons desirous of forming a partnership.

Definition

The Indian partnership Act 1932 defines partnership as "The relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all".

Characteristics of a Partnership Firm

- **Association of Two or more persons:** There must be at least two persons to form a partnership firm. The maximum limit on the number of partners is ten in case of banking business and twenty in case of other types of business.
- **Contractual relation:** The relation of partnership is created by contract and not by status as in case of joint Hindu family firm. The contract may be oral or written. There must be an agreement between two or more persons to enter into partnership business.
- **Lawful business:** The agreement between partners must be to carry on some lawful business.
- **Sharing of profits:** The purpose of the business should be to make profits and distribute them among partners.
- **Unlimited liability:** The liability of each partner is unlimited, joint and several. In other words, each partner is jointly and severally responsible for the debts of the firm.
- **Utmost good faith:** A partnership agreement is based on mutual confidence and trust of the partners. Every partner should act honestly and give proper accounts to other partners.
- **Dissolution:** the partnership can be dissolved at any time if all the partners agree to do so. Dissolution of partnership does not necessarily mean dissolution of the firm. The remaining partner may continue the firm after meeting the claims of outgoing partner.

Merits of Partnership

- **Facility of Formation**

Like the sole proprietorship, a partnership can be formed without much expense and legal formalities. A simple agreement among partners is sufficient to start a partnership firm.

2. **Larger Financial Resources**

The resources or savings of more than one person are available for the business. Since, larger capital resources are available there is greater scope for expansion of business.

3. **Benefits of Division of Labour**

Division of labour can be introduced in the management of the partnership. Work may be distributed among the partners according to their abilities.

4. **Promptness in Decision Making**

The partners meet frequently and they can take prompt decisions. The decisions taken by partners are usually quite balanced.

5. **Relationship between Reward and Work**

The partners try to put more labour to earn more and more profits. There is direct relationship between reward and work. The more they work, the more they be benefited.

6. **Sharing of Risk**

The risk or loss of business will be shared by all partners. Hence, the burden of every partner will be less as compared to the burden of sloe trader.

7. **More Possibility of Growth & Expansion:** as compared to a sole-trade business, partnership concern has more possibilities for expansion and growth of business activities. The partner can contribute more and manage the activities more systematically.

Demerits of Partnership

1. **Unlimited Liability**

Partners are liable to the debts of the firm to an unlimited extent. Every partner is jointly and severally liable for the entire debts of the firm.

2. **Continuity is Uncertain**

The continuity of the business of the firm is uncertain. Death, insolvency, incapacity of one of the partners may lead to dissolution of the firm. Thus, instability is the worst disadvantage of partnership.

3. **Lack of Harmony**

Partnership implies collective as well as individual liability and responsibility. Mutual conflicts and lack of team spirit among partners may lead to loss of reputation and finally closure of business.

4. **Restriction on Transfer of Interest**

No partner can transfer his interest or share in the firm to outsiders without the unanimous consent of all other partners.

5. **Lack of Public Confidence**

The accounts of partnership concerns are not published. So public is unaware of the exact position of business. So, partnership concerns lack public confidence.

6. **Inadequate Capital**

A partnership firm can raise more capital than a sole trader. But it may not be able to raise or secure adequate capital for expansion beyond a certain limit.

Partnership Deed

Partnership is the result of an agreement. The agreement may be expressive or implied. It may be oral or written. It is always derivable to have the agreement in writing for the following reasons.

- Partnership is an agreement based on utmost good faith. Each partner should know clearly what he can do and what his duties and responsibilities are.
- The rights and duties of partners are determined by agreement. The partnership act also defines the rights and duties of partners, but these will come in to operation only when there is no agreement.
- Banks and other financial institutions insist on the production of written agreements for granting loans and advances to firms.

The agreement in writing containing the terms and conditions of the partnership is called ‘partnership deed’. The deed has to be stamped as per the Indian stamps act. Each partner should have a copy of the deed with him. It is desirable to entrust the preparation of the deed to an experienced lawyer.

Types of Partners

Partners of a firm may be of different types with different rights and obligations.

1. **Active Partners**

Every partner has a right to take part in the management of partnership business. A few commitment partners manage the business on behalf of others. Such partners are called managing partners or active partners.

2. **Sleeping Or Dormant Partners**

Partners who agree not to take part in the management of the firm are called sleeping or dormant partners. They contribute capital. They are entitled for the agreed share in the profits of the firm.

3. Nominal Partners

A nominal partner is one who lends his name to the firm. He does not contribute any capital nor does he shares profits of the business. He is known as a partner to the third parties.

4. Partners in Profit Only

These are partners who by agreement are exempted from bearing losses of the firm. However, they are entitled for their share of profit.

5. Secret Partners

A secret partner is one, who does not want to be known as partner to the outsiders, though in reality he is a partner.

6. Minor Partner

A minor is not competent to enter into contract. Therefore, he cannot be a partner of a firm. But he can be admitted to the benefits of partnership with the consent of all the other partners.

7. Partner by Estoppel or Holding Out: When a person is not a partner but poses himself as a partner, either by words or in writing or by his acts, he is called a partner by estoppel or by holding out. A partner by estoppel does not shares the profits and losses of the firm and is not liable for the debts of the firm.

Rights of Partner

The following are the rights of partners in the absence of an agreement.

- Every partner has a right to take part in the management of the firm.
- Every partner has a right to inspect books of account and records and take a copy of them.
- Every partner has a right to recover any amount spent by him in the ordinary and proper conduct of the business.
- Every partner has a right to receive interest on loans advanced to the firm over and above the capital at the rate of six percent per annum.
- Every partner has a right to share the profits of the firm equally along with other partners.
- A partner is not entitled for any remuneration or salary for taking part in the conduct of the business.

Duties of Partners

- All the partners must be faithful to one another and to the firm.
- Partners should give full and correct information and render true account of the firm to one another.

- Every partner must diligently carry on the business of the firm to the maximum advantage of all the partners and the firm.
- Every partner has a duty to work hard and conduct the business in the best common interest of the firm.
- No partner should make any profit for himself by way of secret commission or sales or purchases made on behalf of the firm.
- Every partner has to share losses equally along with other partners.
- No partner shall engage himself any business which competes with that of the firm.

Short Answer Type Questions

- Define partnership.
- What is partnership deed?
- Minor partner.
- Secret partner.
- Partner by Estoppel / Holding out.

Long Answer Type Questions

- What are the essential characteristics of partnership firm?
    - What are the merits of partnership form of organisation ?
- What are the demerits of partnership form of organisation ?
- What are the duties of partners?
- What are the rights of partners?

6.Explain the various types of partner.

UNIT-4

Joint Stock Company

Joint Stock Company – Characteristics-Merits of Joint Stock company-Demerits of Joint stock company-Kinds of companies-promoter

Joint Stock Company

A company is an association of many people. It is registered and has a capital of fixed amount. The capital is divided into small units called 'shares'. A person who holds or buys a share in a company is known as shareholder. Shareholders are the members of the company. As the capital of a company is contributed jointly by large number of persons a company is called a Joint Stock Company.

Definitions

Prof. L.H. Haney, "A joint stock company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership".

Section 2(20) of the companies Act, 2013 provided that "Company means a company incorporated under this Act or under any previous Company Law".

Characteristics of Joint Stock Company

1. Association of Persons

A company is a voluntary association of many persons. The association must be registered or incorporated under companies act. A private limited company must have at least two persons and a public limited company must have at least seven persons to get it registered.

2. Separate Legal Entity

A company is created under law. It has separate legal entity apart from its members. It is an independent person in the eyes of law. It can buy, sell and hold property in its own name like an individual. It can have a bank account in its own name.

3. Artificial Legal Person

A company is an artificial person created by law. It is an artificial person, because it does not come into existence through natural birth. Like a natural person it has certain rights and obligations in terms of law.

4. Perpetual Existence/ Perpetual succession

A company has a continuous or uninterrupted existence. Its life is not affected by the death, insolvency of its members or directors. On account of its stable nature, a company is best suited for such type of business which requires long periods of time to mature and develop.

5. Limited Liability

Liability of shareholders of a limited company is limited to the face value of shares they have purchased. He is not personally liable for the debts of the company.

6. Common Seal

A company being an artificial person cannot sign for itself. Therefore, the law requires every company to have a seal and get its name engraved on it. The common seal thus serves as the official signature of the company. It is kept under lock and key.

7. Business

A company can conduct only such business as stated in memorandum of association. It cannot go beyond the powers given to it by its memorandum of association.

Merits of Joint Stock Company

1. **Large Financial Resources**

A joint stock company is able to collect a large amount of capital through small contributions from a large number of people. In a public limited company, shares can be offered to the general public to raise capital. The companies can also accept deposits from the public and issue debentures to raise funds.

2. **Limited Liability**

In case of a joint stock company the liability of its members is limited to the value of shares held by them. This advantage attracts many people to invest their savings in the company and it encourages the company to take more risks.

3. Transferability of Shares

The shares of a company can be transferred by its members. A shareholder can sell his shares in the open market. Under Articles of Association, the company can put certain restrictions on the transfer of shares, but it cannot altogether stop it. However, private companies can put more restrictions on transferability of shares, virtually making it zero.

4. **Continuity or Stability in Existence**

A company enjoys continuous or uninterrupted business life. As a body corporate it continues exist even if all its members die. The stability of business is of great importance to the society as well as to the nation.

5. **Professional Management**

Management of a company is in the hands of the directors, who are elected democratically by the members or share holders. These directors are known as ‘Board of Directors’. They manage the affairs of the company and are accountable to all the investors. So, the investors elect capable persons who can manage the company efficiently.

6. **Large-Scale Production**

Since there is an availability of large financial resources and technical expertise, it is possible for the companies to have “large scale” production. This enables the company to produce more efficiently and at a lower cost.

7. **Research and Development**

Only in joint stock company form of business it is possible to invest a lot of money on research and development so that new design better quality products can be achieved.

Demerits of Joint Stock Company

1. **Difficult to Form**

The formation and registration of Joint Stock Company involves a long and complicated procedure. A number of legal documents and formalities have to be completed before a company can start business.

2. **Excessive Government Control**

Joint stock companies are regulated by government through the companies act and other economic legislations. Especially, public limited companies are required to complete various legal formalities as provided in the companies act and other legislations. This affects the smooth functioning of the companies.

3. **Delay in policy Decisions**

Generally policy decisions are taken at the 'Board of Directors' meetings of the company. Further, the company has to fulfil certain procedural formalities. These procedures are time consuming and therefore, may delay action on the decisions.

4. **Undue Speculation in Shares**

Joint stock companies facilitate speculation in shares at stock exchanges. Illegitimate speculation in shares of a company is injurious to the interests of share holders. It may weaken the confidence of investors and may lead to financial crisis. The management of joint stock companies also sometimes encourage speculation in shares for their personal gains.

5. **Lack of Secrecy**

The management of company remains in the hands of many persons. Everything is discussed in the meetings of board of directors. Hence, the trade secrets cannot be maintained.

6. **Social Evils**

The company form of organisation leads to large-scale production. The evil of factory system like insanitation, air pollution, congestion of cities are attributed to joint stock companies. Joint stock companies facilitate formulation of business combinations which ultimately lead to the monopolistic control and exploitation of consumers.

7. Conflict of Interests

Company form of organisation gives rise to conflict of interest between various sections namely management, shareholders, employees, creditors etc. It becomes difficult for the company to reconcile the interest of various stakeholders.

Kinds of Companies

1. **Chartered Companies**

A company which is created by special charter granted by the monarch is a called a 'chartered company'. The East India Company, the Chartered Bank of India and Australia were incorporated by the grant of a special Royal charter. These companies are no longer formed in any country.

2. **Statutory Company**

A company which is created by a special act of the legislature is called a 'Statutory company'. The objects, powers, rights and responsibilities of such a company are clearly defined in the Act. Generally, companies for public utility services are formed under special statutes. These companies may or may not use the word 'Limited'. Ex: R.B.I, IDBI, L.I.C, U.T.I, S.T.C etc.

3. **Registered Companies**

A company registered under the provisions of companies Act is called "Registered" or incorporated company. Most of the companies in India are registered under the Indian companies Act, 2013. Registered companies may be limited by shares, limited by guarantee or unlimited companies. For example Tata Iron and Steel Industry, Bharat Sanchar Nigam Limited etc.

4. **Company Limited by Shares**

The companies limited by shares have a share capital divided into shares. The shareholders are not liable to pay anything more than the value of the shares held by them, whatever be the liabilities of the company. Ex: L&T and Reliance Industries

5. **Company Limited by Guarantee**

The liability of members in such a company is limited to a specific amount as they agreed to contribute to the assets being wound up. A guarantee company is formed generally to promote education, art, science, culture, sports etc. Example Trade association, chambers of commerce, stock exchanges, sports clubs etc., are often organised as companies limited by guarantee.

6. **Unlimited Company**

The companies registered without limiting the liability of members to the value of shares are called 'unlimited company'. These companies are rarely formed. Ex: Amway India Enterprises Private Limited, GE Capital Services India.

7. **Private Company**

Private company is a company which by its articles of association restricts the right of members to transfer shares, limits the number of its members to 200, and prohibits any invitation to the public to subscribe its shares. The number of members required to form a private company is two. Such a company must use the word 'private' in its name. Ex: TCS, Wipro, ITC, HLL, etc.

8. **Public Company**

A public company means a company which is not a private company. In other words a public company is one which lays down no restriction on the transfer of its shares, does not limit the maximum number of members and can invite public for **s**ubscribing to its shares and debentures. Ex: HPCL, Central Bank of India, Oil India Limited, Indian Railways, etc.

9. Government Company

A Government company is a company is which 51 percent or more of the paid up share capital is held by central or state government. The remaining 49 or less of the paid up capital may therefore be held by private parties of financial institutions. Hindustan steel limited, Air India, State Trading Corporation of India are examples of a government company.

10. Indian Companies

A company incorporated in India under the companies Act, whether operating in India or outside is called 'Indian company'.

11. Foreign Companies

A company incorporated outside India but has a place of business located in India through its branches or agencies. Such companies have to furnish some information as required by the Registrar of Companies in India.

12. One Person Company

One per company (OPC) has been allowed, for the first time in Companies Act, 2013. A one person company is a one shareholder corporate entity, where legal and financial liability is limited to the company only. One person subscribes his name to a memorandum and comply with the requirements of the Act in respect of registration.

Promoter

Promoter conceives an idea for setting up of a particular business at a given place and performs various formalities required for starting a company. A promoter may be an individual, firm, association of persons or a company. The persons who assist the promoter in completing various legal formalities are professional people like Counsels, Solicitors, Accountants etc., and not promoters.

Characteristics of a promoter

- A promoter conceives an idea for the setting up a business.
- He makes preliminary investigations and ensures about the future prospects of the business.
- He brings together various persons who agree to associate with him and share the business responsibilities.
- He prepares various documents and gets the company incorporated.
- He raises the required finances and get the company going.

Short Answer Type Questions

- Define Joint Stock Company?
- Define a private company?
- Define a public company?
- What is a government company?
- OPC.
- Who is a promoter?

Long Answer Type Questions

- What are the characteristics of a joint stock company?
- What are the merits of a joint stock company?
- What are the demerits of a joint stock company?
- Discuss various kinds of companies briefly?

chapter – 5
INCORPORATION OF JOINT STOCK COMPANY

Procedure of promotion and incorporation of Joint stock company – Memorandum of Association – Articles of association – Prospectus – Golden rule of framing prospectus.

The Basic procedure for incorporation.

For a company to be incorporated, if must be registered with the "Register of Companies" (ROC). After the company is registered it receives a "certificate of incorporation" after which the company becomes a legal entity.

Registration of the Company.

The following documents must be filed for the registration of company.

1. The Memorandum of Association.
2. The Articles of Association.
3. An agreement, if any, which the company proposes to enter into with any individual for appointment as it's managing director or whole time director or manager.
4. A statutory declaration in form 1 by an advocate, attorney or pleader entitled to appear before the high court or a company secretary or chartered Accountant in whole time practice in India who is engaged in the formation of the company or by a person who is named as a director or manager or secretary of the company that the requirements of the companies Act have been complied with in respect of the registration of the companies and matters precedents and incidental thereto.

In addition to the above, in case of a public company the following documents must also be filed;

- Written consent of directors in Form 29 to act as directors.
- The complete address of the registered office of the company in Form 18.
- Details of the directors, managing director and manager of the company in Form 32.

What is Memorandum of Association:

The Basic document to be filed for incorporation of the company is Memorandum of Association. This is called as "Charter" or "Life giving of document" of the company. It containing the right privileges and powers of the company. It regarded as the constitution of the companies.

Content of the Memorandum.

According to section 13 of the companies Act the Memorandum of every company must contain some clauses. These clauses are also known as the "conditions or contents" in the memorandum.

1. **Name Clause**:-

This is the first clause in the memorandum. This clause contains the name of the company. The name must be approved by the central Government.

a) The proposed name should not be indentified to the name of an existing company.

b) The proposed name should not suggest any connection or link with a government department.

c) The proposed name should not be objectionable under the provisions of the Emblems and names Act, 1950.

d) The name of a public company limited by shares should end with the word "Limited" while that if a private company should end with the word. "Private Limited".

2. **Situation Clause**:-

This clause is also known as "domicile clause". This clause containing the name of the state in which the registered office of the company is to be situated or located. In practice the address of the registered office is given along with the name of the state.

3. **Objects Clause**:-

This clause defines or states the powers of the company and scope of its activities. The objects clause is of crucial importance for the company as well as the persons who deals with it. The objects should not be against the provision of the companies Act and the public policy.

4.Liability Clause:-

This clause states the nature of liability of the members. The liability may be limited by shares or by guarantee.

5. **Capital Clause**:-

The capital clause indicate the total amount of share capital with which the company is to be registered. The registered capital is also called as "authorized capital" or "nominal capital". This registered capital is divided into various kinds of shares and number of shares and these are also mentioned under this clause.

6.Subscription or Association clause:-

This clause contains the names, addresses and signatures of the persons who invited in this association. Seven persons should be signed in case of public limited company and atleast two persons in case of private limited company.

Articles of Association:-

The article of association containing the rules and regulations for the administration of the company. It includes byelaws relating to the management of the company.

All the above stated documents have to be sent to the Registrar along with the registration fee, filling fee, stamp duty, as specified. The registration on receipt of the documents, undertake a scrutiny and if he finds nothing objectionable, issues under his seal and signature, the "Certificate of Incorporation".

The certificate needs to be collected from the Registrar's Office. After obtaining the certificate of incorporation, the secretary of the company must send the notice to registered address of the company, if it was not sent earlier, within 30 days of registration.

On obtaining the incorporation certificate a "Private Company" is eligible to transact business but a public company however cannot transact business unless it obtains the trading certificate.

If public limited company wish to raise the capital, it needs to prepare the document known as “Prospectus”. Public companies that are confident of raising capital on their own need to prepare a document known as “Statement in lieu of prospectus.”

Contents of Articles of Association:

1. Nature of the company.
2. Number and value of shares and different classes of shareholders.
3. Rules regarding the rights of different classes of shareholders.
4. Rules regarding transfer and transmission of shares forefeature of shares.
5. Rules regarding the appointment, power and duties of the directors and offices of the company.
6. Rules regarding the notice of the meeting, voting rights, quorum, poll, property etc., of the shareholders.
7. Rules regarding the audit of accounts, declaration of divided etc.
8. Rules regarding the issue of share certificates.
9. Rules regarding recognition of share capital.
10. Rules regarding the winding up of the company.

Certificate of Incorporation:-

Promoters should pay the necessary filling and registration fees. The registrar will examine the documents. If they are found to be correct and in order, he will enter the name of the company in the register. After that he will issue a certificate known as “Certificate of Incorporation”. This certificate is popularly known as the ‘birth certificate’ of the company.

Certificate of Commencement of Business:-

A private limited company can start it’s business soon after receiving the certificate of incorporation. But a public company cannot do any business and cannot exercise any borrowing powers. It can do so only after obtaining another certificate called “Certificate of Commencement of Business”.

To obtain the certificate o commencement of business the promoters should make the prospectus for the company. This prospectus needs to be published in the daily news paper. The promoters should submit the following documents to registrar.

- A copy of prospectus.
- Name, address, designation, occupation, etc of the directors.
- Directors written letter of agreement that they want to work as director of the company.
- Declaration that the directors have fully paid the minimum amount of sponsor share.
- Declaration by the company secretary or other authorized persons that the above affairs have maintained all rules and regulations of company Act, 1994.

The registrar being satisfied on the paper submitted for the proposed company issue certificate of commencement. On setting this certificate the public limited company can start its business.

Prospectus:-

Companies Act, 1956 defines the prospectus as "It is an invitation to the public for subscribing to the share capital and debentures". This prospectus may be issue in the form of a circular, notice, advertisement or any other form of invitation to the general public. It bring to the notice of the public that a new company has been formulated.

Objects of Prospectus:-

The objects of prospectus are as follows:

1. To bring to the public that a new company has been launched.
2. To raise the interest of the public to make investments in the company.
3. This prospectus should be written form.
4. The company directors must accept the responsibility of the company.
5. The directors must sign on the prospectus and with seal.
6. It should be an invitation by the company.

Contents of Prospectus:-

The prospectus should contain the following.

1. **General information**: The directors names addresses, designations and their signatures in the memorandum of Association.
2. **Issue of share capital**:- The classification of share capital, number of shares and minimum subscription of the share capital.

3. **Application for shares**:- The application method for the issued shares, their allotment and commission to the agents.
4. **Company management**:- Appointments of managers, agreements, their names and addresses, remuneration to the entrepreneur, obtaining the assets, and appointments and agreements of Bankers, lawyers and Auditors.
5. **Company objects**:- If the company is going on, the present results of the company and future estimates to develop the business.
6. **Subsidiary Companies**:- If the companies having any subsidiary companies their information.
7. **Future estimates**:- The estimates of Future sales and profits.
8. **Rate of Share**:- The rate of issue of share, how that is fixed.
9. **Disputes of share holders**:- If any disputes arises in the share holders, how they will be cleared.

Business suitable for Joint stock company:

A joint stock company form of business organization is formed to be suitable where the volume of business is large and huge financial resances are needed.

Since members of Joint stock company have limited liability it is possible to raise capital from the public without much difficult. This form of organization is also suitable for business which involve heavy risks.

Again, for business activities which require public support and confidence, joint stock form is preferred as it has a separate legal status.

Certain types of businesses, like production of pharmaceuticals, machine manufacturing information technology, iron and steel, aluminum fertilizers, cement etc., are generally organized in the form of Joint Stock Company.

Statement in lieu of prospectus:-

If the public limited company invites private people to subscribe the capital will not issue prospectus. That means public company directors obtain the share capital without issue of prospectus, the company may issue the statement will be send to the company registrar three day in advance. If the directors issue the statement in lieu of prospectus to the private people without notice of the company registrar they will be punished by the court accordingly to companies Act schedule III.

Short answer type questions:

1. What is Memorandum of Association?
2. What is Articles of Association?
3. What is Prospectus?
4. What is Certificate of Incorporation?
5. What is Certificate of commencement of business?
6. What are the businesses suitable for Joint stock Companies?
7. What is statement in lieu of prospectus?

Long answer type questions:

1. Explain about basic procedure and documents to be submitted for the incorporation of Joint Stock Company?
2. What do you understand by “Memorandum of Association” describe its contents?
3. Define Articles of Association? Describe its contents?
4. Define Prospectus? Briefly discuss the Objects of Prospectus.
5. Explain the contents of Prospectus.

CHAPTER - 6

CO-OPERATIVE SOCIETIS

Characteristics – Types of co-operative societies – merits and demerits

Co-operative:

A cooperative is “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

A word co-operative means working together and with others for a common purpose.

Co-operative society

The co-operative society is a voluntary association of persons who join together with the motive of welfare of the members. They join to protect themselves from the possible exploitation at by middlemen who desire to earn greater profits.

The co-operative society is compulsorily require to be registered under the co-operative societies Act, 1912. For setting up a co-operative society the consent of atleast ten adult persons to form a society is required. The capital of a society is raised from its members, through issue of shares. The society acquires a distinct legal identity after its registration.

Characteristics of Co-operative Societies.

1. Voluntary Membership.
2. Legal Status.
3. Limited Liability.
4. Control
5. Service Motive
6. Democratic management
7. Distribution of surplus
8. Cash trading

1. Voluntary Membership:-

The membership of a co-operative society is voluntary. A person is free to join in a co-operative society and is free to leave at any time as per his desire. But a member is desire to leave, he has to submit a notice before leaving the society. The membership is open to all, irrespective of their religion, caste and gender.

2. Legal Status:-

Registration of co-operative society is compulsory as per the co-operative societies Act, 1912. This gives separate identity to the Society. The society can enter into contracts and hold property.

3. Limited Liability:-

The Liability of the members of a co-operative society is limited to the extent of the amount contributed by them as capital.

4. Control:-

The right to vote gives the members a chance to choose the members of managing committee that gives the co-operative society a democratic character. Every members has right to give one vote.

5. Service Motive:-

The co-operative society follows the values of mutual help and welfare. The motive of service dominates its working.

6. Democratic Management:-

Co-operative societies are managed on democratic lines. Money has no influence every one has equal voice in management of a co-operative society.

7. Distribution of Surplus:-

The co-operative societies earn surplus from their services. In case of consumer co-operatives, the surplus is distributed according to purchases made by the members. Any surplus arises from the members and is spent on their welfare.

8. Cash Trading:-

The main principle of a co-operative society is trading on cash basis. There is no credit sales.

Types of Co-operative Societies:-

1. Consumers co-operative societies.
2. Producer's co-operative societies.
3. Marketing co-operative societies.
4. Credit co-operative societies.
5. Farmer's co-operative societies.
6. Co-operative housing societies.

1. Consumer's Co-operative Society:

The Consumer's Co-operative Societies are formed to protect the interests of consumers. The consumers who want to obtain good quality products at reasonable prices. The society eliminates middlemen to achieve economy in operations by purchasing goods in bulk directly from the wholesalers and selling those goods to it's members.

2. Producers co-operative societies:-

These societies are set up to protect the interests of small producers The society fights against the big capitalists and enhance the bargaining power of small producer's by supplying raw materials, equipment and other inputs to the members and buying their output for sale. The members are producers who want to procure inputs for production of goods to meet the demands of consumers.

3. Marketing co-operative Societies:

This type of societies are established to help small producers in selling their products. The members consists of producers who want to obtain reasonable prices to their products. To eliminate middle men and improve competitive position of its members in the market for the products.

4. Credit Co-operative Societies:-

Credit co-operative societies are established for providing easy credit on reasonable terms to the members. The members are the persons who want financial help in the form of loans. The societies protects the members from exploitation of many leaders who charge high rate of interest on loans. The society provides loans to members out of the amount collected as capital and deposits from the members and charge low rate of interest.

5. Farmer's co-operative Societies:

To protects the interests of farmers by producing better inputs at reasonable costs, this type of co-operative society are established. The farmers get together as members and they form a society to gain the benefits of large scale, farming are increased the productivity such societies to provide better quality seeds, fertilizers, machinery and other modern technology for use in cultivation of crops. This helps in improving the yield and returns to the farmers.

6. **Co-operative housing societies**:

Co-operative housing societies are established to help people with limited income to construct houses at reasonable costs. This aims to solve the housing problems of the members by constructing houses and giving the options of paying in installments.

Merits of co-operative societies:

1. Democratic principles
2. Limited Liability.
3. Stable existence.
4. Economy in operations.
5. Support from government.
6. Ease of formation.

1. **Democratic Principles**:-

The principle of 'One man one vote' governs to cooperative society. Irrespective of the amount of capital contribution by a member each member is entitled to equal voting rights.

2. **Limited Liability**:-

The liability of members of a Co-operative society is limited to the extent of their capital contribution. The personal assets of the members are safe from being used to repay business debts.

3. **Stable existence**:-

Death, bankruptcy or Insanity of the members do not affect continuity of a co-operative society. A society is unaffected by any change in the membership.

4. **Economy in operations**:-

The members generally offer honorary services to the society. As there is elimination of middlemen, it results in reducing costs. The customers or producers themselves are members of the society and hence the risk of bad debts is lower.

5. **Support from government**:-

The co-operative society follows democratic and hence funds support from the government in the form of low taxes, subsidies, and low interest rates on loans.

6. **Ease of Formation**:-
   The co-operative society can be started with a minimum of ten members and is governed by provisions of co-operative societies Act, 1912. The registration procedure is simple involving a few legal formalities.

Demerits:

1. Limited resources
2. Inefficiency in management
3. Lack of secrecy
4. Government control
5. Possibility of conflicts
6. Political interference

1) **Limited resources**:-
   The resources of co-operative society should be limited because the members can contribute low investments and they would not depend on profits. If the society need high range of capital than the society offers more members.
2) **Inefficiency Management**:-
   The members who offered honorary services on a voluntary basis. The members generally not professionally sound to handle the management. So, the society may not appoint exports because of their inability to pay high salaries.
3) **Lack of Secrecy**:-
   The members discuss all operations of a co-operative society in the open meetings. So, the operators of the Business should not kept in secret.
4) **Government Control**:-
   The co-operative societies have to follow the rules and regulations related to auditing of accounts, submission of accounts as per the co-operative Societies Acts.
5) **Possibility of Conflicts**:-
   There would be internal quarrels between members in taking decisions, personal dominations may causes to damage the society.
6) **Political Interference**:-
   There should be a political interference in co-operative society, because they are governed and controlled by government regulations. In that case the welfare of the society may damage.

Formation of Co-operative Society:

The application for forming a society must have the following information.

1. Name and address of the society.
2. Aims and objects of the society.
3. Names and addresses of members of the society.
4. Share capital and its division.
5. Mode of admitting new members.
6. A copy of the bye laws of the society.

Short answer type questions:

1. Define Co-operative society?
2. What is Consumer co-operative society?
3. What is Co-operative housing society?
4. What is Producer's Co-operative society?
5. What is Farmer's Co-operative society?

Long answer type questions:

1. What are the important characteristics of Co-operative societies?
2. What are the Merits of Co-operative societies?
3. What are the Demerits of Co-operative societies?
4. Explain various types of Co-operative societies?
5. What is the major information required for formation of Co-operative society?

CHAPTER - 7

BANKING AND INSURANCE SERVICES

Definition of bank and insurance – Different types of banks – Functions of commercial banks – Advantages of insurance – Principles of insurance – Types of insurance

Banking:

During the past nationalization era there was a change in the banking sector. Private Banking came into being and new milestones are observed after that. The introduction of ATM machines are great help to the people as they can make transactions from any where across the country.

The next change in the field of Banking was mobile Banking that upgrades the clients through the SMS facility. The Banking sector is one of the greatest sector that can being a change and a revolution in the economy of India. The another next stage in the banking is online Banking that you can pay bills super fast and your account is automatically credited and debited for each deposit and payment making it easier to stay on.

The name Bank is derived from the Italian word banco “desk or bench” used during the Renaissance by Florentine bankers. These bankers used to make their transactions above a desk covered by a green table cloth.

Definition:

Under the Indian Law Banking regulations Act of India, 1949 “Accepting for purpose of lending or investment of deposits of money from the public repayable on demand or otherwise and withdrawal by cheque, drafts and order or otherwise” (Section 56).

Types of Banks:-

1. Commercial Banks.
2. Industrial Banks.
3. Agriculture Banks.
4. Exchange Banks.
5. Central Banks.
6. Co-operative Banks.
7. Nationalized Banks.
8. Regional Rural Banks.
9. NABARD.

1. **Commercial Banks** :-

Commercial Banks are established with an objective to help businessmen. These Banks collect money from General public and give short term loans to businessmen by way of cash credits, over drafts etc. In India commercial Banks are established under companies Act, 1956.

2. **Industrial Banks**:-

Financial Institutions with a limited scope of service. Industrial banks sell certificates that are labeled as investments shares and also accepts customer deposits. Lending activities can be performed either directly or indirectly through the capital market.

3.Agriculture Banks:-

Agricultural banks provide facility to the farmers to meet the cost of cultivation and working capital activities for farming and allied activities. They also offer term loans for buying cattle, purchase of equipment for irrigation and other agriculture requirements.

4. **Exchange Banks**:-

Exchange Bank is a community bank offering personal and business banking services including home loans. These banks deal with Foreign exchange and specialize in financing Foreign trade.

5. **Reserve Bank of India**:-(RBI)

Reserve Bank of India was established on April, 1st, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. It acts as a central Bank of India. The Governor of Reserve Bank of India sits in central office where policies are formulated and Finalized. The RBI regulates the issue of Bank notes, and operates the credit and currency system of the country.

6. Co-operative Banks:-

Co-operative Banks in India have came into existence under the
Agriculture Credit Co-operative Societies Act 1904. Co-operative banks mobilize deposits for upliftment of weaker sections, particularly carrying out of the subsidy programmes for the poor.

7.Nationalised Banks:-

Banking sector in India is dominated by nationalized banks. The nationalization of 14 Private banks in India were nationalized on 19th July 1969 and another 6 banks were nationalized on 15th April 1980. State bank of India is the only Public Sector bank nationalized in 1955 under SBI act, 1955.

8.Regional Rural Banks:-

On the recommendations of Narasimham Committee the concept of Regional rural Banks was introduced in India in 1975. The share capital of an RRB is subscribed by Central Government, the State Government and sponsoring bank in the ratio of 50:15:35 respectively. These are specilised rural financial institutions to fulfill the credit requirement of the Rural poor.

9.NABARD:-

Nationalized Bank for Agriculture and Rural development Bank (NABARD) is established in 12th July 1982 as an Apex bank for Agriculture and Rural development. It concerns policy planning and operations in the field of credit for agriculture and other economic activities in rural areas.

Functions of commercial Banks:-

1. Accepts various types of deposits from public including saving account, recurring account and fixed deposits.
2. Providing loans and advances of various forms of facilities like over drafts, cash credit, bills discounting and money at call etc.,
3. Collect and clear cheques, dividends and interest
4. Make payment of rent, insurance premiums.
5. Deal in foreign exchange transactions.
6. Purchase and sell securities.
7. Act of a trustee, attorney, correspondent and executor.
8. Accepts tax proceeds and Tax returns.
9. Provide safety locker facility to customers.
10. Provide money transfer facility.
11. Issue Traveler cheques.
12. Provide various cards i.e. debit cards, credit cards and smart cards.

Insurance

Insurance sector is growing rapidly from its inception during 1818, and it is at race with other competitive sectors that enhances the economy. Apart from LIC there are different private organizations come into existence. It helps people during their trouble period and provide them money that were invested money by them in policies.

Definition:

"Insurance is a contract in which sum of money is paid by the insured in consideration of the insure's incurring the risk of paying a large sum upon a given contingency".

Types of Insurance:

There are three main types of Insurance.

They are;

1. Life Insurance
2. General Insurance
3. Social Insurance.

1) **Life Insurance**:- Life Insurance is a contract where by the insurer undertakes to pay in consideration for premium a certain sum of money to the legal heir or nominee of an insured person on his/her death or to the insured after the lapse of a certain period of time. Life Insurance includes whole life policy, endowment policy, group insurance policy money back policy etc.

2) **General Insurance**:-

General Insurance or non-life insurance policies including automobile and home owners policies provide payments depending upon the losses from a particular financial event. It covers fire, marine theft and other losses.

3) Social Insurance:-

Social Insurance means government provisions for unemployed, injured or aged people financial by contributions from employers and employees as well as by government revenue.

Example: Health Insurance, Employees state Insurance, unemployment insurance etc.

Principles of Insurance:-

1. Insurance is a General contract against person, asset, vehicles, cattle's etc.
2. The insured and insurer must observe utmost good faith in a contract of insurance.
3. In insurance contract the underwriter agrees to indemnify the insured against losses by see to the extent of the amount insured.
4. The principles of subrogation and contribution are applicable to fire insurance and marine insurance.

5. Every person must have the insurable interest in the subject matter of insurance. How much they wanted to insure when they need money, how much they require for the future needs.
6. The insured can take two or more than two policies on the same property. The insured is entitled to recover only the actual loss and nothing more.

Characteristics of Insurance:-

All insurance contract has the following characteristics, which are generally observed in case of all kinds of insurance contracts whether life, marine, fire or miscellaneous insurance.

1) **Risk sharing and risk transfer**:- Insurance is a device to share the Financial losses, which occurs to an individuals or his family on the happening of a specified events. The event may be the death of earning member of the family.
2) **Co-operative device**:- A group of persons who agree to share the financial losses may be brought together voluntarily through publicity or through solicitations of the agents. An insurer by insuring large number of persons is able to pay the amount of loss.
3) **Payment of claim at the occurrence of contingency**:- The payment is made an happening of a certain contingencies insured. The life insurance claim is a certainty because the contingency of death or the expiry of term, will certainly occur and the payment is certain.
4) **Calculate risk in advance:-** Risk is calculated on the basis of probability theory before insuring since the premium payable on the policy is to be determined. "Probability theory" is that body of knowledge, which is concerned with measuring the likely hood that something will happen and making estimates on the basis of this likely hood.
5) **Amount of payment:**- In life insurance the purpose is not to make good the financial loss suffered. Moreover one cannot estimates the value of human being. A person is no doubt precious to his/her family. The insurer promises to pay a fixed sum of money on the happening of an event i.e. death or permanently disabled.

6) **Large number of insured persons:**- The price of insurance is basically linked to the cost of claims, which is only known subsequent. In the beginning, it is unknown factor and an estimate is made on the basis of past claims experience.

7) **Insurance is not a gambling:**- A family is protected against losses on death and damage with the help of insurance. The insurance contract is essentially non speculative and insurance is also not gambling

Salient features of Insurance:-

Some of the features of life insurance are mentioned below:

1) Instrument of savings.
2) Provide social security.
3) Risk coverage starts from date of accepting of proposal.
4) Beneficiary nominee/legal heir stands to gain.
5) Policy can be assigned and mortgaged.
6) Policy holders can seek loans against the policy.
7) Certain policies cover up for treatment to certain serious diseases.
8) Income tax benefits on the amount of premium paid.
9) Money can be set aside for children marriage and education.
10) Provision for old age.

Advantages of Insurance:

(1) **Financial assistance for developing industry**:-

Insurance companies mobilize the savings of the public, Large funds are collected by way of premium. These funds are invested in shares and debentures in different companies.

(2) **Developing a habit of saving money**:-

Now a days saving money is the main object of the public to lead the life in a critical conditions. So insurance develops a habit of saving money by paying premium.

3 . Protection against risk of loss:-

Insurance provides protection against the risk of loss. It makes business operations very secured by providing against all probable losses and dangers. Insurance gives security to individually through accidents, health, sickness, old age etc

4. **Employment opportunities**:-

The scope of activities of insurance is very wide. No.of people joining as agents gaining self respect and earning lakhs of rupees in self employment. Thousands of people getting employment in insurance companies.

5. **Providing loan facilities:-**

   Insurance companies are providing loan facility to the insurers on their policies paid up premiums.

6. **Social Welfare:-**

   Insurance companies provide finance to the government. investments of insurance companies in the development plans of the nation lead to the national prosperity of the company.

Short answer type questions:

1. Define Bank?
2. Define Insurance?
3. What is Commercial Bank?
4. What is Exchange Bank?
5. Explain NABARD?
6. What is Reserve Bank of India?

Long answer type questions:

1. Write briefly different types of Banks?
2. Write the important functions of commercial banks?
3. What are the characteristics of Insurance?
4. What are the principles of Insurance?
5. Explain briefly the types of Insurance?
6. What are the salient features of Insurance?
7. What are the advantages of Insurance?

CHAPTER - 8

Transport, ware housing and advertisement

Transport- Advantages of transport – Types of transport –Importance of warehousing – types of warehousing – Need and importance of advertisement – Print media – outdoor media

Transport;

Transport means take and carry (people or goods) from one place to another by means of a vehicle, aircraft or ship.

Transportation plays a major role in the economy. It increases the production efficiency and it links to the logistic system. Vehicle should have some characteristics which are used to easy transport of goods and services.

***Types of Transport*:**

1.Road Transport: Road transport is the commonly used method to transport goods from one place to another place. It transport limited goods to limited areas. Road transport systems have high maintenance costs both for vehicles and infrastructures. It leads to reach ultimate location of goods to destination.

Advantages:

1. High flexibility and ability to move the vehicles fastly.
2. Use different routes to reach the destination quickly.
3. Does door to door services.
4. High safety for the cargo.
5. Chance to select the carrier which is suitable for carrying the goods.

Disadvantages:

1. It mostly depends on claimatical conditions.
2. High cost for long distances.
3. Productivity is low.
4. Subject to traffic delays, breakdowns, and driving regulations.

2.Rail Transport:- Rail transport is ideal for heavy goods and has a wide range of applications safe mode of transport, fast delivery, cost effective and reliable. Heavy industries are traditionally linked with rail transport systems. It is very useful for coal steel and heavy goods.

Advantages:

1. Ability of loading and unloading goods and services is more.
2. Frequency of delivering the goods over long distances is more.
3. Climatic conditions have no effect.
4. No traffic or congestion easy movement of the vehicle.
5. It encourages mobility of labor and thereby provides a great scope for employment.

Disadvantages:

1. Capital and initial investments are more
2. High material usage for the construction and even the fuel consumption.
3. The routes and timings cannot be adjusted to individual requirements.

3.Air transport: The mobility of men and material by air is called Air transport. Air transport has been accommodations growing quantities of high value of freight and is playing a growing role in global logistics. Air transport is used by companies who want to deliver goods in short time to long distance with safe mode.

Advantages:

1. Highest speed with minimum costs.
2. Even delivers goods to remote places.
3. High reliability for costly and light weight goods.
4. Free from physical barriers.

Disadvantages:

1. Highest cost of transportation.
2. Even adverse weather conditions affect the transportation.
3. Material and fuel consumption is costly.

4. Water Transport:

Water transport is the cheapest and the oldest mode of transport. It operates in a natural track and hence does not require huge capital investment in the construction and maintenance of its track axcept in case of canals. The cost of operation of water transport is also very less. It has the largest carrying capacity and is most suitable for carrying bulky goods over long distances.

Advantage:

1. It is economical mode for transporting heavy loads and even in cargo.
2. It is the safest mode which provides convenience to the people without accidents.
3. Cost of construction and maintenance is very low.
4. It even provides international transport.

Disadvantages:

1. It is highly affected by the weather conditions.
2. It requires large initial investment.
3. It is a slow process.

Warehousing:

A warehouse is a commercial building for storage of goods. Warehouses are used by manufacturers, importers, exporters, wholesalers, transport businesses, customs etc. They are usually large plain buildings in industrial areas of cities, towns and villages.

Types of Warehousing:

1) **Public Warehouses**:

Public warehouses are established for providing storage facilities to retailers, wholesalers, manufacturers or even the general public in consideration for storage charges, public warehouses are licensed by the Government.

2) **Private Warehouses**:

Private warehouses are those which are owned by large business houses or wholesalers for the storage of their own stock. Private ware houses are found in very small numbers due to their heavy cost of construction.

3) **Bonded Warehouses**:

A Bonded Warehouse is established under a bond with the customs authority for safe keeping of dutiable goods till the payment of import duty. It is licensed by the Government.

4) **Government Warehouses**:

The Warehouses are established by the central and state Governments and corporations. Ex. Godowns of the food corporation of India, Central warehousing corporation of India, State Warehousing corporations.

5) **<u>Cold Storages</u>**:

   These warehouses are used to store perishable goods such as Vegetables, Milk products, fruits, Fishes, Eggs etc., for a long time without getting spoiled.

6) **<u>Special Commodity Warehouses</u>**:

   Warehouses which are specially constructed for storage of particulars commodity such as wool, cotton, tobacco etc., are called special commodity warehouses.

<u>Functions of Warehouses</u>:

1. **<u>Receiving</u>**:

   Orderly receipt of all materials coming into warehouses providing assurance that the quantity and quality of such materials are as ordered.

2. **<u>Prepackaging</u>**:

   When products are received in bulk from suppliers and subsequently packaged in merchandisable quantities or combinations with other parts to form kits or assortments.

3. **<u>Put away</u>**:

   Act of placing merchandisable in storage includes material handling location, verifications and product placement.

4. **<u>Storage</u>**:

   Physical containment of merchandise while it is awaiting demand. Storage method depends on its size, quantity of items in inventory and handling characteristics of the products.

5. **<u>Order picking</u>**:

   Process of removing items from storage to meet specific demand.

6. **<u>Packaging and/or pricing</u>**:

   individual items may be available for sale pricing is current at the time of sale.

7. **<u>Sortation</u>**:

   This activity is undertaken when an order has more than one item and accumulation is not done in picks.

Advertisement:

Advertising is an audio or visual form of marketing communication that employees an openly sponsored, non-personal massage to promote or sell a product, service or idea. Sponsor of advertising are often businesses wishing to promote their products or services.

According to American Marketing Association. "Advertising is any paid form of non-personal presentation and promotion of ideas goods and services of an identified sponsor."

Importance of Advertising:

1) Introducing new product
2) Increase the sale
3) Create steady demand
4) Helps in meeting competition
5) Increase the good will
6) Increase the morale
7) Facilities mass production

1. ***Introducing New Product***:

   Advertising helps in introducing new products. A business organization can introduce itself and its products to the public through advertising. It is essential for the organization to introduce its products through advertising.

2. ***Increase the sale***:

   Advertising leads to increase the sale of existing products entering into new markets and attracting new customers. The increase in the selling activities helps increment of sales in the market.

3. ***Create steady demand***:

   Advertising helps to create the steady demand for the products. For example a drink may be advertised during summer as a product necessary to fight trendiness caused by heat and during winter as essential things to resist cold.

4. ***Helps in meeting Competitions***:

   Advertising helps a meeting the forces of competition in the market place. If a product is not advertised continuously, the competitors may snatch its market through increased advertisements. Therefore advertising is necessary to remain in the market and remind the customer about its reputation in the market.

