Netaji Subhas Open University

Paper: II

Cost and Tax Management

(Diploma in Entrepreneurship Development and Small Business Management)

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Unit 1: Costing

Structure

1.0 Objectives

After studying this unit, you will be able to understand the concept of-

- Costing and installation of a Costing System;
- Methods and Techniques of Costing;
- Cost Centre;
- Cost Unit;
- Job Costing;
- Process Costing;
- Classification of Costing; and
- Cost Sheet.

1.1 Introduction

Cost Accounting has got a tremendous influence worldwide. Whenever we deal with cost, we need to depend on Cost Accounting. The person who is involved in Cost Accounting is called Cost Accountant. Cost Accounting plays an important role worldwide in this modern era. Cost Accounting has actually started as a branch of Financial Accounting, Cost Accountancy has made significant progress over the past few decades. It was till the late 1880's, costing was in the hands of engineer. The first book regarding Costing, entitled 'Cost of

Manufacturers' written by **Henry Metcalfe**, was published in 1885 in New York. It was only after World War I that Cost Accounting was widely regarded as a management tool for planning and cost control.

According to Cost Accounting Standard-1 (CAS-1) the cost is actually a measure. In monetary terms, cost actually means the amount of resources used to produce goods or to provide services. The word Cost actually defines the following things. 'Cost' actually means a sacrifice, or disposal of something which can be ascertained in value. Cost means the amount of money that had to be paid to buy the item.

1.2 Costing

The core of costing and cost accounting is the term 'cost'. But it is not very easy to describe the term 'cost' in precise terms, which is suitable for all the parties, such as, businessmen, economists, financial accountants, cost accountants, management etc. On the other hand, 'costing' is a process through which cost is found out. Consequent to the Terminology of ICMA, London, costing is "the technique and process of ascertaining costs". It is the method of measurement and build-up of cost of dissimilar activities, products, procedure or services.

Wheldon, used the word costing in wider sense. According to him costing is "the categorizing, recording and suitable allocation of spending for the resolve of costs of products or services, the connection of these costs to sale values and the determination of profitability."

Cost Accounting: Cost Accounting is a quantitative technique which contracts with the classification, recording, distribution, summarization and reporting of present possible cost of a product. Cost Accounting is really a scientific arrangement of calculation and analysis of costs of the product, job, order, contract, process, service etc.

Cost Accountancy: Cost accountancy is distinct as "the submission of costing and cost accounting ethics, approaches and systems to the science, art and practice of cost control and the ascertainment of profitability". Cost Accountancy services management with cost of regulator initiatives, ascertainment of profitability and informed choices making. It also comprises determination of selling price for the products, partition and unit wise profitability. Forecasting expenditures and Future possible income is also part of the practice of Cost Accountancy.

1.2.1 Objectives of Costing

The key objectives of cost accounting are as under-

- **Determination of Cost:** It is a procedure of accounting for resolving the costs.
- **Records Income and Expenditure:** It records income and expenditure connecting to production of belongings and services.
- **Providing Data:** It delivers statistical data on the basis of which future estimations are prepared and quotations are submitted.
- **Control:** It is anxious with cost ascertainment, cost regulator and cost reduction.
- **Budgeting:** It creates budgets and standards so that actual cost may be associated to find out deviations or variances.

- **Decision Making:** It includes the presentation of 'right information to the right person at the right time' so that it may be supportive to management for forecasting, estimation of performance, control and decision making.

1.2.2 Advantages of Costing

There are several advantages of Costing, the advantages of costing are enumerated below:

- **Cost Object Analysis:** Cost Object can gather the revenue and capital expenditures, these expenditures can be defined as product cost, product line and supply channel, these expenses are being used to control the cost which one are profitable or need further support.
- **Trend Analysis:** With the help of trend analysis, we can find out indicative long-term trends. Cost can be tracked on a trend line for the purpose of determining the expenditure, here current costs are being used for the purpose of finding out long-term trends.
- **Budget Compliance:** Budget is very essential for a business to find out whether the spending of the business is under control or not, Actual cost which has been made by the business will be associated to budgeted or standard costs, this way we will be able to see whether any portion of a business is spending more than expected.
- **Capacity:** Every business has its own capacity. This capacity can be defined as normal capacity and excess capacity. This excess capacity will be helpful for determining the increasing level of sales capacity. Thus, with the help of excess capacity we can find the rise in sales levels. The ability of a business to gauge the rise in sales levels can be examined by discovering the amount of its excess capacity.
- **Inventory Valuation:** The cost accountant is classically tasked with assembling the cost of inventory for financial reporting purposes. This comprises charging direct labour to inventory, as well as dealing factory overhead to inventory.

1.2.3 Installation of a Costing System

When the necessities of two firms are alike, the arrangement must be designed to meet the exact requirements of a particular organization.