5. ***Increase the goodwill***:

   Advertising helps to increase the goodwill of a firm by promoting improved quality to the customers. It is necessary for an organizations to increase its goodwill to sustain in the market.

6. ***Increase the moral***:

   Advertising helps to increase the moral of the employees of the firm. The salesmen feel happier because their task becomes easier if the product is advertised and unknown to the public.

7. ***Facilitates mass production***:

   Advertising helps to facilitates mass production of goods in the market. It enables the manufacturers to achieve lower cost per unit of products. Distribution costs and also lowered when the manufacturers sells the product directly to the customers.

Types of advertising:

1) Online advertising.
2) Outdoor and transit.
3) Magazine
4) Direct mailing
5) Television
6) Newspaper
7) Radio

(1) ***Online Advertising***:-

A well designed website can entertain customers on internet to buy products. Advertising on the internet can be a cost effective way to attract new customers you can reach a global audience at a low cost.

(2) ***Outdoor and Transit***:-

Outdoor billboards can be signs by the road or boarding's at sport stadiums. Transit advertising can be posters on buses, Taxis and bicycles. Large bill boards can get your messages across with a big impact.

(3) ***Magazines***:-

Advertising in a specialists magazine can reach your target market quickly and easily. Readers tend to read magazine at their leisure time and keep them for longer. Magazines generally serve customers and trade direct.

(4) ***Mailing***:-

Direct mail means writing to customers directly. A direct mail approach is more personal as you can select your audience and plan the timing to suit your business.

(5) ***Television***:-

Advertising through television is ideal. If you cater to large market in a large area. Television Advertisement have the advantage of sight, sound, movement and color to persuade a customer to buy from you.

(6) ***News papers***:-

Newspaper advertising can promote your business to a wide range of customers. Display advertisement are placed throughout the paper while classified listings are under subject headings in a specified section.

(7) ***Radio***:-

Advertising on the radio is a great way to reach your target audience. If your target market listens to a particular station, then regular advertising can attract new customers.

Print Media:-

Any kind of material in written form which gives you knowledge is called Print media.

Ex., yellowpages, news papers, business directories , books magazines, posters etc.

Out door Media:-

Out of home advertising is focused on marketing to consumers when they are 'on the go' in public places in transit, waiting, and in specific commercial locations.

Out door advertising formats fall into four main categories: bill boards, street furniture, transit and subway ceilings etc,.

Short answer type questions:

1. What is meant by Transport?
2. What is meant by Warehouse?
3. What is meant by Advertisement?
4. What is Print Media?
5. What is Outdoor Media?

Long answer type questions:

1. **What are the advantages and disadvantages of Road Transport?**
2. **Explain the advantages and disadvantages of Rail Transport?**
3. **Explain the functions of Warehousing?**
4. **Explain the different types of Warehousing>**
5. **Describe the importance of advertisement?**
6. **Write about the various types of advertisement?**

ACCOUNTING & TAXATION

Paper - II

ACCOUNTANCY & COMPUTERS

INDEX

UNIT-1

INTRODUCTION OF ACCOUNTANCY

Introduction to Accountancy – Definition of Accountancy and Book keeping – Objectives- Merits and demerits – Accounting concepts – Conventions – Single entry system – Double entry system –Advantages

1.1. INTRODUCTION:

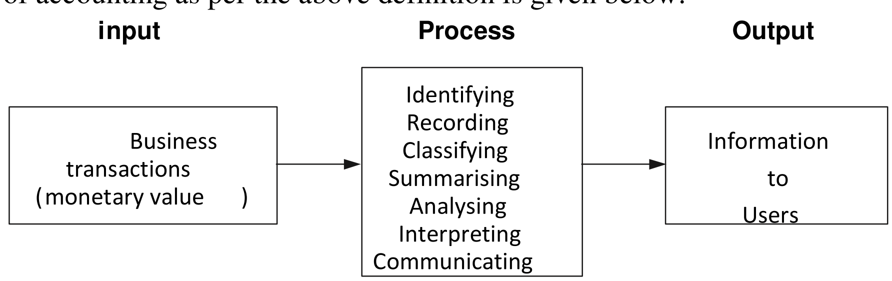
Accountancy or Accounting is the science of recording business transactions in a systematic manner. Accounting is considered as a system which collects and processes financial information of a business. This information is reported to the users to enable them to make appropriate decisions. Accounting helps in communicating the financial information of an organisation to various parties interested in it.

Definition:

- **The American Institute of Certified Public Accountants (AICPA)** defines accounting as: "the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least of financial character, and interpreting the results thereof."
- **The American Accounting Association (AAA)** defined accounting as 'the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of information'

1.2. ACCOUNTING PROCESS:

The process of accounting as per the above definition is given below:



i. **Identifying*:*** Identifying the business transactions from the source documents.

ii. Recording: The next function of accounting is to keep a systematic record of all business transactions, which are identified in an orderly manner, soon after their occurrence in the journal or subsidiary books.

iii. **Classifying*:*** This is concerned with the classification of the recorded business transactions so as to group the transactions of similar type at one place. i.e., in ledger accounts. In order to verify the arithmetical accuracy of the accounts, trial balance is prepared.

iv. **Summarising*:*** The classified information available from the trial balance are used to prepare profit and loss account and balance sheet in a manner useful to the users of accounting information.

v. **Analysing*:*** It establishes the relationship between the items of the profit and loss account and the balance sheet. The purpose of analysing is to identify the financial strength and weakness of the business. It provides the basis for interpretation.

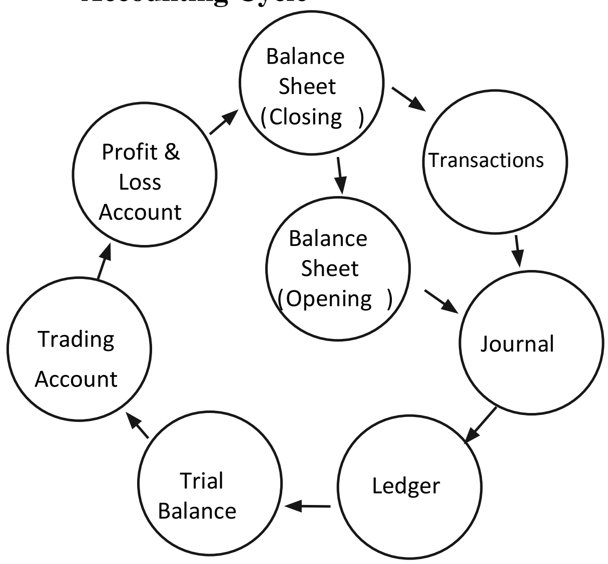
vi. **Interpreting:** It is concerned with explaining the meaning and significance of the relationship so established by the analysis. Interpretation should be useful to the users, so as to enable them to take correct decisions.

vii. **Communicating*:*** The results obtained from the summarised, analysed and interpreted information are communicated to the interested parties.

1.3. Meaning of Accounting Cycle:

An accounting cycle is a complete sequence of accounting process, that begins with the recording of business transactions and ends with the preparation of final accounts.

Accounting Cycle



When a businessman starts his business activities, he records the day-today transactions in the Journal. From the journal the transactions move further to the ledger where accounts are written up. Here, the combined effect of debit and credit pertaining to each account is arrived at in the form of balances.

To prove the accuracy of the work done, these balances are transferred to a statement called trial balance. Preparation of trading and profit and loss account is the next step. The balancing of profit and loss account gives the net result of the business transactions. To know the financial position of the business concern balance sheet is prepared at the end.

These transactions which have completed the current accounting year, once again come to the starting point – the journal – and they move with new transactions of the next year. Thus, this cyclic movement of the transactions through the books of accounts (accounting cycle) is a continuous process.

1.4. OBJECTIVES OF ACCOUNTING:

- To maintain full and systematic records of business transactions
- To ascertain profit or loss of the business

- To ascertain financial position of the business
- To provide accounting information to the interested parties

1.5. Need and Importance of Accounting:

When a person starts a business, whether large or small, his main aim is to earn profit. He receives money from certain sources like sale of goods, interest on bank deposits etc. He has to spend money on certain items like purchase of goods, salary, rent, etc. These activities take place during the normal course of his business. He would naturally be anxious at the year end, to know the progress of his business. Business transactions are numerous, that it is not possible to recall his memory as to how the money had been earned and spent. At the same time, if he had noted down his incomes and expenditures, he can readily get the
required information. Hence, the details of the business transactions have to berecorded in a clear and systematic manner to get answers easily and accurately.

1.6. BOOK KEEPING – ACCOUNTANCY:

Accountancy refers to a systematic knowledge of accounting which covers rules, regulations, principles, concepts, conventions and standards that govern the accounting process.

Book Keeping is a part of accounting and is concerned with record keeping or maintenance of books of accounts. It is often routine and clerical in nature.

1.7. MERITS AND DEMERITS OF ACCOUNTING:

Advantages of Accounting:

- Accounting helps to maintain the business records in a systematic manner.
- It helps in the preparation of financial statements.
- Accounting information is also used to compare the result of current year with the previous year to analyze the changes.

- It helps the managers in the decision-making process.
- It provides information to other interested parties such as shareholders, creditors, investors, customers, government, employees, regulatory bodies etc.
- It helps in taxation matter
- Accounting information can be produced as evidence in the legal matter.
- It helps in valuation of business.

Limitations of Accounting

- The items expressed in monetary terms are recorded in the accountings where as the items which are nonmonetary nature not recorded.
- Sometimes accounting data are recorded on the basis of estimates and which could be inaccurate.
- Fixed assets are recorded as the original cost.
- Value of money does not remain stable, so accounting value does not show true financial results.
- Accounting can be manipulated and biased.

1.8. Basic Accounting Terms

The understanding of the subject becomes easy when one has the knowledge of a few important terms of accounting. Some of them are explained below.

Transactions

Transactions are those activities of a business, which involve transfer of money or goods or services between two persons or two accounts. For example, purchase of goods, sale of goods, borrowing from bank, lending of money, salaries paid, rent paid, commission received, and dividend received. Transactions are of two types, namely, cash and credit transactions.

Cash Transaction is one where cash receipt or payment is involved in the transaction. For example, When Ram buys goods from Kannan paying the price of goods by cash immediately, it is a cash transaction.

Credit Transaction is one where cash is not involved immediately but will be paid or received later. In the above example, if Ram, does not pay cash immediately but promises to pay later, it is credit transaction.

Proprietor

A person who owns a business is called its proprietor. He contributes capital to the business with the intention of earning profit.

Capital

It is the amount invested by the proprietor/s in the business. This amount is increased by the amount of profits earned and the amount of additional capital introduced. It is decreased by the amount of losses incurred and the amounts withdrawn. For example, if Mr. Anand starts business with Rs.5,00,000, his capital would be Rs.5,00,000.

Assets

Assets are the properties of every description belonging to the business. Cash in hand, plant and machinery, furniture and fittings, bank balance, debtors, bills receivable, stock of goods, investments, Goodwill are examples for assets. Assets can be classified into tangible and intangible.

Tangible Assets: These assets are those having physical existence. It can be seen and touched. For example, plant & machinery, cash, etc.

Intangible Assets*:* Intangible assets are those assets having no physical existence but their possession gives rise to some rights and benefits to the owner. It cannot be seen and touched. Goodwill, patents, trademarks are some of the examples.

Liabilities

Liabilities refer to the financial obligations of a business. These denote the amounts which a business owes to others, e.g., loans from banks or other persons, creditors for goods supplied, bills payable, outstanding expenses, bank overdraft etc.

drawings

It is the amount of cash or value of goods withdrawn from the business by the proprietor for his personal use. It is deducted from the capital.

debtors

A person (individual or firm) who receives a benefit without giving money or money's worth immediately, but liable to pay in future or in due course of time is a debtor. The debtors are shown as an asset in the balance sheet. For example, Mr.Arul bought goods on credit from Mr.Babu for Rs.10,000. Mr.Arul is a debtor to Mr.Babu till he pays the value of the goods.

Creditors

A person who gives a benefit without receiving money or money's worth immediately but to claim in future, is a creditor. The creditors are shown as a liability in the balance sheet. In the above example Mr.Babu is a creditor to Mr.Arul till he receive the value of the goods.

Purchases

Purchases refers to the amount of goods bought by a business for resale or for use in the production. Goods purchased for cash are called **cash purchases.** If it is purchased on credit, it is called as **credit purchases**. Total purchases include both cash and credit purchases.

Purchases return or returns Outward

When goods are returned to the suppliers due to defective quality or not as per the terms of purchase, it is called as purchases return. To find net purchases, purchases return is deducted from the total purchases.

Sales

Sales refers to the amount of goods sold that are already bought or manufactured by the business. When goods are sold for cash, they are **cash sales** but if goods are sold and payment is not received at the time of sale, it is **credit sales**. Total sales include both cash and credit sales.

Sales return or returns inward

When goods are returned from the customers due to defective quality or not as per the terms of sale, it is called sales return or returns inward. To find out net sales, sales return is deducted from total sales.

Stock

Stock includes goods unsold on a particular date. Stock may be opening and closing stock. The term opening stock means goods unsold in the beginning of the accounting period. Whereas the term closing stock includes goods unsold at the end of the accounting period. For example, if 4,000 units purchased @ Rs. 20 per unit remain unsold, the closing stock is Rs.80,000. This will be opening stock of the subsequent year.

revenue

Revenue means the amount receivable or realized from sale of goods and earnings from interest, dividend, commission, etc.

expense

It is the amount spent in order to produce and sell the goods and services. For example, purchase of raw materials, payment of salaries, wages, etc.

income

Income is the difference between revenue and expense.

voucher

It is a written document in support of a transaction. It is a proof that a particular transaction has taken place for the value stated in the voucher. It may be in the form of cash receipt, invoice, cash memo, bank pay-in-slip etc. Voucher is necessary to audit the accounts.

invoice

Invoice is a business document which is prepared when one sell goods to another. The statement is prepared by the seller of goods. It contains the information relating to name and address of the seller and the buyer, the date of sale and the clear description of goods with quantity and price.

receipt

Receipt is an acknowledgement for cash received. It is issued to the party paying cash. Receipts form the basis for entries in cash book.

Account

Account is a summary of relevant business transactions at one place relating to a person, asset, expense or revenue named in the heading. An account is a brief history of financial transactions of a particular person or item. An account has two sides called debit side and credit side.

1.9. ACCOUNTING CONCEPTS:

1. **Business entity concept:** A business and its owner should be treated separate legal entities as far as their financial transactions are concerned. As a result, transactions should be recorded in the books of accounts with such persons and individuals together with the owners. It becomes necessary that accounting records of the business must be maintained in a manner which is free from any bias to any particular section of people related to it.

2. **Money measurement concept:** Only business transactions that can be expressed in terms of money are recorded in accounting, though records of other types of transactions may be kept separately.

3. **Cost concept:** The fixed assets of a business are recorded on the basis of their original cost in the first year of accounting. Subsequently, these assets are recorded minus depreciation. No rise or fall in market price is taken into account. The concept

4. **Realization concept:** According to this concept, profit is recognised only when it is earned. An advance or fee paid is not considered a profit until the goods or services have been delivered to the buyer.

5. **Going concern concept:** In accounting, a business is expected to continue for a fairly long time and carry out its commitments and obligations. This assumes that the business will not be forced to stop functioning and liquidate its assets at "fire-sale" prices. applies only to fixed assets.
6. **Dual aspect concept:** For every credit, a corresponding debit is made. The recording of a transaction is complete only with this dual aspect. This concept suggests that every transaction has dual aspect or two sides.

(a) Receiving of benefit.

(b) Giving of benefit. These two benefits, when measured in terms of money are equal.

Benefit received = Benefit given

Whenever we purchase an asset, we pay it out of our capital or accept a liability or pay. Therefore:

1.10. Accounting Conventions:

Conventions mean custom or tradition. Accounting conventions are related to Accountancy records. These conventions provide useful guidance in preparing accounts or financial statements.

There are four main conventions in practice in accounting: conservatism; consistency; full disclosure; and materiality.

1. **Conservatism** is the convention by which, when two values of a transaction are available, the lower-value transaction is recorded. By this convention, profit should never be overestimated, and there should always be a provision for losses.

2. **Consistency** prescribes the use of the same accounting principles from one period of an accounting cycle to the next, so that the same standards are applied to calculate profit and loss.

3. **Materiality** means that all material facts should be recorded in accounting. Accountants should record important data and leave out insignificant information.

4. **Full disclosure** entails the revelation of all information, both favourable and detrimental to a business enterprise, and which are of material value to creditors and debtors.

1.10. Ac**counting Standards:**

To promote world-wide uniformity in published accounts, the **International Accounting Standards Committee) IASC (**has been set up in June 1973 with nine nations as founder members. The purpose of this committee is to formulate and publish in public interest, standards to be observed in the presentation of audited financial statements and to promote their world-wide acceptance and observance. IASC exist to reduce the differences between different countries' accounting practices. This process of harmonization will make it easier for the users and preparers of financial statement to operate across international boundaries. In our country, the **institute of Chartered Accountants of India** has constituted **Accounting Standard Board** (ASB) in 1977. The ASB has been empowered to formulate and issue accounting standards, that should be followed by all business concerns in India.

1.11. SINGLE ENTRY SYSTEM:

A single-entry system records each accounting transaction with a single entry to the accounting records, rather than the vastly more widespread double entry system. The single-entry system is centered on the results of a business that are reported in the income statement. The core information tracked in a single-entry system is cash disbursements and cash receipts. Asset and liability records are usually not tracked in a single-entry system; these items must be tracked separately. The primary form of record keeping in a single-entry system is the cash book, which is essentially an expanded form of a check register, with columns in which to record the particular sources and uses of cash, and room at the top and bottom of each page in which to show beginning and ending balances.

1.12. DOUBLE ENTRY SYSTEM:

Double entry system was introduced to the business world by an Italian merchant named Luca Pacioli in 1494 A.D. Though the system of recording business transactions in a systematic manner has **originated in Italy, it was perfected in England** and other European countries during the 18th century only i.e., after the Industrial Revolution. Many countries have adopted this system today.

There are numerous transactions in a business concern. Each transaction, when closely analysed, reveals two aspects. One aspect will be "receiving aspect" or "incoming aspect" or "expenses/loss aspect". This is termed as the **"debit aspect"**. The other aspect will be "giving aspect" or "outgoing aspect" or "income/gain aspect". This is termed as the **"Credit aspect"**. These two aspects namely "Debit aspect" and "Credit aspect" form the basis of Double Entry System. The double entry system is so named since it records both the aspects of a transaction.

In short, the basic principle of this system is, for every debit, there must be a corresponding credit of equal amount and for every credit, there must be a corresponding debit of equal amount.

Definition:

According to **J.R.Batliboi** "Every business transaction has a two-fold effect and that it affects two accounts in opposite directions and if a complete record were to be made of each such transaction, it would be necessary to debit one account and credit another account. It is this recording of the two-fold effect of every transaction that has given rise to the term Double Entry System".

Features:

i. Every business transaction affects two accounts.

ii. Each transaction has two aspects, i.e., debit and credit.

iii. It is based upon accounting assumptions concepts and principles.

iv. Helps in preparing trial balance which is a test of arithmetical accuracy in accounting.

v. Preparation of final accounts with the help of trial balance.

Advantages: Double entry system is acknowledged as the best method of accounting in the modern world. Following are the main advantages of double entry system:

1. Under this method both the aspects of each and every transaction are recorded. So it is possible to keep complete account.
2. Since both the aspects of a transaction are recorded, for each debit there must be a corresponding credit of an equal amount. Therefore, total debits must be equal to total credits. In fact, it is possible to verify the arithmetical accuracy of the books of accounts by ascertaining whether the two sides become equal or not through a process known as trial balance.
3. Under this system profit and loss account can be prepared easily by taking together all the accounts relating to income or revenue and expenses or losses and thereby the result of the business can be ascertained.
4. A balance sheet can be prepared by taking together all the accounts relating to assets and liabilities and thereby the financial position of the business can be assessed.
5. Under this system mistakes and deflections can be detected - this exerts a moral pressure on the accountant and his staff.
6. Under this system necessary statistics are easily available so that the management can take appropriate decision and run the business efficiently.
7. All the necessary details about a transaction can be obtained quickly and easily.
8. The total amount owed by debtors and the total amount owed to creditors can be ascertained easily.
9. Sale, purchase of goods, stock, revenue, expenses and profit or loss of different years can be compared, and the success or failure of the business measured. Thereafter the causes of failure can be found out and necessary remedial measures taken to ensure success of the

business.

Disadvantages: Despite so may advantages of the system, double entry system has some disadvantages which are as follows:

1. Under this method each transaction is recorded in books in two stages (journal and ledger) and two sides (debit and credit). This results in increase of number and size of books of account and creation of complications.
2. It involves time, labor and money. Hence, it is not possible for small concerns to keep accounts under this system.
3. It requires expert knowledge to keep accounts under this system.
4. As the system is complex, there is greater possibility of committing errors and mistakes.
5. It is clear from the above discussion that the advantages of double entry system far outweigh its disadvantages. So, it is regarded as the best system in the modern world.

SHORT QUESTIONS (2 marks)

1. Define Accountancy?
2. What is Book Keeping?
3. Who is Debtor?
4. What is Capital?
5. What is Drawings?
6. What is Single Entry System?
7. What Double Entry System?
8. What is invoice?

ESSAY TYPE QUESTIONS (6 marks)

1. What are the merits of accounting?
2. Write about accounting concepts?
3. What are the advantages of double entry system?
4. What are the conventions of accounting?

UNIT-II

JOURNAL& LEDGER

Journal & Ledger –Types of Accounts – Rules of Debit and Credit – Journal – Journal entries (including Problems) -Meaning Classification of Ledger – posting the transactions into Accounts –Balancing the Accounts (including Problems

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1.1**. Meaning:** A journal is a record of financial transactions in order by date. A journal is often defined as **the book of original entry**. The definition was more appropriate when transactions were written in a journal prior to manually posting them to the accounts in the general ledger or subsidiary ledger. Manual systems usually had a variety of journals such as a sales journal, purchases journal, cash receipts journal, cash disbursements journal, and a general journal.

With today's computerized bookkeeping and accounting, it is likely to find only a general journal in which adjusting entries and unique financial transactions are entered. The recording and posting of most transactions will occur automatically when sales and vendor invoice information is entered, checks are written, etc. In other words, accounting software has eliminated the need to first record routine transactions into a journal.

1.2. PROFARMA OF JOURNAL:

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.

1.3. Account:

Every transaction has two aspects and each aspect has an account. It is stated that **‘**an account is a summary of relevant transactions at one place relating to a particular head’.

1.3.1Classification of Accounts

Transactions can be divided into **three** categories.

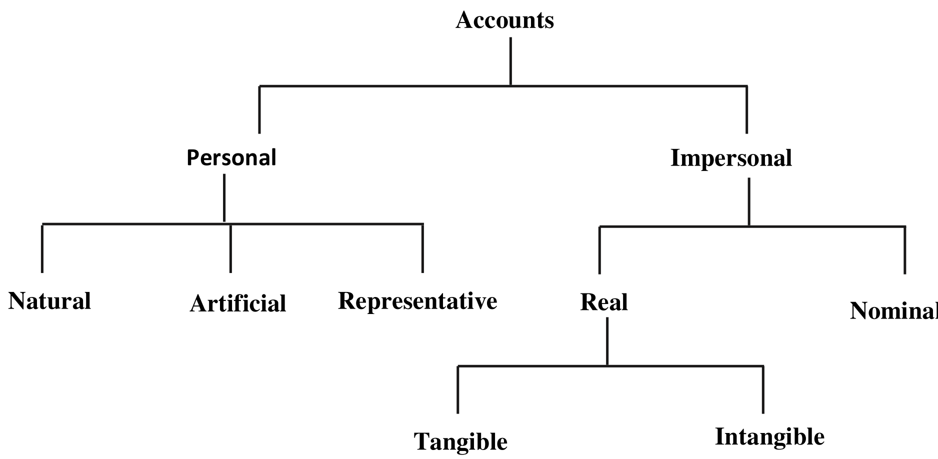
i. Transactions relating to individuals and firms

ii. Transactions relating to properties, goods or cash

iii. Transactions relating to expenses or losses and incomes or gains.

Therefore, accounts can also be classified into Personal, Real and Nominal.

The classification may be illustrated as follows:



i. **Personal Accounts :** The accounts which relate to persons.

Personal accounts include the following.

i. **Natural Persons :** Accounts which relate to individuals. For example, Jyothirmai A/c, Krishnaveni A/c etc.

ii. **Artificial persons :** Accounts which relate to a group of persons or firms or institutions. For example, HMT Ltd., Indian Overseas Bank, Life Insurance Corporation of India, Cosmopolitan club etc.

iii. **Representative Persons:** Accounts which represent a particular person or group of persons. For example, outstanding salary account, prepaid insurance account, etc.

The business concern may keep business relations with all the above personal accounts, because of buying goods from them or selling goods to them or borrowing from them or lending to them. Thus, they become either Debtors or Creditors.

The proprietor being an individual his capital account and his drawings account are also personal accounts.

ii. **Impersonal Accounts:** All those accounts, which are not personal accounts. This is further divided into two types viz. Real and Nominal accounts.

i. **Real Accounts:** Accounts relating to properties and assets which are owned by the business concern. Real accounts include tangible and intangible accounts. For example, Land, Building, Goodwill, Purchases, etc.

ii. **Nominal Accounts:** These accounts do not have any existence, form or shape. They relate to incomes and expenses and gains and losses of a business concern. For example, Salary Account, Dividend Account, etc.

1.3.2. ACCOUNTINTG PRINCIPLES:

1.	Personal Accounts –	a) Debit the receiver
		b) Credit the giver
2.	Real Accounts –	a) Debit what comes in
		b) Credit what goes out
3.	Nominal Accounts –	a) Debit all expenses and losses
		b) Credit all incomes and gains

1.3.3. Rules for debiting and Crediting

In actual practice, the individual transactions of similar nature are recorded, added and subtracted at one place. Such place is customarily the meaning of debit and credit, it is essential to understand the meaning and form of an account.

An account is a record of all business transactions relating to a particular person or asset or liability or expense or income. In accounting, we keep a separate record of each individual, asset, liability, expense or income. The place where such a record is maintained is termed as an 'Account'.

All accounts are divided into two sides. The left-hand side of an account is called Debit side and the right hand side of an account is called Credit side. In the abbreviated form Debit is written as Dr. and Credit is written as Cr. For example, the transactions relating to cash are recorded in an account, entitled 'Cash Account' and its format will be as given below:

Debit (Dr.) Cash Account Credit (Cr.)

In order to decide when to write on the debit side of an account and when to write on the credit side of an account, there are two approaches. They are:

1) Accounting Equation Approach, 2) Traditional Approach.

Illustration: 1

Classify the following items into Personal, Real and Nominal Accounts.

1. Capital
2. Sales
3. Drawings
4. Outstanding salary
5. Cash
6. Rent
7. Interest paid
8. Indian Bank
9. Discount received
10. Building
11. Bank
12. Chandrasekhar
13. Murugan Lending Library
14. Advertisement
15. Purchases

Solution:

1. Personal account
2. Real account
3. Personal account
4. Personal (Representative) account

5. Real account	6. Nominal account
7. Nominal account	8. Personal (Legal Body) account
9. Nominal account	10. Real account
11. Personal account	12. Personal account
13. Personal account	14. Nominal account
15. Real account	

1.3.4. Accounting equation

The source document is the origin of a transaction and it initiates the accounting process, whose starting point is the accounting equation.

Accounting equation is based on dual aspect concept (Debit and Credit). It emphasizes on the fact that every transaction has a two-sided effect i.e., on the assets and claims on assets. Always the total claims (those of outsiders and of the proprietors) will be equal to the total assets of the business concern. The claims are also known as equities, are of two types: i.) Owners equity (Capital); ii.) Outsiders' equity (Liabilities).

Assets = Equities

Assets = Capital + Liabilities (A = C+L)

Capital = Assets – Liabilities (C = A–L)

Liabilities = Assets – Capital (L = A–C)

Illustration 1

If the capital of a business is Rs.3,00,000 and other liabilities are Rs.2,00,000, calculate the total assets of the business.

Solution

Assets = Capital + Liabilities

Capital + Liabilities = Assets

Rs. 3,00,000 + Rs.2,00,00 = Rs.5,00,000

Illustration 2

If the total assets of a business are Rs.3,60,000 and capital is Rs.2,00,000, calculate liabilities.

Solution

Assets = Capital + Liabilities

Liabilities = Assets – Capital

Assets – Capital = Liabilities

Rs. 3,60,000 – Rs. 2,00,000 = Rs. 1,60,000

S. No.	Transactions	Accounts Affected	
		Assets	Capital & Liabilities
1.	Capital brought in	Cash increases (comes in)	Capital increases (created)
2.	Cash purchases	Stock increases Cash decreases	—
3.	Credit purchases	Stock increases	Creditors increase
4.	Furniture bought	Cash decreases Furniture increases (comes in)	—
5.	Rent paid	Cash decreases	Capital decreases (Rent is an expenses it results in a loss)
6.	Cash Sales	Cash increases Stock decreases	—
7.	Payment to creditors	Cash decreases	Creditors decrease
8.	Withdrawal of cash for private use (Drawings)	Cash decreases	Capital decreases
9.	Salaries paid	Cash decreases	Capital decreases (Salary is an expense - Loss)
10.	Credit Sales	Stock decreases Debtors increase	—

1.3.5. Steps in Journalising

The process of analysing the business transactions under the heads of debit and credit and recording them in the Journal is called **Journalising.** An entry made in the journal is called a **'Journal entry'**.

Step 1 → Determine the two accounts which are involved in the transaction.

Step 2 → Classify the above two accounts under Personal, Real or Nominal.

Step 3 → Find out the rules of debit and credit for the above two accounts.

Step 4 → Identify which account is to be debited and which account is to be credited.

Step 5 → Record the date of transaction in the date column. The year and month is written once, till they change. The sequence of the dates and months should be strictly maintained.

Step 6 →Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation Dr. in the same line. Against this, the amount to be debited is written in the debit amount column in the same line.

Step 7 →Write the name of the account to be credited in the second line starts with the word **'To'** a few space away from the margin in the particulars column. Against this, the amount to be credited is written in the credit amount column in the same line.

Step 8 → Write the narration within brackets in the next line in the particulars column.

Step 9 → Draw a line across the entire particulars column to separate one journal entry from the other.

Important Points to be Noted in writing an Account

1. Every transaction has two sides a debit side and a credit side, so whenever a transaction is completed it is recorded in two different accounts. One account is debited, and the other account is credited.

2. Each transaction should be considered independently and then it should be recorded. Suppose we purchase goods worth Rs. 100 from Ram on credit and then on the due date we make its payment. In this case the purchase of goods should be considered as one transaction and its payment should be considered as another transaction. So, when purchases are made it should be recorded into two accounts and when its payment is made it should also be recorded into two accounts. In other words, purchases from Ram and its subsequent payment should be treated as two separate transactions.

Illustration: 1

Journalise the following transactions:

2018 Jan 1	Lakshmi commenced business with cash	Rs. 100000
2	Cash sales	5000
3	Cash purchases	2000
5	Paid rent	1500
6	Received commission	500
9	Bought furniture	50000
12	Goods sold to Srinivas on credit	9000
15	Drawings	2000

SOLUTION:

Journal entries in the books Lakshmi

Date	Particulars	j.f.no.	Debit amount	Credit amount

2018 Jan 1	Cash a/c ………………Dr To Capital a/c (being business commenced with cash)		100000	 100000
Jan 2	Cash a/c ………………Dr To Sales a/c (being goods sold for cash)		5000	 5000
Jan 3	Purchases a/c ………………Dr To cash a/c (being goods purchased)		2000	 2000
Jan 5	Rent a/c ………………Dr To Cash a/c (being rent paid)		1500	 1500
Jan 6	Cash a/c ………………Dr To Commission a/c (being commission received)		500	 500
Jan 9	Furniture a/c ………………Dr To Cash a/c (beindg furniture purchased)		50000	 50000
Jan 12	Srinivas a/c ………………Dr To Sales a/c (being goods sold on credit)		9000	 9000

LEDGER

1.MEANING:

It is also known as the principal book of accounts as well as **the book of final entry**. It is a book in which all ledger accounts are maintained in a summarized and classified form. All accounts combined together make a ledger and form a permanent record of all transactions.

It is the most important book of accounting as it helps in the creation of trial balance which then acts as a base for the preparation of financial statements.

Example: An account can be either an Asset, Liability, Capital, Revenue or an Expense account. Few examples of each are Furniture, Cash, Creditors, Bank Loan, Capital, Drawings, Sales, Rent, etc.

1.2. PURPOSE OF LEDGER ACCOUNTS:

1. Separate accounts for each transaction: There are separate ledger accounts for different parties and heads, so the information regarding every account is collected at one place. For example, if we prepare Ram's Ale, information regarding Ram's purchases, sales, payments and bills drawn and accepted etc. will be brought to Ram's A/c from purchases book, sales book, cash book, bills payable book and bills receivable book etc.

1. **Requisite information at a glance**: The correct position and status of every account can be ascertained at a glance by going through it. In case of personal accounts, we know what we have to receive or pay the particular party. Information regarding purchases, sales and returns are easily available from their ledger accounts.

2. **Preparation of trial balance**: Ledger accounts facilitate the preparation of trial balance, which is e rest of examining arithmetical accuracy in the books of accounts. Trial balance is prepared with the bales of ledger accounts.

3. **Facilitating the preparation of financial statements**: Ledger Accounts supply information for preparation of Trading, Profit & Loss Ale and Balance Sheet. They also help in identifying adjustments, which are incorporated in Final Accounts.

1.3. PROFARMA OF LEDGER ACCOUNT

Dr Cr

Date	Particulars	l.f.no.	amount	Date	Particulars	l.f.no.	amount

Explanation:

i. Each ledger account is divided into two parts. The left-hand side is known as the debit side and the right hand side is known as the credit side. The words 'Dr.' and 'Cr.' are used to denote Debit and Credit.

ii. The name of the account is mentioned in the top (middle) of the account. iii. The date of the transaction is recorded in the date column.

iv. The word ‘To’ is used before the accounts which appear on the debit side of an account in the particulars column. Similarly, the word ‘By’ is used before the accounts which appear on the credit side of an account in the particulars column.

v. The name of the other account which is affected by the transaction is written either in the debit side or credit side in the particulars column.

vi. The page number of the Journal or Subsidiary Book from where that particular entry is transferred, is entered in the Journal Folio (J.F) column.

vii. The amount pertaining to this account is entered in the amount column.

1.4. Important points to be noted in Ledger posting:

1. All those accounts which are mentioned in journal should be opened in ledger.
2. The accounts which are debited in journal are also debited in ledger. In the same way the accounts, which are credited in journal are also credited in ledger.
3. In the debit side of an account, the names of those accounts appear which are its creditors. Word ‘To’ be added to each account. It denotes that the amount is payable to the account.
4. In the credit side of an account, the names of those accounts appear, which are its debtors. Word ‘By’ is added to each account. This denotes that the amount is payable by the account.

Illustration: 1

2018				Rs.
Jan	1	Capital barrowed into business	......	20,000
,,	2	Deposited cash into bank	......	8,000
,,	3	Purchases from Krishna	......	2,000
,,	4	Salary paid to Gayatri	......	500
,,	5	Rent paid to Ramabraham	......	300
,,	6	Cash withdrawn from bank	......	8,000
,,	7	Deposited cash into bank	......	600

Rs.

jan	8	Cash sales to Satish	......	800
,,	9	Cash purchases from Ram	......	200
,,	10	Payment to Ram	......	2,000

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2018				
Jan. 1	Cash A/c Dr.	-	10,000	-
	To Capital A/c -	-	-	10,000
	(Being Capital invested)			
,, 2	Bank A/c Dr.	-	8,000	-
	To Cash A/c -	-	-	5,000
	(Being Cash deposited in bank)			
,, 3	Purchases A/c Dr.	-	3,000	-
	To Krishna -	-	-	3,000
	(Being credit purchases)			
,, 4	Salary A.c Dr.	-	500	-
	To Cash A/c -	-	-	500
	(Being payment of salary)			
,, 5	Rent A/c Dr.	-	300	-
	To Cash A/c -	-	-	300

	(Being rent paid)			
,, 6	Cash A/c Dr.	-	8,000	-
	To Bank A/c -	-	-	8,000
	(Being cash drawn from bank)			
,, 7	Bank A/c Dr.	-	600	-
	To Cash A.c -	-	-	600
	(Being cash drawn from bank)			

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2018				
Jan. 8	Cash A/c Dr.	-	800	-
	To Sales A/c -	-	-	800
	(Being cash sales to Satish)			
,, 9	Purchases A/c Dr.	-	200	-
	To Cash A/c -	-	-	200
	(Being cash purchases from Ram)			
,, 10	Ram Dr.	-	2,000	-
	To Cash A/c -	-	-	2,000
	(Being cash paid to Ram)			

Dr. CASH ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
Jan 1	To Capital	20,000	Jan. 2	By Bank	8,000
,, 6	To Bank	8,000	,, 4	By Salary	500
,, 8	To Sales	800	,, 5	By Rent	300
			,, 7	By Bank	600

			,, 9	By Purchases	200
			,,10	By Ram	2000

Dr. CAPITAL ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
			2018		
			Jan. 1	By Cash	20,000

Dr. BANK ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
Jan. 2	To Cash	8,000	Jan. 6	By Cash	8,000
,, 7	To Cash	600			

Dr. PURCHASES ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018					
Jan. 3	To Ram	2,000			
,, 9	To Cash	200			

Dr. SALES ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
			2018		

Date	Particulars	Amount	Date	Particulars	Amount
			Jan. 3	To Cash	800

Dr. RAM'S ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
Jan.10	To Cash	2,000	Jan. 3	By purchases	2,000

Dr. SALARY ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018					
Jan.4	To Cash	500			

Dr. RENT ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018					
Jan.5	To Cash	300			

From the above entries it is clear that in ledger we open all those accounts, which are mentioned in journal. Then we sort out the journal entries and post them in their concerned accounts in the ledger.

Balancing of Accounts

At times to find, whether a particular account is a debtor or a creditor we balance it. For this we total the debit and the credit side of the account separately and find their difference. If the total of the debit side is more than the total of the credit side, then the difference is called the 'Debit balance'. On the other hand, if the total of the credit side is more than the total of the debit side, the difference is called the 'Credit balance'.

After finding the balance in an account, we insert it in the lesser side of the account, with the words 'Balance carried down' (c/d). Then with this balance we total the two sides of the account and they will be equal. This is called **Balancing of Account.** After balancing the account, the balance is again brought down on the next date to the appropriate side of the account. In other words, we bring the debit balance to the debit side and the credit balance to the credit side of the account, with the words 'Balance brought down' (b/d).

The debit balance in a personal account shows that the person is a debtor and the credit balance show that the person is a creditor.

Debit balance in a real account shows, the present value of the asset. In real account there can be no credit balance. It is because an asset cannot have minus value.

Debit balance in a nominal account shows, excess of expenses over income and credit balance excess of income over expenses.

<u>SHORT QUESTIONS (2 MARKS)</u>

1. What is Journal?
2. What is an Account?
3. What is ledger?
4. Write any two advantages for preparation of ledger accounts?

ESSAY TYPE QUESTION (6 MARKS)

1. Classify and Write the principles of accounts?

EXCERSISES (JOURNAL)

1. Journalise the following transactions in the books of Mr. S.L. Srinivas:

DATE	PARTICULARS	AMOUNT
1st January 2018	Business commenced with cash	100000
2	Cash Sales	9000
3	Cash purchases	5000
4	Paid rent	1500
5	Received commission	1000
6	Drawings	1000

2. Journalise the following:

i Siri commenced business with cash Rs. 50000

ii Goods sold to Kiran Rs. 5000

iii Bought furniture Rs. 2000

iv Paid salaries Rs. 5000

v Rent received Rs. 2000

vi Goods purchases for cash Rs. 1000

3. Journalise the following transactions:

DATE	PARTICULARS	AMOUNT
1s April 2018	Business commenced with cash	90000
2	Cash Sales to Mr. Raja Rao	18000
3	Goods purchases	9000
4	Paid rent to Ramana Kumar	2500
5	Received commission from Bhanu	1000
6	Paid electricity bill by cheque	1000

4. Journalise the following transactions: On 1st May , 2018

Mr. Christopher commenced business with cash Rs. 75000 and remaining transactions are given below:

DATE	PARTICULARS	AMOUNT
1s May, 2018	Business commenced with cash	90000
2	Cash Sales to Mr. Raja Rao	18000
3	Goods purchases	9000
4	Paid rent to Raman Kumar	2500
5	Received commission from Bhanu	1000
6	Paid electricity bill by cheque	1000

5. Journalise the following transactions:

DATE	PARTICULARS	AMOUNT
1s March, 2018	Brought capital	100000
2	Goods Sold to Mr. Venkat	18000
3	Goods purchases	9000
4	Paid commission	500
5	Machinery sold	10000
6	Drawings	1000

EXERCISES (LEDGER)

1.Journalise the following transactions and post them in ledger accounts

Date				Rs.
Jan				
2018	1	Amount invested into business	......	25,000
„	2	bought Furniture	......	1,000
„	3	Purchases	......	8,000
„	4	Sales	......	3,000
„	5	Sales to Radha	......	1,000
„	6	Sales to Mohan	......	1000
„	7	returns from Mohan	......	100
„	8	Sales returned by Radha	......	200
„	9	Furniture purchased	......	800
„	10	Sales	......	300
„	11	Purchases	......	1,000
„	12	Received cash from Mohan	......	800
„	13	Paid cash to Raman	......	1,000
„	14	Purchases from Vijaya Sai	......	400
„	15	Sales to Sravanthi	......	1,000

„ 16 Sale of old furniture 10000

2. Prepare Prasad a/c in the books of Saibaba from the following particulars
2018
April 1 goods sold to Prasad Rs. 28000
2 cash received from Prasad Rs. 2500
5 goods returned by Prasad Rs. 600
6 cheque received from Prasad Rs. 14400
7 sales to Prasad Rs. 1000
8 goods sold to Prasad Rs. 3500
9 cash sales to Prasad Rs. 2000

(ANS: 15000)

3. Prepare Sarala a/c in the books of Sujatha from the following particulars.
2018
May 1 purchases from Sarala Rs. 20000

2 cash paid to Sarala Rs. 3000

3 returns to Sarala Rs. 1000

5 paid to Sarala through cheque Rs. 8000

7 cash received from Sarala Rs. 500

9 purchases from Sarala Rs. 4000

10 purchases from madhu Rs. 2000

(ANS: 11500)

4. Prepare Furniture a/c.
2018
June 1 bought furniture from woodland Rs. 25000

5 bought furniture for cash Rs. 5000

7 cash paid to woodland Rs. 20000

9 sold furniture Rs. 5000

12 depreciation on furniture Rs. 1000

15 goods purchases from srikanth Rs. 10000

(ANS: 24000)

5. Prepare Bhanu a/c in the books of Rajarao from the following particulars.
2018
July 1 amount due from Bhanu Rs. 10000

2 goods sold to Bhanu Rs. 12000

4 cash received from Bhanu Rs. 5000

6 goods returned from Bhanu Rs. 2000

8 cheque received from Bhanu Rs. 10000

9 A/C Settled by Bhanu with 10% discount.

(ANS: DUE 5000. DISOUNT 500, CASH 4500)

UNIT-III

SUBSIDIARY BOOKS

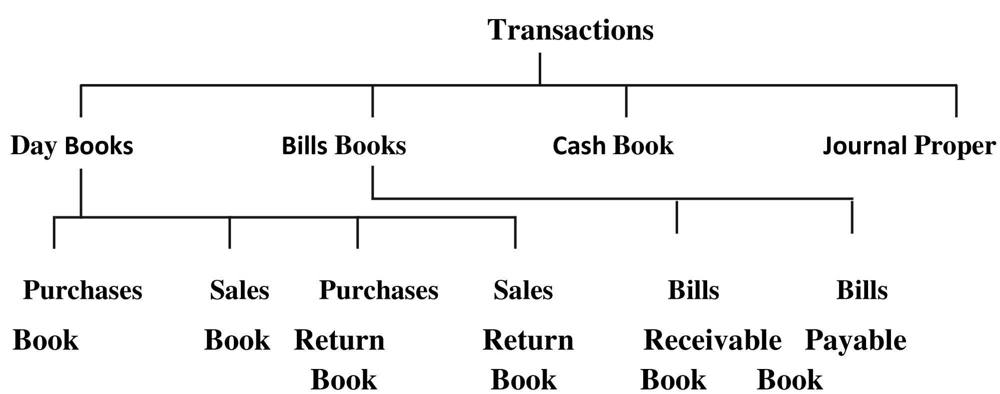
Subsidiary books – Types of subsidiary books – Purchase book – purchase returns book – Sales book – Sales returns book – Bills receivable book – Bills payable book- Journal proper (including Problems)

1.0. MEANING:

Subsidiary book is the sub division of Journal. These are known as books of prime entry or books of original entry as all the transactions are recorded in their original form. In these books the details of the transactions are recorded as they take place from day to day in a classified manner.

1.2. Types of Subsidiary Books:

The number of subsidiary books may vary according to the requirements of each business. The following are the special purpose subsidiary books.



1. **Purchases Book**: The purchases book can be utilized to record the purchases of goods on credit only.
2. **Sales Book**: The sales book or sales day book is written up just like

the purchases book. It is employed to record only the sale of goods on credit.

3. **Purchases Return Book**: The purchases return book (also referred to as Bought Returns Book or Returns Outwards Book) records the details of the goods returned by the business to the suppliers.

   i)Debit note: This is a statement sent to the person to whom products are returned. This report informs him that his account has been debited to the extent of the amount of the items returned. It is based on the debit note that the entry is made in the purchases returns book or returns outward book

4. **Sales Return Book**: The sales returns book (or Returns Inward Book) can be employed to record the products returned to the business by the customers, as the goods might not be as per the order, or because they were faulty, damaged or otherwise unacceptable.

   i)Credit note: When the products are sent back by the customers combined with the debit note, the seller acknowledge the same with a document called the credit note.

   ii)Trade Discount: It is the reduction in the retail price of products that arises from bulk sales or purchases. Trade discounts are often granted to wholesalers who buy in high volumes.

   Trade discount is **not** separately shown in the books of accounts, and all amounts recorded in a purchases or sales book are done in the net amount only.

5. **Cash Book:** The cash transactions should be recorded instantly as far as possible in order to avoid errors, omissions or frauds. This may also help the trader to find out at once the position of cash in time.

6. **Bills Receivable Book**: This book can be used to document the details of bills receivable on which the business will get the amounts from other parties in future. The entries to be made in this book are the name if the acceptor (debtor), the terms, due date, the amount and other details.

7. **Bills Payable Book**: This is also a book of original entry and is utilized to record the particulars of all the 'bills payable' accepted by the business for the intention of paying at a future date the amounts due by it (the organization or the trader) to its creditors. The entries to be made in this book relate with the name of the drawer, the name of the payee, the period, the due date and other particulars. Then the acceptance is duly returned to the drawer.

8. **Journal Proper:** This book records all those transactions for which there no separate subsidiary books. In other words, in journal proper we record, residual transactions.

1.3. PROFARMA OF PURCHASE BOOK

DATE	PARTICULARS	L.F.NO.	INVOICE NO,	AMOUNT

Illustration:1

Prepare Purchase book from the following transactions and prepare purchase ledger.

2018

January, 1 goods bought from Ramesh Rs. 5000

2 purchases from Srinivas Rs. 500

3 goods purchases from Pallavi Rs. 1000

4 purchases from Rajani Rs. 2000

5 purchases from sudha Rs. 1500

SOLUTION:

PURCHASE BOOK

DATE	PARTICULARS	L.F.NO.	INVOICE NO	AMOUNT

2018				
January 1	Ramesh			5000
2	Srinvas			500
3	Pallavi			1000
4	Rajani			2000
5	Sudha			1500
	TOTAL			10000

PURCHASE ACCOUNT

DR CR

DATE	PARTICULARS	L,F. NO.	AMOUNT	DATE	PARTICULARS	L.F. NO	AMOUNT
2018 JANUARY 5	TO Sundries		10000				

PURCHASE RETURNS BOOK

Profarma of purchase return book

Date	**Particulars**	**l.f.no.**	**Debit note**	**Amount**

Illustration:2

Record the following transactions in purchase return book. Prepare ledger.

2018

Jan 2 goods returned to Ratna Rs. 400

4 goods returned to Kiran Rs. 200

SOLUTION:

Purchase Return Book

Date	Particulars	l.f.no.	Debit note	amount
2018				
Jan 1	Ratna			400
4	Kiran			200
	Total			600

SALES BOOK

PROFARMA OF SALES BOOK

DATE	PARTICULARS	L.F.NO.	INVOICE NO,	AMOUNT

Illustration: 3

Prepare sales book from the following transactions and prepare sales ledger.

2018

feb, 1 goods sold to Laasya Rs. 15000

2 sales to Raju Rs. 5000

3 goods sold to Siri Rs. 10000

4 sales to Ramana Rs.12000

5 sales to Santhi Rs. 1500

SALES BOOK

DATE	PARTICULARS	L.F.NO.	INVOICE NO	RUPEES
2018				
february 1	lasya			15000
2	raju			5000
3	siri			10000
4	ramana			12000
5	santhi			1500
	TOTAL			43500

SALES ACCOUNT

DR CR

DATE	PARTICULARS	L,F.NO.	AMOUNT	DATE	PARTICULARS	L.F. NO	AMOUNT
				2018 FEB 5	BY SUNDRIES		43500

It should be noted, that the subsidiary books are written in different ways to suit the particular needs. But the basic principles remain the same.

SHORT QUESTIONS (2MARKS)

1. How many types of Subsidiary books? What are they?
2. what is debit note?
3. what is credit note?
4. what is trade discount?

ESSAY TYPE QUESTIONS(6MARKS)

1. Explain about different types of subsidiary books?

EXERCISES

1. Record the following transactions in purchase book.

2018 Jan 5 goods purchased from rama Rs. 1300

7 purchases from Giri Rs, 1000

10 goods purchased from shiva Rs. 1200

15 purchases from Satish Rs. 1500

25 purchases from Prasad Rs. 2000

(ANS: 7000)

2.Record the following transactions in purchase book.

2018 Mar 1goods purchased from Siri Rs.5000(Trade Discount 5%)

7 purchases from Vikram Rs, 2000

8 goods purchased Rs. 500

10 purchases from Sekhar Rs. 1500((trade discount 10%)

17cash purchases from Vijaya Rs. 1000

25 purchases from Hari Rs. 3000

(ANS: 11100)

3.Record the following transactions in sales book.

2018 march 1 goods sold to Balakrishna Rs. 5000

2 sales to Sonu Rs. 2000

4 goods sold to Appa rao Rs.1000

5 goods sold to suchi Rs. 2000

6 cash sales Rs. 1000

(Ans: 10000)

4.Record the following transactions in sales nook.

2018

April1goods sold to saibaba Rs. 10000

2 goodssold to PrasadRs.9000 (trade discount 5%)

3goods sold to Sarala Rs. 5000(trade discount Rs. 500)

4 goods sold to Sujatha Rs. 1000

5 goods sold for cash Rs. 1000

Ans: (24050)

5. Record the following transactions in suitable subsidiary books.

2018

April 5 goods purchases from bheemesh Rs. 2000

7 goods purchases from Mahesh Rs. 1000

9 returns to bheemesh Rs. 500

10 goods sold to krishna rao Rs.1000

12 returns to Mahesh Rs. 100

15 goods sold to ajij Rs.1000 (trade discount Rs 10%)

18 returns from krishna rao Rs.100

20 returns from ajeej Rs. 200

(Ans:purchase book Rs. 3000; sales book Rs. 900; purchase return book Rs. 600; sales return book Rs. 300)

UNIT-IV
CASH BOOK

Cash Book – Types of cash book – Simple or single column cash book – Two column cash book – Three column cash book – Petty cash book - (including Problems)

1.1. INTRODUCTION:

A cash book is a special journal which is used to record all cash receipts and cash payments. The cash book is a book of original entry or prime entry since transactions are recorded for the first time from the source documents. The cash book is a ledger in the sense that it is designed in the form of a cash account and records cash receipts on the debit side and cash payments on the credit side. **Thus, the cash book is both a journal and a ledger. Cash Book will always show debit balance,** as cash payments can never exceed cash available. In short, cash book is a special journal which is used for recording all cash receipts and cash payments.

1.2**. Kinds of Cash Book:**

The various kinds of cash book from the point of view of uses may be as follow:

Kinds of cash book

I
Single column cash book

II
Double column cash book
a) With discount and cash columns
b) With cash and bank columns

III
Triple column cash book
with discount, cash and bank columns

IV
Petty cash book

Single Column Cash Book

Single column cash book (simple cash book) has one amount column in each side. All cash receipts are recorded on the debit side and all cash payments on the credit side. In fact, this book is nothing but a Cash Account. Hence, there is no need to open cash account in the ledger. The format of a single column cash book is given below.

DR **Single Column Cash Book of ....** CR

Date	Particulars	R.N.	L.F.	Amount Rs.	Date	Particulars	V.N.	L.F.	Amount Rs.

Illustration 1:

Enter the following transactions in a single column cash book of Mr.Surendra

2018 Jan 1 Started business with cash Rs.1,000

3 Purchased goods for cash Rs.500

4 Sold goods Rs. 1,700

5 Cash received from Siva Rs. 200

12 Paid to Bala Rs. 150

14 Bought furniture Rs. 200

15 Purchased goods from Kala on credit Rs. 2,000

20 Paid electric charges Rs.225

24 Paid salaries Rs. 250

28 Received commission Rs. 75

SOLUTION: **Single column cash book of Mr. Surendra**

Date	Particulars	l.f. no	Amount	Date	Particulars	l.f.no .	amount

2018 Jan 1	To capital		1000	2018 Jan 3	By purchases		500
4	To sales		1700	12	By bala		150
5	To siva		200	14	By furniture		200
2 8	To commission		75	20	By electricity charges		225
				24	By salaries		250
					By balanceC/D		1650
			2975				2975

Note : The transaction dated January 15th will not be recorded in the cash book as it is a credit transaction.

DOUBLE COLUMN CASH BOOK

The most common double column cash books are

i book with discount Cash and cash.

ii Cash book with cash and bank columns.

i. Cash Book with discount and cash columns

On either side of the single column cash book, another column is added to record discount allowed and discount received. The format is given below.

Proforma of double column cash book

Date	Particulars	l.f.n	disou	Cash/bank	Date	particulars	l.f.n	discount	Cash/bank

		o.	nt				o.		

Two Column Cash Book

Two column cash book records not only receipts and payments of cash but also the cash discount. So, the two-column cash book is also called “Cash Book with Cash and Discount columns”.

i)Cash discount: A cash discount is a reduction in price that is given to a purchaser who pays in cash or before a particular date. Cash discounts are offered in order to persuade credit customers to pay their bills faster – they are not meant as an incentive to make the purchase in the first place.

Illustration:2. Enter the following in two column cash books and balance it.

2018
AUG 1 cash in hand Rs. 4500
2 rreceived cash from gopi Rs. 2800, discount allowed Rs. 200
3 interest received Rs. 900
4 cash paid to Narayana Rs. 980, discount received Rs. 20
5 rent paid Rs. 400
6 furniture purchased Rs. 1600
7 paid into bank Rs. 820
8 cash received from Murali Rs. 4500, discount allowed Rs.500
9 paid cash to bujji Rs. 1800, discount received Rs. 200
10 purchased goods Rs. 1000

TWO COLUMN CASH BOOK

cash sales Rs. 2000 Date	Particulars	l. f. no.	Discount	amount	Date	Particulars	L F no	discount
2018 Aug	To balance			4500	2018 Aug 4	By narayana By		20

1			200	2800	5	Rent		
2	To Gopi							
				900				
3	To interest					By		
8	To Murali		500	4500	6	furniture		
11	To							
	sales			2000		By		
					7	bank		
						By bujji		200
					9	By purchases		
					10			
						By		8100
						balance(c/d)		
					10			
				14700				14700
10	To banlance(b/d)			8100				

THREE COLUMN CASH BOOK

In Three column cash book we enter transactions relating to not only cash, but also, cash, discount and bank. So this cash book is also called "Cash Book with Cash, Bank and Discount columns".

Need and Importance of Three Column Cash Book:

- It helps to record cash receipts and also receipts through cheques
- It helps to record cash payments and also payaments by cheques
- It helps to record large number of cash and bank transactions of different nature
- It is useful to record Contra Entries

In this cash book there are separate columns on the debit and the credit side for cash, discount and bank transactions.

Three column cash book is also balanced like any other account. But here we have to find two balances, the cash balance in the cash column, and the bank balance, in the bank column.

Contra Entry:

An entry which appears on both sides of the three column cash book(debit side as well as credit side) is called Contra Entry. It effects two accounts on the opposite side of cash book. For contra entries letter" C" is written in L.F. Column on each side of the cash book.

Contra Entries are recorded in the following cases:

- When cash is deposited into bank
- When cash is withdrawn from bank for office use
- When an account is opened with bank
- When the cheque received on one day and deposited on another day

Note : cash withdrawn from bank for personal use is not a contra entry. And when cheque received and deposited on same day is also not a contra entry

Illustration: 3

Enter the following transactions in cash book, with cash, bank and discount columns:

2018

Jan 1 Cash in hand Rs. 8000, cash at bank Rs. 12000

5 purchases Rs. 1500

8 paid into bank Rs. 3000

11 received from apparao Rs. 1800, discount allowed Rs. 200

12 sold goods for cash Rs. 2700

13 purchased stationary Rs. 600

14 issued cheque to mukund Rs. 3800, discount received Rs. 200

15 furniture purchased and paid by cheque Rs. 2000

16 paid office expen ses Rs. 800

17 interest received Rs. 400

18 withdrawn from bank for office use Rs. 3500

19 paid rent Rs. 1000

Three column cash book

Date	Particulars	LF no	Discount	Cash	Bank	date	Particulars	LF no	disount	Cash	Bank
2018 Jan						2018 Jan					
1	To balance			8000	12000	5	By purchases			1500	
8	To cash				3000	8	ByBank			3000	
						16	By Stationery	C		600	
11	To apparao	C	200	1800		20	ByMukund		200		3800
12	To sales			2700		24	By Furniture				2000
17	To interest			400		30	By Office exp			800	
18	To bank	C		3500		31	By Cash	C			3500
							By rent			1000	
							By Balancec/d			9500	5700
				16400	15000					16400	15000
Feb 1	To balance b/d			9500	5700						

PETTY CASH BOOK

In every business, of whatever size, there are many small cash payments such as conveyance, carriage, postage, telegram, etc. These expenses are generally repetitive in nature. If all these small payments are recorded in the cash book, it will be difficult for the cashier to maintain the records all by himself. In order to make the task of the cashier easy, these small and recurring expenses are recorded in a separate cash book called **"Petty Cash Book"** and the person who maintains the petty cash is called the **"Petty Cashier"**.The petty cash book analyses the payments by its various columns. So it is called "Analytical Petty Cash Book" or "Columnar Petty Cash Book.

Imprest System:

imprest means 'money advanced on loan'. Imprest System is a system in which as estimated amount for petty expenses is determined and handed over in advance to petty cashier. Out of which, all petty expenses are paid and total of such expenses paid is readvanced to petty cashier, so as to make it equal to imprest amount. All the payments are supported by vouchers.

Illustration: 5

Enter the following transactions in an analytical petty cash book and post in them in ledger accounts.

2018

Jan 1 cheque received from head cashier Rs. 400

2 auto charges Rs. 20

2 postage Rs. 25

3 carriage Rs. 35

4 refreshments Rs. 44

5 telegram charges Rs. 26

6 bus charges Rs. 12

6 courier charges Rs. 55

7 tea expenses Rs. 28.

Analytical petty cash book

Cash	L	date		Voucher		Analysis of Cost

Received	F No		Particulars		amount	Travelling exp	Postage	Courier	Refreshment	telegram	carriage	remarks
400		2018										
		Jan										
		1	To bank									
		2	By auto fare		20	20						
		2	By postage		25		25					
		3	By carriage		35						35	
		4	By refreshment		44				44			
		5	By telegram		26					26		
		6	By bus charges		12	12						
		7	By courier char		55			55				
		7	By tea exp		28				28			
		7	By balance c/d		155							
					400							
400												
155		8	To balance b/d									

SHORT QUESTIONS (2MARKS)

1. What is Cash book?
2. How many types of cash books? What are they?
3. What is contra entry?
4. What is imprest system?
5. What is Cash discount?

Exercises

1. Prepare simple cash book of Sri Ramana Kumar from the following particulars.

2018

Jan 1 brought capital Rs. 4000

Jan 2 cash purchases Rs. 1500

Jan 4 cash sales Rs. 2200

Jan 5 advertisement exp Rs. 600

Jan 7 commission received Rs. 450

Jan 10 cash paid to kiran Rs. 500

Jan 12 drawings Rs. 300

Jan 13 cash deposited into bank Rs. 250

Jan 18 office exp Rs. 375

Jan 21 interest received Rs. 800

Jan 25 salaries Rs. 900

Jan 31 rent paid Rs. 500

(ANS: Cash balance Rs. 2525)

2. Prepare simple cash book of Sri Rajarao as on 1.2.2018.
   2018
   Feb 1 brought cash into business Rs. 8000
   Feb 4 cash sales Rs. 2000
   Feb 6 received commission Rs. 550
   Feb 9 cash deposited into bank Rs. 800
   Feb 11 cash purchases Rs. 4800
   Feb 16 paid to varun Rs. 1000
   Feb 18 office exp Rs. 450
   Feb 20 drawings Rs. 400
   Feb 24 advertisement exp Rs. 220
   Feb 26 interest received Rs. 400
   Feb 28 paid rent 500
   Feb 31 salaries Rs. 900

   (ANS: Cash balance Rs. 1880)

3. Record the following transactions in two column cash book.
   2018
   Mar 1 cash balance Rs. 5500
   Mar 2 paid to nagarjuna Rs. 1250, discount received Rs. 250

Mar 4 cash sales Rs. 1000
Mar 6 cash purchases Rs. 900
Mar 10 received cash from chaitanya Rs. 850, discount allowed Rs.150
March 16 paid cash to Samantha Rs. 650, discount received Rs. 150.
Mar 18 paid stationary Rs. 600
Mar 20 received cash from Praveen Rs. 800, discount allowed Rs.200
Mar 24 paid repairs Rs. 400
Mar 27 sold old newspapers Rs. 200
Mar 29 received cash from Bhanu Rs. 325, discount allowed Rs. 75
Mar paid salaries Rs. 750.
(ANS: Cash Rs. 4125, discount allowed Rs. 425, discount received Rs. 400.)

4. Prepare double column cash book from the following.
2018
April 1 cash in hand Rs. 9500
April 3 deposited into bank Rs. 3000
April 5drawings Rs. 1500
April 10 withdrawal cash from bank 1400
April 12 paid cash to Prasad Rs. 350, discount received Rs.50
April 13 received cash from Rs. Saibaba Rs. 475, discount allowed Rs. 125
April 16 sold old furniture Rs. 300
April 20 cash received from gopal Rs. 1500, discount allowed Rs. 100.
April 24 office exp Rs 600
April 26 stationary Rs. 450
April 28 rent paid Rs. 950
April 29 paid cash to vinod Rs. 250, discount received Rs.50
April 30 paid salaries Rs. 600

(ANS: Cash Rs. 5475,discount allowed Rs.225. Discount received Rs.100)

5. Prepare three column cash book of the following particulars.
2018
June 1 cash Rs. 8000, bank Rs. 5800
June 4 cash sales Rs. 3200
June 6 cheque issued to Surendra Rs. 2950, discount Rs.50
June 7 cheque received from Raja Rs. 1200,cheque Rs.2500,
Discount allowed Rs. 100(this cheque deposited on same day)
June 12 cash withdrawan from bank for office use Rs. 800
June 20 salaries paid through cheque Rs. 1000

(ANS: Cash Rs.13200, bank Rs. 3550, discount allowed Rs. 100, discount received Rs. 50)

6. Prepare three column cash book.
   2018
   June 1 cash Rs. 1700, bank Rs. 1300
   June 4 paid to janardhan Rs.650, discount received Rs. 150
   June 6 cash sales Rs. 1000
   June 8 cash paid to murty Rs. 350, discount received Rs.50
   June 10 cheque received from Maha Rs. 450,discount allowed Rs. 100
   June 12 postal charges Rs. 100
   June 14 Maha cheque deposited
   June 16 paid to prabhakar through cheque Rs.575, discount received Rs.125
   June 20 cash deposited Rs. 500
   June 24 interest received Rs. 450
   June 26 general expenses Rs. 150
   June 29 salaries paid through cheque Rs. 400
   June 30 cash withdrawn for office use Rs. 600

   (ANS:Cash Rs. 2000, bank Rs. 675, discount allowed Rs.100, discount received Rs.325)
7. Prepare Analytical petty cash book.
   2018
   July 1 advance received from head cashier Rs. 350
   July 7 bus charges Rs. 10
   July 8 paid stationary Rs. 5
   July 10 auto charges Rs. 20
   July 15 Labour charges Rs. 30
   July 18 telephone Bill Rs. 10
   July 21 papers, ink charges Rs. 15
   July 23 Tea charges Rs. 6
   July 25 speed post charges Rs.
   July 27 Tiffin charges Rs. 25
   July31 transport charges Rs. 15

   (ANS: 199)

8. Prepare pettu cash book.
   2018
   Aug 1 cash balance Rs. 75, advance received Rs. 125
   Aug 3 Tiffin charges Rs. 10
   Aug 5 postal charges Rs. 5
   Aug 9 bus charges Rs. 8
   Aug 11 tea charges Rs. 6
   Aug 14 auto charges Rs. 10
   Aug 18 tea charges Rs. 6

Aug 21 paid to cooli charges Rs. 20
Aug 25 mobile recharge Rs. 15
Aug 27 Tiffin charges Rs. 20
Aug 29 phone repairs Rs. 10
Aug 31 postal stamps Rs. 10
(ANS: Rs. 80

UNIT-V
BANK RECONCILIATION STATEMENT

Bank Reconciliation Statement – Meaning – Need – Cash book vs. Pass book – Favorable balance – Un- favorable balance (over draft) – including problems.

INTRODUCTION:

Bank Reconciliation Statement is a statement prepared to reconcile the difference between the balances as per the bank column of the cash book and pass book on any given date.

A bank reconciliation is the process of matching the balances in an entity's accounting records for a cash account to the corresponding information on a bank statement. The goal of this process is to ascertain the differences between the two, and to book changes to the accounting records as appropriate. The information on the bank statement is the bank's record of all transactions impacting the entity's bank account during the past month.

Need of preparing Bank Reconciliation Statement:

It is neither compulsory to prepare Bank Reconciliation Statement nor a date is fixed on which it is to be prepared. It is prepared from time to time to check that all transactions relating to bank are properly recorded by the businessman in the bank column of the cash book and by the bank in its ledger account. Thus, it is prepared to reconcile the bank balances shown by the cash book and by the bank statement. It helps in detecting, if there is any error in recording the transactions and ascertaining the correct bank balance on a particular date.

REASONS FOR THE DIFFERNCES BETWEEN PASSBOOK AND CASH BOOK:

1. Cheques issued by the firm but not yet presented for payment
2. Cheques deposited into bank but not yet collected
3. Amount directly deposited in the bank account
4. Bank Charges, interest etc., debited in pass book only
5. Interest and dividend received by the bank
6. . Direct payments made by the bank on behalf of the customers
7. Dishonour of Cheques/Bill discounted

8. Errors committed in recording transactions by the firm

9. Errors committed in recording transactions by the Bank

PREPARATION OF BRS WITH FAVOURATE BALANCE:

Favourable balances

(a) Debit balance as per cash book is given and the balance as per pass book is to be ascertained.

(b) Credit balance as per pass book is given and the balance as per cash book is to be ascertained.

REASON	**SOLUTION**
1 Cheques issued by the firm but not yet presented for payment	i) as per cash book – addition ii) as per pass book - substraction
2 Cheques deposited into bank but not yet collected	i) as per cash book – substration ii) as per pass book - addition
3 mount directly deposited in the bank account	i) as per cash book – addition ii) as per pass book - substraction
4 Bank Charges, interest etc., debited in pass book only	i) as per cash book – substraction ii) as per pass book - addtion
5 Interest and dividend received by the bank on behalf of	i) as per cash book

customers	– addition ii) as per pass book - substraction
6 irect payments made by the bank on behalf of the customers	i) as per cash book – substraction ii) as per pass book - addition
7 .Dishonour of Cheques/Bill discounted	
8. Errors committed in recording transactions by the firm	
9. Errors committed in recording transactions by the Bank	

Procedure for preparation of bank reconciliation statement

(Favourable Balance)

Particulars	**Amount**	**Amount**
Balance as per cash book **ADD:**		**xxx**

1. cheques issued but not presented for payment	**xxx**	
2. amount directly deposited by the customer	**xxx**	
3. dividends, interest etc., credited only PB	**xxx**	xxx
		xxx
LESS:		
1. cheques sent for collection but not collected		
2. bank charges, commission etc., debited only in PB	**xxx**	
3. bank directly paid on behalf of customer	**xxx**	
	xxx	xxx
Balance as pass book		xxx

PREPARATION OF BRS WITH UNFAVOURABLE(OVERDRAFT) BALANCE:

An overdraft facility allows you to write cheques or withdraw cash from your current account up to the overdraft limit approved. It is a short-term (usually up to 12 months) standby credit facility which is usually renewable on a yearly basis. It is repayable on demand by the bank at any time.

Unfavorable(Overdraft) balances:

(a) credit balance as per cash book is given and the balance as per pass book is to be ascertained.

(b) debit balance as per pass book is given and the balance as per cash book is to be ascertained.

REASON	SOLUTION
1. Cheques issued by the firm but not yet presented for payment	i) as per cash book – substraction ii) as per pass book - addition
2. Cheques deposited into bank but not yet collected	i) as per cash book – addition ii) as per pass book - substraction
3. mount directly deposited in the bank account	i) as per cash book – substraction ii) as per pass book - addition
4. Bank Charges, interest etc., debited in pass book only	i) as per cash book – addition ii) as per pass book - substraction
5. Interest and dividend received by the bank on behalf of customers	i) as per cash book – substraction ii) as per pass book - addition
6. irect payments made by the bank on behalf of the customers	i) as per cash book – addition ii) as per pass book - substraction
7. .Dishonour of Cheques/Bill discounted	
8. Errors committed in recording transactions by the firm	
9. Errors committed in recording transactions by the Bank	

Procedure for preparation of bank reconciliation statement

(Overdraft Balance)

Particulars	Amount	Amount
Overdraft Balance as per pass book		xxx
ADD:		
1. cheques issued but not presented for payment	xxx	
2. amount directly deposited by the customer	xxx	
3. dividends, interest etc., credited only PB	xxx	xxx
		xxx
LESS:		
1. cheques sent for collection but not collected		
2. bank charges, commission etc., debited only in PB	xxx	
3. bank directly paid on behalf of customer	xxx	
	xxx	xxx
Overdraft Balance as per cash book		xxx

SHORT QUESTIONS(2MARKS)

1. What is Bank Reconciliation Statement?

2. Write any two differences between Cash book and Pass book ?

EXERCISES (FOURABLE BALANCE)

1. From the following particulars prepare Bank Reconciliation Statement as 31st march, 2018
    a. Balance as per Cash Book as on 31st December 2006 was Rs.15000
    b. Cheques deposited but not collected before the date of reconciliation Rs.1500
    c. Cheques issued but not presented for payment Rs. 1000
    d. Bank charges debited only in pass book Rs. 50
    e. Interest credited in pass book only Rs. 500
    f. A debtor directly deposited into our a/c Rs.1000
    g. (Ans. 15950)

2. Prepare BRS as on April,28, 2018 from the following particulars.
    a. Balance as per pass book Rs. 10000.
    b. Interest on loan debited only in pass book Rs 500
    c. Bank collected divividend on behalf of Customer Rs. 1000. This transaction recorded in pass book only.
    d. Rs. 1000 worth of Cheque issued on Feb, 25,2018. But not presented for payment
    e. Rs. 2000 worth of Cheque deposited. But this cheque was dishonoured
        i. (Ans: 10500)

Exercises (overdraft balance/negative balance)

1. Prepare BRS of Sri. A.V.Rao as on April 15, 2018 from the following particulars.
    i. Overdraft balance as per cash book Rs. 5000
    ii. Cheques issued for payment but not presented for payment Rs 500
    iii. A customer directly deposited into a.v.rao a/c Rs. 1000
    iv. Interest on overdraft Rs. 100 debited in PB only.
    v. A cheque Rs. 500 sent for collection but dishonoured.

(ANS:4100)

2. Prepare BRS of Sri Satyanarayana as on April 30, 2018.
   i. Overdraft balance as per pass book Rs. 9000
   ii. Bank charges Rs. 150 not entered in cash book.
   iii. Cheque Rs. 500 entered in cash book but forgot to sent to bank for collection
   iv. Chque issued for payment Rs. 500. But not payment before the date of reconciliation.
   v. Commission debited only in pass book Rs. 100

(ANS: 8750)

UNIT – VI

TRIAL BALANCE

Trial balance & Rectification of errors – Importance of trial balance – Preparation of trial balance – Rectification of Errors – errors Before preparation of trial balance and After preparation of trail balance (including Problems).

INTRODUCTION: A **trial balance** is a list of all the general ledger accounts (both revenue and capital) contained in the ledger of a business. The purpose of a trial balance is to prove that the value of all the debit value balances equal the total of all the credit value balances. If the total of the debit column does not equal the total value of the credit column then this would show that there is an error in the nominal ledger accounts. This error must be found before a profit and loss statement and balance sheet can be produced.

Features of a Trial Balance:

(a) Statement only:

A Trial Balance is merely a statement and not at all an account.

(b) Proof of arithmetical accuracy:

A Trial Balance proves the arithmetical accuracy of transactions so posted/recorded. In addition, financial result (i.e., from Profit and Loss Account and the Balance Sheet) can also be prepared from it.

(c) Prepared in a separate sheet:

It is prepared in a sheet of paper since it is neither a journal nor a ledger.

(d) Prepared at the end of the period:

Usually, a Trial Balance is prepared at the end of a certain period—say, monthly, quarterly, biannually, annually.

(e) Contains list of balances:

A Trial Balance contains the balances of different ledger accounts for the particular period as per requirements of the users,

(f) Helps to prepare final accounts:

It is not possible to prepare the final accounts of a concern without a Trial Balance, since the balances of all ledger accounts are contained in it.

MERITS:

- To test the arithmetical accuracy;
- To help in locating/detecting errors
- To summaries information about ledger accounts;
- To help in preparing final accounts.

The Trial Balance can be prepared in two ways:

(1) By taking the balances of each of the ledger accounts.

(2) By taking the debit and the credit totals of each of the ledger accounts.

KEY POINTS:

CAPITAL		CREDIT
LIABILIATIES		CREDIT
ASSETS (cash, debtors,buildings,machinery,investments,stock, Goodwill,patents,copywrights,trademarks,bills Receivables etc.,)	Debit	
Purchases	Debit	
Sales		Credit
Purchase returns		Credit
Sales returns	Debit	
All expenses, losses (salaries, wages, electricity charges, depreciation, interest on Capital, bad debts, rent, commission etc.,)	Debit	
All incomes, gains (commission received, rent received, dividend, interest received etc.,)		Credit
Drawings	Debit	

PROFARMA OF TRIAL BALANCE

Particulars	L.F.No.	Debit Amount	Credit Amount

Illustration: 01

Following balances are taken from the books of Sri Siri enterprises as on Dec. 31-2017. Prepare the Trial Balance.

Capital Rs. 25,000, Drawings Rs. 6,500, Cash Rs. 200, Bank balance Rs.

7,000, opening stock Rs. 10,000, Purchases Rs. 8,000, Sales Rs. 12,000, Sales Return Rs. 500, Purchases Return Rs. 800, Bill Receivable Rs. 4,000, Bills payable Rs. 3,000, Sundry Debtors Rs. 5,000, Sundry creditors Rs. 3,500, Discount paid Rs. 600, Post and Telegraph Rs. 400, Advertisement Rs. 500, Salary Rs. 1,200 Rent paid Rs. 400.

Although in the problem it is not stated that whether a balance is debit or credit. But we know that balances in all the Assets and Expenses accounts are always debit and the balances in all the liabilities and income accounts are always credit. Whether an item is an asset, liability, income or an expense, should always be decided from the traders' point of view. All our difficulties in this connection will end, if we consider, that we are the trader and, we are writing our own accounts.

TRIAL BALANCE
(As on December 2017)

Account No.	Name of the Account		Debit Amt. Rs.	Credit Amt. Rs.
1	Capital	-	-	25,000
2	Drawings	-	6,500	-
3	Cash	-	200	-
4	Bank Balance	-	7,000	-
5	Opening stock	-	10,000	-
6	Purchases	-	8,000	-
7	Sales	-	-	12,000
8	Sales return	-	500	-
9	Purchases return	-	-	800
10	Bills receivable	-	4,000	-
11	Bills payable	-	-	3,000
12	Sundry Debtors	-	5,000	-
13	Sundry Creditors	-	-	3,500

Account No.	Name of the Account		Debit Amt. Rs.	Credit Amt. Rs.
14	Discount paid	-	600	-
15	Post & Telegraph	-	400	-
16	Advertisement	-	400	-
17	Salary	-	1,200	-
18	Rent	-	400	-

		44,300	44,300

Illustration: 2

Following Balances are taken from the Books of Lalitha Jewellers, , as at Dec. 31-2017.

Cash Rs. 300, Bank Overdraft Rs. 23,000, Capital Rs. 20,000, Drawings Rs. 12,000, Sales Rs. 1,42,000, Purchases Rs. 50,000, Opening Stock Rs. 84,000, Purchases Return Rs. 8,000, Sales Return Rs. 300, Salary Rs. 15,000, Rent Rs. 28,000, Carriage Rs. 800, Advertisement Rs. 1,800, Debtors Rs. 5,000, Creditors Rs. 7,000, Sundry expenses Rs. 2,300. Prepare the Trial Balance.

TRIAL BALANCE

(As at December 2017)

Account No.	Name of the Account		Debit Amt. Rs.	Credit Amt. Rs.
1	Cash	-	300	-
2	Bank	-	-	23,000
3	Capital	-	-	20,000
4	Drawings	-	12,000	-
5	Sales	-	-	1,42,000
6	Purchases	-	50,000	-
7	Opening stock	-	84,000	-
8	Purchases return	-	-	8,000
9	Sales Return	-	300	-
10	Salary	-	15,000	-

Account No.	Name of the Account		Debit Amt. Rs.	Credit Amt Rs.
11	Rent	-	28,000	-
12	Carriage	-	800	-
13	Advertisement	-	1,800	-
14	Debtors	-	5,000	-
15	Creditors	-	-	7,000
16	Sundry Expenses	-	2,300	-
	Total	-		
		-	1,99,500	2,00,000
17	Suspense Account	-	+500	
			2,00,000	2,00,000

We see that this Trial Balance does not agree. Its debit total is Rs. 1,99,500, while the credit total is Rs. 2,00,000. The difference is Rs. 500, (2,00,000-1,95,000). Rs. 500 are less on the debit side. So,it has debited Rs. 500 to suspense account. Then this debit balance of suspense account is included in the trial balance. And thus, the trial balance is agreed. When final accounts are prepared the debit balance in suspense account is temporarily treated as an asset. And the credit balance as a liability.

Suspense Account:

A suspense account is an account in the general ledger in which amounts are temporarily recorded. The suspense account is used because the proper account could not be determined at the time that the transaction was recorded.

When the proper account is determined, the amount will be moved from the suspense account to the proper account.

RECTIFICATION OF ERRORS

INTRODUCTION:

In our life we make many mistakes. As soon as these are detected, he/she corrects them. In the similar manner, an accountant can also make mistakes or commit errors while recording and posting transactions. These are called 'Accounting Errors'. So accounting errors are the errors committed by persons responsible for recording and maintaining accounts of a business firm in the course of accounting process. These errors may be in the form of omitting the transactions to record, recording in wrong books, or wrong account or wrong totaling and so on.

Accounting errors can take the following forms:

- Omission of recording a business transaction in the Journal or Special Purpose Books

- Not posting the recorded transactions in various books of accounts to the respective accounts in ledger

- Mistakes in totaling or in carrying forward the totals to the next page l

- Mistake in recording amount wrongly, writing it in a wrong account or on the wrong side of the account.

CLASSIFICATION OF ACCOUNTING ERRORS

Various accounting errors can be classified as follows:

A. On the basis of their nature

(a) Errors of omission

(b) Errors of commission

(c) Errors of principle

B. On the basis of their impact on ledger accounts

(a) One sided errors

b) Two sided errors.

A. On the basis of their nature

a) **Errors of omission**

As a rule, a transaction is first recorded in books of accounts.

However, accountant may not record it at all or record it partially. It is called an error of omission. For example, goods purchased on credit are not recorded in Purchases Book or discount allowed to a customer was not posted to Discount A/c in the ledger.

b) Errors of commission

When the transaction has been recorded but an error is committed in the process of recording, it is called an error of commission. Recording in the wrong book for example purchase of goods from Rakesh on credit is recorded in the Sales Book and not in the Purchases Book. Recording in the book correctly but wrong amount is written. For example, goods sold to Shalini of Rs.4200 was recorded in the Sales Book as Rs.2400

c) Errors of principle:

- **Wrong totaling** : There may be a mistake in totaling Special Purpose Book or accounts. The totalled amounts may be less than the actual amount or more than the actual amount
- **Wrong balancing**: While closing the books of accounts at the end of the accounting period, the ledger accounts are balanced.
- **Wrong carry forward of balances or totals**: Totals or balances are carried forward to the next page
- **Wrong Posting**: Transactions from the journal or special purpose books are posted to the respective accounts in the ledger.

SHORT QUESTIONS (2MARKS)

1. What is trial balance?
2. What is suspense account?
3. What is rectification of errors?

ESSAY TYPE QUESTIONS (6MARKS)

1. How many types errors? Explain it?

EXERCISES

1. Prepare trial balance of Messers S.L & Co., as on 31.03.2018.

   Bills receivables Rs. 1000
   Sales Rs. 1200
   Purchase returns Rs. 300
   Bills payables Rs. 800
   Purchases Rs. 3000
   Capital Rs. 1900
   Sales returns Rs. 200

   (ANS: 4200)

2. Prepare trial balance of Mr. Simhadri as on 31.12.2017.

   Cash Rs. 20000
   Capital Rs. 60000
   Sales Rs. 30000
   Salaries Rs. 15000
   Debtors Rs. 25000
   Creditors Rs. 10000
   Purchases Rs. 40000

   (ANS:100000)

3. Prepare trial balance of Laasya .

   Capital Rs. 20000
   Purchases Rs. 18000
   Bills payable Rs. 3000
   Sales Rs. 10000
   Bills receivables Rs. 9000
   Sales returns Rs. 1000
   Furniture Rs. 5000

   (ANS: 33000)
4. Prepare trial balance of Venkata Naidu as on 31.03.2018

   Cash in hand Rs. 4000
   Buildings Rs. 36000
   Goodwill Rs. 12000
   Sales Rs. 23000
   Stock Rs. 8000
   Capital Rs. 45000

Purchases Rs. 15000
Bank loan Rs. 7000

(ANS: 75000)

5. Prepare trial balance of Chandrahasa as on 31.03.2018

Cash at bank Rs. 35000

Cash in hand Rs. 10000

Salaries Rs. 2000

Purchases Rs. 200000

Sales Rs. 225000

Stock Rs. 20000

Buildings Rs,. 20000

Bills payable Rs. 5000

Bills receivables Rs. 5000

Capital 62000

(ANS: 292000)

UNIT – VII
FINAL ACCOUNTS

Final Accounts – Preparation of Trading account, Profit & Loss account and Balance sheet with adjustments (including Problems).

INTRODUCTION:

Final accounts are the statements that are prepared at the end of an accounting period. Those consists of

1. trading account,
2. profit and loss account and
3. balance sheet. (position statement)

OBJECTIVES /IMPORTANCE OF FINAL ACCOUNTS:

- Knowing Profitability of Business
- Knowing the Solvency of the Business
- Judging the Growth of the Business:
- Judging Financial Strength of Business
- Making Comparison and Selection of Appropriate Policies
- Forecasting and Preparing Budget:
- Communicating with Different Parties

TRADING ACCOUNT

A trading account shows the results of the buying and selling of goods. This sheet is prepared to demonstrate the difference between selling price and cost price. The trading account tally is prepared to show the trading results of the business, e.g. gross profit earned or gross loss sustained by the business. It records the direct expenses of a business firm.

According to J.R.Batlibboi- The Trading Account shows the result of buying and selling goods.In preparing this account, the general establishment charges are ignored and only the transactions in goods are included.

Dr PROFORMA OF TRADING ACCOUNT Cr

PARTICULARS	RS	RS	PARTICULARS	RS	RS
To opening stock		xxx	By sales	xxx	
To purchases	xxx		Less: returns	Xx	xxx
Less: returns	xx	xxx	By closing stock		xxx
To wages		xxx	By stock destroyed by fire		xxx
To carriage		xxx	By gross loss (c/d)		xxx
To octroi		xxx	Transferred to		
To import duty		xxx	P & L a/c)		
To factory lighting		xxx			
To factory rent		xxx			
To manufacturing ex		xxx			
To fuel, power		xxx			
To marine insurance		xxx			
To factory insurance		xxx			
To gross profit (c/d)					
Transferred to					
P & L a/c)					
		xxxx			xxxx

Items to be written on the debit side of the Trading Account

1. Opening Stock

This is the value of the balance of goods brought, from the previous year, into the current year.

2. Purchases

This is the value of the goods purchased in the current year.

3. Purchases Return

This is the value of the goods returned to the sellers. Purchases return reduce the value of goods purchased. So, it is deducted from the purchases.

4. Carriage or Freight Inward

This includes all charges of bringing purchased goods to the business place. They are transport charges and also loading and unloading charges. If in any trial balance only carriage or freight is given then it should be treated as carriage inward only.

5. Import Duty and Excise Duty

Import duty increases the cost of the goods imported, and excise duty increases the cost of the goods manufactured.

6. Marine and Factory Insurance

Marine Insurance is for the safety of the goods imported and factory insurance is for the safety of the goods manufactured. These are also add to the cost of the goods.

7. Clearing Charges

Goods, which come by ship or railway require complicated procedure, before it is delivered to its owner. The expenses incurred to complete this procedure are called, clearing charges. These are also a part of the cost of the goods.

8. Factory Rent & Lighting

These are direct expenses for the manufacture of the goods. So, they are also added to the cost of the goods.

9. Fuel and Power

These are the expenses incurred to move machines for production. So, these expenses are also debited in the trading account, as cost of the goods.

10. Manufacturing Wages

Manufacturing wages or simply wages are paid for the production of the goods. This is a part of the cost of the good manufactured. If in a trial balance productive wages are separately given, then only the productive wages should be debited in Trading account, as cost of the goods. If in a trial balance wages and salaries are given together then it should not be included in the Trading account as the cost of the goods. It is a general expense

11. Other Expenses

Apart from the above-mentioned expenses all other expenses which are considered as the direct cost of the goods, either purchased or manufactured are debited into the trading account.

Items to be Written on the Credit Side of the Trading Account

1. Sales

It represents the amount realized or the sale proceeds from the sale of the goods, during the year.

2. Sales Return

It represents the value of the goods returned by our customers. Sales return reduce the actual sales. So, it is deducted from the sales.

3. Closing Stock

It is the value of the unsold goods at the end of the trading period. It is credited into the trading account. Closing stock usually does not appear in the trial balance. At the end of the trading period the unsold stock or closing stock is valued. It is called “Stock taking”. Closing stock is valued at the cost price or the market price, whichever is lower. It should not be valued at the selling price. It should be noted that the closing stock of the current year, will be the opening stock for the next year.

After debiting and crediting various items, the trading account is balanced as any other account. Credit balance in the trading account shows the Gross profit and debit balance the Gross loss. The Gross profit or the Gross loss of the trading account is transferred to profit and loss account, to find the Net Profit or Net Loss of the business. This will close the trading account.

Illustration: 1

From the following Trial Balance of Mr. Pratap, prepare Trading account for the year ended on December 31-2018.

Name of the Account		Debit Amt. Rs.	Credit Amt. Rs.
Opening stock	-	15,000	-
Purchases	-	40,000	-
Purchases Return	-	-	3,000
Sales	-	-	55,000
Sales return	-	2,000	-
Carriage	-	1,600	-
Furniture	-	4,000	-
Sundry debtors	-	9,800	-
Advertisement	-	200	-
Sundry Creditors	-	-	12,000
Capital	-	-	21,000
Bills Receivable	-	5,000	-
Discount given		1,000	-
Discount received		-	400
Rent		2,400	-
Cash		400	-
Interest paid on capital		2,000	-
Interest		6,000	-
Trade Expenses		1,800	-
Clearing charges		200	-
		91,400	91,400

Closing stock: Rs. 20,000

It is clear the below illustration, that in the trading account, only those items from the trial balance are taken, which help to find the Gross profit or Gross loss. Apart from this closing stock, which is outside the trial balance is taken into it. The items of the trial balance, which are not taken into trading account, will be taken in profit and loss account or in the balance sheet. They will be prepared later.

PRATAPH TRADING ACCOUNT

Dr. (For the year ended on Dec. 31-2018) Cr.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		15,000	By Sales	55,000	
			Less Returns	-2,000	
To Purchases	40,000				53,000
Less: Return	-3000		By Closing stock		20,000
		37,000			
To Carriage		1,600			
To Clearing Charges		200			
To Gross Profit Tranferred to P&L A/c.		19,200			
		73,000			73,000

PROFIT AND LOSS ACCOUNT

This account is prepared to ascertain the net profit/loss of a business during an accounting period. The profit and loss account is a statement that summarizes the revenue's and expense's of an accounting period so as to reflect the changes in various critical areas of a firm's operations. It records the indirect expenses of a business firm.

Profit and Loss Account

Profit and Loss account shows Net Profit or Net Loss incurred in the business. In the first place it is credited with the Gross Profit or debited with the Gross Loss, shown by the trading account. After this all those expenses shown in the Trial balance but not debited to trading account are debited into it. Similarly, all those incomes shown in trial balance, but not credited to the trading account are credited into it. Then the profit and loss account is balanced.

The credit balance in profit and loss account shows net profit and debit balance net loss. This net profit or net loss is transferred to capital account. Thus, the profit and loss account is closed.

Items to be Debited to Profit and Loss Account

1. Salaries

It includes salaries paid to clerks and managerial staff. It is usual expense of general nature. So it is debited to profit and loss account. But if salary is directly connected with the production of goods, then it should be debited to trading account.

2. Rent and Taxes

These includes rent of office, Godown and municipal taxes, etc. These are also usual and general business expenses and as such they are also debited to profit and loss account. But if rent or taxes are directly connected with factory or production, then they should be debited to trading account.

3. Printing and Stationery

The usual annual expense on printing and stationery is debited to profit and loss account. But an unusual expense on printing and stationery should not be debited to profit and loss account. It should be treated as an asset. And should be included in balance sheet.

4. Advertisement Expenses

The usual amount spent on advertisement is also a business expense. It is debited to profit and loss account. But an unusual expenditure on advertisement is a capital expenditure. It is shown in the balance sheet as an asset.

5. Interest Paid

The trader invests in business his own capital as well as loan taken from the outsiders. So the interest paid to outsiders as well as on his own capital is the business expense. Interest on capital should be shown separately from the interest paid to outsiders.

6. Discount Paid

Discount paid to customers is again a usual business expense. It is debited to profit and loss account.

7. Commission Paid

Commission given to others is a business expense. It is debited to profit and loss account.

8. Repairs

Usual expense incurred on repairs of furniture, building, machinery etc., is debited to profit and loss account. But unusual expense on this account is a capital expenditure. It should not be debited to profit and loss account. It is shown in the balance sheet as an asset.

9. Trade Expense

These are petty expenses connected with the business. They are generally debited to profit and loss account. But if in the same trial balance, trade expenses and also general expenses, Sunday expenses, or office expenses are given then the trade expenses should be debited to trading account, and the other expenses should be debited to profit and loss account.

10. Travelling Expenses

These are also business expenses. They are debited to profit and loss account

11. Bad Debt

It is a common knowledge that some of the debtors do not pay their debts. Such debt if unrecoverable is called "Bad Debt". Bad debt is a business expense. It is debited to profit and loss account.

12. Interest on Capital

Business and the owner are considered to be separate entities, so whatever amount a businessman has invested into his business, will be considered as loan to the business, on which interest becomes payable by business to its owner. IT is called as "interest on capital'.

13. Other Expenses

Apart from the expenses mentioned above, there may be some other expenses incurred in business. All such expenses should be debited to profit and loss account

Items to be Credited to Profit and Loss Account 1.
Rent received

If rent is received by sub-letting a building, then it is an income. So, this should be credited to profit and loss account.

2. Interest received

Sometimes businessmen charge interest to others. This is an income. And it should be credited to profit and loss account.

3. Discount received

Discount received from others is an income. So this should be credited to profit and loss account.

4. Commission received

Commission received is also an income. So this should be credited to profit and loss account.

5. Sundry Income

Any other business income regular or accidental should also be credited to profit and loss account.

After debiting and crediting various items, the profit and loss account is balanced as any other account. Its credit balance shows the net profit and debit balance net loss. Net profit or Net loss is transferred to capital account. This will close the profit and loss account.

Items not to be Debited to Profit and Loss Account

1. Drawings

These are the amounts drawn by the Proprietor for his personal use. They are not business expenses. So, they should be debited to profit and loss account. They should be debited to capital account.

2. Income Tax

This tax is levied on the income of the proprietor. So, this is not a business expense. It is a personal expense of the trader. And so it should not be debited to profit and loss account. It should be debited to capital account.

3. Life Insurance Premium

This is an expense on the life insurance policy of the trader. So this is not a business expense. And it should not be debited to profit and loss account. It should be debited to capital account.

PROFARMA OF PROFIT AND LOSS ACCOUNT

Particulars	Rs	Rs	Particulars	Rs	Rs
To gross loss(b/d)		xxx	By gross profit (b/d)		xxx
To salaries		xxx	By commission received		xxx
To rent paid		xxx	By dividend received		xxx
To commission paid		xxx	By rent received		xxx
To depreciation		xxx	By interest received		xxx
To interest on capital		xxx	By interest on drawings		xxx
To bad debts		xxx			
To stationary		xxx			
To taxes, rates		xxx			
To carriage on sales		xxx			
To net profit (c/d) (transferred to capital a/c)		xxx			
		xxx			Xxx

Illustration: 2

Prepare profit and loss account from the items given in the illustration 1.

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Advertisement	200	By Gross Profit transferred from Trading account	19,200
To Discount given	1,000	By Discount received	400
To Rent	2,400		
To Interest on Capital	2,000		
To Interest	6,000		
To Trade Expenses	1,800		
To Net Profit Transferred to Capital account	6,200		
	19,600		19,600

BALANCE SHEET

The balance sheet is a statement demonstrates the financial position of a business on a specific date. The financial position of a business is found by tabulating its assets and liabilities on a particular date. The excess of assets over liabilities represents the capital sunk into the business, and reflects the financial soundness of a company. Now its known as the statement of financial position of the company.

PROFARMA OF BALANCE SHEET

Liabilities	Rs	Rs	Assets	Rs	Rs
Capital	xxx		Cash in hand		xxx
Add: net profit	xxx				
Interest on capital	xxx		Cash at bank		xxx

	xxx		Debtors		xxx
Less: net loss	xxx		Bills receivables		xxx
Drawings	xxx				
Interest on drawings	xxx	xxx	Investments		xxx
			Closing stock		xxx
Creditors	xxx	xxx			
			Accrued incomes		xxx
Bank loan	xxx	xxx			
Bank overdraft	xxx	xxx	Prepaid expenses		xxx
Bills payable	xxx	xxx			
			Furniture		xxx
Incomes received in advance	xxx	xxx			
			Machinery		xxx
Outstanding expenses	xxx	xxx	Buildings		xxx
			Lands		xxx
			Office premises		xxx
			Goodwill		xxx
			Patents		xxx
			Copyrights		xxx
			Trade marks		xxx
	xxxx				xxxx

Kinds of Assets

1. Fixed Assets

These are the assets of permanent nature, such as land, building, furniture, machinery etc. These assets are not for sale. They are kept in business as an assistance to it.

2. Floating Assets

These assets are not permanent in the business. They are kept being converted into cash. Such assets are stock of goods, bills receivable and debtors. Floating assets remain in the business temporarily and their amounts constantly increase or decrease. Cash in hand and cash at bank are also floating assets. Floating assets are also called the current assets or circulating assets. They are also called liquid assets, because they can be easily converted into cash. Cash in hand and cash at bank are completely liquid assets.

3. Nominal or Fictitious Assets

These assets are also of permanent nature. They are not to be converted into cash. They are meant to assist the business for a long time. But these assets are not visible like building or furniture. Such assets are preliminary unusual expenses and debit balance of profit and loss account.

4. Visible and Invisible Assets

Sometimes assets are divided as visible and invisible assets. Visible assets are those assets which can be seen such as building, furniture etc. Invisible assets are those assets which cannot be seen such as good will, and preliminary expenses.

Kinds of Liabilities

1. Fixed Liabilities

Loans taken for a fixed period are fixed liabilities. It is because these are to be paid back, after a fixed period, or when the business is closed.

2. Floating Liabilities

Floating liabilities are demand liabilities. These are to be paid as and when they are demanded. Bank overdraft and creditors are floating liabilities. Their amounts constantly change by payments and acceptances. Floating liabilities are also called current liabilities.

Arrangement or Marshalling of Assets and Liabilities in the Balance Sheet

In balance sheet the assets and liabilities are arranged in a particular order. It is call Marshalling. The assets are generally listed on the right-hand side and the liabilities on the left hand side in a particular order.

Illustration: 3

Prepare balance sheet from the items given in the illustration 1 and the net profit shown in illustration 2.

PRATAPH'S BALANCE SHEET

(As at Dec. 31 - 2017)

LIABILITIES		Rs.	ASSESTS	Rs.
Sundry Creditors		12,000	Cash	400
			Sundry Debtors	9,800
Cash	21,000			
			Bills Receivable	5,000
Net Profit	6,200		Furniture	4,000
		27,200	Closing stock	20,000
		39,200		39,200

The above balance sheet is prepared from the balances given in the trial balance, illustration 1, and which are not transferred either to trading or to profit and loss account. These balances represent the assets and the liabilities. Apart from this, the closing stock given in the same illustration, outside the trial balance is included among the assets. In the liabilities side we have added the net profit to capital from the illustration 2, prepared from the same trial balance, it is because the net profit belongs to the proprietor and it increases his capital. In this balance sheet we have arranged the assets, according to liquidity and the liabilities according to the urgency of payment.

Important Points to be Remembered in the Preparation of Balance Sheet

1. Balance sheet is prepared on a particular date. It represents the financial position of the business, on that date. So, it should be dated as, balance sheet as at.

2. It is prepared along with the preparation of trading and profit and loss account. So, it is included amount the final accounts. In fact, it is only a statement of assets and liabilities.

3. At any time the capital in the business is equal to the assets minus the liabilities, other than the capital. So, the total of liabilities and the capital must be equal to the total assets of the business. In other words, the totals of the two sides of the balance sheet must be equal.

Illustration: 4

From the following trail balance prepare the trading and profit and loss account: and the balance sheet to the year ended on December 31-2017

Name of the Account		Debit Amt. Rs.	Credit Amt. Rs.
Arun's Capital	-	-	1,50,000
Arun's Drawing	-	15,000	-
Freehold Premises	-	20,000	-
Plant & Machinery	-	25,000	-
Office furniture	-	8,000	-
Sundry Debtors	-	1,30,000	-
Sundry Creditors	-	-	50,000
Cash in hand	-	1,200	-
Cash at Bank	-	10,000	-
Bills Payable	-	-	42,000
Bills Receivable	-	15,600	-
Sales	-	-	1,30,000
Sales Return	-	1,000	-
Purchases	-	80,000	-
Stock on Jan-1 2018	-	25,000	-
Wages	-	12,000	-
Gas & Water	-	1,800	-
Rates, Taxes and Insurance	-	2,000	-
Office Salaries	-	22,000	-
Travelling Expenses	-	2,500	-
Office expenses	-	1,200	-
Discount allowed	-	1,100	-
Discount received	-	-	800
Bad Debt	-	1,500	-
Purchase Return	-	-	2,100
		3,74,900	3,74,900

Closing stock is valued at 60,000

TRADING AND PROFIT & LOSS ACCOUNT

(For the year ended on December 31-2017)

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Opening Stock	12,000	Cash	400
		Sundry Debtors	9,800
To Purchases 80,000			
		Bills Receivable	5,000
Less Return 2,100		Furniture	4,000
	77,900	Closing stock	20,000
To Wages	12,000		
To Gas & Water	1,800		
To Gross profit transferred to P&L A/c	72,300		
	1,89,000		1,89,000
To Rates, Taxes and Insurance	2,000	By Gross profit from Trading account	72,300
To Office Salaries	22,000	By Discount Received	800
To Travelling Expenses	2,500		
To Office Expenses	1,200		
To Discount allowed	1,100		
To Bad Debt	1,500		
To Net Profit transfer to Capital account	42,800		
	73,100		73,100

BALANCE SHEET

As on December 31-2017

Liabilities	Rs.	Assets	Rs.

Sundry Creditors		50,000	Cash at hand	1,200
			Cash at Bank	10,000
Bills payable		42,000		
			Sundry Debtor	1,30,000
Arun capital 1,50,000			Bills Receivable	15,600
Less: Drawing -15,000			Office Furniture	8,000
			Plant and Machinery	25,000
	1,35,000			
			Freehold Premises	20,000
Net profit	42,000			
			Closing stock	60,000
		1,77,800		
		2,69,800		2,69,800

It should be noted that trading and profit and loss accounts are part of the same account. So, they should be prepared be prepared together, as shown in the above example.

It should be noted that each of the items given in trial balance will appear only once in the trading or profit and loss account or in the balance sheet. No item should appear at two places. But closing stock, which is given outside the trial balance will appear at two places, once in the credit side of the trading account and again in the balance sheet, as an asset.

If instead of trial balance, only the balances of various accounts are given, then it is better to prepare first, the trial balance and then the final accounts. If there is no agreement in trial balance, then its difference should be adjusted in suspense account. In other words, if in the trial balance the total in the debit side is less than the total in the credit side, then the difference should be debited to suspense account. On the other hand, if in the trial balance the total in the credit side is less than the total in the debit side, then the difference should be credited to suspense account. Now the suspense account should be included in the trial balance. The trial balance with suspense account will automatically agree. In the balance sheet, suspense account should be shown as an asset, if it has a debit balance and as liability, if it has a credit balance.

SHORT QUESTIONS

1. How many types of final accounts prepared? What are they?
2. What is closing stock?

EXERCISES

1. Prepare trading account of Srilaxmi for the year ended 31.12.2017.

   Stock as on 1.1.2017 Rs. 9500
   Purchases Rs.12200
   Carriage Rs. 500
   Sales Rs. 25000
   Wages Rs. 875
   Factory rent Rs. 925
   Sales returns Rs. 500
   Customs duty Rs. 800
   Closing stock Rs. 3100
   Purchase returns Rs. 1200

   (ANS: gross profit Rs.4100)

2. Preparing trading account of Kailasam for the year ended 31.03.2018.
   Opening stock Rs. 2100
   Purchases Rs. 6400
   Sales Rs. 12500
   Return inwards Rs. 700
   Return outwards Rs. 500
   Carriage inwards Rs. 625
   Wages Rs. 975
   Factory insurance Rs. 400
   Clearing charges Rs. 500
   Freight Rs. 3000
   Closing stock Rs. 2000

   (ANS: gross profit Rs.300)

3. Prepare profit and loss account of sri thambaih for the year ended 31.03.2018

   Salaries Rs. 1200
   Rent Rs. 500
   Stationary Rs. 300
   Discount allowed Rs. 400
   Advertisement expenses Rs. 600
   Commission paid Rs. 500

Discount received Rs. 1000
Gross profit Rs. 5000

(ANS: net profit Rs. 2500)

4. Prepare profit and loss account of harsha for the year ended 31.12.2017

   Rent and taxes Rs. 850
   Discount paid Rs. 300
   Salaries Rs. 1000
   Discount received Rs. 900
   Postage Rs. 500
   Interest received Rs. 825
   Travelling expenses Rs. 600
   Trade expenses Rs. 350
   Bad debts Rs. 500
   Repairs Rs. 300
   Depreciation Rs. 700
   Legal expenses Rs. 450
   Carriage on sales Rs. 200
   Audit charges Rs. 375

   (ANS: 7100)

5. Prepare balance sheet of laxmidevi as on 31.12.2017.

   Capital Rs. 25000
   Bills payable Rs. 4000
   Machinery Rs. 10000
   Bills receivable Rs. 7000
   Creditors Rs. 7500
   Furniture Rs. 5500
   Loan Rs. 2500
   Net profit Rs. 5000
   Debtors Rs. 14000
   Closing stock Rs. 7500

   (ANS: 44000)

6. Prepare balance sheet of anjali traders as on 31.03.2018.

   Net profit Rs. 4500
   Loose tools (asset) Rs. 3000
   Investment Rs. 10000
   Outstanding salaries Rs. 500
   Furniture Rs. 3000
   Creditors Rs. 6500
   Machinery Rs. 4500
   Cash Rs. 1000
   Debtors Rs. 5000
   Closing stock Rs. 2500
   Bills receivable Rs. 2500
   Capital Rs. 20000

(ANS: 31500)

FINAL ACCOUNTS WITH ADJUSTMENTS

Adjustment is the process of adjusting outstanding and prepaid expenses and incomes, depreciation of assets, bad debt, interest on capital and drawings etc., into the final accounts.

The aim of adjustments is to include in, all the expenses and incomes related to the trading period and exclude all the final accounts. All adjustments are unrecorded items and they do not appear in the trial balance. So before final accounts are prepared these items should be adjusted and recorded, each in two different accounts. the adjustments are made through journal entries 'Adjusting entries'. The following are the usual adjustments.

1. Outstanding Expenses

These are the expenses, whose benefit is received in the current year, but their payment is yet to be made. So outstanding expenses should be included in the expenses of the current year, although they are unpaid. For this various expense account, where the payment is outstanding are debited and outstanding expenses account is credited. Suppose at the time of preparing final accounts Rs. 500 for salary and Rs. 200 for rent are outstanding. The adjustment entry for the will be-

When this journal entry is posted to ledger accounts, Rs. 500 will be added as expenses to salary account and Rs. 200 to the rent account. The outstanding expenses account will show a credit balance of Rs. 700. It represents a liability for the services received but unpaid.

2. Prepaid Expenses

These are the payments made in the current year, but their benefits is yet to be received. In other words, these are not current year's expenses, although the money is paid for them. These are advance payments. So the prepaid expenses should be excluded, from the current year expenses although they are paid. For this various expenses accounts, where the expenses are prepaid must be credited and prepaid expenses account should be debited. Suppose at the time of preparing final account Rs. 300 are prepaid in insurance account and Rs. 100 in wages account. The adjusting entry for this will be -

When this journal entry is posted to ledger account Rs. 300 are reduced from the expenses in insurance account and Rs. 100 in wages account. The prepaid expenses account will show a debit balance of Rs. 400. It represents an asset being advance payment.

3. Outstanding Income

This is an income for which service is rendered in the current year, but the money is not yet received. So, this is the income of the current year, although, the money will be received in the coming year. So such income should be included in the year's income. For this various income accounts, where such income is outstanding should be credited and outstanding income account should be debited. Suppose at the time of preparing final accounts, commission Rs. 100 and interest Rs. 200 are outstanding income. The adjusting entry for this will be -

When this journal entry is posted to ledger accounts, Rs. 100 is added as income in commission and Rs. 200 in interest account. The outstanding income account will show a debit balance of Rs. 300. It represents an asset, being outstanding income. Outstanding income is also known as 'Accrued income' or 'Income earned but not received'.

4. Income received in Advance

This is an amount, received in advance, with a promise to render service in future. Such amount cannot be the income of the current year. So, at the time of preparing final accounts, income received in advance should be deducted from the current year's income. For this various income accounts, where the income is received in advance are debited and income received in advance is credited. Income received in advance is also called. 'Unearned income'. Suppose at the time of preparing final accounts commission Rs. 50 and rent Rs. 100 are income received in advance. The adjusting entry for this will be -

When this journal entry is posted to ledger accounts Rs. 50 are reduced as income in commission account and Rs. 100 in rent account. The income received in advance account will show a credit balance. It is a liability for income received in advance.

5. Depreciation

Decrease in the value of permanent assets due to their use is called 'Depreciation'. Business assets such as furniture, machines and building depreciate in value every year, because of their use. Depreciation is a business expense. So, when final accounts are prepared depreciation account is debited and connected asset account is credited. Suppose at the time of preparing final accounts the depreciation in machinery is Rs. 500 and in furniture Rs. 200. The adjusting entry for this will be

When this journal entry is posted in ledger accounts the depreciation account shows a debit balance of Rs. 700, as depreciation expense. The machinery account is credited by Rs. 500 and furniture account by Rs. 200. This reduces the required value of the assets due to depreciation.

6. Bad Debt

Generally, in every business there are some debtors, who do not pay their debts. Such debts are called “Bad debts”. Bad debt is a business expense. It is taken into account. When final accounts are prepared. For this bad debt account is debited and the personal accounts of the defaulters are credited. Their accounts are closed. Suppose Rs. 500 are due from Rakesh and Rs. 300 from Mohan. And there is no hope of recovering the amounts from them. The adjusting entry for this will be -

When this journal entry is posted to ledger accounts the bad debt account will show a debit balance Rs. 800 as an expense. Rakesh’s and Mohan’s account, will show no balance. Their debit balances are written off.

7. Reserve for Doubtful Debt (R.D.D)

Even after bad debt is written off, there remains some debt, whose recovery is doubtful. Such debt is called doubtful. The possible loss from doubtful debtors of the current year is a business expenses for the current year, although it is yet to be incurred. So, such possible loss is also taken into account, when final accounts are prepared. For this first bad debt is deducted from the total debt and then some percentage is calculated on the balance, as the required R.D.D. This required reserve is debited to profit and loss account and credited to an account called “Reserve for Doubtful Debt account or Provision for Bad Debt’. Suppose at the time of preparing final accounts the total debtors are Rs. 50,000 and out of it Rs. 2,000 are bad debt. So the remaining debt is (50,000-20,000) =48,000. Now if we want 5 percent R.D.D. its amount will be 2,400. For this adjusting entry will be -

When this journal entry is posted. Profit and loss account will include Rs. 2,400 as an expense. Reserve for doubtful debt, account will show a credit balance of Rs. 2,400. The credit balance of reserve for doubtful debt account is a liability relating to doubtful debtors. This liability is deducted from the debtors in the balance sheet, to show the net amount receivable from the debtors.

If there is already a reserve for doubtful debt, in the books of a account, then the bad debt should be debited to it, instead to profit and loss account. This is because the reserve for doubtful debt if maintained to cover the risk ofbad debt. It was credited by debiting the profit and loss account the previous year.

It should be noted that, each year the amount required as reserve for doubtful debt, is debited to profit and loss account and credited to reserve for doubtful debt account.

If in any year, there is any amount is reserve for doubtful debt account, then the excess amount should be debited to reserve for doubtful debt account and credited to profit and loss account.

8. Reserve for Discount on Debtors

If the current year's debtors pay their debt before time, we pay them cash discount. This possible loss of discount is current year's expense. So when final accounts are prepared a reserve is credited for it. It is called "Reserve for discount on debtors". For this profit and loss account is debited and "Reserve for Discount on Debtors" account is credited. The reserve for discount on debtors is a liability. It is shown in the balance sheet as a deduction from the Sunday debtors. If there is already a reserve for discount on debtors, then the cash discount paid during the year should be debited to it and not to the profit and loss account. In short, its entries are made on the same line as that of reserve for doubtful debt.

9. Reserve for Discount on Creditors

Just like reserve for discount on debtors, some people create reserve for discount on creditors. Reserve for discount on creditors is a possible income to us, in the form of discount, when we pay cash to our creditors. The reserve for discount on creditors is also estimated like reserve for discount on debtors. The amount thus estimated is debited to reserve for discount on creditors account and credited to profit and loss account. The reserve for discount on creditors is an asset. It is shown in balance sheet as a deduction from the Sunday creditors. It there is already a reserve for discount on creditors then the cash discount received during the year should be credited it. It should not be credited to profit and loss account. The entries relating to reserve for discount on creditors are made in the reverse direction to the entries, in relation to reserve for discount on debtors.

10. Interest on Capital

The Proprietor, who invests his money in business as capital, expects apart from profit some interest on it. So, interest is calculated on capital at a certain rate and treated as business expense. It is an expense to business and income

to the proprietor in the form of interest. So, at the time of preparing final accounts, the interest on capital is debited to profit and loss account and credited to the capital account. This increases the proprietor's capital in the business.

11. Interest on Drawings

Drawings are the amounts taken out of business by the proprietor for his personal use. If the proprietor receives interest of this capital in business, he must also pay interest to the business on his drawings. The interest on drawings is an income to business as interest received, and expense to the proprietor as interest paid. So, at the time of preparing final accounts, interest on drawings is debited to the capital account, and credited to the profit and loss account.

12. Closing Stock

It is the value of unsold goods, at the end of the trading period. At the time of preparing final accounts closing stock is valued by “Stock Closing”. The closing stock does not appear in the trial balance. As such at the time of preparing final accounts closing stock account, is debited and trading account is credited. The closing stock is also shown as an asset in the balance sheet.

Sometimes at the time of preparing final accounts closing stock is adjusted with the purchases account. It is done by debiting closing stock account and crediting to purchases account. In this case closing stock will appear in the trial balance. Then it is not adjustment. So it should be only included in the balance sheet, as an asset. It should not be credited to trading account.

Illustration: Problem of Final accounts with adjustments
Prepare trading, profit and loss a/c of Ramesh from the following:

Name of the Account		Debit Amt. Rs.	Credit Amt. Rs.
Furniture & Fittings	-	500	-
Motor Vehicle	-	10,000	-
Building	-	25,000	-
Capital	-	-	40,000
Bad debt	-	400	-
Sundry Debtors	-	10,000	-
Drawings	-	2,000	-
Sundry Creditors	-	-	15,000
Stock on 1-1-2017	-	25,000	-
Purchases	-	45,000	-
Sales	-	-	75,000
Bank overdraft	-	-	8,000
Purchases Return	-	-	5,000
Sales Return	-	2,000	-
Advertisement	-	200	-
Interest	-	800	-
Commission	-	-	1,200
Cash	-	4,200	-
Taxes & Insurance	-	1,500	-
General Expenses	-	3,200	-
Salaries	-	9,000	-
Travelling Expenses	-	5,400	-
		1,44,200	1,44,200

Following adjustments are necessary:

1. The closing stock on 31-dec-2017 was worth Rs. 20,000
2. Calculate deprecation on building at 5 %, on furniture & fittings at 10 percent and on Motor Vehicle at 20 percent.
3. Rs. 250 interests on bank overdraft, Rs. 1,200 Salary and taxes Rs.200 were outstanding.
4. Rs. 100 were received in advance as commission.
5. 5 Percent Reserve on debtors for doubtful debt is necessary

TRADING AND P&L A/c of |Ramesh for year ended 31-2017

Particulars	Rs.	Particulars	Rs.
To Opening Stock	25,000	By Sales 75,000	
To Purchases 45,000		Less Returns -2,000	
Less: Return -5000			73,000
	40,000	By Closing stock	20,000
To Gross Profit transfer-red to Profit & Loss Account 28,000			
	93,000		93,000
To Bed debt	400	By Gross Profit	28,000
To R.D.D.	500		
To advertisement	200	By Commission 1,200	
To interest 800			
Add outstanding interest on over-draft +250		Less Commis-sion received in advance -100	
---------	1,050	-------	1,100
To taxes and Insurance 1,500			
Add outstand-ing tax +200			
----------	1,700		
To General Expenses	3,200		
To Salary 9,000			
Outstanding +1,200			
---------	10,200		
To travelling expenses	5,400		
To Depreciation: -			
On Building 1,250			
On Furniture & Fittings +50			
On Motor Vehicle +2,000			
---------	3,300		
To Net Profit transferred to capital account	3,150		
	29,100		29,100

MOHAN'S BALANCE SHEET (As on Dec - 31 -20117)

LIABILITIES		Rs.	ASSESTS		Rs.
Sundry Creditors		15,000	Cash		4,200
Bank Overdraft		8,000	Sundry Debtors	10,000	
Capital	40,000		Less R.D.D.	- 500	
Add Profit	+3,150			---------	9,500
	43,150		Furniture and		
Less Drawing-----	2,000		Fittings	500	
	-------	41,150	Depreciation	-50	
Outstanding expenses: -				--------	450
Int. on overdraft	250		Motor Vehicle	10,000	
Salary	+1,200		Depreciation	-2,000	
Taxes	+ 200			--------	8,000
	--------	1,650	Building	10,000	
Commission received in			Depreciation	-1,250	
advance		100		--------	23,750
			Closing		20,000
		65,900			65,900

EXERCISE

1. Prepare the Final accounts from the following balances:

Drawings	4,000	Machinery & Plant	41,200
Purchases	22,000	Sales Return	1,500
Bills Receivable	5,000	Salaries	10,000
Trade Expenses	2,000	Debtors	15,000
Opening Stock	40,000	Rent	2,000
Advertisements	500	Travelling Expense	1,200
Post & Telegrams	420	Cash	3,180
Sales	88,000	Capital	30,000
Creditors	20,000	Bills Payable	10,000

Among the debtors Rs. 800 is a bad debt, Closing stock Rs. 20,000

2. The following balances are taken from the books of SLSR & Co., for the year ended on December 31-2017. Prepare the final accounts.

Cash in Hand	1,000	Machinery & Plant	60,000
Capital	1,00,000	Sales	2,00,000
Purchases	12,000	Furniture and Fitting	15,000
Bills Payable	22,000	R.D.D.	1,000
Opening Stock	35,000	Bills Receivables	20,000
Debtors	50,000	Rent & Taxes	10,000
Creditors	24,000	Salary	20,000
Wages	16,000		

The following adjustments are necessary:

(a). Rs. 200 for rent and takes, Rs. 300 for wages and Rs. 4,000 for salary are outstanding (b) Closing stock is of Rs. 40,000. (c) Depreciate Plant and Machinery at 5 percent, (d) Calculate 10 percent depreciation on furniture and fittings. (e) The reserve for Doubtful debts should be 2.5 percent on debtors.

3. Prepare Trading and Profit & Loss Account and Balance sheet from the following particulars. Journal entries are not necessary for adjustments.

TRIAL BALANCE AS ON 31st December 2017

Particulars		**Debit Amt. Rs.**	**Credit Amt. Rs.**
Purchases	-	16,000	-
Discount	-	1,300	-
Wages	-	6,500	-
Salaries	-	2,000	-

Travelling expenses	-	500	-
Carriage Inwards	-	275	-
Insurance		150	

4. From the following balances taken from the books of Jnaneswar, prepare final accounts for the year ended on Dec-31-2017.

Jnaneswar's Capital	30,000	Rent Received	1,000
Jnaneswar's Drawing	5,000	Purchases	1,10,000
Furniture & Fittings	2,600	Sales	1,50,000
Sales Return	2,000	Taxes & Insurances	2,000
Discount Given	1,600	General Expenses	4,000
Discount Received	2,000	Salary	9,000
Bank Overdraft	4,200	Commission Paid	2,200
Creditors	13,300	Carraige	1,800
Business Premises	20,000	Reserve for doubtful debts	500
Stock on 1-1-2017	22,0000	Bad debt	800
Debtors	18,000		

Adjustments: On December 2017, the value of remaining stock wasRs.20,000. Depreciate business premises by Rs. 3,000 and furniture and fitting by Rs. 260. Arrange 5% reserve for doubtful debts on debtors. Calculate 15% interest on Capital. Rs. 600 was outstanding for salary and Rs. 700 are prepaid on insurance.

UNIT-VIII
BASIC FUNDAMENTALS OF COMPUTERS

Basic Fundamentals of computers – Advantages of computers - Input, output devices – Operating system – MS.WORD – MS EXCEL.

INTRODUCTION:

Computer" is a word derived from "Compute" which means to calculate. A computer is an electronic device, which stores data and processes information based upon the instructions provided by the user and generates the desired output. A computer is a device that computes or calculates numbers, however, does more than that.

DEFINITION:

According to Donald **H Sanders**“ computer is an electronic device which accepts data as input and process it and gives meaningful information known as output “

HISTORY OF COMPUTERS

Computer history starts with the development of device called Abacus, by the Chinese around 600 BC. It was used for systematic calculation of arithmetic expressions, and it is interesting to note that; it is still used in far eastern countries like India, China etc. Although there were number of improvements in calculating devices, but no conceptual changes were made until the end of 18th century. During the first decade of 19th century Charles Babbage (Mathematic professor of Cambridge University) developed two devices called differential and analytical engines. These devices had a provision for imputing data, performing arithmetic and logical operations on data, and storing and printing result. These devices cause a base for modern digital computers. So **Charles Babbage** is known as **the father of modern digital computers**.

COMPUTER GENERATIONS:

First Generation (1940 – 1955) . Example : Electronic Numerical Integrator and Computer (ENIAC) , EDVAC

Second Generation (1956 – 1965) : IBM 1401

Third Generation (1966 – 1975) : IBM System/360

Fourth Generation (1976 – 1985) : Macintosh 128k

Fifth Generation (1986 -till date) : Super computer

FEATURES:

1. **SPEED** : In general, no human being can compete to solving the complex computation, faster than computer.

2. **ACCURACY**: Since Computer is programmed, so whatever input we give it gives result with accuratly.

3. **STORAGE** : Computer can store mass storage of data with appropriate formate.

4. **DILIGENCE** : Computer can work for hours without any break and creating error.

5. **VERSATILITY** : We can use computer to perform completely different type of work at the same time.

6. **POWEROFREMEMBERING** : It can remember data for us.

ADVANTAGES OF COMPUTERS:

- **Speed**: In general, no human being can compete to solving, faster than computer.

- **Accuracy** : Since Computer is programmed, so whatever input we give it gives result with accuratly.

- **Storage Capacity**: Computer can store mass storage of data with appropriate formate.

- **Online Trading:**
  People tend to use computer and internet while purchasing and

selling their goods, according to a recent survey more than 50% of people across the world will use computers for their online trading.

- **Online Education | Distance Learning:**
  This is one of the biggest merit or Advantage of computers as students, professionals can get a quality education at their fingertips.

- **Forecasting Weather, and Predicting Earthquakes:**
  Super computers are used in weather forecasting, predicting earthquakes, volcano eruptions, the scientist predict the time and hence they can save people from these natural disasters

- **Produce Employment:**
  Computer produces great amount of jobs per year, people don't want to work manually anymore as this is tedious, time-consuming, and inaccurate whereas the computer works with unbelievably accuracy and speed and are reliable

INPUT DEVICES:

an input device is a piece of computer hardware equipment used to provide data and control signals to an information processing system such as a computer or information appliance. Examples of input devices include
keyboards, mouse, scanners, digital cameras and joysticks.

Keyboard : This is an input device which is used to input the data into the computer. A computer keyboard is a typewriter-style device which uses an arrangement of buttons or keys to act as a mechanical lever or electronic switch

Mouse : This is also an input device which is used to input the data into the computer.

Scanner : This is an input device which is used to scan the document for the soft copy.is a device that optically scans images, printed text, hand writing or an object and converts it to a digital image. Commonly used in offices are variations of the desktop flatbed scanner where the document is placed on a glass window for scanning.

Central Processing Unit (CPU) : It is heart and mind of the computer without this unit computer unable to process. A central processing unit (**CPU**) is the electronic circuitry within a **computer** that carries out the instructions of a **computer** program by performing the basic arithmetic, logical, control and input/output (I/O) operations specified by the instructions.

OUTPUT DEVICES:

An output device is any device used to send data from a computer to another device or user. Most computer data output that is meant for humans is in the form of audio or video. Thus, most output devices used by humans are in these categories. Examples include
monitors, projectors, speakers, headphones and printers.

Monitor : This is an output device which is used to show the result of the instructions.
There are variety of monitor available in the market such as, CRT Monitor, LCD Monitor, Touch Screen Monitor, TFT Monitor etc.

Printer : This is an output device which is used to show the result on the paper. There are plenty of printer available in the market like inkjet, Laser printer, dot matrix printer etc.

Speaker: This is an output device which is used to listen voice, songs, etc.

COMPUTER MEMORY:

Memory is the best essential element of a computer because computer can't perform simple tasks. The performance of computer mainly based on memory and CPU. Memory is internal storage media of computer that has several names such as majorly categorized into two types, Main memory and Secondary memory.

1. Primary Memory / Volatile Memory.
2. Secondary Memory / Non-Volatile Memory.
3.

1. Primary Memory / Volatile Memory:

Primary Memory also called as volatile memory because the memory can’t store the data permanently. Primary memory select any part of memory when user want to save the data in memory but that may not be store permanently on that location. It also has another name i.e. RAM.

Random Access Memory (RAM):
The primary storage is referred to as random access memory (RAM) due to the random selection of memory locations. It performs both read and write operations on memory. If power failures happened in systems during memory access, then you will lose your data permanently. So, RAM is volatile memory. RAM categorized into following types.

2. Secondary Memory / Non-Volatile Memory:

Secondary memory is external and permanent memory that is useful to store the external storage media such as floppy disk, magnetic disks, magnetic tapes and etc cache devices.

Read Only Memory (ROM) :
ROM is permanent memory location that offer huge types of standards to save data. But it works with read only operation. No data lose happen whenever power failure occur during the ROM memory work in computers.

CLASSIFICATION OF COMPUTERS:

The computers are classified into various types depends on their purpose, operation and size.

In general computers are classified into major categories based on.

(a) According to the purpose of the computer.

(b) According to the operation of computer.

(c) According to the size of computer.

(a) Classification as per purpose of the computer

1. General purpose computers.

2. Special purpose computer

1.General Purpose Computers: These computers are theoretically used for any type of applications. These computers can be used in solving a business Problem and also used to solve mathematical equation with same accuracy and consistency. Most of the computer now are general purpose digital computers. All the P. C's, which have become household affair.

2. Special Purpose Computers: These digital computers are designed, made and used for any specific job. These are usually used for those purposes which are critical and need great accuracy and response like Satellite launching, weather forecasting etc.

(b) According to the **operational principle of computers**, they arecategorized as analog, digital and hybrid computers.

Analog Computers: These are almost extinct today. These are differentfrom a digital computer because an analog computer can perform several mathematical operations simultaneously. It uses continuous variables for mathematical operations and utilizes mechanical or electrical energy.

Digital Computers: They use digital circuits and are designed to operateon two states, namely bits 0 and 1. They are analogous to states ON and OFF. Data on these computers is represented as a series of 0s and 1s. Digital computers are suitable for complex computation and have higher processing speeds. They are programmable. Digital computers are either general purpose computers or special purpose ones. General purpose computers, as their name suggests, are designed for specific types of data processing while general purpose computers are meant for general use.

Hybrid Computers: These computers are a combination of both digitaland analog computers. In this type of computers, the digital segments perform process control by conversion of analog signals to digital ones.

(c) According to the **sizes of the computers, the** computers are classifiedas follows.

Supercomputers: The highly calculation-intensive tasks can be effectively performed by means of supercomputers. Quantum physics, mechanics, weather forecasting, molecular theory are best studied by means of supercomputers. Their ability of parallel processing and their well-designed memory hierarchy give the supercomputers, large transaction processing powers.

Ex. PARAM developed in India.

Servers: They are computers designed to provide services to clientmachines in a computer network. They have larger storage capacities and

powerful processors. Running on them are programs that serve client requests and allocate resources like memory and time to client machines. Usually they are very large in size, as they have large processors and many hard drives. They are designed to be fail-safe and resistant to crash.

Mainframe Computers: Large organizations use mainframes for highly critical applications such as bulk data processing and ERP. Most of the mainframe computers have capacities to host multiple operating systems and operate as a number of virtual machines. They can substitute for several small servers.

Wearable Computers: A record-setting step in the evolution of computers was the creation of wearable computers. These computers can be worn on the body and are often used in the study of behavior modeling and human health. Military and health professionals have incorporated wearable computers into their daily routine, as a part of such studies. When the users' hands and sensory organs are engaged in other activities, wearable computers are of great help in tracking human actions. Wearable computers do not have to be turned on and off and remain in operation without user intervention

Minicomputers: In terms of size and processing capacity, mini computers lie in between mainframes and microcomputers. Minicomputers are also called mid-range systems or workstations. The term began to be popularly used in the 1960s to refer to relatively smaller third generation computers. They took up the space that would be needed for a refrigerator or two and used transistor and core memory technologies. The 12-bit PDP-8 minicomputer of the Digital Equipment Corporation was the first successful minicomputer.

Microcomputers: A computer with a microprocessor and its central processing unit is known as a microcomputer. They do not occupy space as much as mainframes do. When supplemented with a keyboard and a mouse, microcomputers can be called personal computers. A monitor, a keyboard and other similar input-output devices, computer memory in the form of RAM and a power supply unit come packaged in a microcomputer. These computers can fit on desks or tables and prove to be the best choice for single-user tasks.

Desktops: A desktop is intended to be used on a single location. The spare parts of a desktop computer are readily available at relatively lower costs. Power consumption is not as critical as that in laptops. Desktops are widely popular for daily use in the workplace and households.

Laptops: Similar in operation to desktops, laptop computers are miniaturized and optimized for mobile use. Laptops run on a single battery or an external adapter that charges the computer batteries. They are enabled with an inbuilt keyboard, touch pad acting as a mouse and a liquid crystal display. The portability and capacity to operate on battery power have proven to be of great help to mobile users.

Notebooks: They fall in the category of laptops but are inexpensive and relatively smaller in size. They had a smaller feature set and lesser capacities in comparison to regular laptops, at the time they came into the market. But with passing time, notebooks too began featuring almost everything that notebooks had. By the end of 2008, notebooks had begun to overtake notebooks in terms of market share and sales.

Personal Digital Assistants (PDAs): It is a handheld computer and popularly known as a palmtop. It has a touch screen and a memory card for storage of data. PDAs can also be used as portable audio players, web browsers and smart phones. Most of them can access the Internet by means of Bluetooth or Wi-Fi communication.

Tablet Computers: Tablets are mobile computers that are very handy tousle. They use the touch screen technology. Tablets come with an onscreen keyboard or use a stylus or a digital pen. Apple's iPad redefined the class of tablet computers.

COMPUTERSOFTWARE:

Software is a logical programme to handle/solve the complex problem.

System Software : This is special type of software which is responsible for handle the whole computer system.

Application Software : This is special type of software which is used to solve a particular problem.

Embedded Software : This type of software embedded with hardware to do a specific type of job.

Proprietary Software : In general, this type of software require to purchase to use that particular software for the sometime or single user as per conditioned by the vendor of that particular software.

Open Source Software : This type of software may be freely available and cannot be use in commercially. We can modify and use it under the same license.

COMPUTER LANGUAGES:

Machine Level Language : This is low level programming language. Computer or any electronic device only understand this language. i.e. Binary number i.e 0 and 1.

Assembly Level Language : This is a low level programming language which is converted into executable machine code by a utility programmer referred to as an assembler.

High Level Language : High level language is a programming language which is easily understandable/readable by human.

Interpreter : This is a convertor which converts high level language programme to low level language programme line by line.

Compiler : This is also a convertor which converts whole high level language programme to low level language programme at a time.

COMPUTER NUMBER SYSTEM:

Binary Number System: It has only base 2 i.e 0 and 1

Octal Number System : Base of octal is 8 i.e. 0, 1, 2, 3, 4, 5, 6, 7

Decimal Number System : Base of Decimal is 10 i.e. 0 1 2 3 4 5 6 7 8 9

Hexadecimal Number System : Base of this number system is 16 i.e. 0 1 2 3 4 5 6 7 8 9 A B C D E F

COMPUTER OPERATING SYSTEM:

Operating system(OS) is to operate the computer. The operating system is a collection of programs that control the operation of all hardware and other resources in the computer system.

1. **Single user operating system**
2. **Multi user operating system**
3. **Multi tasking operating system**

1.Single user operating system:

this operating system is designed to manage the computer so that one user can effectively do one thing at a time. The Palm OS for Palm handheld computers is a good example of a modern single-user, single-task operating system.

2.Multi user operating system:

a multi-user operating system allows more than one user to access a computer system at one time. Mainframes and minicomputers work on multi-user operating systems UNIX, VMS and mainframe operating systems, such as MVS, are examples of multi-user operating systems..

3.Multi tasking operating system: Multitasking, in an operating system, is allowing a user to perform more than one computer task (such as the operation of an application program) at a time. The operating system is able to keep track of where you are in these tasks and go from one to the other without losing information. For example, work on a document file in MSWORD programs, while copying file from other computer available in the network, and also can listen songs through Windows Media Player. With Windows 7 environment, the user can do more than one task a time.

Microsoft Word

Microsoft Word or MS-WORD (often called Word) is a graphical **word** processing program that users can type with. It is made by the **computer** company **Microsoft**. Its purpose is to allow users to type and save documents. Similar to other **word** processors, it has helpful tools to make documents.

MS-WORD FEATURES:

Microsoft Word offers several features to ease document creation and editing, including:

- WYSIWYG (what-you-see-is-what-you-get) display: It ensures that everything displayed on screen appears the same way when printed or moved to another format or program.
- Spell check: Word features a built-in dictionary for spell checking; misspelled words are marked with a red squiggly underline. Sometimes, Word auto-corrects an obviously misspelled word or phrase.
- Text-level features such as bold, underline, italic and strike-through
- Page-level features such as indentation, paragraphing and justification
- External support: Word is compatible with many other programs, the most common being the other members of the Office suite.

Microsoft Excel

Microsoft Excel is a spreadsheet program included in the **Microsoft** Office suite of applications. Spreadsheets present tables of values arranged in rows and columns that can be manipulated mathematically using both basic and complex arithmetic operations and functions.

FEATURES:

- Microsoft Excel has the basic features of all spreadsheets, using a grid of cells arranged in numbered *rows* and letter-named *columns* to organize data manipulations like arithmetic operations.

- It has a battery of supplied functions to answer statistical, engineering and financial needs.

- In addition, it can display data as line graphs, histograms and charts, and with a very limited three-dimensional graphical display.

- It allows sectioning of data to view its dependencies on various factors for different perspectives (using pivot tables and the scenario manager).

- It has a programming aspect, Visual Basic for Applications, allowing the user to employ a wide variety of numerical methods, for example, for solving differential equations of mathematical physics, and

- then reporting the results back to the spreadsheet. It also has a variety of interactive features allowing user interfaces that can completely hide the spreadsheet from the user, so the spreadsheet presents itself as a so-called application, or decision support system (DSS), via a custom-designed user interface,

SHORT QUESTIONS (2MARKS)

1. Define Computer?
2. What is a Scanner?
3. What CPU?
4. What RAM?
5. What is ROM?
6. What is Operating System?
7. What is MS-WORD?

ESSAY TYPE QUESTIONS (6MARKS)

1. What are the characteristic features of Computer?
2. What are the advantages of Computer?
3. Write briefly about input and output devices ?
4. What is Operating System? Write about different types of operating systems?
5. Write about primary memory and secondary memory?
6. Write about various types computers based on operation?

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ACCOUNTING & TAXATION

Paper - III

TAXATION - 1

INDEX

Unit I

Introduction

The term tax to a common man means money paid to the government out of compulsion without deriving any benefit directly by himself or his family members. Tax payer feels that the payment of tax is an additional expenditure or cost and if the amount of tax is too high then he treat it as a loss. But to the students of the taxation and for the progressive minded citizens the term ‘tax’ means statutory payment to be made by the public and imposed by the government. The word ‘tax is derived from Latin word “taxare” it means to estimate or value

Tax is a compulsory payment by a person of the government. The constitution of India does not define the word tax but according to article 366(28) of Indian constitution taxation includes the imposition of any tax, general or special and tax shall be construed accordingly.

Classification of taxes

The following are the types of taxes:

1. **Direct taxes**
2. **Indirect taxes**

1. **Direct taxes:** a direct tax is one in which the intermediate and ultimate burden will be on the same person. Direct taxes are those taxes which are imposed on a person either on his income or wealth then it is known as direct tax..Adirecttaxispaidtothegovernmentby thepersononwhomitisimposed.Incometax,wealthtaxandprofessionaltax aretheexamplesfordirecttaxes.Directtaxesarepaidaftertheincomereaches inthehandsoftaxpayer. The person on whom the tax is imposed is personally

liable to pay tax. In other words he cannot shift or transfer the burden to other and hence they are also known as personal taxes

Indirect taxes: if the tax is levied on the price of goods or service then it is known as indirect tax is collected by middle men in the channels of distribution of goods and it is remitted to the government treasury. Indirect taxes the taxes charged to business man, first he pays the tax and later on the shifts the tax burden to ultimate consumer by changing a higher price. The price charged to a customer includes the costofgoods,profitmarginoftheseller andindirecttaxespaid byhimatthetimeofpurchaseorproductionofthe goods.Indirecttaxesarepaidbeforethegoods/servicesreachthetaxpayer. Indirecttaxesarealsotermedashiddentaxesbecausethepurchaserofthe goodsis notawarehowmuchtaxhehaspaidforpurchasingthegoodsor services.Salestax,excisedutyandcustomsduty,servicetaxaretheexamples ofindirecttaxes.

A comparative picture between direct and indirect taxes

Direct taxes	**Indirect taxes**
Direct tax levied on income or wealth of a person ,as such it affects rich person	Indirect taxes are levied on manufacturer or seller of the goods or both. they shift the tax burden to the next purchaser and finally to the customer by changing the higher price
The tax payer knows the tax liability, time and amount of tax to be paid	Business men may charge much higher price than tax amount and the same is included in the price as such the customer is not aware about the tax
Increase in tax rate may reduce savings and investment by the public	Increase in the tax rate is bound to reduce consumption
There is a scope for tax evasion either by not paying the taxes of tax payer	The scope for tax evasion by the ultimate consumer is not there

may understate the income or wealth by suppressing the actual facts	
The government has to establish link with every tax payer as such the cost of collecting to the government will be higher	The cost of collecting taxes to the government is minimum when compared to direct taxes. Government collects tax from the producers of goods and business men
Ability to the tax payer is taken into the account	Ability of the tax payer is ignored both rich and poor have to pay the same amount of tax

Income tax introduction

Income tax means tax on total annual income of a person. The term person includes an individual or a firm or a company etc. Presently our study is confined to know the provisions applicable to an individual. At present the income tax act 1961 is in force in our country and extends to the whole of india according to this act, every person who earns income in india has to pay tax if the income exceeds the exempted limit of an assessee whose status is individual and residential status is resident is as under:

S.no	**Status of the assesse**	**Age of years**	**Basic exception Limit in Rs**
1.	Men	Below 60	2,50,000
2	Women	60 and below 80	2,50,000
3	Senior citizen (both for men & women)	80 and above	3,00,000
4	Super senior citizen (both men & women)		5,00,000

Importance of income tax:

The taxes levied by the government from a pool of resources to be used for the collective benefit of the public .the taxation is an exercise in the collective solution of individual problems. The state takes upon it held the duty of solving the problems of the underprivileged and need finance for this purpose. The government can mobilize resources by imposing taxes on privileged ones

The taxation structure of the country can play a very important role in the working of our economy. Some time back the emphasis was on higher rate on tax more incentives. But recently the emphasis has shifted to decrease in rates and withdrawal of incentives. While designing the taxation structure it has to be seen that it is in conformity with our economic and social objectives. It should not result into decrease in revenue for the state

Brief history of income tax:

The income tax was introduced in india for the first time in 1860 by british rulers following the mutiny of 1857. The period between 1860 to 1886 was the period of experiments in the contexts of income tax. This period ended in 1886 when first income tax act came into existence. The pattern laid down in it for levying of income tax continues to operate

even-to-day through I some changed form .in 1918 another act income tax act 1918 was passed but it was short lived and was replaced by income tax act 1922 and it remained in existence and operation till 31st march 1961

Present act:

In the recommendation of commission & direct taxes enquiry committee and in consultation with law ministry a bill was framed. This bill was referred to a select committee and finally passed in sept 1961. This act came into force from 1st Apr 1962 in whole of the country.

Income tax act 1961 is a comprehensive act and consists of 298 sections, sub sections running into thousand, schedules rules, sub rules, etc and is supported by other acts and rules this has been amended by several amending acts since 1961. The annual finance bills presented to parliament along with budget make –far-reaching amendments in this act every year

Any person living with in the territories of india is liable to pay tax accordingly to the provisions of this act . In some situations he has to pay tax on the income earned in foreign countries also citizenship of a person is not the criteria for tax purpose but residential status of a person has to be taken into consideration

Note: A peron who is not a citizen of india is treated as "foreign national". If a foreign national is having a link with income earned in india then he is liable to pay income tax

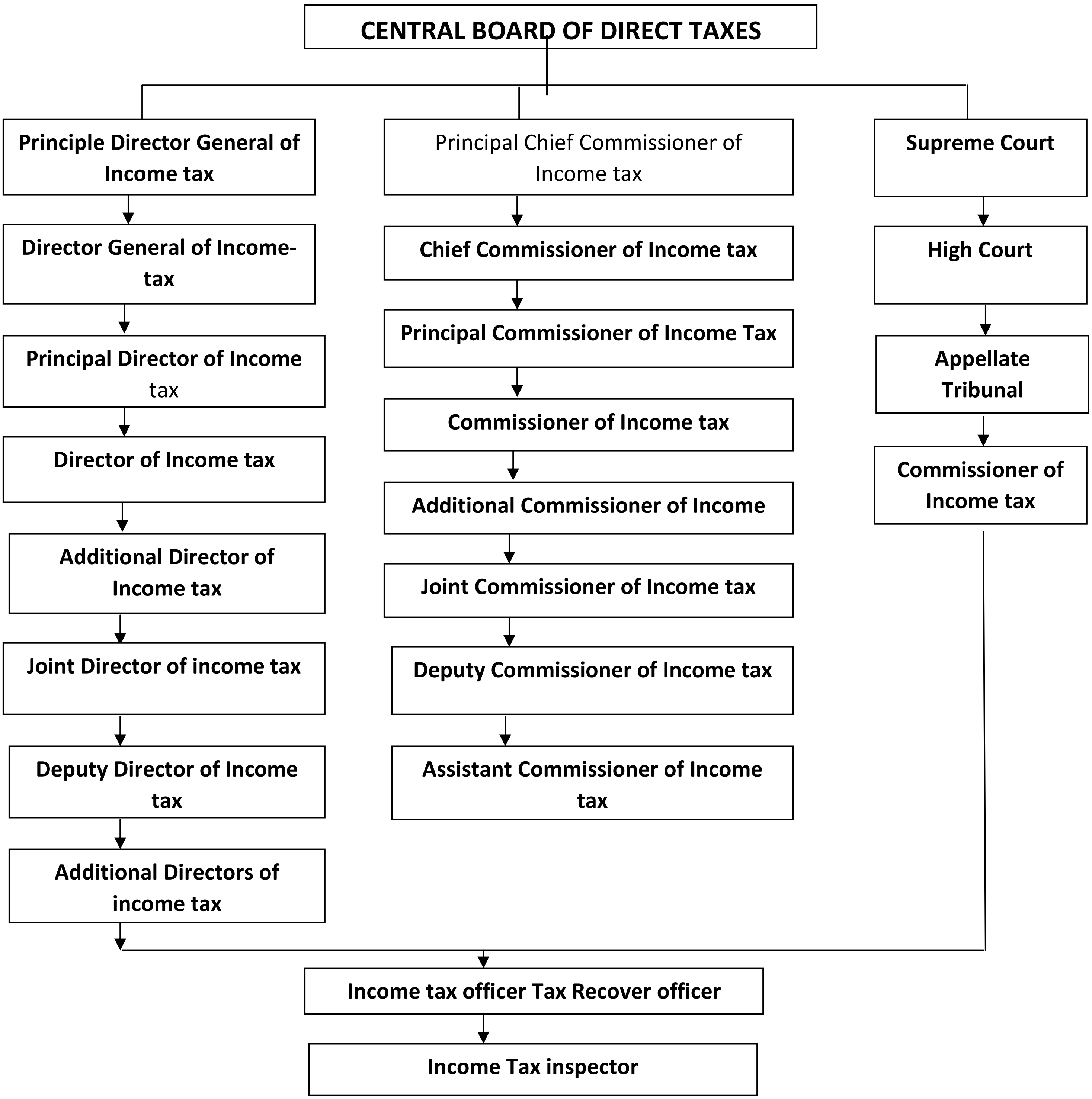
Taxation system in the world is an old as the human civilization .there is a simple evidence to prove that taxes on the income in one form or the other were levied even in primitive and ancient communities. In india also the system of direct taxation as it known today, has been inforce even from ancient times

On studying the indian scriptures and writing of maharshi Sri Veda Vyasa Dhrma Shastra Kovid Manu and eminent economist and political philosopher Acharya Chanakya (Koutilya) it is observed that the income tax was imposed right from the days of vedic period.

According to the available historical records it is observed that (i) income tax was imposed on rich people. It means tax exemption income limit was there. (ii) persons deriving income or profit from business or profession viz doctors, musicians, artistes etc. have to pay tax at 20% of their annual income in the form of gold or silver coins, (iii) the agriculturist has to pay tax after harvests of the crop. Persons deriving income from agriculture have to pay tax in the form of crop produced i.e. paddy, wheat, sugarcane etc

LEGAL FRAMEWORK:

ADMINISTRATION OF INCOME TAX ACT



VARIOUS AUTHORITIES

Section of the Income Tax Act, 1961 provides for the administrative and judicial authorities for administration of this Act. The Direct Tax Laws Act, 1987 has brought far-reaching changes in the organizational structure. The implementation of the Act lies in the hands of these authorities. The change in designation of certain authorities and creation of certain new posts in the structure are the main features of amendments made by The Direct Tax Laws Act, 1987. The new features of authorities has been properly depicted in a chart on the facing page. These authorities have been grouped into two main wings:

(i) Administrative [Income Tax Authorities] [Sec. 116]

(a) the Central Board of Direct Taxes constituted under the Central Boards of Revenue Act, 1963 (54 of 1963),
(b) Directors-General of Income-tax or Chief Commissioners of Income-tax,
(c) Directors of Income-tax or Commissioners of Income-tax or Commissioners of Income-tax (Appeals),
(cc) Additional Directors of Income-tax or Additional Commissioners of Income-tax or Additional Commissioners of Income-tax (Appeals),
(cca) Joint Directors of Income-tax or Joint Commissioners of Income-tax.
(d) Deputy Directors of Income-tax or Deputy Commissioners of Income-tax or Deputy Commissioners of Income-tax (Appeals),
(e) Assistant Directors of Income-tax or Assistant Commissioners of Income-tax,
(f) Income-tax Officers,
(g) Tax Recovery Officers,
(h) Inspectors of Income-tax.

(ii) Assessing Officer [Sec. 2(7A)]

"Assessing Officer" means the Assistant Commissioner or Deputy Commissioner or Assistant Director or Deputy Director or the Income-tax Officer who is vested with the relevant jurisdiction by virtue of directions or orders issued under sub-section (1) or sub-section (2) of section 120 or any other provision of this Act, and the Joint Commissioner or Joint Director who is directed under clause (b) of sub-section (4) of that section to exercise or perform all or any of the powers and functions conferred on, or assigned to, an Assessing Officer under this Act;

Importance of Assessing Officer:
In the organizational setup of the income tax department Assessing Officer plays a very vital role. He is the primary authority who initiates he proceedings and is directly connected with the public. Form the time of filing of return till the assessement is completed he plays a pivotal role. He can start proceedings for non-filing of return, imposition of penalties etc. Orders passed by him can be challenged only on approval. The department can revise his orders only if it is proved that there are prejudicial to the revenue and that too only by the Commissioner of Income Tax.

(iii) Appointment of Income-Tax Authorities [Sec. 117]

(1) **Power of Central Government:** The Central Government may appoint such persons as it thinks fit to be income-tax authorities. It kept with itself the powers to appoint authorities upto and above rank of an Assistant Commissioner of Income-Tax [Sec. 117 (1)]

(2) **Power of the Board and Other Higher Authorities :** Subject to the rules and orders of the Central Government regulating the conditions of service of persons in public services and posts, the Central Government may authorize the Board, or a Director-General, a Chief Commissioner or a Director or a Commissioner to appoint income-tax authorities below the rank of an Assistant Commissioner or Deputy Commissioner. [Sec. 117 (2)]

(3) **Power to appoint Executive and Ministerial Staff:** Subject to the rules and orders of the Central Government regulating the conditions of service of persons in public services and posts, an income-tax authority authorized in this behalf by the Board may appoint such executive or ministerial staff as may be necessary to assist it in the execution of its functions.

(iv) Control of Income-Tax Authorities [Sec. 118]

The Board may, by notification in the Official Gazette, direct that any income-tax authority or authorities specified in the notification shall be subordinate to such other income-tax authority or authorities as may be specified in such notification.

Section 131 Power relating to Discovery, Production of evidence, etc:
The Assessing Officer, The Joint Commissioner, the Chief Commissioner or the Commissioner has the powers as are provided in a court under the code of Civil Procedure, 1908, when trying to suit for the following matters:
(a) Discovery and inspection;
(b) To enforce any person for attendance, and examining him on oath
(c) Issuing commissions; and
(d) Compelling the production of books of account and other document.

Section 132 Power of Search and Seizure:
Today it is not hidden from income tax authorities that people evade tax and keep unaccounted assets. When the prosecution fails to prevent tax evasion, the department has to take actions like search and seizure.
Section 132A- Requisition of Books of account, etc:
Where the Director or the Director-General or Commissioner or the Chief Commissioner inconsequence of information in his possession, has reason to believe that the book of accounts or other documents or the assets have been taken under custody by any authority or officer under any other law, then the Chief Commissioner or the Director General or Director or Commissioner can authorize any Joint Director, Deputy Director, Joint Commissioner, Assistant Commissioner, Assistant Director, or Income tax Officer to require the authority to provide such books of account, assets or any documents to the demanding officer, when such officer is of the opinion that it is no longer necessary to retain the same in his custody.

Section 133-Power to Call for Information:
The Commissioner, The Assessing Officer or the Joint Commissioner may for the purpose of this Act:
(a)can call any firm to provide him with a return of the addresses and names of partners of the firm and their shares;

(b) can ask any Hindu Undivided Family to provide him with return of the addresses and names of members of the family and the manager;
(c) can ask any person who is a trustee, guardian or an agent to deliver him with return of the names of persons for or of whom he is an agent, trustee or guardian and their addresses;
(d)can ask any person, dealer, agent or broker concerned in the management of stock or any commodity exchange to provide a statement of the addresses and names of all the persons to whom the Exchange or he has paid any sum related with the transfer of assets or the exchange has received any such sum with the particulars of all such payments and receipts;

Section 133 A-

Power of Survey: The term 'survey' is not defined by the Income Tax Act. An Income Tax authority can have a survey for the purpose of this Act. The objectives of conducting Income Tax surveys are:

• To discover new assessees;
• To collect useful information for the purpose of assessment;
•To verify that the assessee who claims not to maintain any books of accounts is in-fact maintaining the books;
• To check whether the books are maintained, reflect the correct state of affairs.

Section 133 B- Collection of Information:

For the purpose of collection of information which may be useful for any purpose, the Income tax authority can enter any building or place within the limits of the area assigned to such authority, or any place or building occupied by any person in respect of whom he exercises jurisdiction.

Section 134- Power to inspect registers of companies-

The Assessing Officer, the Deputy Commissioner Appeals) the Joint Commissioner or the Commissioner Appeals or any person Subordinate to him authorized in writing in this behalf by the Assessing Officer, may inspect, and if necessary, take copies, or cause copies to be taken, of any register of the members, debenture holders or mortgagees of any company or of any entry in such register.

Section 135. Power of Director General or Director, Chief Commissioner or Commissioner and Joint Commissioner

- The Director General or Director the Chief Commissioner or Commissioner and the Joint Commissioner shall be competent to make any enquiry under this Act, and for this purpose shall have all the powers that an Assessing Officer has under this Act in relation to the making of enquiries.

Computation of Income Tax

Under Income Tax Act tax is levied on total income of a person. The total income in respect of each previous year is calculated head wise. Total income means the total amount of income referred to in section 5 of this Act computed in the manner as laid down under this Act. According to this Act income of a person is computed in five parts and each part is known as “Head of Income”. These heads are:

- Income under the head salaries;

- Income from house property;
- Profits and gains of business or profession;
- Capital gains;
- Income from other sources.

Total of income computed under various heads is called gross total income out of which deductions u/s 80c to 80u are allowed. The resultant figure is called total income. These heads of income are water tight compartments and income which is to be included under one head of income cannot be included under any other head of income.

Toillustrateletusstudyanexample.Mr.SwamyNathanisworkingasa managerinaPrivateLimitedCompanyandhisparticularsofIncomeareas follows:

SalaryreceivedfromthecompanyRs.3,85,500,RentfromtheBuilding Rs.84,000,InterestondebenturesofaLimitedCompanyRs.10,000,profits fromabusinessRs.2,81,000.ProfitonsaleofJewelleryRs.75,000and winningfromlotteryRs.60,000.

SalaryreceivedfromtheCompanyis"IncomefromSalary",Rentreceived fromtheBuildingis"Income fromHouse Property", Interestreceivedon debenturesofaCompanyis"IncomefromOtherSources",Profitfromthe businessis"IncomefromtheBusiness",Profitonsaleofjewelleryis"Capital gain"andwinningfromlotteryis"Incomefromothersources".

Incomemaybereceivedeitherincashorinkind.Whenitisreceivedin kind,valuationismadeaspertherulesofIncomeTaxAct.Intheabsenceof anyspecificrule,valuationismadeatthemarketprice.

IncomeTaxfor"Individuals"

IftheAssesseeisanindividualthenheorsheisliabletopaytaxonthe incomeearnedduringthepreviousyear.Forthepurposeofdeterminingtax rateandtocalculatetaxliabilityindividualscanbeclassifiedintofourcategories. (1)Men(2)Women(3)Seniorcitizens(4)SuperSeniorcitizens.

Note: Ifanindividual(maleorfemale)duringtherelevantpreviousyear (between1-4-2018to31-3-2019)attainstheageof60years onanydaythen he/shewillbetreatedas"seniorcitizen".Similarlyifthepersonattainstheageof 80yearshe/shewillbetreatedas"veryseniorcitizen“or"superseniorcitizen".

Forseniorcitizensandsuperseniorcitizenssometaxbenefitsandincentivesare providedintheIncomeTaxActduringtheirlifetime.

Roundingoffofincomeundereachhead

Whilecomputingincomeundereachhead,theincomeisroundedofftothe nearestonerupee.Ifthefractionvalueis0.5ormorethenitisroundedoftothe nextrupeee.g.Rs.8,456.72ismadeasRs.8,457.Similarlyifthefraction valueislessthan0.5thenignorethefractionvaluee.g.Rs.10,842.48ismade asRs.10, 842.

RoundingoffofTotalIncome: TheTotalincomeshallberoundedoff

thenearestmultipleofRs.10.Ifthelast figureintheamountisRs.5ormore, thenitisroundedtonextmultipleofRs.10.IfthelastfigureislessthanRs.5 thentheamountshallbereducedtonext loweramount,whichismultipleof Rs.10fore.g.Rs.84,506willbemadeasRs.84,510andRs.97,803willbe madeasRs.97,800.

RoundingoffofTax/RefundofTax theamountoftaxliability/refund oftaxshallberoundedofftothenearestmultipleofRs.10.Ifthelast figurein thetaxamountisRs.5ormorethenitisroundedtonextmultipleofRs.10.If thelastfigureislessthanRs.5thentheamountshallbereducedtonextlower amountwhichismultipleofRs.10.Fore.g.taxofRs.4,505shallbemadeas Rs.4,510andRs.6,702willbemadeasRs.6,700.

EducationCess: TherateofEducationCessis2%ofIncometax.

Secondary&HigherEducationCess: AdditionalCessisleviedon incometaxisknownas"Secondary&HigherEducationCess".Therateof Secondary&HigherEducationCessis1%ofincometax.

TypesofTaxrates: Theratesofincometaxareoftwotypes:(1)Flat rate(2)Slabrate.

Flatrate: Underthismethodtheentireincomeistaxedwithonerate. Presentlyflatratesare15%;shorttermCapitalGain20%onLongtermCapital Gainand30%onCasualIncome.

2.Slabrate: Underthistaxableincomeisdividedintodifferentparts knownas"Slab",andeachpartorslabincomeistaxedwithdifferentrateoftax. ExamplefortheAssesseefirstRs.2,50,000(FirstRs.2,50,000)notax;the nextincomeRs.2,50,000(2,50,000to5,00,000)istaxedat5%;thenext Rs.5,00,000(5,00,000to10,00,000) with20%and thebalance ofincome (morethanRs.10,00,000)istaxed@30%rate.Allotherheadsofincomesare taxedonslabbasis.Slabratesareasunder:

Computation of Tax

Tax on short –term shares, which are subject to Security Transaction Tax [STT]		xxx
Tax on long term capital assets		xxx
Tax on casual income such as winnings from lotteries, **Races**, puzzles, T.V. game show etc.		xxx
Tax on income other than given above		
Tax		xxx
Less: Rebate u/s 87A		xxx
Tax		xxx
Add: Educational cess @ 2% of tax		xxx
Secondary & higher Education cess @ 1 % of tax		xxx
Total Tax		xxx
Less: Relief u/s 86 & 89 (1)		xxx
Balance Tax		xxx
Less: Prepaid taxes: Tax deducted at source	xxx	
Advance tax paid	xxx	
		(-)xxx
Net tax payable at the time of filing of return		xxx

To be rounded off to the nearest multiple of 10 u/s 288B.

Rates of tax:

These rates for the assessment year 2018-2019 are:

1. For Individuals [Other than Senior Citizen and Super Senior Citizens], HUF, AOP and BOI

If total income is up to Rs.250000	Nil
If total income exceeds RS.250000 But does not exceeds Rs.500000	5%of income Exceeding Rs.250000
If total income exceed RS.500000 But does not exceeds Rs.1000000	Rs.25000+20% of income Exceeding Rs.500000
If total income exceeds Rs.1000000	Rs.125000+30% of income Exceeding Rs.1000000.

2. For Senior Citizens [Above 60 years but below 80 years]

If total income is up to Rs.300000	Nil
If total income exceeds Rs.300000 But does not exceed Rs.500000	5% of income exceeding Rs.300000
If total income exceeds Rs.500000 but does not exceed Rs.1000000	Rs.20000 +20% of income Exceeding Rs.500000
If total income exceeds Rs.1000000	Rs.120000+30% of income Exceeding Rs.1000000.

3. **For Resident Super Senior Citizens Who are of the age of 80 years or more**

If total income is up to Rs.500000	Nil
If total income exceeds Rs.500000 But does not exceed Rs.1000000	20% of income exceeding Rs.500000
If total income exceeds Rs.1000000	Rs.100000+30% of income Exceeding Rs.1000000

Practicals

1.CalculatingtaxliabilityonFlatRate:

Everypersonhastopaytaxinthreecomponents. (1)IncomeTax

(2)EducationCess

(3)SecondaryandHigherEducationCess.

TaxLiability=IncomeTax+EducationCess@2%andSecondaryand HigherEducationCess@1%.

Illustration1: CalculateTaxLiabilityonFlatratemethod@20%iftotal incomeofSriJanakiRamis`.5, 00,000

Rule: Formenbasicexemptionis`.2, 50,000.

Step1: CalculatinTaxableicome:

TotalIncome = 5, 00,000

Less:Basicexemption =2, 50,000

Taxableincome = 2, 50,000

Step2: Calculatingtaxliability

Incometax=2, 50,000X 5%	=	1 2,500
Add:EducationCess@2%(onIncometax)		
2%on	=	2 50
Add:SecondaryandHigherEducationCess1% of 25,000	=	1 25
Taxliability	=12,875	

TaxliabilityRs.25,750.

ShortAnswerTypeQuestions

1.DefineTax.

2. Explainaboutclassificationoftaxes.

3. Explain History of Income Tax

4. Write about Importance of Income tax

Essay Short**AnswerTypeQuestion**

1. Whatarethedifferencesbetweendirecttaxesandindirecttaxes?
2. How to compute income tax?

UNIT 2

Basic Concepts

1. **Assesse: [sec 2(7)]**

Assesse means a person by whom any tax or any other sum of money such as interest or penalty etc. is under the income tax act or in respect of whom any proceedings under this act has been taken for the assessment of his income or the income of other person for which he is assessable or any refund is due to him or such person. On studying the above definition.it can be seen that a person shall be treated as an "assesse" under the following situations.

Situation 1: For the assessment of his personal income: a person who is liable to pay any amount due to the income tax department towards tax, penalty and interestetc is known as an assesse. The term person includes individual, firm and company etc.,i.e. if a person's annual income is more than the exempted limit to pay the amount due, as such income tax department has not yet taken any administrative or legal action.

A person to whom a refund is due: if the personhas paid more tax in advance are tax deducted at source is more than the actual tax then he is entitled to receive refund from the income. Such a person will be treated as an assesse.

2. **Person [sec2(31)]**

According to income tax act 1961 the term person includes the following types of assesses who are as follows:

(i) **A natural person:** he/she is liable to pay tax on his personal income designated as an "individual" i.e. an individual who is assessed in respect of his personal income

(ii) **A Hindu undivided family:** AHindu undivided family means a group of persons lineally descended from a common ancestor. The head of the Hindu undivided family is known as karta. Karta is assessed for the income derived by the joint Hindufamily. If another member of the family is managing and controlling then he will be designated as manager and is liable to pay tax.

(iii) **Company:** A company which is incorporated under companies' act 1956.

(iv) **Firm:** A partnership of two or more persons carrying on a business or profession under Indian partnership Act, 1932.

(v) **An Association of persons or body of individuals:**
For eg: a group of persons formed promoting a joint venture business or trustees of a trust etc.

(vi) **A local authority:** eg: municipalities, local bodies etc.

(vii) **Every artificial juridical person:** not falling in any of the preceding categories. Eg: A statutory company or Hindudeity.

Illustration 1: Determine the status of the following

1. Mr. PanditPrakashveerShastry, lecturer in a college
2. Osmania University
3. Modi charitable trust
4. Live-well company limited
5. A joint family of Mrs. & Mr. Aravind and their sons Kapil and Nikhil
6. Hyderabad Urban development authority.
7. Kanaka laxmi printers (p) ltd
8. Ramdev and Co. (Ramdev and Namdev are partners)

Solution

1. An individual
2. Artificial juridical (legal) person
3. Association of persons
4. Company
5. Hindu undivided family
6. Artificial Juridical person
7. Company
8. Firm

According to income tax riles earned in an year is assessable for tax in the next year. Income year is known as previous year and the year in which the income is assessed by the income tax officer is known as assessment year.

Explanation: The income earned in 1st year is assessed to tax in the 2nd year**.** 1st yearis known as previous year and 2nd year is known as assessment year. Similarly 2nd year income is assessed in the 3rd tear and so on. Previous is also known as income year.

Assessment year [Sec2 (9)]:

It means the period of 12 months commencing on the first date of April every. The assessment year is financial year of the government of India during which income of a person relating to the relevant previous year is assessed to tax. Every person who is liable to pay tax under this act, files return of income by prescribed dates. The officers of the income tax department process the returns. This processing is called “Assessment” under this, income tax returned assesse is checked and verified. Tax is calculated and compared with amount paid and assessment order is issued. This year in which whole of this process is undertaken is called Assessment year. At present the assessment year 2018-19 is going on.

Previous year {sec 3]:

The term previous year is very important because it is the income earned during previous year which is to be assessed to tax in the assessment year. As the word previous means "coming before", hence it can be simply said that previous year is the financial year preceding the assessment year

E.g: For assessment year 2018-19 the previous year should be the financial year ending on 31st march 2018.

In simple words, it may said that the year in which income is earned is called previous year and next year in which such income is computed and put to tax is known as assessment year relevant to the previous year 2017-18 and so it taxable in the assessment year 2018-19. The simple rule is that the income of previous year is taxed in its relevant previous year subject to certain exceptions.

(A) **Previous year in case of a continuing business:** It is a financial year preceding the assessment year. As such for theassessment year 2018-19, the previous year for a continuing business is 2017-18 i.e. 1-4-2017- to 21-03-2018.

(B) **Newly set up business or profession:**The assesse Is free to set up a new business or start a new profession on any day and the first previous year in case of newly set in business/profession or newly created source of income shall on the day is set up and end on 31st march next following. So the first previous year may of 12 months or less than 12 months but all subsequent previous years shall be of 12 months duration and always be starting on 1st April each year.

(C) **In case of a newly created source of income:** In such case the previous year shall be the period between the day on which such source comes into existence and 31st march next following.

ILLUSTRATION 2:

What will be the previous year and assessment year in following cases?

(A) For the assessee who closes his accounts on 31-3-18.
(B) For newly started business in Diwali 2017
(C) For a new house whose construction was completed on 30-9-2017 but is actually let out from 2017.

SOLUTION:

(A) For the assessee who closes his accounts on 31-3-2018 the previous year is 2017-18 and assessments year shall be 2018-19.
(B) For newly started business on Diwali 2016. The previous year shall be the period between Diwali 2017 to 31-3-2018 and assessment year shall be 2018-19.
(C) For a new house whose construction was completed on 30-9-2017 but is actually let out from 1-12-2017 the previous year shall be from 1-10-2017 to 31-3-2018 and assessment year shall be 2018-19.

ILLUSTRATION 3:

Mr. Vivek passed his MBA examination in June 2016 and joined his job on 1st July 2016 on a salary of 20000/- p.m. He resigned from his job on 15th November, 2017, and got relieved on 30th November and started his own business on 15 December and earned a profit of 60000/- up to 31st March, 2018.

Find out his taxable income.

SOLUTION:

First previous year of Mr. Vivek shall be as under:

For salary income: from 1-7-2017 to 31-11-2018, i.e. 5months

For business income: 15-12-2017 to 31-3-2018, i.e. 3 ½ months.

Taxable income for the previous year 2017-18 shall be from salary for 5months @ 20000/- p.m.,

Thus income of 160000/- of Mr. Vivek will be put to tax in the assessment year 2018-19 as income of a previous year taxed in an assessment year relevant to the previous year and it is taxed as per rates applicable to the relevant assessment year.

ILLUSTRATION 5:

An assessee is having income from various sources. Find out the previous years of such incomes which, shall be taxable in the assessment year 2018-19.

(1) Salary income for job joined on 1-7-17.

(2) Newly set up business on Diwali 2017.

(3) New house completed on and let out from 1-10-2017.

(4) Expenditure incurred on marriage of daughter held on 1-10-2017Rs. 6,50,000/- but he could give satisfactory explanation only for 3,80,000/-.

(5) Income from examiner ship fee from university in April, 2017.

SOLUTION:

Assessee is liable for all sources of income for the previous year relevant to assessment year 2017-19 and income for following previous years shall be aggregated.

Income.previous year

(1) Salary income for job joined on 1-7-2017.	1-7-17 to 31-3-18
(2) Newly set up business on Diwali 2017	Diwali 2017 to 31-3-18
(3) New house completed on and let out from 1-10-2017.	1-10-2017to31-3-2018

(4) Expenditure incurred on marriage of daughter
Held on 1-10-2017 6,50,000/- but he could give 1-4-2017to31-3-2018
Satisfactory explanation only for 3,80,000
Deemed income of 2,70,000 shall be taxable as
Income of previous year.

Income from examiner ship fee from university 1-4-2017to31-3-2018
In April 2017

ILLUSTRATUON 6:

Find out the assessment year for the following previous year:

Income.		*Previous year*
(1)	Salary income of Mr. A.	April 201 to March 2018
(2)	Business income of Mr. B.	April 2017 to March 2018
(3)	Newly set up business on	12-5-2017
(4)	Newly set up business on	Diwali 2017
(5)	House property income.	April 2018 to March 2019

SOLUTION

Department of assessment years

Income.	*Previous year.*	*Assessment year*
(1) Salary income.	Aprl 2017 to Mar 2018.	2018-19
(2) Business income.	Aprl 2017 to Mar 2018.	2018-19
(3) Newly set up Business on	12-5-2017 to 31-3-2018.	2018-19
(4) Newly set up Business on.	Diwali 2017 to 31-3-2018.	2018-19
(5) House property Income.	Aprl 2018 to Mar 2019.	2019-20

INCOME(SECTION 2(24):

(1) Profits and gains

(2) Dividend

(3) **Voluntary contribution received by a trust.** Voluntary contributions by a trust are included in the definition of income. As such contributions received by following types of trusts, funds, associations, bodies, etc. Are included in the income of such bodies:

(A) Contributions received by a trust created wholly or partly for charitable or religious purposes.

(B) Contribution received by a scientific, research association.

(C) Contribution received by fund or institution set up for charitable purposes and notified u/s 10(23c) (iv)(v).

(D) contributions received by any university or other educational institution, hospital referred in Section 10(23c)

(4) The value of any perquisite or profit in lieu of salary taxable under clauses (2) and (3) of section 17.

(5). Any special allowance or benefit, other than perquisite included under sub clause (iii) specifically granted to the Assessee to meet expenses wholly, necessarily and exclusively for the performance of the duties of an office or employment or profit.

(6) any allowance granted to the Assessee either to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for the increased cost of living.

(7) Value of any benefit or amenity, whether convertible into money or not, obtained by a representative Assessee or by any person on whose behalf such benefit is received by representative Assessee and sum paid by representative Assessee in respect of any obligation which but for such payment would have been payable by the person on whose behalf representative Assessee has made such payments;

(7a) The profit and gains of any business of banking (including providing credit facilities) carried on by any co-operative society with its members.

(8) The value of any benefits or perquisites, whether convertible into money or not, obtained from a company either by a director or by a person, who has a substantial interest in the company, or by a relative of a director of such person, and any sum paid by such company in respect of any obligation but for which, such payment would have been payable by the director or other person aforesaid;

(9) Any sum chargeable to income-tax under clauses (ii) and (iii) of section 28 or section 41 or section 59.

(10) Any sum chargeable to tax u/s 28(iiia).

(11) Any sum chargeable to tax u/s 28(iiib).

(12) Any sum chargeable to tax u/s 28(iiic).

(13) The value of any benefit or perquisite taxable under clause (iv) of section 28:

(14) Any capital gain taxable under section 45;

(15) Any sum whether received in cash or in kind under an agreement for -not carrying out any activity in relation to any business; or not sharing any know-how, patent, copy right, trademark, license, franchise or any other business or commercial right of similar nature of information or technique likely to assist in the manufacture or processing of goods or provision of services.

(16) The profit and gains of any business of insurance carried on by a mutual insurance company or by a co-operative society, computed in accordance with section 44 or any surplus taken to be such profits and gains by virtue of provisions contained in the first schedule;

(17) Any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or form gambling or betting of any form or nature whatsoever;

(18) Any sum received by the assessee as his employers contributions to any provident fund or superannuation fund or any fund set up under the provisions of the Employee Insurance Act,, 1948 or any other fund for the welfare of such employees;

(19) Any sum received under key man insurance policy including the sum allocated by way of bonus on such policy;

5.PermanentAccountNumber(P.A.N)[Sec.139A]

PermanentAccountNumbermeansthenumberwhichisallottedbythe taxassessingofficertotheassesseeforeasyidentification.Incaseofneed,this numberisusefultotraceoutthepreviousreturnssubmittedbytheassesseeand assessmentorderspassedonbytheDepartment. TheCentralBoardofDirect Taxes(C.B.D.T.)hasintroducedanewschemeofallotmentofcomputerised

10digitPermanentAccountNumber.Accordingtothenewguidelineseveryone isrequiredtoapplyforapermanentaccountnumber.

Undersection139A&Rule114,thenumberisallottedbytheAssessing Officerwhentheassesseeappliesforthesame.

Incomeexceedstheexemptedincomeslimit,thenhastoapplytothe concernedI.T.O.forallotmentofthenumber.Oncethenumberisallottedthe assesseeorPANcardholderneednotapplyeveryyear.Ifthereisachangein theresidentialaddressorifanycorrectionsarerequiredthenhecanapplyfor suchchanges.

PersonliabletoobtainPAN: Thefollowingpersonarerequiredtoobtain

PAN

(1)Everypersonwhosetaxableincomeexceedsthebasicexemptedlimit andwhoisliabletopayIncome

Note:(i)OncetheIncomeTaxDepartmenthasallottedPANthenthereis noneedtoapplyforeveryyear.

(ii)OnepersonisnotsupposedtohavemorethanonePAN.Incasehe gotmorePANnumbers heshouldsurrenderextracards,otherwiseheis punishable.

(2)Ifthepersonishavingincomefromprofessionandwhenthegross receiptsarelikelytoexceedRs.5, 00,000.

(3)AssesseeunderotherTaxActs.eg.AssesseeunderVATorExciseActs.

(4)ExporterandImporter®UnderCustomsAct. (5)Manufacturers®UnderExciseAct

(6)Servicetaxassessees

(7)Traders/ManufacturersregisteredunderCSTorVAT (8)CentralGovernmentspecifiedpersons.

(9)InvestmentofRs.50,000ormoreinacompanyforacquiringshares.

(10)PaymentofinsurancepremiumexceedingRs.1lakhsperpolicyper annum.

(11)TransferofShareinphysicalform.

TheassesseehastoquotetheP.A.N.inallfuturecorrespondencewiththe

Departmentlikeon**"Returnforms"**,challansandonthedocumentswhich areprescribedbytheBoard.

ShortAnswerTypeQuestions

(1)Explainthemeaningofpreviousyearandassessmentyearwith. Examples

(2)ExplaintheprovisionsrelatingtoPermanentAccountNumber.

(3)ExplainthefollowingtermsusedintheIncometaxAct.

(a)Assesse (b)Person(c)Previousyear

EssayAnswerTypeQuestions

1. Determine the term Income and its features.

UNIT 3

AgriculturalIncome

Agricultural Income – Agricultural income - Non agricultural income – Integration of agricultural income with non agricultural income

AGRICULTURAL INCOME? [Section 2(IA)]

Agricultural income is fully exempted u/s 10(1).As a result agricultural income doesn't form part of total income. Agricultural income is exempted because under our constitution central Govt. has no right to levy tax on a state subject. Income tax is a central Act whereas agricultural is a state subject; hence no income tax on agricultural income. Due to Green revolution, The agricultural income increased and demand was raised to levy income tax on agricultural income. A committee on taxation of agricultural income and wealth was set up under the chairmanship of Dr.K.N.Raj.It recommended that agricultural income with non-agricultural income in certain cases. This process is called present treatment or assessment of Agricultural income.

Agricultural Income includes:

(a) Any rent or revenue derived from agricultural land situated in India.

(b) Any income from:

(c) 1.Cultivation of agricultural land

2. A process carried on to make the produce or rent-in-kind marketable;

3. from sale of produce.

(d) Income from Agricultural house property:

Agricultural house property must be situated on or in the vicinity of the agricultural land and must be used for agricultural purposes such as farmer's own residence, tenant's residence, cattle shed, Godown, implements shed or out house. The land on which house property is situated must be subject to such tax then land should not be situated within municipal limit or within 8kms of city limit if so notified. In case land is within the municipal limit but population of town is below ☐10,000 it is treated outside municipal limits.

1.RentorRevenueDerivedfromtheLand

Iftheownerofthelandgivesagriculturallandonleasei.e.,grantingthe rightofusingthe landforagriculturalpurposethentherentreceivedbythe landlordfromthetenanteitherincashorinkindorashareintheoutputofthe produceofagrower,willbetreatedasagriculturalincome.Ifthetenant has giventhelandsonsubleaserentreceivedbyhimwillalsobeconsideredasthe agriculturalincome.

Thetermrevenuemeansthesaleproceedsofagriculturalproduceoran incomedirectlyrelatedtothe land,foreg.,iftheoutputofacropis10bags whichissoldinthemarket@Rs.2,000perbag,thenthesaleproceeds`.

20,000isknownasrevenue.Ifsomeamountofmoneyisreceivedforrenewal

ofagriculturallandswhicharegivenonleaseisalsotreatedasagriculturalincome.

Whereincomeisderivedindirectlyfromlandthesamecannotbeconsidered asagriculturalincome.Eg.Dividendsreceivedbyashareholderoutofagricultural incomeofacompanyengagedinagriculture.

2.TheLandisusedforAgriculturalPurpose

Toconsideranincomeasagriculturalincomeitisnecessarythatthelandis usedforagriculturalpurpose.Thetesttobeappliedfordeterminingwhetheran incomeisagriculturalornot,isperformanceofbasicoperationsbytheassessee. Inagriculturetheactivitiesareclassifiedintotwo:

(i)BasicOperations (ii)SubsequentOperations

(i)BasicOperations: Ifanagriculturaloperationinvolvesinvolvementof humanskillandlabouronthelandpriortogerminationofplants,thenthese operationsareknownasBasicOperations.Theexamplesforbasicoperations arecultivation,seeding,plantation,wateringandsowingetc.

(ii)SubsequentOperations: Operationsperformedaftertheproduce sproutsthentheseoperationsareknownassubsequentoperations.Weeding, cutting,harvesting,etcareexamplesforsubsequentoperations.Ifanassesseehasperformedbasicoperatio nsandsubsequentoperationsoronlybasic

Operationsthenthe incomereceivedistreatedasagriculturalincome.Ifan assesseeperformsonlysubsequentoperationsthentheincomereceivedbyhim isnotconsideredasagriculturalincome.ForEg.Incomederivedfromtheforest trees,profitmadebyatraderonpurchasingthestandingcrop.

3.LandSituatedinIndia

Theagriculturallandmustbesituatedin Indiai.e.,incomefromagricultural landswhicharesituatedinaforeigncountryisnotconsideredasagricultural income,fortaxationpurposeinthecaseof"Resident"itistreatedasincome fromothersources.

TYPES OF AGRICULTURAL INCOME

(1) **Rent or revenue**: In case the land is given to tenants the consideration received is called rent or revenue .It may be in cash or in kind .It is treated outside municipal limits.

(2) **Cultivation of land**: Any income derived by owner or cultivator of agricultural land by cultivating it, is agricultural income. The word agricultural includes plantations, horticulture, tree plantation, floriculture etc. It is essential that agricultural operations are performed

(3) **Income from a process**: In case agricultural produce or rent-in kind cannot be sold in the form in which it is produced and some process has to be performed in order to make the produce marketable, the income remains agricultural income it is essential that process should be such which is ordinarily employed by each farmer and it does not change the form of product.

(4) **Income from sale of produce**: the agricultural produce or rent-in kind may be sold at the time of harvest or at any stage after performing the act of storage, the income remains agricultural income.

(5) **Income from agricultural house property** :

(a)House property must be situated on/in the vicinity of agricultural land.

(b)Land should be used for agricultural purpose

(c)The land should be subject to some tax levied by state or local Govt.

(d)If it is not subject to any tax then it should not be situated within the municipal limits or within 8kms of city limits it is so notified

(e)If it is within municipal limits but population of the town is below 10,000, it is treated as being outside municipal limits

(6) **Income from let out agricultural house property**: Any income derived from any building or land referred to in sub clause (c), arising from use of such building or land for any purpose (including letting for residential purpose or for the purpose of any business or profession) other than agricultural purposes failing under sub clause (a) or (b) shall not be deemed as agricultural income. It means that income from house property situated on agricultural land shall qualify for exemptions only if such house property is used for agricultural purposes. In case it is let out for residential or business it shall be taxable income.

PARTLY AGRICULTURAL AND PARTLY BUSINESS INCOME:

Crop	Rule	Agricultural income	Business income
Growing and manufacture of tea	8	60%	40%
Rubber manufacturing business	7A	65%	35%
Coffee grown and cured by seller	7B(1)	75%	25%
Coffee grown, cured, roasted and ground by the seller in India with or without mixing chicory or other flavouring ingredients	7B(1A)	60%	40%

In case of other commercial crops: Assessee can debit market price (Average price if there is more than one market price in a season) to his P&L a/c for the produce brought from own farms and as raw material. This portion is agricultural income.

Thefollowingincomesthoughconnectedwithlandarenotconsidered asagriculturalincomes.

1.Incomefromlandusedforpotteriesorasbrickfields.

2.Incomefromlandusedasstonequarries.

3.Incomefromfisheries.

4.Incomefromferries.

5.Incomefromsupplyofwaterforirrigationalpurposes,evenwhenitis bywayofshareofagriculturalproduce.

6.Incomefromlandletforstoringcropsortimber

7. Compensation for acquisition of land for non-agricultural purposes.

8. Income from mining royalties.

9. Income from dairy and poultry farming, cattle breeding, butter and cheese making.

10. Income of a money lender either received in cash or in kind on the loans given for agricultural purpose.

11. Commission received by a landlord on sale of agricultural produce of tenants.

12. Rent of the site of a flour mill.

13. Ground rent for permanent shops at bazars and stall fees from daily sellers.

14. Annuity received by a person in consideration of transfer of agricultural land.

15. Income derived from running of a dairy, which is not incidental to agriculture.

Note: If animals use is incidental to perform the agricultural activities then income from the animals is considered as agricultural income.

PRESENT TREATMENT OF AGRICULTURAL INCOME

What to Integrate?

(a) **Non-agricultural income**: It is the computed total income of assessee as per the provisions of I.TAX ACT.

(b) **Net agricultural income**: It is the agricultural income computed in accordance with the rules laid down u/s 2(IA) of the income TAX ACT 1961 and rules 7&8 of the income tax rules 1962. These rules are :

(1)Rent or revenue derived from agricultural income computed on the same basis which is adopted for computation of income under the head income from other sources u/s 57 to 59of Income TAX ACT.

(2)Income derived from agricultural operation will be computed as if it is income chargeable to tax under the head “Profit & Gains” of business or profession. Depreciation and loss on the death of animals used in agricultural operations are allowed as expenses.

(3)Income derived from agricultural house property will be computed as if such income is chargeable to tax under the head “Income from house property” and provisions under section 22 to 27 shall be applicable.

(4)For computing share of income from tea business, income is computed under rule 8, which shall be considered to agricultural income.

(5)For computing share of income or loss of a firm assesse as AOP same rules are applicable as provided in Income –tax ACT for computing share of profit and losses from firm assessed as firm

(6)Loss incurred in agriculture will be allowed to be set off only against agricultural gains. The share of loss of partner from firm assessed as AOP shall not be allowed to be set off from his own agricultural income.

(7)Any sum payable by the person on account of any tax levied by state Govt. on agricultural income will be allowed as deduction.

(8)Where the net result of agricultural income from the various sources stated above in a particular previous year is loss, the loss will be disregarded and net agricultural income shall be taken to be nil.

ILLUSTRATION 1

Decide whether following income are agricultural income or not supporting legal authorities:

(a)Income received as interest on arrears of rent payable in respect of agricultural land.

(b)Ginning operation carried on by the owner of land on un ginned cotton.

(c)Grazing fees realised from pieces of land, which was used for grazing animals used for agricultural purposes.

SOLUTION:

(a)There must be a direct and immediate relationship between land and income.as such interest on arrears of rent payable in respect of agricultural land cannot be agricultural income. (C.I.T. v. KamakhyaNarain Singh)

(b)Un ginned cotton can be sold in its original form and if any profit is attributable to the ginning operation, it is not agricultural income. (Sheolal Ram Lal v. C.I.T.)

(c)Grazing fees realised from piece of land which was used for grazing animal used for agricultural purposes is agricultural income. (C.I.T. v. Raja Shamsherjang Bahadur)

ILLUSTRATION 2

In following cases decided whether the income is agricultural income or not by giving appropriate legal authority:

(a) Income from sale of those trees, which come from forests where these were these replanted and subsequent operation carried out.
(b) Income from sale of trees of spontaneous growth.
(c) Income from sale of rubber obtained by slaughter tapping of rubber trees.
(d) Dividend paid by a company to its shareholders out of its agricultural income.

ILLUSTRATION 3

Mr. X owns a flourmill and some agricultural land. During the year 2017-2018, he has shown a profit of ☐26lacs from the business of flourmill. On scrutiny of accounts it was found that he has used 4,000 quintals of wheat produced in his own agricultural land and cost of this wheat has not been debited to P&L a/c. The market price of the wheat during the season was ☐500 per quintal. Find out his agricultural and business income.

SOLUTION:

Computation of agricultural and business income		☐
Net profit as per P&L a/c account		26,00,000
Less:		
Cost of wheat brought from own farms at market		
Price (500 x 4,000 Q)	20,00,000	
Business income		6,00,000
Agricultural proceeds	20,00,000	

ILLUSTRATION 4

Mr. Singh, is running a small sugar mill and also is having an agricultural farm of his own. He grows sugarcane and the same is sent to his sugar mill.

From the following particulars, find out Mr.singh's agricultural and non –agricultural income.

Total sugarcane crushed in the mill 10,200 tons

Sugarcane produced in own agricultural farm and supplied to own mill 600 tons. Sugarcane purchased from the market is an under:

2,000 tons @☐1,200 per ton

4,000 tons @☐1,250 per ton

1,500 tons @☐1,260 per ton

1,500 tons @☐1,280 per ton

600 tons @☐1,300 per ton

Expenses incurred on agricultural farm during the year are ☐5,60,000 which has been debited to P&L A/c of the sugar mill. During the previous year the sugar mill earned a profit of☐6,80,000.

SOLUTION:

Computation of Mr. Singh's Agricultural and Non-agricultural Income for the assessment year 2017-2018

Average market price of sugarcane purchased from the market ☐

2,000 tons @☐1,200 per ton	=	24,00,000
4,000 tons @☐1,250 per ton	=	50,00,000
1,500 tons @☐1,260 per ton	=	18,90,000
1,500 tons @☐1,280 per ton	=	19,20,000
600 tons @☐1,300 per ton	=	7,80,000
Total	=	1,19,90,000

Very ShortAnswerQ u e s t i o n s

1. WhatisAgriculturalIncome?

2. What to integrate?

ShortAnswerQ u e s t i o n s

1.WhatiaAgriculturalincomeandhowitistreatedfortaxpurpose.

2.Whatincomesconnectingwithagriculturalbutnotconsideredas

Agriculturalincome.

3. Write about various types of Agriculturalincome

UNIT IV

Captial and Revenue

Income tax is levied on income of assessee and not on every receipt which he receives.The method of charging tax on different types of receipts is different. Income-tax Act, 1961 provides a separate head “Capital Gains” for levying tax on capital receipts. Similarly while calculating net taxable income of an assessee only revenue expenses are allowed to be deducted out of revenue receipts. Particularly while calculating business profit or professional gain only revenue receipts and revenue expenses are considered. This makes the distinction between capital and revenueof vital importance. For this distinction capital and revenue items can be divided into three sub parts :

3.1. CAPITAL RECEIPTS VS. REVENUE RECEIPTS

Distinguishing Tests

It is very difficult to draw a line of demarcation between capital receipts and revenue receipts. Even the courts have found it difficult to lay down some points of distinction on the basis of which a capital receipt may be distinguished from a revenue receipt. Some tests, however, can be applied in particular cases. These tests are:

1. **On the basis of nature of assets.** If a receipt is referable to fixed asset, it is capital receipt and if it is referable to circulating asset it is revenue receipt. Fixed asset is that with the help of which owner earns profits by keeping it in his possession,e.g., plant, machinery, building or factory, etc. Circulating asset is that with the help of which owners earn **profit** by parting with it and letting others to become its owner, e.g., stock-in-trade. Circulating asset is asset which is turned over and while being turned over yields profit or loss whereas fixed asset is one on which (lie owner earns profit by keeping it in his own possession.
   Profit on the sale of motor car used in business by an assessee is capital receipt whereas the profit earned by an automobile dealer, dealing in cars, by selling a car is his revenue receipt.
2. **Termination of source of income.**Any sum received in compensation for the termination of source of income is capital receipt,e.g., compensation received by an employee from its employer on termination of his services is capital receipt.
3. **Amount received in substitution of income.** Any sum received in substitution of income is revenue receipt, e.g., ‘A’ company purchased the right to produce a film from’ its earlier producer with the condition that no other producer will be given these rights. Afterwards it is found that the rights for producing this film had already been sold. The ‘A’ company claimed damages and was awarded 40,000. It washeld that damages received are the compensation for the profits which were to be earned. Hence this I is revenue **receipt**.

4. **Compensation received on termination of lease.** Where a sum id received as compensation for termination of a lease, it is capital receipt because it is termination of source of income.
5. **Compensation on surrender of a right.** Any amount received as compensation on surrendering a right is capital receipt whereas any amount received for loss of future income is a revenue receipt. An author gives up his right to publish a book and receives 1, 00,000 as compensation.it is capital receipt but if he receives it as advance royalty for 5 years it is revenue receipt.
6. **Tests as to the purpose of keeping an article.** If a person purchase a piece of sculpture to keep as decoration piece in his house, if sold later on, it will bring casual receipt but if the same sculpture is sold by an dealer it will be his revenue receipt . If an article is acquired for the purpose of trade, the profit arising from it is revenue receipt.

3.2. CAPITAL EXPENSES*VS.* REVENUE EXPENSES

Distinguishing Test

For computing profits of a business taxable under this Act, only revenue expenses are allowed to be deducted. Hence it becomes essential to distinguish revenue expenditure from capital expenditure. The following tests can be applied for the purpose:

1. **Nature of the assets.** Any expenditure incurred to acquire a fixed asset or in connection with installation of fixed asset is capital expenditure. *Whereas* any expenditure incurred as price of goods purchased for resale along with other necessary expenses incurred in connection with such purchases are revenue expenses.
2. **Nature of liability.** A payment made by a person to discharge a capital liability is a capital expenditure. *Whereas* Any expenditure incurred to discharge a revenue liability is revenue expenditure,e.g., amount paid to a contractor for cancellation of construct a factory building is capital expenditure whereas amount paid by a person with whom he has entered into contract for supply of goods for a period of 5 years – but he fails to supply goods after 3 years, the compensation will be revenue expenditure as it is to discharge the revenue liability.
3. **Nature of transaction.** If an expenditure is incurred to acquire a source of income, it is capital expenditure, e.g., purchase of patents to produce picture tubes of T.V. sets. *Whereas* An expenditure incurred to earn an income is revenue expenditure, e.g., salary of staff,, advertisement expenses, etc.
4. **Purpose of transaction.** If the amount is spent on increasing the earning of an asset, it is capital expenditure, e.g., expenditure incurred for fitting new windows of factory building.
   Whereas
   Any expenditure incurred on keeping an asset in running condition is revenue expenditure, e.g., amount spent on protection of fixed assets which have already been acquired.

5. **Nature of payment in the hands of payer.** If an expenditure is incurred by an assessee as a capital expenditure, it will remain as capital expenditure even if the amount may be revenue receipt in the hands of receiver, e.g., purchase of motor car by a businessman is capital expenditure in his hands although it is revenue receipt in the hands of car dealer, Similarly, if the nature of payment in the hands of payer is of revenue nature, it will be a revenue expenditure even if it is capital receipt in the hands of receiver.

3.3. CAPITAL LOSSES VS. REVENUE LOSSES

Distinguishing Tests

Distinction has to be made between revenue losses and capital losses of the business because under the provisions of this Act capital losses are dealt with under the chapterr "capital gains"whereas revenue losses are treated as business losses and as such are treated under the head " profits and gains of business or profession".

Distinction has to be made between revenue losses and capital losses of the business because under the provisions of this Act capital losses can be set off against the income from capital gains only, whereas the revenue losses are business losses and as such can be set off against any other income of the assessee.

Ordinarily a revenue loss in one which a business sustains by sale of goods of the business or destruction of stock-in-trade or non-recovery of any amount due from the persons who were to pay the amount whereas, the capital loss is one which is related to some capital asset of the business. It is very difficult to distinguish between a capital loss and a revenue loss on the basis of certain principles.

On the basis of court judgements following decisions have become distinguishing points:

1. **Loss due to sale of assets.** where there is loss on selling a capital asset, it is a capital loss whereas any loss incurred due to the sale of stock-in-trade is a revenue loss.
2. **Loss due to embezzlement.** Where there is any embezzlement done by an employee and this cause loss to the business, it is of revenue nature.
3. **Loss due to withdrawal of money from bank.** Once the amount has been deposited in bank and then it is withdrawn and is misappropriated, it is capital loss.
4. **Loss due to liquidation of employee.** Amount deposited by a person with manufacturing industry to get its agency and lost due to company being liquidated I is a capital loss.
5. **Loss due to theft by an employee.** Loss occurring due to theft by an employee during working hours is revenue loss whereas a theft committed by an employee by breaking into business premises at night will lead to capital loss.

ILLUSTRATION 1

The following items are found debited to the Profit and Loss Account of a company. Are these items are deductible in computing the income of the company for income-tax purposes? Give reasons for your answer.

(a) 10,000 spent on reconditioning of imperfect machinery purchased.
(b) 10,000 commission paid by the company for securing a contract in the course of its business.

ILLUSTRATION 2

state, giving reasons, whether the following are capital or revenue receipts:

(i) compensation received for compulsory vacation of place of business.

(ii) Bonus share received by a dealer of shares.

(iii) Money received by a tyre Manufacturing Company for sale of technical know-how regarding manufacture of tyre

(IV) Dividend and interest for investments.

SOLUTION

(i) Revenue receipt as it is in compensation of assessee's profile which it would have earned.

(ii) If the assessee has also converted the bonus shares into stock-in-trade then it is a revenue receipt otherwise it is an accretion in the capital asset.

(iii) Revenue receipt but in case the sale of technical know-how results into substantial reduction in value of the tyre company or company close down in business in that particular line then the receipt would be a capital receipt.

ILLUSTRATION 3

State whether the following are capital or revenue receipts:

(i) Compensation received for nationalization.

(ii) Premium on issue of new shares.

(iii) Sales tax collected from purchasers of goods.

(iv) Annuity.

(v) Unclaimed dividends.

SOLUTION

(i) Compensation is in substitution of assessee's source of income and hence it is a capital receipt.

(ii) It is not a receipt which results out of assess's trading activities and so cannot be a revenue receipt.

(iii) This receipt results out of assess's ordinary course of business and so it is a revenue receipt.

(iv) Annuity would be a revenue receipt if it is paid as a specified sum payable at periodical intervals. Annuity received from an employer is a salary

income and in all others cases, annuity shall be chargeable under the head
'Income from other sources'. This shall not be a taxable income in cases
where the assessee exchanges his share for a capital sum payable in installments.

(v) Unclaimed dividend cannot be deemed cannot be deemed to be profit of
business as dividend is neither allowed as an allowance or as deduction. It is not taxable as a receipt

QUESTIONS

1. Distinguish between capital receipt and revenue receipts.

2. Distinguish between capital expenses and revenue expenses.

3. Distinguish between capital losses and revenue losses.

4. Determine the character of the following receipts or expenditures giving reasons:

(i) Sale of the assets of a firm at the time of its conversion into company for shares of equal value-part of consideration is attributable to sale of land.

(ii) Profits due to fluctuation in rate of foreign currency.

(iii) Money received as the consideration for not resigning directorship.

(iv) Expenses incurred in connection with litigation relating to acquisition of capital assets of a business.

[**Ans.**(i) Capital receipt ; (ii) capital receipt ; (iii) Revenue receipt ; (iv) Capital expenditure]

5. (a) Give the important rules regarding the distinction of capital and revenue losses for assessment purposes.

(b) Explain in the mode of treatment of the following:

(i) An employee of a business was going to a bank to deposit some money belonging to the business. On way to the bank he lost it.

(ii) The business of a person was managed by a paid manager who has power
to withdrawn the money from the bank account of the business. He withdrew some money and misappropriated it.

(iii) Loss sustained by a business as a result of theft committed by an employee
during usually working hours of the business.

(iv) A cloth merchant dealing in government securities, sold securities worth

₹ 20,000. The amount was lost by him as a result of theft committed on a railway station.

[**Ans.**(i) Revenue loss ; (ii) Capital loss ; (iii) Revenue loss ; (iv) Capital loss , being incidental to the business]

6. (a) Why is it necessary to distinguish between a capital receipt and revenue receipt? How would you determine whether a particular receipt is a capital receipt or a revenue receipt?

(b) State with reasons the nature of the following:

(i) A railway passenger meets with an accident and is disabled. He receives compensation from the Indian Railways.

(ii) A company owning a chalk quarry contracted to supply a customer a certain quantity chalk yearly for ten years. The purchaser after some time did not wish to take further delivery and the company agreed to release him obligation in consideration on lump sum payment.

(iii) A company made annual payment for trucks bought under a hire-purchase agreement extending over a period of year.

(iv) Anassessee carried on business in several commodities. In the course of business, he submitted tenders to the railways and undertook to supply certain commodities. The amount which he had deposited as security for properly carrying out the contract was forfeited as he could not carry out the contract.

[**Ans. (6b)** (I) Capital receipt if permanently disable and revenue receipt if disabled temporarily, (ii) Revenue receipt as it is in lieu of future profits, (iii) Capital expenditure paid in installments , (iv) Revenue loss as it was in the regular course of business].

7. Why and how would you distinguish following capital receipts from a revenue receipts for income-tax purpose?

(i) A lump sum received by an employee from his employer as damages for termination of his services.

(ii) A company pays to its directors a lump sum in consideration of an agreement as a result of the company after his retirement.

(iii) A pugree received by the owner of a house from a tenant is consideration of letting his house.

(iv) The insurance money received, where business concern insures its business covering its assets against loss or damage by fire and also profit caused by the stoppage of work.

[**Ans.** (I) Capital receipt, (ii) capital receipt as it is surrender of right, (iii) Revenue receipt, (iv) Insurance money received against the assets capital receipt and remaining part received against loss caused by stoppage of work is revenue receipt]

(c) **8. Determine the nature of the following transaction:**

(i) Expenditure incurred by a bus transport organization to oppose threatened nationalization of bus transport business.

(ii) The money spent by a brewery company on publishing anti-prohibition literature.

(iii) Loss on the death of animal which are used for the purpose of carrying on the business of assessee.

(iv) A pugree (illegal premium) received by the house owner from tenant

(d) [**Ans.** (i) Revenue Expenditure, (ii) Revenue Expenditure, (iii) Revenue loss allowed under section 36 of the act, (iv) Revenue receipt].

Unit 5
Residential status

1. **Residential Status & Incidence of Tax** – Resident - Resident but not ordinarily resident – Non Resident – Incidence of tax – Indian incomes – Foreign Incomes

Introduction

Tax is charged on the income of the assessee. Under the Income Tax Act, 1961, the total income of every person is computed based upon his/her Residential Status. For the purpose of determining the residential status, assessee's are classified into the following categories: 1 Individual 2. HUF 3 Firms 4. Companies 5. Any other person

Residential Status of an Individual

It refers to the status of an individual, which is determined on the basis of his/her total stay in India. Under section 6, the residential status of an individual is divided into the following categories:

I . Resident: The assess must be fulfill at least one of the basic condition

a. Resident OR Ordinary resident : If a resident fulfill the both of the additional conditions then that assesee is treated as Ordinary resident
b. Not ordinary resident : If a resident fulfill the anyone of the additional conditions then that assesee is treated as Not Ordinary resident

II. Non resident : The assessee dose not fulfill the any one of the basic conditions that assessee treated as Non Resident.

Basic Conditions [Sec 6(1)]

To determine the residential status of an individual, section 6(1) prescribes two tests. An individual who fulfils any one of the following two tests is called Resident under the provisions of this Act. These tests are :

(a) If he is in India during the relevant previous year for a period amounting in all to 182 days or more.

(b) If he was in India for a period or periods amounting in all to 365 days or more during the four years preceding the relevant previous year and he was in India for a period or periods amounting in all to 60 days or more in that relevant previous year.

Illustration1:

On10thOct,2017 Mr. Kamalesh sing practicing Chartered Accountant left India for the first time to join Atlas Financial Service in New York city, America and returned to India on18th March, 2018 on 15days leave. Determine his residential status for the year 2017-2018 in terms of Resident or Non-Resident.

Solution

To determine the residential status as resident or non resident basic condition is to b applied. During the previous year 2017-18 his stay in India is as under AssesseeisanIndiancitizenandlefttotheforeigncountryfor“Employment purpose”.

Year	Month	No of Days
2017	Apr	30
	May	31
	Jun	30
	Jul	31
	Aug	31
	Sep	30
	Oct	10
	Nov	--
	Dec	--
2018	Jan	--
	Feb	--
	Mar	14
Total		207

During the previous year 2017-18 he stayed In India for more than 182 days hence his residential status is “Resident”.

Illustration2:

Mr.Raj mohan an Indian citizen went to London for business purpose on 8th July, 2017 and came back to India on 25th March, 2018. He was never been out of Indian the past. Determine his residential status for the assessmentyear2012-13 as resident or non resident.

Solution:

To determine the residential status as resident or nonresident basic conditions is to be applied. Residential status is to be determined for the previous year but not for the assessment year. For the assessment year2018-19

Year	Month	No of Days
2017	Apr	30
	May	31
	Jun	30
	Jul	08
	Aug	--
	Sep	--
	Oct	--

	Nov	--
	Dec	--
2018	Jan	--
	Feb	--
	Mar	07
Total		106

Assessee is an Indian citizen left to the foreign country for business purpose. During the previous year 2017-18 he stayed in India for less than 182 days, hence his residential status is "Non-resident"

Additional Conditions [Sec 6(6)]

If an Individual assessee becomes resident in India, the following Additional Conditions U/s 6(6) shall be applied to find out whether an individual assessee is Resident and Ordinary Resident or Resident but Not Ordinarily Resident:

(1) He has been resident of India (fulfilling at least one test given above) in at least 2 previous years out of 10 previous years immediately prior to the previous year in question.

(2) He has stayed in India for at least 730 days in 7 previous years immediately preceding the previous year in question.

This means that an individual will not become an ordinary resident of India by simply staying in India for a period of 182 days or more in a previous year. He will become ordinary resident only if. he fulfills one of these two tests and was also fulfilling one of the tests in at least 2 previous years preceding the relevant previous year and did stay in India for at least 730 days in 7 previous years preceding the relevant previous year.

Summary chart for residential status of an "Individual"

S. No	Basic Conditions		Additional Conditions		Residential Status
1	Yes	Yes	Yes	Yes	Ordinary Resident
2	Yes	No	Yes	Yes	Ordinary Resident
3	No	Yes	Yes	Yes	Ordinary Resident
4	Yes	No	Yes	No	Not Ordinary Resident
5	No	Yes	Yes	Yes	Not Ordinary Resident
6	Yes	No	No	Yes	Not Ordinary Resident
7	No	Yes	No	Yes	Not Ordinary Resident
8	Yes	Yes	No	No	Not Ordinary Resident
9	No	No	No need	No need	Non Resident

			to check	to check	

Illustration3:

Mrs. Maneesha, a citizen of India went to Sweden on 2-10-2011 for higher studies for a period of two years. After she came back, she was employed in a Multinational Company in India. The company sent her for 6 months training to Japan on 1-3-2014. She was transferred to the company's Head Office in USA on 15-8-2015. However, she left India on 2-10-2016 and reported for duty on 5-10-2016. She visited India during the months of Nov. and Dec. 2017. The company transferred her back to her original post in India and she returned to India on 26-1-2018. Determine her residential status for the A.Y. 2018-19.

Solution:

Year	Details of her stay in India
2007-08	365 days
2008-09	365 days
2009-10	365 days
2010-11	365 days
2011-12	185 days
2012-13	Nil
2013-14	152 days
2014-15	212 days
2015-16	185 days
2016-17	61 days
2017-18	65 days

Basic Conditions u/s 6(1)

1. Stay in India for 182 days or more during the P.Y. **Not satisfied**

or

2. Stay in India for 60 days or more in the P.Y. (+) 365 days or more in 4 P.Y preceding the P.Y. **Satisfied**

Additional Conditions u/s 6(6)

1. Resident in India for 2 years out of 10 P.Y.s preceding the P.Y. **Satisfied** and

2. Stay in India for 730 days or more during 7 P.Y.s preceding the P.Y. **Satisfied**

Mrs. Maneesha satisfied the one of the basic conditions and both additional conditional then she is the **Ordinary resident.**

Illustation4 :Mr. Cherry an American came to India for the first time on 1st January 2014. He stayed here continuously for 2 years. He went back to New York on 1-1-2018. Again he came to India on 1-2-2018 on a two years job assignment with a multinational company in India. Determine his residential status for the previous years 2016-17 and 2017-18.

Solution:

Year	Details of her stay in India
2007-08	Nil
2008-09	Nil
2009-10	Nil
2010-11	Nil
2011-12	Nil
2012-13	Nil
2013-14	90 days
2014-15	365 days
2015-16	365days
2016-17	276days
2017-18	58 days

For P.Y. 2016-17: As Mr. Cherry satisfies the first basic condition u/s 6(1) and both additional condition u/s 6(6), his residential status in India in the P.Y. 2016-17 is "Resident and Ordinariliy Resident".

For P.Y. 2017-18: As Mr. Cherry satisfies none of the basic condition u/s 6(1), his residential status in India in the P.Y. 2017-18 is "Non-Resident".

Residential Status of Hindu Undivided Family (H.U.F.)

1) Resident :

An HUF will be assessed as resident in India if :

a) Management and control of the business is wholly/partly situated in India. AND

b) "Karta" of the HUF satisfies the two additional conditions.

2) Not Ordinarily Resident :

An HUF will be assessed as NOR if:

a) Management and control of the business is wholly/partly situated in India BUT

b) Karta of HUF does not satisfy the two additional conditions.

3) Non Resident:

An HUF will be assessed as non resident if control and management of the HUF is wholly situated outside in India.

Residential Status of Firm OR Association of Persons

1) Resident :-
   A firm or an AOP will be assessed as Resident of India if its control and management is wholly/partially situated in India
2) Non Resident : A firm or an AOP will be assessed as non resident in India if it is wholly/partly controlled and managed from outside India.

Residential Status of Company

1) Resident :
   A company will be assessed as resident in India if :
   i) It is an Indian Company OR
   ii) It is controlled and managed wholly within India.
2) Non-Resident :
   A company which is neither an Indian company nor it is wholly/partly controlled and managed from outside India, is called as non-resident

Incidence of Tax :

Tax is levied on total income of a person. The total income is based on the residential status of an assessee. Section-5 provides the scope of total income, which varies on the basis of status.

Relationship between Residential Status and Incidence of tax

In order to understand the relation between residential status and tax liability, one must understand the meaning of India income and foreign income

Indian Income and Foreign Income

Indian Income: Any of the following three is an Indian Income -

i) If income is received in India during the previous year and at the same time it accrues in India during the previous year.
ii) If income is received in India during the previous year but it arises outside India during the previous year.
iii) If income is received out side India during the previous year but it arises or deemed to arises in India during the previous year.

Foreign Income: Any of the following two conditions are satisfied then such income is Foreign Income. i) Income is not received in India. ii) Income does not arise or does not deemed to arise in India.

Chart Showing the Incidence of Tax for Different Types of Status

Different kind of Incomes	Ordinary resident	Not Ordinary resident	Non Resident
1. Income earned or deemed to be earned in India but received outside India.	Tax	Tax	Tax
2. Income earned or deemed to be earned outside India but received in India	Tax	Tax	Tax
3. Income earned and received in India or Income deemed to be earned and received in India.	Tax	Tax	Tax
4. Income earned or deemed to be earned and received both outside India.	Tax	Not Tax	Not Tax
5. Income earned and received outside India from a business controlled or profession setup in India income may or may not be remitted to India.	Tax	Tax	Not Tax
6. Income earned and received outside India from a business controlled or profession set up outside India.	Tax	Not Tax	Not Tax
7. Past untaxed income brought into India during the relevant previous year	Not Tax	Not Tax	Not Tax

Illustation5: Mr. Jems a citizen of America furnishes the following particulars of his income relevant for the previous year 2017-18.

a) Agricultural Income from America entire amount spent for Software Development in NewYork ` 3,00,000.

b) Profit on sale of building in Chennai 3/4 of received in New York ` 6,00,000.

c) Dividend from Samsung Co.. Japan entire amount received in New York ` 90,000.

d) Profit from software business in Spain received in NewYork controlled from India 3,20,000.

e) Profit on sale of truck in New York entire amount received in Chennai ` 1,20,000.

f) Interest on deposits with an Indian company ` 2,000.

Compute his taxable income if he is - (i) Resident (ii) Not ordinarily Resident and (iii) Non-Resident for the Assessment Year 2018-19.

Solution:

Computation of Total Income of Mr. Jems

Different kind of Incomes	Ordinary resident	Not Ordinary resident	Non Resident
Agricultural Income from America entire amount spent for Software Development in New York	3,00,000.	Nil	Nil
Profit on sale of building in Chennai 3/4 of received in New York	6,00,000	6,00,000	6,00,000
Dividend from Samsung Co.. Japan entire amount received in New York	90,000	Nil	Nil
Profit from software business in Spain received in New York controlled from India.	3,20,000	3,20,000	Nil
Profit on sale of truck in New York entire amount received in Chennai	1,20,000	1,20,000	1,20,000
Interest on deposits with an Indian company	2,000.	2,000	2,000
Total	14,32,000	10,42,000	7,22,000

Illustation6 Mrs. Rani furnishes the following details of her income for the previous year 2017-18.

1. Income accrued in America but received in India 19,000.

2. Interest on USA. Govt. Securities 1/3 of which received in India, 15,000.

3. Salary received in India for services rendered in Canada 28,000.

4. Income from agriculture in Nepal received and spent there only 16,000.

5. Income from profession in China received there. The profession was set up in India ` 12,000.

6. Income accrued in India but received in China ` 14,000.

7. Income earned outside India in preceding years but remitted in India during previous year ` 36,000.

Compute the total income of Rekha for the A.Y. 2017-18 if she is - 1) Resident 2) Not ordinarily resident and 3) non resident

Solution:

Computation of Total Income of Mrs. Rani

Different kind of Incomes	Ordinary resident	Not Ordinary resident	Non Resident
Income accrued in America but received in India .	19,000	19,000	19,000
Interest on USA. Govt. Securities 1/3 of which received in India	15,000.	15,000.	15,000.
3. Salary received in India for services rendered in Canada .	28,000	28,000	28,000
4. Income from agriculture in Nepal received and spent there only .	16,000	Nil	Nil
5. Income from profession in China received there. The profession was set up in India `.	12,000	12,000	Nil
6. Income accrued in India but received in China `.	14,000	14,000	14,000
7. Income earned outside India in preceding years but remitted in India during previous year `	Nil	Nil	Nil
	1,04,000	88,000	76,000

Illustation7 Following are the taxable income of Sri Ram Krishna for the assessment year 2018-19.

1. Profit of a hotel business at Singapore ` 90,000.

2. Dividend declared in Australia but received in India ` 12,000.

3. Income from transfer of a long term Capital assets situated in Vijayawada 60,000.

4. Interest on debentures of a company at London which was received in India ` 18,000.

5. Interest received from John a non-resident, on the loan provided to him for a business carried on in India ` 15,000.

6. Royalty received in Germany from Kiran a resident in India for technical services provided for a business carried on in Germany ` 60.000.

Compute Sri Ram's Total Income for the Assessment Year 2018-19 if he is -

a) Resident and b) Non-Resident.

Solution:

Computation of Total Income of Mr. Sri Ram Krishna

Different kind of Incomes	Ordinary resident	Non Resident
1.Profit of a hotel business at Singapore	`90,000	Nil
2. Dividend declared in Australia but received in India	12,000	12,000
3 . Income from transfer of a long term Capital assets situated in Vijayawada	60,000.	60,000.
4. Interest on debentures of a company at London which was received in India `.	18,000	18,000
5. Interest received from John a non-resident, on the loan for the business carried on in India `	15,000.	15,000.
6. Royalty received in Germany for technical services provided for a business carried on in Germany `.	60,000	Nil
	2,55,000	1,05,000

Illustation8 Smt. Vimala Dixit submitted the following details of income for the previous year 2017-18. Compute total income for the assessment year 2018-19 in the following situations. Her residential status is (1)Resident & Ordinariy resident (2) Resident but not ordinary resident (3)Non-resident.

(1) Salary received in India from a former employer of Dubai Rs.8,68,000.
(2) Income from business in Hong kong but controlled from China Rs.1,62,000.
(3)IncomefromapropertyinIndiabutreceivedinU.KRs.2,79,000.
(4) Income from a property in Bangladesh but received in Pakistan Rs.15,50,000.
(5) Income from a property in Bangladesh but received in India Rs.9,30,000.
(6)Income from business in Nepal but controlled from India Rs.62,000.
(7) Income received from company deposit in Sri lanka (1/3receivedin India)Rs.1,86,000.
(8) Income from business in Japan for the year 2011-12 remitted to India during 2017-18 Rs.12,40,000.
(9)Profit from business in Gujarat controlled from U.S.A Rs. 6,20,000..

Different kind of Incomes	Ordinary resident	Not Ordinary resident	Non Resident
(1) Salary received in India from a former employer of Dubai	8,68,000	8,68,000	8,68,000
(2) Income from business in Hong kong but controlled from China	1,62,000.	Nil	Nil
(3)Income from a property in India but received in U.K	2,79,000.	2,79,000.	2,79,000.
(4) Income from a property in Bangladesh but received in Pakistan	15,50,000.	Nil	Nil
(5) Income from a property in Bangladesh but received in India	9,30,000	9,30,000	9,30,000
(6)Income from business in Nepal but controlled from India.	62,000	62,000	Nil
(7) Income received from company deposit in Sri lanka (1/3receivedin India)	1,86,000	62,000	62,000
(8) Income from business in Japan for the year 2011-12 remitted to India during 2017-18	Nil.	Nil	Nil
(9)Profit from business in Gujarat controlled from U.S.A	6,20,000	6,20,000	6,20,000
	46,57,000	28,21,000	27,59,000

Exercise:

Very short answer questions :

1. Resident
2. Non-Resident
3. Not ordinary resident
4. Foreign income
5. Basic conditions
6. Additional conditions

Short answer questions :

1. Sri Amarender Babu a citizen of India left to Japan on 2nd February 2018. Determine his residential status as resident or non-resident for the assessment year 2018-19.

2. Smt. Radhika has born in Mumbai City on 15-6-1984. She left India to Australia on 14th May 2017 and never returned so far. Determine her residential status as "Resident" or not for the relevent previous year 2018-19.

3. Smt. Azeena bhegam Citizen of Iran came to India for the first time on employment/business purpose on 13th July 2017. 11 a.m. She left India on 5th January 2018, 3 p.m. During this period she earned Rs. 18,60,000 in India and Rs. 25,91,000 in Iran. Determine her residential status and calculate tax liability for the assessment year 2018-19.

4. Mr. Ramakrishna 51 years age, an individual left India for France on 25th July, 2015 to take up a job in a firm there. He returned to India on 30th June, 2017. He was never out of India in the past. What will be his residential status for the previous year ending 31st March, 2018.

5. Dr. Meenakshi left India to foreign countries as a tourist on 1st May, 2017 and returned on 25th June, 2017. Determine her residential status.

6. Sri. Hari krishna an Indian citizen left for Sri Lanka for the first time on 1st October, 2014 as computer expert on employment basis. He came back to India on 31st May, 2015. He left for Bangladesh on 5th December, 2015 and returned to India on 10th June, 2016 and left thereafter to China on 10th March, 2017 and returned on 10th December, 2017. Determine his residential status for the previous year 2017-18.

7. Mr. Janardhan an Indian citizen, who is appointed as a senior scientific officer by the Government of Kenya left India for the first time on 26th September, 2016 for joining his duties in Kenya. During the previous year 2017-18, he came to India for 160 days. Determine his residential status for the assessment year 2018-19.

8. Mr. Jokson, an American Nationalist, is appointed in India as a Senior Scientific officer on 1-4-2013. On 31st January, 2014 he went to Iran on deputation for a period of one year, leaving his family members in India. On 1st May, 2014 he came back to India and took his family members

with him on 30th June, 2014. He returned to India and joined his original job on 2nd February, 2016. Determine his residential status for the assessment year 2018-19

9. Following are the details of income of Mr. Ravendhra for the P.Y. 2017-18

a) Income from agriculture in Netherlands 1,20,000.
b) Income from business in Singapore 6,00,000 which is controlled from India.
c) Dividend from a co-operative society 12,000.
d) Dividends from a public company 17,000.
e) Past untaxed profit brought to India 1,50,000.
f) Income accrued in India but received in China 70,000.
g) Salary received ` 10,000 in India for services rendered in Nepal.

Compute his taxable income if he is - a) Resident b) NOR c) NR.

10. Mr. Rakesh earns the following incomes during the financial year 2017-18

a) Salary earned at Vishakapatnam but received in USA 2,10,000
b) Dividend paid by an Indian co., but received in Canada 85,500
c) Income from house property situated in Pakistan and received there ` 72,000.
d) Profits from business in Maldives but the business being controlled from India 15,000.
e) Past untaxed foreign income brought to India 2,60,000.
f) Interest on German Development Bonds and half of which is received in India 9,000.

Determine the total income if he is resident, not ordinarily resident and non-resident.

11. From the following particulars of income of Adhvani during the previous year 2017-18 compute his taxable income if he is - a) Resident b) NOR c) NR.

1) Income from agriculture in Bangladesh received in India 50,000.
2) Income accrued in India but received in USA 22,000.
3) Payment received in Iran for services rendered in India 12,000.
4) Salary received in India for services rendered in Kenya 30,000.
5) Income from business controlled from India in Nepal 75,000 received there and remitted to India.
6) Income earned and received in Nepal from bank deposits 24,000.
7) Interest in respect of securities in a French company received outside India 30,000.
8) Past untaxed profit brought to India in the previous year 48,000.

Unit 6
Exempted Incomes

1. **Exempted Incomes** - Exempted incomes relating to individuals only

Introduction

Section 10 of the Indian Income Tax Act, 1961 deals with the exempted incomes. These incomes are not to be included in the total income of an assessee i.e., these incomes are totally tax free. The exempted incomes can be studied under the following heads.

(a) To Individuals

(b) To certain institutions and authorities

(c) To non citizens

A. Exempted Incomes to Individuals

The following are the important items of income exempted to individuals.

1. Agricultural Income. [Section 10(1)]
2. **Receipt by a coparcener of an Hindu Undivided Family:** [Section 10(2)] Any amount received by a coparcener from the Hindu Undivided Family's income or from the estate of H.U.F. is fully exempt d from tax.
3. Share of income from a firm [Section 10(2A)]
4. Travel concession to employees who are having the Indian citizenship.[Section10(7)]
5. Payments received on the eve of voluntary retirement compensation by an employee [Section 10(10c)] .
   (a) Public sector Company
   (b) any other company
   (c) an authority established under a Central/State/Provincial Act
   (d) a local authority.
   (e) Co-operative societies
   (f) Universities
   (g) Indian Institutes of Technology
   (h) and such other institutes of management as may be specified by the Cent. Govt.
   (i) State Government employees
   (j) Central Government employees.
6. Amount received from Sukanya Samruddhi Account [Section 10(11A)]
7. Allowances given and perquisites provided to government employees (Indian citizens) who are posted aboard.[Section10(7)]

8. Remuneration and foreign income of an individual working under Co-operative Technical Assistance Programme. [Section10(8)]
9. Gratuity received by a Government employee is fully exempted. Gratuity received by other employees the exemption is limited to Rs. 10,00,000. [Section10(10)]
10. Payment from statutory provident fund. [Section10(11)]

11. Retrenchment received by an employee of State Government/ Central Government and organized sector on voluntary retirement is exempt up to Rs. 5,00,000. [Section10(10B)]
12. Compensation received by victims of Bhopal Gas leak disaster.Act198 [Section10(10BB)
13. Payments from recognized provident fund. [Section10(11)]
14. Payments from recognized fund. [Section10(12)]
15. House rent allowances received by Judges of Supreme Court and High Court exempted [Section10(13A)].

16. Scholarships received by the students. [Section10(16)]
17. Allowances received by MP/MLA/MLC.[Section10(17)]
    a. Daily allowance received by MP/MLA/MLC or members of any committee constituted either by the Parliament or state legislature is fully exempted.
    b. Constituency allowance received by MP/MLA/MLC is fully exempted.
    c. Any other allowance received by a member of state legislature or of any committee constituted either by the Assembly/ Council is exempted up to Rs. 2,000 p.m.
    d. Any other allowance received by MP/MLA/MLC is fully taxation.
18. Awards received from literary, scientific work, or proficiency in games and sports.(by Government)[Section10(17A)]
19. Any income by way of pension or family pension received by an individual or his family member if such individual has been in the service of Central or State Government and has been awarded Param Veer Chakra or Maha Veer Chakra or any other gallantry award as may be notified. [Section10(18)]

20. Annual value of one palace for the former rules/princes.[Section10(19A)]
21. Income from local authority [Section10(20)]

22. Income from scientific research association [Section10(21)]
23. Income from news agency set up in India [Section10(22B)]
24. Life Policy amount received (including bonus) from L.I.C or any other insurance company including any receipt of commuted value of pension under "Pension Fund Scheme". [Section10(23AAB)]
25. Any income received by a person from the following funds [Section10(23C)]:

i) The PM's national relief fund

ii) The PM's fund (promotion of folk art)

iii) The PM's aid to students fund

iv) Any other fund established for charitable purposes which are notified by the central government.

v) any trust or institution set up wholly for religious purposes for the purpose which may be notified by the central government.

26. Income of Mutual fund [section10(23D)]
27. Income from registered Trade union [Section10(24)]
28. Income of employees State Insurance Fund [Section 10(25A)]
29. Income of a corporation set up for development of in the interest of sechduled castes, Scheduled Tribe or Backward class[Section10(26B)]
30. Income of cooperative society looking after the interest of SC or ST or both [secton10(27)]
31. Any subsidy received from the Tea Board / Central Government for growing and manufacturing tea in India.[Section10(30)]
32. **Income of a Minor:** Incase the income of an individual includes the income of Minor child, such individual shall be allowed exemption up to Rs. 1,500/- in respect of each minor child.[section10(32)
33. Exemption of income to a shareholder on buyback of shares of unlisted company [Section 10 (34A)]
34. Income from units of UTI and other mutual funds [Section 10(35)]
35. Capital gain of compulsory acquisition of urban agricultural land [section10(37)]
36. Long term capital gains on transfer of equity shares and securities covered under Securities Transaction Tax is exempted [Section 10(38)]

Short Answer Questions:

1. Explain any ten items which are fully exempted from Income-Tax.
2. .Give ten examples of incomes which are totally exempted from income-tax and also enumerate the incomes which are included in the total income and which are exempted from tax.

Unit 7
Income from Salaries
(Sec. 15to17)

1. **INCOME FROM SALARY** : BASIS OF CHARGE OF SALARY INCOME – ALLOWANCES (Problems on calculating exempted amount of i) Entertainment allowance ii) House Rent Allowance & Children education and Hostel allowance only) – PERQUISITIES (valuation of rent free accommodation, motor car, interest free loans, medical facilities, credit card only) – PROFIT IN LIEU OF SALARY (Provisions relating to Gratuity only) – Deductions U/s 16

Salary

The meaning of the term 'salary' for purposes of income tax is much wider than what is normally understood. Every payment made by an employer to his employee for service rendered would be chargeable to tax as income from salaries. The term 'salary' for the purposes of Income-tax Act, 1961 will include both monetary payments (e.g. Basic salary, bonus, commission, allowances etc.) as well as non-monetary facilities (e.g. housing accommodation, medical facility, interest free loans etc).

Employer-employee relationship: Before an income can become chargeable under the head 'salaries', it is vital that there should exist between the payer and the payee, the relationship of an employer and an employee.

Remuneration received from the employer is known as salary, according to section 15 of Income tax act 1961 Definition of Head salary*: [Section 15]*

(a) Any Salary due from an employer or a former employer to an employee in the previous year whether paid or not

(b) Any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it becomes due to him

(c) Any arrears of salary

COMPUTATION OF SALARY INCOME

↓

Salary17(1)	Allowances u\s 17(3)(b)	Perquisites u\s 17(2)	profits in lieu of salary u\s 17(3)

↓

GROSS SALARY

Less

Deductions U\s16

↓

_Entertainment allowance U\s 16(ii)	Tax on employment u\s 16(iii)

↓

Net Salary

I. Salary U/s 17(1):

a.	Basic salary	Fully taxable
b.	Wages	Fully taxable
c.	Bonus	Fully taxable
d.	Commission	Fully taxable
e.	Advance salary	Fully taxable
f.	Arrears of salary (If not taxed earlier)	Fully taxable
g.	Contribution to provident fund	

Provident funds

It is essential to understand the treatment of provident funds. To encourage saving for the social security of the social security of employees the Government has set up various kinds of provident funds The employer also contributes. The whole contribution along with interest is credited to important occasions. If the employee dies his heirs will get the full payment. Provident Funds are of four kinds

Statutory Provident Fund or the Funds to which the Act of 1925 applies (S.P.F)

Recognised Provident Fund (R.P.F)

Unrecognised Provident Fund (U.R.P.F)

Public Provident Fund (P.P.F)

Statutory Provident Fund; Statutory provident fund is the oldest type of fund. It was started in the year 1925 through a Provident Fund Act of 1925. This fund was started with a view of promoting savings amongst Government employees.

Recognised Provident Fund; The provident fund which was recognised by the Commissioner of income tax under the income tax Act. .The employee and the employer both contribute towards this fund

Public Provident Fund: So far all these funds were for the employees On July 1, 1968 a new fund was set up for self employed people. Self employed people are doctors lawyer accountants, actors, traders, pensioners. The interested people can open their account in state Bank of India and its subsidiaries.

Taxable portion of contribution to Recognised provident fund (R P F)

It consists of two parts;

(a) Employer's Contribution to R P F It is exempted up to 12% of employee's salary. Exceed is taxable

Salary =Pay + DA which enters into pay for service or retirement benefits + Commission on turnover achieved by him

(b)Interest credited on RPF balance is taxable if rate of interest is more than 9.5%; less than is exempted.

TREATMENT OF PROVIDENT FUNDS

Particulars	**Statutory provident fund (SPF)**	**Recognised Provident Fund Sector (RPF)**	**Unrecognised Provident Fund (URPF)**
1.Employee's own contribution	Full qualifies for deduction u/s 80C	Full qualifies for deduction u/s 80C	Does not qualifies for deduction u/s 80C
2.Employee's contribution	Full exempted	It is deemed to be received by employee. excess of employer's	Ignore for the time being
3.Interest on Accumulated Balance	Full exempted	Exempted up to rate prescribed by the Governmrnt.Excess over this amount is taxable (i, e.9.5%)	Ignore for the time being

ALLOWANCES {SECTION 17(3)}

The term allowance has been derived from the word to allow. As per Oxford Dictionary the word Allowance means any amount or sum allowed regularly. As such allowances are given in cash along with salary by the employer are given in cash along with salary by the employer.

I. Fully Exempted Allowance:

1. Foreign Allowance only in case of Government employees posted outside India

2. House rent allowance given to judges of High court and Supreme Court

3. Sumptuary allowance given to judges of high court and Supreme Court

4. Allowance to teacher or professor form SAARC Member States

5. Allowance to member of union public service commission

II. Fully Taxable;

1. Dearness Allowance (DA) Dearness Pay (DP), Additional Dearness Allowance

2. City Compensatory Allowance

3. Non practicing allowance

4. Project allowance

5. Overtime allowance

6. Fixed Medical allowance

7. Entertainment allowance (Non Govt. Employees)

8. Lunch allowance

9. Tiffin allowance

10. Marriage allowance

III. Partially Taxable;

1. House rent allowance

2. Entertainment Allowance (Government employees)

3. Helper allowance

4. Uniform allowance

5. Academic allowance

6. Convincing allowance

7. Travelling allowance

8. Children education Allowance
9. Children Hostel allowance
10. Domestic servant allowance

1. **House rent allowance**

(a).Employees who are rent for house: Sometimes the employer does not provide rent free accommodation but instead makes a provision to pay some amount in cash. The amount of amount paid for to meet the expenditure for the house rent is known as House rent allowance. Out of the House rent allowance received least of the following three amounts is allowed exemption u/s 10(13A)

i. Actual HRA Amount received

ii. Rent paid -10% of Salary

iii. 50% of salary in case of Bombay Calcutta Delhi and madras, and 40% of salary in case of all other cities or

Taxable HRA = HRA received – Exempted amount

Note: Salary = Basic = DA (Enters in to retirement benefit) / DP + Commission on turnover

2. **Entertainment Allowance:** U/s 16(ii) deduction is allowed to Government employees only form assessment year 2003-04. The deductions is equal to last of followings three amounts ;

(a) Statutory Limit 5000

(b) $1/5^{th}$ of basic salary only; or

(c) Actual allowance received

3. **Helper Allowance:** It is exempted up to actual amount spent on engaging a helper required to perform the official duties.
4. **Uniform Allowance:** it is also exempted up to actual expenditure incurred on acquiring or maintaining of the official uniform excess if any will be taxable

5. **Academic Research Allowance.** It is exempted up to actual expenditure incurred for research. Excess if any is taxable

6. **Conveyance Allowance:** it is exempted up to actual expenditure incurred in performance of official duties. In case of amount received is more than actual expenditure, excess, if any ,will be taxable

7. **Travelling Allowances:** It is exempted up to actual expenditure incurred for the purposes of employment. Excess of any will be taxable

8. **Children Education Allowances;** If any amount is given by employer to employee as education allowances for the education of own children in India, it shall be exempted up to 100 p.m. per child for two children only

9. **Children Hostel expenditure allowances;** Any allowances granted by employer to meet the hostel expenditure of employees children it shall be exempted up to 300 p.m. for child maximum for two children only

10. **Domestic Servant Allowance;** It is fully taxable it is taxable even if amount received is actually spent for engaging domestic servant

ILLUSTRATION 1

From following particulars, calculate salary of the Mr. Karthikeya for the assessment year 2018-19.

Basic salary @ 60,000 p.m.
Dearness Allowance @ 10,000 p.m. [60% enters]
Dearness pay @ 2,000 p.m.[Not part of salary for calculation of pension]
Bonus—One month’s basic salary.
Commission—Employee earned 1,00,000 commission during the year on the basis of turnover achieved by him
Income tax of employee paid by employer 66,500.
Education allowance @ 300 per child for 3 children.
Advance salary—salary of 2 months received in advance.
Lunch allowance @ 250 per day for 300 days.
Arrears of salary 2,00,000.

SOLUTION

Computation of salary of Mr. Karthikeya for the A.Y 2018-19

Basic salary @ 60,000 p.m.		7,20,000
Dearness allowance @ 10,000 p.m. [only 60% enters]		72,000
Dearness pay		NIL
Bonus		60,000
Commission [on the basis of turnover achieved by him]		1,00,000
Education allowance @ 300 p.m. for 3 children	10,800	
Less: Exempted @ 100 p.m. for 2 children	2,400	8,400
Lunch allowance @ 250 per day for 300 days		75,000
Income from salary		**10,35,400**

ILLUSTRATION2

Compute gross salary from information given below for each situation separately:

(1) Salary @ 4500 p.m.
(2) D.A. @ 2,000 p.m.
(3) C.C.A. @ 200 p.m.
(4) House Rent Allowance @ 2,000 p.m.
(5) Commission on turnover achieved by him 5,000. Situation
(a) Living in own house;
(b) Living in rent house at Mumbai and D.A. enters into a pay for service benefits and rent paid is 3,500 p.m.;
(c)Living in rented house at Guntur and D.A. does not enter into pay for service benefits and rent paid is 1,000 p.m.

SOLUTION

Computation of House Rent allowance

***Case (a):* Own house**

Salary		54,000
D.A.		24,000
C.C.A.		2,400
Commission on turnover achieved by him		5,000
H.R.A. (Fully taxable as living in own house)		24,000
Gross Salary		**1,09,400**

***Case (b)*: Hired house at Mumbai**

Salary			54,000
D.A. (Enters into pay)			24,000
C.C.A.			2,400
Commission on turnover achieved by him			5,000
House Rent Allowance received		24,000	
Less : Exempted up to least of following			
(a) Actual received	24,000		
(b) Rent paid—10% of salary			
[42,000 -10% (54,000 +24,000 +5,000)]	31,700		
(c) 50% of salary	41,500		
Least is exempted		24,000	
Taxable H.R.A			NIL
Gross Salary			**85,900**

***Case(c)*: Hired House at Guntur**

Salary			54,000
D.A. (Enters into pay)			24,000
C.C.A.			2,400
Commission on turnover achieved by him			5,000
House Rent Allowance received		24,000	
Less : Exempted up to least of following			
(a) Actual received	24,000		
(b) Rent paid—10% of salary			
[42,000 -10% (54,000 +24,000 +5,000)]	31,700		
(c) 50% of salary	41,500		
Least is exempted		24,000	
Taxable H.R.A			NIL
Gross Salary			**85,900**

ILLUSTRATION 3

Compute the income from salary of Mrs. Narmada for the assessment year 2018-19
From particular given below:

(a) Salary 6,000 p.m. [Salary is due on last day of every month].
(b) DA @100% of salary
(c) Bonus 10,000
(d)Conveyance Allowance @ 500 p.m.
(e)Entertainment Allowance @ 700 p.m.
(f) Arrears of salary for the previous year 2015-16 6,000
(g)Children education allowance 250 p.m. for two children
(h)Children hostel allowance 500 p.m. for one child

Computation of income from salary of Mrs. Narmada
For the assessment year 2018-19

Salary		72,000
Statutory Bonus		10,000
Arrears of salary		6,000
DA		72,000
Conveyance Allowance		6,000
Entertainment Allowance		8,400
Children education Allowance	3000	
Less: Exemption(2X12X100)	2400	600
Children hostel allowance	6000	
Less Exemption(1X12X300)	3600	2400
Gross salary		**1,77,400**

PERQUISITES {SEC.17 (2)}

Perquisites means any kind of benefit provided by the employer to an employee or his family members either in cash or kind. It includes salary u/s 17(2)

Any perquisite received other than employer are taxable under the head of "Income from other sources " , it is a gain or profit made from employment in addition to regulatory salary or wages.

From our study point of view the perquisites are classified in to **three** types

A. Perquisites exempted from tax
B. Taxable perquisites for all employees
C. Perquisites taxable fro specified employees

A. Perquisites exempted from tax:

1. Free medical facilities :
   a. If medical facilities provided in Employer maintained (own) hospital, Government Hospital or recognised hospital is fully exempted.
   b. If medical facilities provided in UN recognised hospital is exempted up to Rs.15, 000 only excess amount is taxable.
2. Free refreshment supplied by employer in the office hours are exempted in case of free meals during the office hours is exempted up to 50/- per meal excess is taxable.
3. Employer continuation to staff group insurance scheme is fully exempted
4. Free recreational facilities provided by employer to his/ her employees is fully exempted.
5. Goods sold by employer to his employee at concessional rate are fully exempted.

B. Perquisites exempted from tax:

The perquisites, which are taxable in the hands of both specified employee and non- specified employee are mentioned below:

1. Rent free accommodation
2. Concessional rent accommodation.
3. Expenditures of the employee met by the employer
4. Interest free loan:

1) **Rent free accommodation :** Residential accommodation (rent free house with/without furniture)

A) In case of government employees- The amount of perk is fixed by the Government

B) In case of non-government employees

a) where the accommodation is owned by the employer

i. If population of the city exceed 25lakhs, 15% of salary is tax

ii. If the population of the city exceed 10lakhs but does not exceed 25lakhs, 10% of salary is tax

iii. If the population of the city does not exceed 10lakhs, 7.5% of salary is tax

b) where the accommodation is hired/leased by the employer-

15% of salary or rent paid or payable by the employer

Whichever is lower is chargeable to tax

c) where the accommodation is provided in a hotel-

24% of salary or actual charges paid or payable by the employer whichever is lower is chargeable to tax.

An exemption up to 15 days is allowed if such accommodation is provided in the event of transfer of employee from one place to another place

Notes: salary includes: Basic pay+ D.A (part of salary) +Commission +Bonus + Fees + All taxable allowances +all monetary benefits (excluding all types of perquisites)

If employer provided accommodation with furniture then first calculate un-furnished house later add 10% of furniture value or hire charges of furniture to the perk value.

Perk value for furnished accommodation = Perk un-furnished house + 10% furniture value Or hire charges of furniture

2) **Concessional rent accommodation:** If employer has not given the house totally free but he charging a part of rent from employee such type of accommodation is called concessional rent accommodation. For tax point of view valuation of rent free house is as follows.

Computation of rent free accommodation as per above	XXX
Less: Rent paid by employee OR Collected by employer	XX
Taxable perk for concessional rent accommodation	XXX

ILLUSTRATION: 6

In the case of government employee, value of perquisites in respect of accommodation from the following information shall be worked as:

i) B. Pay Rs80,000
ii) D.A(fully enters into pay) RS-40,000
iii) Petrol allowance RS-10,000
iv) License fee of the accommodation provided RS-5,000
v) Cost of the furniture provided RS-30,000

SOLUTION:

Value of perquisite:

In case of government employee, it is license fee	=RS. 5,000
(+) 10% of cost of furniture (10% of RS. 30,000	=RS. 3,000
Total value of taxable perquisite	=RS. 8,000

ILLUSTRATION:7

In the case of non government employee, value of perquisite in respect of accommodation from the following information shall worked as:

	RS:
i) Basic pay	1,20,000
ii) D.A	40,000
iii) Transport allowance	14,600
iv) Bonus	10,000
v) Contribution to RPF	10,000

vi) Rent fee accommodation is provided. Its fair rental value is 30,000
(Population of town more than 25lakhs)
vii) Furniture is provided to employee for which employer pays rent 2,500

SOLUTION:

Here the house is owned by the employer (fair rent) and population exceed 25lakhs, 15% of salary shall be considered.

Salary

	RS		RS
Basic pay			1,20,000
Dearness allowance (not include)			-----
Transport allowance (-)		14,600	
RS. 1600*12		1 9,600	-----
Bonus (contractual)			10,000
			1,30,000
15% of 1,30,000			19,500
(+) rent of furniture			2,500
Total value of taxable perquisite			**22,000**

ILLUSTARTION: 8

If the accommodation provided is hired by employer, value of perquisite from then following information shall be worked as-

	RS.
i) B.pay	1,80,000
ii) D.A(3/4 is part of service benefits)	56,000
iii) Commission	34,000
iv) R.P.F contribution by employer	30,000

v) Interest on credit balance of R.P.F @ 12% is 18,000
vi) Project allowance 16,000
vii) Rent-free accommodation (rent paid by employer) 60,000

SOLUTION:
Value of perquisite
Since the house is hired by the employer, 15% of salary or actual rent whichever is lower shall be the value-
Salary

	RS.	RS.
Basic pay		1,80,000
D.A (56,000*3/4)		42,000
Commission		34,000
Project allowance		16,000
		2,72,000

15% of salary 2,72,000X15/100 = Rs. 40,800
Actual rent paid by employer = RS. 60,000
Taxable value of perquisite = 40,800/-(Which is lower)

3) **Expenditures of the employee met by the employer**

Following expenditures in the name of employee paid by employer is fully taxable

a. Gas, electricity bill
b. Education of children bills
c. Income tax professional tax paid by employer
d. Salary of domestic servant appointed by employee
e. Life insurance premium of employee or any other member of the family is paid by employer is fully taxable.

4) **Interest free loan:**

a. If loan amount is does not exceeds Rs. 20,000/ -- Interest is fully exempted
b. If loan is taken for notified illness treatment then – Interest is fully exempted.
c. If any other loan taken at concessional or interest free loan from employer the difference of rate of interest charged by State bank of India 0n 1-4-2016 and actual interest charged is taxable.

C. Perquisites taxable fro specified employees

Specified employee:

The following employees or known as specified employees-

i. Director employee
ii. An employee who has substantial insert (i.e., holding equity shares carrying 20% or more voting power in the employer company) during the previous year
iii. An employee drawing in excess of 50,000(including all monetary benefits taxable allowances and after deducting the deductions allowed u/s16)

a. **Value of perk of motor car**

If motor car is owned/hired by employer is provided to employee for only perform official duties the perk is exempted.

If motor car is owned/hired by employer is provide to employee for private /personal purpose the perk is fully taxable

Taxable value of Perk = Actual exp. Paid by employer for running + driver salary + 10% of actual cost car – any amount charged by employer from employee

If motor car is owned/hired by employer is provided to employee for private and official (both) use then value of perk is:

Expenses met by employer

When big car is provided 2,400/- per month (1.6 lt. Capacity engine)

When small car is provided 1,800/- per month (below 1.6 lt. Capacity engine)

Expenses met by employee

When big car is provided 900/- per month (1.6 lt. Capacity engine)

When small car is provided 600/- per month (below 1.6 lt. Capacity engine)

b. Value of perk in case of credit card: if the employer provided credit card the amount used for personal purpose is only taxable, in case of credit card used for official purpose is exempted.
c. Club facility: In case of employer paid club bill or annual charges of club facility the amount paid by employer is fully taxable. In case club facility used in connection with official duties then value of perk is exempted
d. Free domestic servant like sweeper, a watchmen , attendant the actual salary paid by employer is perk value
e. Free supply of gas, electric, water supply: In case employer purchase and supply to employee the actual amount paid by employer is value of perk. If employer provided from own sources the cost of such facility is value of perk.

Profit in lieu of salary U/s 17(3):

Gratuity: Gratuity is given by the employer to an employee for the service rendered by him. It is usually paid at the time of retirement but it can be paid before provided certain condition are met. A person is eligible to receive gratuity only if he has completed at least five years' service with an organisation.

a. For government and semi-government employees government rules are applicable the amount received under gratuity is fully exempted

b. Remaining all employees are divided in to two categories

i). Employees covered under Payment of Gratuity Act: Exempt up to least of the following three items

a) Notified limit Rs. 10,00,000/-

b) Actual amount received

c) 15 days salary for every completed year of service

Note: If service is period exceeding six months add 1 year lees than six months it shall be ignored.

Salary = Basic pay+ DA/26X15

ii) Employees not covered under Payment of Gratuity Act: Exempt up to least of the following three items

a) Notified limit Rs. 10,00,000/-

b) Actual amount received

c) ½ month salary for every completed year of service (Months are ignored)

Salary = Basic pay+ DA (enter) + Commission (all types).

Commutation of pension: When a person is surrendered his right of receive monthly pension fully or partly he received a lump sum amount that is called commutation. The balance amount he received monthly is fully taxable

a) If government employee commuted pension value is fully exempted.

b) If other employees who received gratuity, out of lump sum amount received 1/3 of commuted pension is exempted.

c) If other employees who not received gratuity, out of lump sum amount received 1/ 2of commuted pension is exempted.

V. Deduction U/s 16

a. **Standard deduction :** From the assessment year 2018-19 on words the salaried employees allowed a standard deduction of 40,000/- p. a

b. **Entertainment Allowance u/s 16(ii):** This deduction is allowed to Government employees only, following three amounts least is allowed as deduction.

i) $1/5^{th}$ of Basic pay

ii) Actual allowance received

iii) Rs. 5000/- p.a

c. **Tax on employment or Professional tax u/s 16(iii):** Amount paid for tax on employment or professional tax by employee are employer fully allowed as deduction

Computation of Mr..........Income from Salary for the Assessment Year.......

Particulars	Amount Rs.	Amount Rs.
Salary U/s 17(1)		
Basic Pay	XX	
Bonus	XX	
Fees	XX	
Commission	XX	
Employer's contribution to R.P.F. in excess of 12%ofbasicsalary	XX	
ExcessofinterestonR.P.F.over9.5%rate	XX	XX
Allowances U/s17(3B)		
D.P / DA	XX	
C.C.A.	XX	
Un-exempted H.R.A.	XX	
Entertainment allowance	XX	XX
Perquisites U/s17(2)		
Rent free accommodation	XX	
Insurance premium paid by the employer	XX	
Provision of domestic servant	XX	XX
Profits in lieu of salary U/s17(3)		
Compensation received on termination	XX	XX
Gross Salary		XXX
Deduction U/s16		
Standard deduction (Rs.40,000)	XX	
Entertainment allowance U/s 16(ii)	XX	
Professional Tax U/s 16(iii)	XX	XXX
Net taxable Salary		XXX

Exercise:

Very short question Answers

1. Types of provident funds
2. House rent allowance
3. Children education allowance
4. Exempted allowance
5. Rent free accommodation
6. Car facility
7. Gratuity
8. Pension
9. Deductions U/s 16
10. Free medical facility

Short question Answers

1. Mr. Rohit is employed at Hyderabad at a base salary of 25000p.m. and he is also getting following allowances;

Dearness Allowance	1200 p.m.
Lunch Allowance	800 p.m.
Servant Allowance (he is paying Rs. 700 p.m. to a servant)	9000 p.m.
Education Allowance @200 p.m. per child for the two children.	
Hostel Allowance to one child	500 p.m.
Conveyance Allowance	800 p.m.
Overtime Allowance	200 p.m.
Entertainment Allowance	200 p.m.
Medical Allowance	800 p.m.
City compensatory Allowance	600 p.m.
House Rent Allowance	5000 p.m.

He is having a family house at the place of his posting but he is living in a rented house and is paying a rent of 7000 p.m. Find out his Gross salary.
(Ans: Rs.3,88,400)

2. Mrs. Ganga gives the following information. Compute his income from salaries:

i) B.pay RS. 6,000 pm
ii) D.A.(half of which treated as pay for service benefits) RS. 1,500 pm
iii) HRA RS. 2,000 pm (rent paid by Mrs.Ganga is RS.1,500 pm)
iv) Contribution by employer to RPF RS.12,000
v) Entertainment allowance RS. 500 pm
vi) Free watchman RS. 250 pm
vii) Interest on RPF balance is RS. 1,200(Rate of interest 10%)
viii) Reimbursement of club bills (personal) 2,000

3) Compute salary income from the following particulars of Mr.Bala:
i) Salary RS.80,000
ii) Bonus RS. 10,000
iii) Electricity bill paid by employer RS. 4,000
iv) Free use of motor car (1,600 CC). Expenditure of employer RS.16, 000.
Car is used for official and personal purposes equally.
v) House rent allowance RS. 24,000 but Mr. Stays in his own house
vi) Tax deducted at source RS.800

viii) Both employer and employee contributes RS.7,200 each towards RPF

4) Computes income from salary of Mr. Rahul
i) Basic pay RS. 12,000 pm
ii) Dearness pay RS.4,000 pm
iii) Commission RS.2,000 pm
iv) Contribution to RPF RS. 25,000 by the employer and employee each (interest on PF Balance @10.5% is RS. 21,420)
v) Conveyance allowance RS. 1,000 pm (RS.8,000 is spent for official purpose)
vi) Rent – free accommodation is provided at Vijayawada fair rent of the house is RS.60,000
viii) Furniture s provided for which the employer pays RS. 2,000 as rent

5) Mrs.Padmaja joined service on 1/11/2010at a basic pay of RS.19,200 pm. Presently She was drawing 25,300 p.m
She is getting D.A @40% of basic pay.
He is receiving project allowance RS.250 pm
She is contributing RS.2,500 pm to RPF and her employer also contributed same amount.
Interest credited to his PF a/c is RS.38,000 @12%.
She is getting RS.500 pm as medical allowance.
She is provided with a rent-free accommodation hired by employer. Employer pays rent of RS.4,000 pm. Compute his income from salary.

6) Mr. Bharath retired from government services on December 31st, 2012. Compute his salary income for
The AY 2018-19 from the particulars given below-
i) Salary RS.8,000 pm
ii) Entertainment allowance RS.500 pm
iii) Rent free house rental value is fixed at RS.1000pm
IV) Bonus—One month's basic salary.
V) Commission—Employee earned 1,00,000 on the basis of turnover achieved by him
VI) Income tax of employee paid by employer 6,500.
vii) Education allowance @ 300 per child for 3 children.
viii) Lunch allowance @ 250 per day for 300 days.
ix) Arrears of salary 2,00,000.

7) Mr. Chintu is non-government services from October 31, 2012. Compute his salary income for the AY 2018-19 from the particulars given below-
i) B.pay RS.10,000 pm
ii) D.A (one-third is considered for pay) RS.3,000 pm
iii) HRA RS.4,000 pm (living in own house)
iv) Contribution to RPF during the previous year RS.12,000
v) Conveyance Allowance @ 600 p.m.
vi) Entertainment Allowance @ 800 p.m.
vii) Arrears of salary for the previous year 2015-16 Rs.8,000
viii) He was provided a big car for personal and official purpose and expenses met by employee

8) Compute salary income of Ramanatham for assessment year 2018-19
i) Net salary RS. 84,000
ii) Children hostel allowance RS.500 pm per child for three children
iii) Lunch allowance RS.2,000
iv) Refreshment during office hours RS.500
v) Professional tax paid by employer RS.2,000
vi) Rent free accommodation provided (population 15lakhs)
vii) employer also contributes RS.12,800 to RPF
viii)interest on RPF @ 10% is RS.6,000

9) Mr. Pradeep drew salary RS.24,000, commission RS.1025 and D.A (fully enters into pay) RS.3,000. Compute his income from salary.
HRA Rs.5,000 (rent paid by Mr. Pradeep is Rs4000),
Free supply of water RS. 1000
Free use of air-conditioner (rent paid by employer is RS. 2500),
Free use of motor car (1800 CC). Car used for personal purposes but expenses met by employer RS.4000,
Electricity bill paid by employer RS. 1200 and life insurance premium paid by employer RS.1800.

Unit -8

Income From House Property

(Sec.22to27)

Income from House Property – Annual value – Deduction u/s 24 – Computation of Income from let out house – Income / Loss from self-occupied house – Income from partly let out and partly self-occupied house

The income from a house or a building is taxed under the head"Income from House Property". The income under this head is taxed on the basis of notional income (rental value of the house) but not on the basis of actual rent received.

1. **Building:** Any structure having walls and roof but useable. As such it include Residential House, shop and godown used for business, factory shed etc.
2. **Owner :** Tax is levied on owner of house property which is two types
   - **a.** Any person who purchased are constructed is its real owner
   - **b.** Any person on whose name the property stands is its legal owner
3. **Deemed ownership:**The following persons, though not owners of property in the legal sense are liable to pay tax as deemed owners
4. **Let Out:** House property may be let out for residential / Nonresidential purpose and rent received or receivable shell be taken for computation of income from house property
5. **Self-occupied for own residence or Business:** If the assess used any house for own residence or business then annual value of such house is Nil.
6. **Composite Rent**: (Rent of the house + Rent of the Furniture + Service charges etc.) The rent received is split into two parts.
   (a) Rent of the house (income from house property)
   (b) Other rents (income from other sources)
7. **House property income exempted:**
   - a. House is used for agricultural purpose
   - b. House is used for charitable trust
   - c. House is used for registered trade union
   - d. House is used for Local government

Annual value: Income from house property is computed based upon the annual value. According to sec23 (1)(a) the annual value of any property shall be the sum for which the property might reasonably be expected to be let out from year to year. In determining the "Annual value" the following factors are to be considered.

- a. Municipal Rental Value
- b. Actual Rental Value
- c. Fair Rental Value
- d. Standard Rental value
- **a. Municipal RentalValue:** For the purpose of levying of local taxes the local government fix the rent, such rent is called Municipal rental value.
- b. **Actual Rental Value:**It is rent actually received by the owner from the tenet on the house property is called actual rental value.

Actual rental value = Rent received – cost of facilities provided to tenet

c. **Fair Rental Value:** The rent of the similar type of house in the same locality is treated as Fair rental value.
d. **Standard Rental Value:**The rent fixed by the rent control act is called as standard rentvalue.

ProceduretocomputeincomefromHouseProperty

Step1 :-CalculatingGrossAnnualValue(GAV)

i. If the standard rental value is not given

a. Municipal Rental Value
b. Fair Rental Value
c. Actual Rental Value

In the above rental values highest value is considered as **Gross Annual Value**

ii. If the standard rental value is given

a. Municipal Rental Value
b. Fair Rental Value

Whichever higher value

Or

c. Standard rental value

Whichever lesser value is **expected rental value**

d. Expected rental value
e. Actual rental value

Higher value is treated as Gross Annual Value **(GAV)**

Step2 :-Calculating Net AnnualValue**(NAV)**

Gross annual value – Municipal tax

Note: Municipal paid by owner only allowed.

Step3 :- Deduction under section 24

Income from house property =Net annual value – Deductions U/s 24

Taxation of Rent Arrears

Any arrears of rent, which were not taxed u/s 23, received in a subsequent year, shall be taxable as income from house property in the year of receipt, after allowing a deduction of 30% of such amount towards repairs and collection charges. The amount shall be taxable irrespective of whether the property is owned by the Assessee in the year of receipt or not. (Sec. 25B).

Unrealized Rent:

Unrealized rent is the rent which the owner could not realize.

Unrealized rent shall be excluded from rent received/ receivable only if the following conditions are satisfied **[Conditions of Rule 4]:**

The tenancy is bonafide.

The defaulting tenant has vacated, or steps have been taken to compel him to vacate the property.

The defaulting tenant is not in occupation of any other property of the Assessee.

The Assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.

Recovery of Unrealized Rent

Where the Assessee cannot realize rent from a property let to a tenant and, subsequently the Assessee has realized any amount in respect of such rent, the amount so realized shall deemed to be income chargeable under the head 'Income from House Property' in the previous year in which such amount has realized, whether or not the Assessee is the owner of that house property in that year.

MUNICIPAL TAXES:

Municipal taxes (like house tax, service tax, local tax) levied by any local authority in respect of the house property are **deductible** only if these taxes are borne and **actually paid** by the **owner** during the **previous year**. It doesn't matter whether the taxes belong to the earlier years, current year or coming years.

If property is situated in a foreign country, municipal taxes levied by foreign local authority are deductible (if such taxes are paid by the owner).

Deductions U/s 24

1. Standarddeductionorstatutorydeductionu/s24 (a)

Thisis a compulsorydeductiontoeveryAssesseewhoishavingincome fromhouseletout, for the purpose of repairs and collection charges, actualexpenditureincurredwillnotbeconsidered. Thedeductionisgivenataflatrateof**30%on Net Annual Value.**

Note: Whenthenetannualvalueisnilthen standarddeductionisnot allowed.

2.Interestonloanu/s24(b) In case the property is acquired, constructed, repaired, renewed or reconstructed with borrowed capital then any amount of interest payable during the year on such loan shall also be deducted from Net Annual Value (NAV). When the property is let out then Interest on Borrowed capital is allowed as deduction without any limit.

1) In case the assesse takes a fresh loan to repay the original loan taken for acquisition, construction, repair, renovation or reconstruction of property, then interest payable on such new loan to repay the old loan shall also be allowed as deduction on account of Interest on borrowed capital.
2) Interest on unpaid interest is not allowed as deduction.
3) Interest on borrowed capital is allowed on Accrual basis. So, such interest will be allowed as deduction even when it is due but not paid.
4) Interest on capital borrowed is allowed as deduction irrespective of the fact that such interest or the principal is a charge on the property. In simple words, it is immaterial whether the assesse has obtained the loan by mortgaging the property or not.
5) No deduction shall be allowed for any brokerage or commission charges paid or payable for arranging the loan.
6) Interestrelating theyearofcompletionofconstructioncanbefully claimedasdeductioninthatyearirrespectiveofthedateofcompletion

Interest on Self Occupied Property

Interest on Capital Borrowed for acquisition or construction or renovation or repair of House Property shall be reduced from Net Annual value even when the property is used by the assesse for his residence throughout the year. Since the property is self-occupied, the net annual value shall be Zero and the owner of the house property in such a case will have loss under the head Income from House Property. However such a loss or deduction shall not exceed Rs. 30,000.

The above limit of Rs. 30,000 shall be increased to Rs. 2,00,000 (w.e.f AY 2015-16)

if all the below three conditions are fulfilled:-

1) Capital is borrowed on or after 1st April, 1999 for acquiring or construction of house property.

2) The assesse (i.e. the owner of the house property) should furnish a certificate, from the person to whom such interest is payable on the capital borrowed, specifying the amount of such interest payable by the assesse for the purpose of acquisition or construction of the property or conversion of the whole or part of the capital borrowed which remains to be repaid as a new loan. This is a procedural condition and it shall be presumed that the assesse has furnished such a certificate even if the question is silent.

Interest of Pre Construction period

As we know the income from house property shall be chargeable to Income tax in the hands of an assesse, under the head 'Income from House Property', only when the assesse is the owner of such property. However there may be an instance in which the assesse has started paying interest on capital borrowed for purchase or construction of house property but such acquisition or construction is not complete. In such an instance the assesse is not owner however he is paying interest which is entitled to be deducted under the head 'Income from

House Property'. Now the question arises on how will such interest be treated which computing 'Income from House Property'.

Tax treatment of Interest of Pre Construction period

Interest of Pre Construction period will be allowed as deduction in 5 equal annual installments, commencing from the previous year in which construction or acquisition of house property is complete.

Computation of............'s Income From House Property for the assessment year……..

Particulars	Amount	Amount
Gross Annual Value (G.A.V)		XXX
Less: Municipal/local taxes		XX
Net Annual Value (N.A.V)		XXX
Deductions u/s24		
Standard deduction or statutory deduction u/s24(a)	XXX	
Interest on loan u/s24(b)	XXX	XXX
Income from house property		XXX

1} Mr. Hari gives the details of house property for the assessment year 2017-18
A} Municipal rental value - 1,00,000
B} Fair rental value - 1,02,000
C} Standard rental value – 75,000
D} Actual rental value - 6,000 per month
One month rent was unrealized and the municipal taxes are 18,000. Compute taxable income from house property

Solution:

Computation of income from house property of Mr. Hari for the A.Y. 2017-18

Particulars	Amount	Amount
Gross Annual value		75,000
-Municipal Tax		18,000
Net Annual Value		57,000
Deductions U/S 24 :	17,000	
Standard deduction U/S 24{1}		17,000
[57,000x30/100]	-	
Interest on loan U/S 24{2}		39,000

2} compute the net annual value for the following information:

	A	B	C	D
Municipal value	60,000	48,000	36,000	96,000
Fair rental value	75,000	60,000	45,000	1,16,000
Actual Rent	69,000	54,000	40,000	1,20,,000
Standard rent	_	72,000	42,000	1,15,000
Municipal Taxes	6,000	4,800	36,000	9,600

Solution:

House – A	House - B	House - C	House –D
MRV - 60,000 FRV - 75,000 SRV - - ARV - 69,000 --------- GAV - 75,000 ----------	MRV - 48,000 FRV - 60,000 SRV - 72,000 ARV - 54,000 ------------- GAV - 60,000 {-}M Tax - 4,800 ------------- NAV - 55,200 -------------	MRV - 36,000 FRV - 45,000 SRV - 42,000 ARV - 40,000 ------------- GAV - 42,000 {-}M Tax - 36,000 -------------- NAV - 6,000 --------------	MRV - 96,000 FRV - 1,16,000 SRV - 1,15,000 ARV - 1,20,000 ----------------- GAV - 1,20,000 {-}M Tax - 9,600 ---------------- NAV - 1,10,000 -----------------

3] Mr. X is the owner of a house at Bangalore, particulars in respect of which for the year ends 31st March 2017 are as below:

1. Actual rent received
65,000
2. Municipal valuation
63,000
3. Total Municipal tax
6,300
4. Municipal tax paid by Mr. X
4,900
5. Municipal tax paid by tenant
1,400
6. Interest on loan taken for renewing the house
1,700
7. Unrealized rent allowed in A.Y. 2017 – 18 recovered during the year 15,000

Compute Mr. X income from house property for the A .Y. 2018 – 19

Solution:

Computation of income from house property of Mr. X as on 31-3-2018

PARTICULARS	AMOUNT	AMOUNT
Gross annual value		65,000
[-] Municipal Tax		4,900
Net Annual Value		60,100
Deductions U/S 24 :		60,100

Standard deduction U/S 24 {1} [60,100 x30/100]	18,030	
Interest on loan U/S 24 {2}	1,700	19,730
Income from House property		40,370
Unrealized rent	15,000	
Standard deduction U/S 24 {1} [15,000x30/100]	4,500	10,500
		50,870

4] Mr. Saurav owns the following house properties in Kolkata. Particulars are given:

	House – 1	House - 2
1] Municipal valuation	28,000	36,000
2] Rent received	30,000	32,000
3] Repairs expenses	2,000	3,000
4] Interest on loan due	3,000	4,000
5] Fire insurance premium paid	600	800
6] Land revenue paid	400	500
7] Annual charge {Conditions for allowance satisfied}	2,000	3,000
8] Unrealized rent allowed in the past recovered	---	2,500
9] UnrealizedRent allowed in the past recovered	5,000	---
10] Municipal taxes on Municipal valuation	10%	10%

Solution:

Compute income from house property of Mr. Saurav

PARICULARS	AMOUN	AMOUNT	AMOUNT
House – 1			
GAV		28,000	
{-} M Tax	2,800		
Land revenue paid	400	3,200	
NAV		24,800	
Deduction U/S 24			
Standard deduction U/S 24{1}			
[24,800x30/100]	7,440		
Interest on loan U/S 24 {2}	3,000	10,440	
		14,360	
Un realized rent Collected P. Year	5,000		
{-}Standard deduction U/S 24{1}	1,500	3,500	17,860
[5,000x30/100]			
House – 2			
GAV		36,000	
[-] M Tax	3,600		
Loan revenue paid	500	4,100	
NAV		31,900	
Deduction U/S 24			
Standard deduction U/S 24 [1]	9,570		
Interest on loan U/S 24 [2]	4,000	13,570	
		18 ,330	
Unrealized rent	2,500		
[-] standard deduction U/S 24 [1]	750	1,750	20,080

Exercise:

Very short answer questions:

1. Municipal rental value
2. Fair rental value
3. Gross annual value
4. Net annual value
5. Vacancy period treatment
6. Deduction u/s 24

Short answer questions:

1. Mr. Santoshownsahouse.HehasletoutthehouseRs.5,000p.m.Themunicipalvaluationofthehouse Rs.48,000.
Expensespaid:
MunicipalTaxesRs.8,500.
RepairsRs.4,000.
Interestpaidontheloantakentopurchase thehouseRs.15,000.
ComputeIncome fromHouseproperty

2.fromthefollowingparticulars.CalculateIncomefromHouseproperty ofMahindra Reddy.
MunicipalRentalvalue Rs.40, 000p.a
FairRentalvalue Rs.60, 000p.a
ActualRentalvalue Rs.75, 000p.a
Interestpaidonloantakenforthepurposeofhouseconstruction Rs.15, 000p.a

Municipal taxes 5000/-

3.SriRaghu Nath isanownerofahousewhichisletoutonamonthlyrent ofRs.8,000/-
ThefairrentalvalueisRs.1,50,000andthe municipal rental
valueisRs.1,10,000.ThefollowingaretheexpensesincurredbyRaghuNath:

Repairs	Rs.6500
Interest on loan taken	Rs.4000p.a
Fire insurance	Rs.800
Municipal taxes paid	Rs.8,000
Collection charges	Rs.1,100

Compute the income from house property for the assessment year 2018-19.

4. Mr..Karan letoutahouseforamonthlyrentofRs.8000,Fairrentalvalue
Rs.1,50,000,Municipalrental value12,000.Thefollowingare expenses:

Fireinsurance	Rs.800
Municipaltaxespaid	Rs.9000

InterestonloantakenforconstructionofhouseRs.6,000p.a.CalculateIncomefromHouseProperty.

5. ActualRentalvalueRs.8, 000p.m, MunicipalRentalvalueRs.9, 000p.m.,
FairrentalvalueRs.7, 500p.m
MunicipalTaxes 10%
HouserepairsandcollectionchargesRs, 15,000
LoantakenforconstructionofhouseRs.5, 00,000@8%interest
CalculateIncome fromHouseproperty.

6. MunicipalRentalvalueRs.3,000p.m.
FairrentalvalueRs.2,500p.m.
ActualrentalvalueRs.3,500p.m.
InterestpaidonloantakenforthepurposeofhouseconstructionRs.2,000
p.a.MunicipaltaxespaidRs.5,000p.a.CalculateIncome fromHouseProperty

7. Mr.HarrygivesthedetailsofhishousepropertyfortheAssessmentyear 2017-18.

MRV	-	1,00,000
FRV	-	1,02,000
StandardRent-	75,000	
ActualRent	-	6,000p.m.

Onemonthrentwasunrealizedandthehousewasvacantfor3monthsthemunicipaltaxeswereoutstandingtotheextentof`18,000. Computethe NetAnnualValue.

8. Mr. X owns at Delhi whose municipal value is ` 1,20,000 and fair rent is ` 1,44,000 p.a. During the previous year 2017-18 the house was vacant for 3 months. For rest of the period it was let out for residential purposes @ ` 15,000 p.m. He makes the following expenditure in respect of the house property:

Municipal taxes	` 18,000

Repairs ` 12,000

Fire insurance premium ` 10,000

A loan of ` 3,00,000 was taken on 1-4-2015 @ 12% p.a. for the construction of the house which was completed on 21-3-2017,.

9. Mr. Ramu has let out the house property for ` 75,000/-
Municipal Valuation of the house is ` 60,000
Whereas fair rent of the property is ` 60,000/-
Mr. Ramu had borrowed of ` 50,000/- @ 15% on 1st April 2016 for the purpose of his daughter's marriage.
Following are the expenses incurred by him during F.Y. 2017-2018.

Municipal Taxes	20% of Municipal Valuation
Repairs	7,500
Annual Charge	1,700
Land Revenue (outstanding)	500
Insurance	650
Collection charges	150

Annual charge of ` 1,700/- is payable by Mr. Ramu to his mother as per will of his father.
Compute the taxable income for the Assessment year 2018-2019

10. Aownsaresidentialhouseproperty.Ithastwoidenticalunits– unitIandunitII.
WhileunitIis self-occupiedby Aandhis familymembers,unitII isletout(rentbeing7,000permonth,thisunitremained vacantforonemonthduringwhichitwasself-occupied). Municipal value oftheproperty
is` 1,25,000.Standardrent` 1,35,000andfairrentis` 1,50,000.Municipaltax isimposed@ 12%(onMunicipalvalue)which ispaidbyA.Otherexpensesforthepreviousyear2017-18beingrepairs` 5,000,
insurance` 6,000.Computehisincomefromhouseproperty.

11. Mr. Amar owns the house properties about which the details information is given below bothhouses are let out compute his income from House property :

	Unit 1 Rs.	Unit 2 Rs.
Annual MRV	44,000	48,000
Annual FRV	42,000	44,000
Annual Standard Rent	40,000	50,000
Annual Rent	50,000	46,000
Interest on loan taken for construction of house	28,000 p.a.	22,000 p.a.
Vacancy period	2 months	3 months
Municipal Taxes	10% of MRV	4,800

12. Mr.Bhanu prakash owns a house property at Ongole. It consists of 3 independent units and information about the property is given below : Compute income from house property
    Unit 1: Own resident, Unit2: Let out; Unit3: Own business

MRV	2,10,000 p.a.
FRV	1,50,000 p.a.
Standard Rent	1,20,000 p.a.
Rent	7,000 p.m.
Unrealized rent	for three months
Repairs	10,000
Insurance	2,000
Interest on money borrowed for purchase of property	96,000
Municipal Taxes	14,400
Date of completion	1-11-1999

INCOME-TAX RULES, 1962

Only 'Individuals' to affix recent photograph (3.5 cm x 2.5 cm)

Sign / Left Thumb impression across this photo

Form No. 49A

Application for Allotment of Permanent Account Number

[In the case of Indian Citizens/Indian Companies/Entities incorporated in India/ Unincorporated entities formed in India]

See Rule 114

To avoid mistake (s), please follow the accompanying instructions and examples before filling up the form

Only 'Individuals' to affix recent photograph (3.5 cm x 2.5 cm)

Assessing officer (AO code)

Area code	AO type	Range code	AO No.

Signature / Left Thumb Impression

Sir,

I/We hereby request that a permanent account number be allotted to me/us.
I/We give below necessary particulars:

1 Full Name (Full expanded name to be mentioned as appearing in proof of identity/date of birth/address documents: initials are not permitted)

Please select title, ✓ as applicable ☐ Shri ☐ Smt. ☐ Kumari ☐ M/s

Last Name / Surname

First Name

Middle Name

2 Abbreviations of the above name, as you would like it, to be printed on the PAN card

3 Have you ever been known by any other name? ☐ **Yes** ☐ **No** **(please tick as applicable)**

If yes, please give that other name

Please select title, ✓ as applicable ☐ Shri ☐ Smt. ☐ Kumari ☐ M/s

Last Name / Surname

First Name

Middle Name

4 Gender (for Individual applicants only) ☐ **Male** ☐ **Female** **(please tick as applicable)**

5 Date of Birth/Incorporation/Agreement/Partnership or Trust Deed/ Formation of Body of individuals or Association of Persons

Day **Month** **Year**

6 Details of Parents (applicable only for individual applicants)

Father's Name (Mandatory. Even married women should fill in father's name only)

Last Name / Surname

First Name

Middle Name

Mother's Name (optional)

Last Name / Surname

First Name

Middle Name

Select the name of either father or mother which you may like to be printed on PAN card (*Select one only*)

(In case no option is provided then PAN card will be issued with father's name)

☐ Father's name ☐ Mother's name *(Please tick as applicable)*

7 Address

Residence Address

Flat / Room / Door / Block No.

Name of Premises / Building / Village

Road / Street / Lane/Post Office

Area / Locality / Taluka/ Sub- Division

Town / City / District

State / Union Territory Pincode / Zip code Country Name

Office Address

Name of office

Flat / Room / Door / Block No.

Name of Premises / Building / Village

Road / Street / Lane/Post Office

Area / Locality / Taluka/ Sub- Division

Town / City / District

State / Union Territory | Pincode / Zip code | Country Name

8 Address for Communication ☐ **Residence** ☐ **Office** **(Please tick as applicable)**

9 Telephone Number & Email ID details

Country code | Area/STD Code | Telephone / Mobile number

Email ID

10 Status of applicant

Please select status, ✓ as applicable

☐ Government

☐ Individual ☐ Hindu undivided family ☐ Company ☐ Partnership Firm ☐ Association of Persons

☐ Trusts ☐ Body of Individuals ☐ Local Authority ☐ Artificial Juridical Persons ☐ Limited Liability Partnership

11 Registration Number (for company, firms, LLPs etc.)

12. In case of a person, who is required to quote Aadhaar number or the Enrolment ID of Aadhaar application form as per section 139AA,-

Please mention your AADHAAR number (if allotted):

If AADHAAR number is not allotted, please mention the Enrolment ID of Aadhaar application form:

Name as per AADHAAR letter or card or as per the Enrolment ID of Aadhaar application form:

13 Source of Income ***Please select, ✓ as applicable***

☐ Salary ☐ Capital Gains

☐ Income from Business / Profession Business/Profession code [For Code: Refer instructions] ☐ Income from Other sources

☐ Income from House property ☐ No income

14 Representative Assessee (RA)

Full name, address of the Representative Assessee, who is assessible under the Income Tax Act in respect of the person, whose particulars have been given in the column 1-13.

Full Name (Full expanded name : initials are not permitted)

Please select title, ✓ as applicable ☐ Shri ☐ Smt. ☐ Kumari ☐ M/s

Last Name / Surname

First Name

Middle Name

Address

Flat / Room / Door / Block No.

Name of Premises / Building / Village

Road / Street / Lane/Post Office

Area / Locality / Taluka/ Sub- Division

Town / City / District

State / Union Territory | Pincode

15 *Documents submitted as Proof of Identity (POI), Proof of Address (POA) and Proof of date of Birth (POB)*

I/We have enclosed ______ as proof of identity, ______

as proof of address and ______ as proof of date of birth.

[Please refer to the instructions (as specified in Rule 114 of I.T. Rules, 1962) for list of mandatory certified documents to be submitted as applicable]

16 I/We ______, the applicant, in the capacity of ______

do hereby declare that what is stated above is true to the best of my/our information and belief.

Place :

D D M M Y Y Y Y

Date :

Signature / Left Thumb Impression of Applicant (inside the box)

INSTRUCTIONS FOR FILLING FORM 49A

(a) Form to be filled legibly in **BLOCK LETTERS** and preferably in **BLACK INK.** **Form should be filled in English only**

(b) Each box, wherever provided, should contain only one character (alphabet /number / punctuation sign) leaving a blank box after each word.

(c) 'Individual' applicants should affix two recent colour photographs with white background (size 3.5 cm x 2.5 cm) in the space provided on the form. The photographs should not be stapled or clipped to the form. The clarity of image on PAN card will depend on the quality and clarity of photograph affixed on the form.

(d) Signature / Left hand thumb impression should be provided across the photo affixed on the left side of the form in such a manner that portion of signature/impression is on photo as well as on form.

(e) Signature /Left hand thumb impression should be **within the box** provided on the right side of the form. The signature should not be on the photograph affixed on right side of the form. If there is any mark on this photograph such that it hinders the clear visibility of the face of the applicant, the application will not be accepted.

(f) Thumb impression, if used, should be attested by a Magistrate or a Notary Public or a Gazetted Officer under official seal and stamp.

(g) AO code (Area Code, AO Type, Range Code and AO Number) of the Jurisdictional Assessing Officer must be filled up by the applicant. These details can be obtained from the Income Tax Office or PAN Centre or websites of PAN Service Providers on **www.utiitsl.com** **or** **www.tin-nsdl.com**

(h) Guidelines for filling the Form 49A:

<table>
<tr><th>Item No.</th><th>Item Details</th><th>Guidelines for filling the form</th></tr>
<tr><td>1</td><td>Full Name</td><td>
Please select appropriate title.
Do not use abbreviations in the First and the Last name/Surname. For example RAVIKANT should be written as :
<table>
<tr><td>Last Name/Surname</td><td>R</td><td>A</td><td>V</td><td>I</td><td>K</td><td>A</td><td>N</td><td>T</td></tr>
<tr><td>First Name</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Middle Name</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>
For example SURESH SARDA should be written as :
<table>
<tr><td>Last Name/Surname</td><td>S</td><td>A</td><td>R</td><td>D</td><td>A</td><td></td></tr>
<tr><td>First Name</td><td>S</td><td>U</td><td>R</td><td>E</td><td>S</td><td>H</td></tr>
<tr><td>Middle Name</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>
For example POONAM RAVI NARAYAN should be written as:
<table>
<tr><td>Last Name/Surname</td><td>N</td><td>A</td><td>R</td><td>A</td><td>Y</td><td>A</td><td>N</td></tr>
<tr><td>First Name</td><td>P</td><td>O</td><td>O</td><td>N</td><td>A</td><td>M</td><td></td></tr>
<tr><td>Middle Name</td><td>R</td><td>A</td><td>V</td><td>I</td><td></td><td></td><td></td></tr>
</table>
For example SATYAM VENKAT M. K. RAO should be written as :
<table>
<tr><td>Last Name/Surname</td><td>R</td><td>A</td><td>O</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>First Name</td><td>S</td><td>A</td><td>T</td><td>Y</td><td>A</td><td>M</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Middle Name</td><td>V</td><td>E</td><td>N</td><td>K</td><td>A</td><td>T</td><td></td><td>M</td><td></td><td>K</td></tr>
</table>
</td></tr>
</table>

		For example **M. S. KANDASWAMY (MADURAI SOMASUNDRAM KANDASWAMY)** should be written as :

Last Name/Surname	K	A	N	D	A	S	W	A	M	Y	
First Name	M	A	D	U	R	A	I				
Middle Name	S	O	M	A	S	U	N	D	R	A	M

Applicants other than 'Individuals' may ignore above instructions.

Non-Individuals should write their full name starting from the first block of Last Name/Surname. If the name is longer than the space provided for the last name, it can be continued in the space provided for First and Middle Name.

For example **XYZ DATA CORPORATION (INDIA) PRIVATE LIMITED** should be written as :

Last Name/Surname	X	Y	Z		D	A	T	A		C	O	R	P	O	R	A	T	I	O	N		(	I	N	D
First Name	I	A	)		P	R	I	V	A	T	E		L	I	M	I	T	E	D					
Middle Name																								

For example **MANOJ MAFATLAL DAVE (HUF)** should be written as :

Last Name/Surname	M	A	N	O	J		M	A	F	A	T	L	A	L		D	A	V	E		(	H	U	F	)
First Name																								
Middle Name																								

In case of Company, the name should be provided without any abbreviations. For example, different variations of 'Private Limited' viz. Pvt Ltd, Private Ltd, Pvt Limited, P Ltd, P. Ltd., P. Ltd are not allowed. It should be 'Private Limited' only.

In case of sole proprietorship concern, the proprietor should apply for PAN in his/her own name.

Name should not be prefixed with any title such as Shri, Smt, Kumari, Dr., Major, M/s etc.

2 Abbreviation of the full name to be printed on the PAN card

Individual applicants should provide full/abbreviated name to be printed on the PAN card. Name, if abbreviated, should necessarily contain the last name. For example:

SATYAM VENKAT M. K. RAO which is written in the Name field as :

Last Name/Surname	R	A	O							
First Name	S	A	T	Y	A	M				
Middle Name	V	E	N	K	A	T		M		K

Can be written as in 'Name to be printed on the PAN Card' column as

SATYAM VENKAT M. K. RAO or
S. V. M. K. RAO or
SATYAM V. M. K. RAO

For non individual applicants, this should be same as last name field in item no. 1 above.

3 Have you ever been known by any other name?

If applicant selects 'Yes', then it is mandatory to provide details of the other name. Instructions in Item No. 1 with respect to name apply here. Title should be similar to the title mentioned in item No. 1.

4	Gender	This field is mandatory for Individuals. Field should be left blank in case of other applicants.
5	Date of Birth/Incorporation / Agreement / Partnership or Trust Deed / Formation of Body of Individuals / Association of Persons	Date cannot be a future date. Date: 2nd August 1975 should be written as: <table><tr><td>D</td><td>D</td><td>M</td><td>M</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td></tr><tr><td>0</td><td>2</td><td>0</td><td>8</td><td>1</td><td>9</td><td>7</td><td>5</td></tr></table> Relevant date for different categories of applicants is: Individual: Actual Date of Birth; Company: Date of Incorporation; Association of Persons: Date of formation/ creation; Trusts: Date of creation of Trust Deed; Partnership Firms: Date of Partnership Deed; LLPs: Date of Incorporation/Registration; HUFs: Date of creation of HUF and for ancestral HUF date can be 01-01-0001 where the date of creation is not available.
6	Details of Parents (Applicable to Individuals only)	Instructions in Item No.1 with respect to name apply here. **Father's Name:** It is mandatory for Individual applicants to provide father's name. Married woman applicant should also give father's name and not husband's name. **Mother's Name:** This is an optional field. Appropriate flag should be selected to indicate the name (out of the father's name and mother's name given in the form) to be printed on the PAN card. If none of the option is selected, then father's name shall be considered for printing on the PAN card.
7	Address - Residence and office	**R - Residence Address:** For Individuals, HUF, AOP, BOI or AJP, residential address is mandatory. Other applicants should leave this field blank. **O - Office Address:** (1) Name of Office and address to be mentioned in case of individuals having source of income as salary or Business/profession[Item No.13]. (2) In case of Firm, LLP, Company, Local Authority and Trust, name of office and complete address of office is mandatory. For all categories of applicants, it is necessary to mention complete address and the details of Town/ City/District, State/Union Territory and PINCODE are mandatory. In case, a foreign address is provided then it is mandatory to provide Country Name along with ZIP Code of the country.
8	Address for communication	Individuals/HUFs/AOP/BOI/AJP may indicate either 'Residence' or 'Office' and other applicants should necessarily indicate 'Office' as the Address for Communication. All communication will be sent at the address indicated in this field.
9	Telephone Number and Email- ID	(1) Telephone number should include country code (ISD code) and STD code or Mobile No. should include Country code (ISD Code). For example : (i) Telephone number 23555705 of Delhi should be written as <table><tr><td colspan="3">Country code</td><td colspan="3">STD Code</td><td colspan="8">Telephone Number / Mobile number</td></tr><tr><td></td><td>9</td><td>1</td><td></td><td>1</td><td>1</td><td>2</td><td>3</td><td>5</td><td>5</td><td>5</td><td>7</td><td>0</td><td>5</td></tr></table> Where '91' is the country code of India and 11 is the STD Code of Delhi. (ii) Mobile number 9102511111 of India should be written as <table><tr><td colspan="3">Country code</td><td colspan="3">STD Code</td><td colspan="10">Telephone Number / Mobile number</td></tr><tr><td></td><td>9</td><td>1</td><td></td><td></td><td></td><td>9</td><td>1</td><td>0</td><td>2</td><td>5</td><td>1</td><td>1</td><td>1</td><td>1</td><td>1</td></tr></table> Where '91' is the country code of India. (2) It is mandatory for the applicants to mention either their "Telephone number" or valid "e-mail id" so that they can be contacted in case of any discrepancy in the application and/or for receiving PAN through e-mail. (3) Application status updates are sent using the SMS facility on the mobile numbers mentioned in the application form.
10	Status of Applicant	This field is mandatory for all categories of applicants. In case of 'Limited Liability Partnership', the PAN will be allotted in 'Firm' status.
11	Registration number	Not applicable to Individuals and HUFs. Mandatory for 'Company'. Company should mention registration number issued by the Registrar of Companies. Other applicants may mention registration number issued by any State or Central Government Authority.

12	In case of citizen of India	AADHAAR number, if allotted, has to be quoted (supported by copy of AADHAAR letter/card)
13	Source of Income	It is mandatory to indicate at least one of the sources of incomes, as mentioned in the form. In case, the income from Business/profession is selected by the applicant then an appropriate business/ profession code should be mentioned. Please refer the table given below to select the business/profession code:
14	Name and address of Representative Assessee	Section 160 of Income Tax Act, 1961 provides that any 'specified person' (assessee) can be represented through Representative Assessee. Therefore, this column should be filled in by representative assessee only as specified in Section 160 of the Income-tax Act, 1961, such as, an agent of the non-resident, guardian or manager of a minor, lunatic or idiot, Court of Wards, Administrator General, Official Trustee, receiver, manager, trustee of a Trust including Wakf. This field will contain particulars of the Representative Assessee. This field is mandatory if applicant is minor, deceased, idiot, lunatic or mentally retarded. Column 1 to 13 will contain details of person on whose behalf this application is submitted. Proof of Identity and Proof of address are also required for representative assessee.
15	Proof of Identity, Proof of Address and Proof of Date of Birth documents	It is **mandatory** to attach proof of identity, proof of address and proof of date of birth with PAN application. **Documents should be in the name of applicant.** List of documents which will serve as proof of identity, address and date of birth for each status of applicant is as given below:

Code	**Business/ Profession**	**Code**	**Business/ Profession**
01	Medical Profession and Business	11	Films, TV and such other entertainment
02	Engineering	12	Information Technology
03	Architecture	13	Builders and Developers
04	Chartered Accountant/ Accountancy	14	Members of Stock Exchange, Share Brokers and Sub-Brokers
05	Interior Decoration	15	Performing Arts and Yatra
06	Technical Consultancy	16	Operation of Ships, Hovercraft, Aircrafts or Helicopters
07	Company Secretary	17	Plying Taxis, Lorries, Trucks, Buses or other Commercial Vehicles
08	Legal Practitioner and Solicitors	18	Ownership of Horses or Jockeys
09	Government Contractors	19	Cinema Halls and Other Theatres
10	Insurance Agency	20	Others

Document acceptable as proof of identity, address and date of birth as per Rule 114 of Income Tax Rules, 1962

Proof of Identity	Proof of Address	Proof of date of birth
Indian Citizens (including those located outside India)		
Individuals & HUF		
(i) Copy of a. Aadhaar Card issued by the Unique Identification Authority of India; or b. Elector's photo identity card; or c. Driving License; or d. Passport; or e. Ration card having photograph of the applicant; or f. Arm's license; or g. Photo identity card issued by the Central Government or State Government or Public Sector Undertaking; or h. Pensioner card having photograph of the applicant; or i. Central Government Health Service Scheme Card or Ex-Servicemen Contributory Health Scheme photo card; or **(ii)** Certificate of identity **in Original** signed by a Member of Parliament or Member of Legislative Assembly or Municipal Councilor or a Gazetted officer, as the case may be; or **(iii)** Bank certificate **in Original** on letter head from the branch(alongwith name and stamp of the issuing officer) containing duly attested photograph and bank account number of the applicant	**(i) Copy of** a. Aadhaar Card issued by the Unique Identification Authority of India; or b. Elector's photo identity card; or c. Driving License; or d. Passport; or e. Passport of the spouse; or f. Post office passbook having address of the applicant; or g. Latest property tax assessment order; or h. Domicile certificate issued by the Government; or i. Allotment letter of accommodation issued by Central or State Government of not more than three years old; or j. Property Registration Document; or **(ii) Copy of following documents of not more than three months old** (a) Electricity Bill; or (b) Landline Telephone or Broadband connection bill; or (c) Water Bill; or (d) Consumer gas connection card or book or piped gas bill; or (e) Bank account statement or as per Note 2 ; or (f) Depository account statement; or (g) Credit card statement; or **(iii)** Certificate of address **in Original** signed by a Member of Parliament or Member of Legislative Assembly or Municipal Councilor or a Gazetted officer, as the case may be; or **(iv)** Employer certificate **in original.**	**Copy of the following documents if they bear the name, date, month and year of birth of the applicant, namely:-** a. Aadhaar Card issued by the Unique Identification Authority of India; or b. Elector's photo identity card; or c. Driving License; or d. Passport; or e. Matriculation Certificate or Mark Sheet of recognized board; or f. Birth Certificate issued by the Municipal Authority or any office authorized to issue Birth and Death Certificate by the Registrar of Birth and Death or the Indian Consulate as defined in clause (d) of sub-section (1) of section 2 of the Citizenship Act, 1955 (57 of1955); or g. Photo identity card issued by the Central Government or State Government or Public Sector Undertaking or State Public Sector Undertaking; or h. Domicile Certificate issued by the Government; or i. Central Government Health Service Scheme photo Card or Ex-Servicemen Contributory Health Scheme photo card; or j. Pension payment order; or k. Marriage certificate issued by Registrar of Marriages; or l. Affidavit sworn before a magistrate stating the date of birth.
Note: 1. In case of Minor, any of the above mentioned documents as proof of identity and address of any of parents/guardians of such minor shall be deemed to be the proof of identity and address for the minor applicant. 2. For HUF, an affidavit made by the Karta of Hindu Undivided Family stating name, father's name and address of all the coparceners on the date of application and copy of any of the above documents in the name of Karta of HUF is required as proof of identity, address and date of birth.	**Note:** 1. Proof of Address is required for residence address mentioned in item no. 7. 2. In case of an Indian citizen residing outside India, copy of Bank Account Statement in country of residence or copy of Non-resident External (NRE) bank account statements (not more than three months old) shall be the proof of address.	

Other than Individuals and HUF		
1	Company	Copy of Certificate of Registration issued by the Registrar of Companies.
2	Partnership Firm	Copy of Certificate of Registration issued by the Registrar of Firms or Copy of partnership deed.
3	Limited Liability Partnership	Copy of Certificate of Registration issued by the Registrar of LLPs
4	Trust	Copy of trust deed or copy of certificate of registration number issued by Charity Commissioner.
5	Association of Persons, Body of Individuals, Local Authority, or Artificial Juridical Person	Copy of Agreement or copy of certificate of registration number issued by charity commissioner or registrar of cooperative society or any other competent authority or any other document originating from any Central or State Government Department establishing identity and address of such person.

16	Signature / Thumb impression	Application must be signed by (i) the applicant; or (ii) Karta in case of HUF; or (iii) Director of a Company; or (iv) Authorised Signatory in case of AOP, Body of Individuals, Local Authority and Artificial Juridical Person; or (v) Partner in case of Firm/LLP; or (vi) Trustee; or (vii) Representative Assessee in case of Minor/deceased/idiot/lunatic/mentally retarded. Applications not signed in the given manner and in the space provided are liable to be rejected.

GENERAL INFORMATION FOR PAN APPLICANTS

(a) Applicants may obtain the application form for PAN (Form 49A) from any IT PAN Service Centres (managed by UTIITSL) or TIN-Facilitation Centres (TIN-FCs) / PAN Centres (managed by NSDL e-Gov), or any other stationery vendor providing such forms or download from the Income Tax Department website **(www.incometaxindia.gov.in)** / UTIITSL website **(www.utiitsl.com)** / NSDL e-Gov website **(www.tin-nsdl.com)**.

(b) The fee for processing PAN application is ` 107/- (including service tax). In case, the PAN card is to be dispatched outside India then additional dispatch charge of ` 887/- will have to be paid by applicant.

(c) Those already allotted a ten digit alphanumeric PAN shall not apply again as having or using more than one PAN is illegal. However, request for a new PAN card with the same PAN or/and Changes or Correction in PAN data can be made by filling up 'Request for New PAN Card or/and Changes or Correction in PAN Data' form available from any source mentioned in (a) above. The cost of application and processing fee is same as in the case of Form 49A.

(d) Applicant will receive an acknowledgment containing a unique number on acceptance of this form. This **acknowledgement number** can be used for tracking the status of the application.

(e) For more information / Application status enquiry contact:

Mode	Income-tax Department	NSDL e-Gov
Website	**www.incometaxindia.gov.in**	**www.tin-nsdl.com**
Call Center	1800-180-1961	020-27218080
Email ID		**tininfo@nsdl.co.in**
SMS		SMS NSDLPAN <space> Acknowledgement No. & send to 57575 to obtain application status. For example u Type 'NSDLPAN 881010101010100' and send to 57575
Address		INCOME TAX PAN SERVICES UNIT (Managed by NSDL e-Governance Infrastructure Limited), 5th Floor, Mantri Sterling, Plot No. 341, Survey No. 997/8, Model Colony, Near Deep Bungalow Chowk, Pune - 411 016.

FORM NO. 49 B

[See Section 203A and 206CA and rules 114A and 114AA]

Form of application for allotment of Tax Deduction and Collection Account Number under section 203A of the Income -tax Act, 1961

To
The Assessing Officer

Assessing Officer Code (TDS/TCS)	
Area Code	
AO Type	
Range Code	
AO Number	

Sir,

Whereas *I / We *am / are liable to *deduct /collect tax or deduct tax and collect tax in accordance with Chapter XVII under the headi *'B. - Deduction at source' / BB - Collection at source of the Income - tax Act , 1961; And whereas no *tax-deduction account number / tax collection account number or tax deduction account number and tax collection account number has been alloted to *me / us;

*I / We give below the neccessary particulars :

[Please refer to the instructions before filling up the form]

1.Name (Fill only one of the columns 'a' to 'h' whichever is applicable)

(a) Central / State Government :

Tick the appropriate entry — Central Government ☐ State Government ☐ Local Authority(Central Govt.) ☐ Local Authority (State Govt.) ☐

Name Of Office

Name Of Organisation

Name of Department

Name Of Ministry

Designation of person responsible for *making payment / collecting tax

(b) Statutory/Autonomous bodies / local Authorities

Tick the appropriate entry — Statutory Body ☐ Autonomous Body ☐

Name Of Office

Name Of Organisation

Designation of person responsible for *making payment / collecting tax

(c) Company (See Note 1) :

Tick the appropriate entry

Government Company / Corporation established by a Central Act ☐ Government Company / Corporation established by a State Act ☐ Other Company ☐

Title (M/s.) ☐ (Tick, if applicable)

Name of Company

Designation of person responsible for *making payment / collecting tax

(d) Branch / Division of a Company :

Tick the appropriate entry

Government Company / Corporation established by a Central Act ☐ Government Company / Corporation established by a State Act ☐ Other Company ☐

Title (M/s.) ☐ (Tick, if applicable)

Name of Company

Name of Division

Name / Location of Branch

Designation of person responsible for *making payment / collecting tax

(e) Individual / Hindu Undivided Family (Karta) (See Note 2) :

Tick the appropriate entry Individual ☐ Hindu undivided family ☐

Title (Tick the appropriate entry for individual) Shri ☐ Smt. ☐ Kumari ☐

Last name / Surname

First name

Middle name

(f) Branch of Individual Business (Sole proprietorship concern) / Hindu undivided Family (Karta) :

Tick the appropriate entry Branch of Individual business ☐ Branch of Hindu undivided family ☐

Individual / Hindu undivided family (karta):

Title (Tick the appropriate entry for individual) Shri ☐ Smt. ☐ Kumari ☐

Last name / Surname

First name

Middle name

Name / Location of branch

(g) Firm / Association of persons / Association of persons (Trusts) / Body of Individuals / Artificial Juridical Person (See Note 3) :

Name

(h) Branch of Firm / Association of persons / Association of Persons (Trusts) / Body of Individual / Artificial Juridical Person

Name of Firm / Association of Persons / Association of Persons (Trusts) / Body of Individual / Artificial Juridical Person

Name / Location of branch

2. Address

Flat / Door / Block No.

Name Of Premises / Building / Village

Road / Street / Lane / Post Office

Area / Locality / Taluka / Sub-division

Town / City / District

State / Union Territory

Pin Code

Telephone No. STD Code Phone No.

E-mail IDs a)

b)

3. Nationality (Tick the appropriate entry) Indian Foreign

4. **Permanent Account Number (PAN) -** (specify wherever applicable)

5. **Existing Tax Deduction Account Number** (if any)

6. **Existing Tax Collection Account Number** (if any)

7. **Date (DD-MM-YYYY)**

– –

Signed (Applicant)

Verification

*I / We, in my / our capacity as do hereby declare that what is stated above is true to the best of my / our knowledge and belief

Verified today the – –

at : ______________________

____

(Signature / Left Thumb Impression of Applicant)

Notes :

1 This column is applicable only if a single TAN is applied for the whole company. If separate TANs are applied for different divisions/branches, please fill details in (d).
2 For branch of Individual business/Hindu Undivided Family, please fill details in (f).
3 For branch of firm/Association Of Persons/Association Of Persons (Trust) / Body Of Individuals/Artificial Juridical Person, please fill details in (h).
4 * Delete whichever is inapplicable.

Practical – 3

FORM NO. 16

[See rule 31(1)(a)]

Certificate under section 203 of the Income-tax Act, 1961 for tax deducted at source from income chargeable under the head "Salaries".

Name and Address of the Employer		Name and Designation of the Employee		
PAN No. of the Deductor	TAN No. of the Deductor	PAN No. of the Employee		
Acknowledgement Nos. of all quarterly statements of TDS under sub-section (3) of section 200 as provided by TIN Facilitation Center or NSDL web-site		PERIOD		Assessment Year
Quarter	Acknowledgement No.	From	To	
Quarter 1 Quarter 2 Quarter 3 Quarter 4				

DETAILS OF SALARY PAID AND ANY OTHER INCOME AND TAX DEDUCTED

1. Gross Salary			
(a) Salary as per provisions contained in section 17(1)	Rs. ________		
(b) Value of perquisites under section 17(2) (as per Form No. 12BA, wherever applicable)	Rs. ________		
(c) Profits in lieu of salary under section 17(3) (as per Form No. 12BA, wherever applicable)	Rs. ________		
(d) Total		Rs. ________	
2. Less : Allowance to the extent exempt under section 10	Rs. ________		
	Rs. ________		
	Rs. ________	Rs. ________	
3. Balance (1-2)		Rs. ________	
4. Deductions :			
(a) Entertainment allowance Rs. ________			
(b) Tax on Employment Rs. ________			
5. Aggregate of 4(a) and (b)	Rs. ________		
6. Income chargeable under the Head ' Salaries' (3-5)			Rs. ________
7. Add : Any other income reported by employee	Rs. ________		
	Rs. ________		
	Rs. ________		Rs. ________
8. Gross total income (6 +7)			Rs. ________
9. Deductions Under Chapter VI-A			
(A) sections 80C,80CCC and 80CCD			
Gross Amount	Qualifying Amount	Deductible Amount	
(a) section 80C			
(i) ________ Rs. ________	Rs. ________	Rs. ________	
(ii) ________ Rs. ________	Rs. ________	Rs. ________	
(iii) ________ Rs. ________	Rs. ________	Rs. ________	
(iv) ________ Rs. ________	Rs. ________	Rs. ________	

	Gross Amount	Qualifying Amount	Deductible Amount	
(v) ________	Rs. ________	Rs. ________	Rs. ________	
(vi) ________	Rs. ________	Rs. ________	Rs. ________	Rs. ________
(b) section 80CCC		Rs. ________	Rs. ________	
(c) section 80CCD		Rs. ________	Rs. ________	
(B) Other sections (e.g. 80E,80G,ect.) Under Chapter VI-A				Rs. ________
	Gross Amount	Qualifying Amount	Deductible Amount	
(a) section ________	Rs. ________	Rs. ________	Rs. ________	
(b) section ________	Rs. ________	Rs. ________	Rs. ________	
(c) section ________	Rs. ________	Rs. ________	Rs. ________	
(d) section ________	Rs. ________	Rs. ________	Rs. ________	
(e) section ________	Rs. ________	Rs. ________	Rs. ________	Rs. ________
10. Aggregate of deductible amount under Chpater VI-A				Rs. ________
11. Total income (8-10)	Rs. ________			Rs. ________
12. Tax on total income	Rs. ________			Rs. ________
13. Surcharge(on tax computed at S.No.12)	Rs. ________			Rs. ________
14. Education Cess @ 2% on (tax at S.No.12 *plus* surcharge at S.No.13)	Rs. ________ Rs. ________			Rs. ________ Rs. ________
15. Tax payable (12+13+14)	Rs. ________			Rs. ________
16. Relief Under Section 89 (attach details)	Rs. ________			Rs. ________
17. Tax payable (15-16)				
18. Less :				
(a) Tax deducted at source u/s 192(1)			Rs. ________	Rs. ________
(b) Tax Paid by the employer on behalf of the employee u/s 192(1A) on Perquisites u/s 17 (2)			Rs. ________	Rs. ________
19. Tax payable/refundable (17-18)				Rs. ________

DETAILS OF TAX DEDUCTED AND DEPOSITED INTO GOVERNMENT ACCOUNT

AMOUNT	DATE OF PAYMENT	NAME OF BANK AND BRANCH WHERE TAX DEPOSITED

I ________________________________ son of ________________________________

working in the capacity of ____________ (designation) do hereby certify that a sum of Rs. ____________

[Rupees ________________________________ (in words) has been deducted at source and paid to the credit of the Central Government. I further certify that the information given above is true and correct based on book of accounts, documents and other available records.

Signature of the person responsible for deduction of tax

Place ____________ *Full Name* ____________

Date ____________ *Designation* ____________

UNIT IV

Captial and Revenue

1. **Capital and Revenue** – Capital and Revenue receipts – Capital and Revenue Expenditure

Income tax is levied on income of assessee and not on every receipt which he receives.The method of charging tax on different types of receipts is different. Income-tax Act, 1961 provides a separate head "Capital Gains" for levying tax on capital receipts. Similarly while calculating net taxable income of an assessee only revenue expenses are allowed to be deducted out of revenue receipts. Particularly while calculating business profit or professional gain only revenue receipts and revenue expenses are considered. This makes the distinction between capital and revenueof vital importance. For this distinction capital and revenue items can be divided into three sub parts :

3.1. CAPITAL RECEIPTS VS. REVENUE RECEIPTS

Distinguishing Tests

It is very difficult to draw a line of demarcation between capital receipts and revenue receipts. Even the courts have found it difficult to lay down some points of distinction on the basis of which a capital receipt may be distinguished from a revenue receipt. Some tests, however, can be applied in particular cases. These tests are:

1. **On the basis of nature of assets.** If a receipt is referable to fixed asset, it is capital receipt and if it is referable to circulating asset it is revenue receipt. Fixed asset is that with the help of which owner earns profits by keeping it in his possession,e.g., plant, machinery, building or factory, etc. Circulating asset is that with the help of which owners earn **profit** by parting with it and letting others to become its owner, e.g., stock-in-trade. Circulating asset is asset which is turned over and while being turned over yields profit or loss whereas fixed asset is one on which (lie owner earns profit by keeping it in his own possession.

Profit on the sale of motor car used in business by an assessee is capital receipt whereas the profit earned by an automobile dealer, dealing in cars, by selling a car is his revenue receipt.

2. **Termination of source of income.**Any sum received in compensation for the termination of source of income is capital receipt,e.g., compensation received by an employee from its employer on termination of his services is capital receipt.

3. **Amount received in substitution of income.** Any sum received in substitution of income is revenue receipt, e.g., 'A' company purchased the right to produce a film from' its earlier producer with the co-----ndition that no other producer will be given these rights. Afterwards it is found that the rights for producing this film had already been sold. The 'A' company claimed damages and was awarded 40,000. It washeld that damages received are the compensation for the profits which were to be earned. Hence this I is revenue **receipt**.

4. **Compensation received on termination of lease.** Where a sum id received as compensation for termination of a lease, it is capital receipt because it is termination of source of income.

5. **Compensation on surrender of a right.** Any amount received as compensation on surrendering a right is capital receipt whereas any amount received for loss of future income is a revenue receipt. An author gives up his right to publish a book and receives 1, 00,000 as compensation.it is capital receipt but if he receives it as advance royalty for 5 years it is revenue receipt.

6. **Tests as to the purpose of keeping an article.** If a person purchase a piece of sculpture to keep as decoration piece in his house, if sold later on, it will bring casual receipt but if the same sculpture is sold by an dealer it will be his revenue receipt . If an article is acquired for the purpose of trade, the profit arising from it is revenue receipt.

3.2. CAPITAL EXPENSES*VS.* REVENUE EXPENSES

Distinguishing Test

For computing profits of a business taxable under this Act, only revenue expenses are allowed to be deducted. Hence it becomes essential to distinguish revenue expenditure from capital expenditure. The following tests can be applied for the purpose:

1. **Nature of the assets.** Any expenditure incurred to acquire a fixed asset or in connection with installation of fixed asset is capital expenditure. *Whereas* any expenditure incurred as price of goods purchased for resale along with other necessary expenses incurred in connection with such purchases are revenue expenses.

2. **Nature of liability.** A payment made by a person to discharge a capital liability is a capital expenditure. *Whereas* Any expenditure incurred to discharge a revenue liability is revenue expenditure,e.g., amount paid to a contractor for cancellation of construct a factory building is capital expenditure whereas amount paid by a person with whom he has entered into contract for supply of goods for a period of 5 years – but he fails to supply goods after 3 years, the compensation will be revenue expenditure as it is to discharge the revenue liability.

3. **Nature of transaction.** If an expenditure is incurred to acquire a source of income, it is capital expenditure, e.g., purchase of patents to produce picture tubes of T.V. sets. *Whereas* An expenditure incurred to earn an income is revenue expenditure, e.g., salary of staff,, advertisement expenses, etc.

4. **Purpose of transaction.** If the amount is spent on increasing the earning of an asset, it is capital expenditure, e.g., expenditure incurred for fitting new windows of factory building.

Whereas

Any expenditure incurred on keeping an asset in running condition is revenue expenditure, e.g., amount spent on protection of fixed assets which have already been acquired.

5. **Nature of payment in the hands of payer.** If an expenditure is incurred by an assessee as a capital expenditure, it will remain as capital expenditure even if the amount may be revenue receipt in the hands of receiver, e.g., purchase of motor car by a businessman is capital expenditure in his hands although it is revenue receipt in the hands of car dealer, Similarly, if the nature of payment in the hands of payer is of revenue nature, it will be a revenue expenditure even if it is capital receipt in the hands of receiver.

3.3. CAPITAL LOSSES VS. REVENUE LOSSES

Distinguishing Tests

Distinction has to be made between revenue losses and capital losses of the business because under the provisions of this Act capital losses are dealt with under the chapterr "capital gains"whereas revenue losses are treated as business losses and as such are treated under the head " profits and gains of business or profession".

Distinction has to be made between revenue losses and capital losses of the business because under the provisions of this Act capital losses can be set off against the income from capital gains only, whereas the revenue losses are business losses and as such can be set off against any other income of the assessee.

Ordinarily a revenue loss in one which a business sustains by sale of goods of the business or destruction of stock-in-trade or non-recovery of any amount due from the persons who were to pay the amount whereas, the capital loss is one which is related to some capital asset of the business. It is very difficult to distinguish between a capital loss and a revenue loss on the basis of certain principles.

On the basis of court judgements following decisions have become distinguishing points:

1. **Loss due to sale of assets.** where there is loss on selling a capital asset, it is a capital loss whereas any loss incurred due to the sale of stock-in-trade is a revenue loss.

2. **Loss due to embezzlement.** Where there is any embezzlement done by an employee and this cause loss to the business, it is of revenue nature.

3. **Loss due to withdrawal of money from bank.** Once the amount has been deposited in bank and then it is withdrawn and is misappropriated, it is capital loss.

4. **Loss due to liquidation of employee.** Amount deposited by a person with manufacturing industry to get its agency and lost due to company being liquidated I is a capital loss.

5. **Loss due to theft by an employee.** Loss occurring due to theft by an employee during working hours is revenue loss whereas a theft committed by an employee by breaking into business premises at night will lead to capital loss.

ILLUSTRATION 1

The following items are found debited to the Profit and Loss Account of a company. Are these items are deductible in computing the income of the company for income-tax purposes? Give reasons for your answer.

1. 10,000 spent on reconditioning of imperfect machinery purchased.
2. 10,000 commission paid by the company for securing a contract in the course of its business.

ILLUSTRATION 2

state, giving reasons, whether the following are capital or revenue receipts:

(i) compensation received for compulsory vacation of place of business.

(ii) Bonus share received by a dealer of shares.

(iii) Money received by a tyre Manufacturing Company for sale of technical know-how regarding manufacture of tyre

(IV) Dividend and interest for investments.

SOLUTION

(i) Revenue receipt as it is in compensation of assessee's profile which it would have earned.

(ii) If the assessee has also converted the bonus shares into stock-in-trade then it is a revenue receipt otherwise it is an accretion in the capital asset.

(iii) Revenue receipt but in case the sale of technical know-how results into substantial reduction in value of the tyre company or company close down in business in that particular line then the receipt would be a capital receipt.

ILLUSTRATION 3

State whether the following are capital or revenue receipts:

(i) Compensation received for nationalization.

(ii) Premium on issue of new shares.

(iii) Sales tax collected from purchasers of goods.

(iv) Annuity.

(v) Unclaimed dividends.

SOLUTION

(i) Compensation is in substitution of assessee's source of income and hence it is a capital receipt.

(ii) It is not a receipt which results out of assess's trading activities and so cannot be a revenue receipt.

(iii) This receipt results out of assess's ordinary course of business and so it is a revenue receipt.

(iv) Annuity would be a revenue receipt if it is paid as a specified sum payable at periodical intervals. Annuity received from an employer is a salary income and in all others cases, annuity shall be chargeable under the head 'Income from other sources'. This shall not be a taxable income in cases where the assessee exchanges his share for a capital sum payable in installments.

(v) Unclaimed dividend cannot be deemed cannot be deemed to be profit of business as dividend is neither allowed as an allowance or as deduction. It is not taxable as a receipt

ILLUSTRATION 1

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(ii) Bonus share received by a dealer of shares.

(iii) Money received by a tyre Manufacturing Company for sale of technical know-how regarding manufacture of tyre

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ILLUSTRATION 2

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(v) Unclaimed dividend cannot be deemed cannot be deemed to be profit of business as dividend is neither allowed as an allowance or as deduction. It is not taxable as a receipt

Very Short Answer questions

1.What Capital receipts

2. What Capital Lossese

Short answer Questions

1. Distinguish between capital receipt and revenue receipts.
2. Distinguish between capital expenses and revenue expenses.
3. Distinguish between capital losses and revenue losses.
4. Determine the character of the following receipts or expenditures giving reasons:

(i) Sale of the assets of a firm at the time of its conversion into company for shares of equal value-part of consideration is attributable to sale of land.

(ii) Profits due to fluctuation in rate of foreign currency.

(iii) Money received as the consideration for not resigning directorship.

(iv) Expenses incurred in connection with litigation relating to acquisition of capital assets of a business.

[**Ans.**(i) Capital receipt ; (ii) capital receipt ; (iii) Revenue receipt ; (iv) Capital expenditure]

5. (a) Give the important rules regarding the distinction of capital and revenue losses for assessment purposes.

(b) Explain in the mode of treatment of the following:

(i) An employee of a business was going to a bank to deposit some money belonging to the business. On way to the bank he lost it.

(ii) The business of a person was managed by a paid manager who has power to withdrawn the money from the bank account of the business. He withdrew some money and misappropriated it.

(iii) Loss sustained by a business as a result of theft committed by an employee during usually working hours of the business.

(iv) A cloth merchant dealing in government securities, sold securities worth ₹ 20,000. The amount was lost by him as a result of theft committed on a railway station.

[**Ans.**(i) Revenue loss ; (ii) Capital loss ; (iii) Revenue loss ; (iv) Capital loss , being incidental to the business]

6. (a) Why is it necessary to distinguish between a capital receipt and revenue receipt? How would you determine whether a particular receipt is a capital receipt or a revenue receipt?

(b) State with reasons the nature of the following:

(i) A railway passenger meets with an accident and is disabled. He receives compensation from the Indian Railways.

(ii) A company owning a chalk quarry contracted to supply a customer a certain quantity chalk yearly for ten years. The purchaser after some time did not wish to take furtly delivery and the company agreed to release him obligation in consideration on lump sum payment.

(iii) A company made annual payment for trucks bought under a hire-purchase agreement extending over a period of year.

(iv) Anassessee carried on business in several commodities. In the course of business, he submitted tenders to the railways and undertook to supply certain commodities. The amount which he had deposited as security for properly carrying out the contract was forfeited as he could not carry out the contract.

[**Ans. (6b)** (I) Capital receipt if permanently disable and revenue receipt if disabled temporarily, (ii) Revenue receipt as it is in lieu of future profits, (iii) Capital expenditure paid in installments , (iv) Revenue loss as it was in the regular course of business].

7. Why and how would you distinguish following capital receipts from a revenue receipts for income-tax purpose?

(i) A lump sum received by an employee from his employer as damages for termination of his services.

(ii) A company pays to its directors a lump sum in consideration of an agreement as a result of the company after his retirement.

(iii) A pugree received by the owner of a house from a tenant is consideration of letting his house.

(iv) The insurance money received, where business concern insures its business covering its assets against loss or damage by fire and also profit caused by the stoppage of work.

[**Ans.** (I) Capital receipt, (ii) capital receipt as it is surrender of right, (iii) Revenue receipt, (iv) Insurance money received against the assets capital receipt and remaining part received against loss caused by stoppage of work is revenue receipt]

8. Determine the nature of the following transaction:

(i) Expenditure incurred by a bus transport organization to oppose threatened nationalization of bus transport business.

(ii) The money spent by a brewery company on publishing anti-prohibition literature.

(iii) Loss on the death of animal which are used for the purpose of carrying on the business of assessee.

(iv) Apugree (illegal premium) received by the house owner from tenant

[**Ans.** (i) Revenue Expenditure, (ii) Revenue Expenditure, (iii) Revenue loss allowed under section 36 of the act, (iv) Revenue receipt].

ACCOUNTING & TAXATION

I YEAR

PART B – VOCATIONAL SUBJECTS

BLUE PRINT

PAPER – I : BUSINESS ORGANISATION

(THEORY& PRACTICALS)

PERIODS/WEEK PERIODS/YEAR : 270

TIME SCHEDULE, WEIGHTAGE & BLUE PRINT

S.No	NAME OF THE UNIT	No. Of Periods	Weightage in marks	Short answer questions	Essay/ Problem questions
		Theory			
01	Basic Concepts, Forms of Business organization	15	10	2	1
02	Sole proprietorship, Joint Hindu family	20	8	1	1
03	Partnership	15	8	1	1
04	Joint stock company	20	10	2	1
05	Incorporation of Joint stock company	20	8	1	1
06	Co-operative societies	15	8	1	1
07	Aids to Trade -Banking & Insurance services	10	8	1	1
08	Aids to Trade - Transport, Warehousing & Advertisement	20	8	1	1
	Total	135	68	10	08

Note: The question paper contains two sections.

ACCOUNTING & TAXATION

I YEAR

PART B – VOCATIONAL SUBJECTS

BLUE PRINT

PAPER – II ACCOUNTANCY & COMPUTERS – I

(THEORY& PRACTICALS)

PERIODS/WEEK PERIODS/YEAR : 270

TIME SCHEDULE, WEIGHTAGE & BLUE PRINT

S.No	NAME OF THE UNIT	`No. of Periods	Weightage in marks	Short answer questions	Essay /Problem questions
		Theory			
01	Introduction To Accountancy	15	10	2	1
02	Journal &Ledger	15	8	1	1
03	Subsidiary Books	25	8	1	1
04	Cash Book	10	8	1	1
05	Bank Reconciliation Statement	10	8	1	1
06	Trial Balance & Rectification of Errors	15	8	1	1
07	Final Accounts	20	8	1	1
08	Basic Fundamentals Of Computer, MS Word, MS Excel	25	10	2	1
		135	68	10	08

Note: The question paper contains two sections.

ACCOUNTING & TAXATION

I YEAR

PART B – VOCATIONAL SUBJECTS

BLUE PRINT

PAPER – III TAXATION – I

(THEORY & PRACTICALS)

PERIODS/WEEK : 05 PERIODS/YEAR : 270

TIME SCHEDULE , WEIGHTAGE & BLUE PRINT

S.No	NAME OF THE UNIT	No. of Periods	Weightage in marks	Short answer questions	Essay/ Problem questions
		Theory			
01	Introduction of Taxation	25	8	1	1
02	Basic Concepts of Income Tax	20	10	2	1
03	Agricultural Income	10	8	1	1
04	Capital And Revenue	15	8	1	1
05	Residential Status & Incidence of Tax	15	8	1	1
06	Exempted Incomes	10	8	1	1
07	Income From Salary	20	10	2	1
08	Income From House Property	20	8	1	1
		135	68	10	08

Note: The question paper contains two sections.

MODEL QUESTION PAPER

ACCOUNTING & TAXATION

I YEAR

PAPER – I BUSINESS ORGANISATION

(THEORY)

Time: 3 hrs Marks: 50

SECTION – A

Note: i) Answer all questions 10 x 2 =20

ii) Each question carries two marks

1. Define Business
2. What is Trade
3. Define sole trading organization
4. Define Partnership
5. What is Joint stock company
6. What is Prospectus
7. What is co-operative society
8. What is E-Banking
9. Statutory company
10. What is warehousing

SECTION –B

Note: i) Answer all questions 5 x 6 = 30

ii) Each question carries six marks

11. What are different types of industries?
12. What are the advantages of sole trading concerns?
13. Explain the kinds of partners
14. What are the merits of Joint Stock Company?
15. What are the contents of memorandum of association?
16. Explain the characteristics of co-operative organizations
17. Explain the functions of Commercial banks
18. Explain the importance of Advertisement

MODEL QUESTION PAPER

ACCOUNTING & TAXATION

I YEAR

PAPER – II ACCOUNTANCY & COMPUTERS – I

(THEORY)

Time: 3 hrs — Marks: 50

SECTION – A

Note: i) Answer all questions — 10 x 2 =20

ii)Each question carries two marks

1. Define Accountancy
2. What is business entity concept
3. What is double entry system
4. What is Journal
5. What is Debit note
6. What is contra entry
7. Over draft meaning
8. Suspense account
9. Trading account
10. Write any two input devices

SECTION –B

Note: i) Answer all questions — 5 x 6 = 30

ii)Each question carries six marks

11. What are the advantages of Double entry system
12. For the following transactions Prepare ledger of Mr Rama Krishna.

2017	
June 5 goods sold to Rama Krishna	25,000
June 8 cash received from Rama Krishna	12,500
June 9 purchased goods from Radha	10,000
June 15 goods sold to Rama Krishna	7,500
June 20 Rma Krishna accountant was settled with 10% discount	

13. Explain various types of subsidiary books
14. From the following particulars prepare two column cash book as on 31.03.2017

2017		Rs
April 1	Cash balance	22,000
April 1	Bank Balance	15,000
April 4	Deposited into Bank	22,000
April 8	Purchases	18,000
April 9	Sales	16,000
April 10	Cash deposited into bank	18,000

15. From the following particulars prepare Bank Reconciliation Statement as 31st December 2016.

a. Bank balance as per Cash Book as on 31st December 2016 was Rs.15,000.
b. Cheques issued but not presented amounted to Rs. 2,000.
c. Cheques paid into bank, but not cleared for Rs. 2,800.
d. Interest on investments collected by the bankers and credited in the pass book but not recorded in cash book Rs. 800.
f. Bank charges Rs. 20 debited in pass book but not entered in cash book.

16. Explain different types of errors.

17. From the following Trial Balance of Mr. Raj, Prepare Trading, Profit & Loss a/c, & Balance Sheet as on 31.03.2017

Opening stock	20,000
Purchases	15,000
Sales	90,000
Land	40,000
Capital	50,000
Debtors	20,000
Salaries	5,000
Wages	10,000
Furniture	20,000
Rent	15,000
Sundry Expenses	10,000
Commission received	10,000
Drawings	5,000
Creditors	10,000

Adjustments:

1. Stock as on 31.03.2017 Rs. 20,000
2. Outstanding wages Rs. 5,000
3. Prepaid Rent Rs. 2,000

18. What are the advantages of computers

MODEL QUESTION PAPER
ACCOUNTING & TAXATION
I YEAR
PAPER – III TAXATION – I
(THEORY)

Time: 3 hrs Marks: 50

SECTION – A

Note: i) Answer all questions 10 x 2 =20

ii)Each question carries two marks

1. Define Income
2. Define Assessee
3. What is Previous year
4. What is partly agricultural income
5. Write any four examples of revenue expenditure
6. Who is Non-Resident
7. Tax on casual income
8. Write any two types of Provident fund
9. What is Gross annual value
10. What is Perquisite

SECTION – B

Note: i) Answer any five questions 5 x 6 = 30

ii) Each question carries Six marks

11. Explain the merits of direct taxes
12. What is meant by PAN and who are the persons liable for obtain PAN?
13. Explain the kinds of Agricultural income
14. Write the differences between capital and revenue receipts
15. Describe the Residential status of an individual
16. Write any ten exempted incomes from tax
17. Mr. Manikanta is working in R&B Department in Amaravathi. His salary particulars are as follows:

Basic pay	Rs. 30,000 p.m
Dearness Allowance	Rs. 15,000 p.m
City compensatory allowance	Rs. 800 p.m
Bonus	Rs. 20,000
House Rent Allowance	Rs. 8,000 p.m
Rent paid	Rs. 10,000 p.m
Profession tax paid	Rs. 1,200

Compute Income from Salary

18. Smt. Aruna owns a house at Guntur. It has been letout on a montly rent of Rs.20,000.
Municipal Rental Value Rs. 15,000 per month
Rent of similar House Rs. 12,000 per month
She paid municipal taxes Rs. 5,000, Repairs to house Rs.4,000, Interest on loan paid for purchase of house Rs.13,000 and fire insurance Rs.6,000. Compute Income from House property.