So, for introduction of a sound costing system one should have to keep in mind the following points -

- The practical side of the business is sensibly studied to design an appropriate costing system.
- The Costing System should be supportive for forecasting or planning the future and regulation of the present.
- The arrangement should be simple and easy to operate.
- The essential data can be collected regularly and promptly.
- The results shown under two sets (viz. Cost and financial accounting) are so interrelated that settlement among the two can be done easily.
- The cost accountant must obtain full cooperation from the dealing staffs and should have such power of admittance to all factory records as and when required.

1.2.4 Methods and Techniques of Costing

There are various approaches and techniques of cost accounting which are being used to determine cost. They are planned to suit the needs of individual business conditions. The most important methods of costing are-

- Historical or Absorption Costing
- Standard Costing
- Marginal Costing
- Uniform Costing
- Direct Costing
- Budgetary Control

The major methods generally used are-

a) Job Costing
b) Process Costing
c) Farm Costing

1.2.5 Limitations of Costing

The limitations of cost accounting are-

- **Based on estimates:** Indirect costs are not charged fully to a product or process; it is charged to all the products and process on the basis of estimates.
- **Expensive:** Cost Accounting is expensive. It includes lots of clerical work for preserving numerous costing records for dissimilar purpose. Again, for medium and small size concern, the advantage which has been derived from costing system may not be explained in the cost involved.
- **Dependent:** It is not an independent structure of accounting. It depends on other accounting system also.
- **Does not comprise all items of expenses and income:** Various financial items such as interest, financial charges, discount and loss on issue of share and debenture etc. are not taken into reflection in Cost Accounting.
- **Not a precise Science:** Like other accounting procedure Cost Accounting, it is not a precise science but an art that has advanced through theories and practices.

1.2.6 Cost Centre

Cost centre may be distinct as the smallest portion of operation or area of accountability for which cost are assembled. It is a place, person or item of equipment (or group of these) for which cost may be determined and used for cost control.

There are two types of Cost Centre—

a) Production cost centres.
b) Service cost centres.

Production cost centres: Production cost centres are the cost centres which include in the manufacturing operation. Example- Machining, assembly, shaping, welding, binding, cutting etc.

Services cost centres: Services cost centres are related to the service provided by a provider of service. These Costs are very essential. Examples of Service Cost centre are personnel department, stores, boiler house and maintenance etc.

1.2.7 Cost Unit

Cost unit are being mentioned to the unit or amount of product, service or time units (or combination of these) in association to which cost may be stated or ascertained. It is a process which has been used for the determination of breaking up or separation of cost into smaller subdivisions which is attributable to products or services, for instance we may determine cost per tonne of coal, rate per machine hour etc.

1.2.8 Job Costing

Job costing procedure regulate manufacturing cost methodically by separating them in overhead, direct material and direct labour costs and assessing them at their actual value. Manufacturing organizations are using job costing to regulate the practice of raw materials, labour hours and equipment by allotting the cost of each customer order distinctly.

As well as, when a firm are not equal, job costing is an operative tool to distribute the cost of each product and preserve the track of the order expenses. Now a day's most commercial is using computerized job costing procedure to improve cost control and boost up their profitability.

1.2.9 Process Costing

Where manufacturing is carried out by a procedure where final product of one process is being used as raw material of another process, there process costing is being used. Process costing is generally used when goods are being produced on mass production and when the costs linked to individual units and these costs cannot be easily distinguished from each other. If a production procedure combines elements of mass manufacturing and customization, a hybrid costing is used.

1.2.10 Classification of Cost

Cost can be classified into several ways. Such as-

(i) On the basis nature cost can be classified into three types. Such as-
- Labour Cost
- Material Cost
- Overhead cost

(ii) On the basis of foundation cost can be classified into four types. Such as-
- Direct Cost
- Indirect Cost

- Fixed Cost
- Variable Cost

(iii) On the basis of functions cost can be classified into four types. Such as-
- Production Cost
- Selling Cost
- Distribution Cost
- Conversion Cost

(iv) On the basis of identifiability cost can be classified into two types. Such as-
- Direct Cost
- Indirect Cost

(v) On the basis of controllability cost can be classified into two types. Such as-
- Controllable Cost; and
- Uncontrollable Cost.

(vi) On the basis of normality cost can be classified into two. Such as-
- Normal Cost; and
- Abnormal Cost.

(vii) On the basis of Time Cost can be classified into three types. Such as-
- Historical Cost;
- Prearranged Cost; and
- Standard Cost.

(viii) On the basis of decision making, cost may be classified into five types. such as-
- Marginal Cost;
- Differential Cost;
- Opportunity Cost;
- Normal Cost; and
- Abnormal Cost.

(ix) On the basis of nature, cost may be categorized into six types. Such as-
- Batch Cost;
- Process Cost;
- Operation Cost;
- Operating Cost;
- Contract Cost; and
- Joint Cost.

1.3 Cost Sheet

A Cost Sheet is actually a statement, in this statement various components of total cost of a product are being compared. Again, in a Cost Sheet we can also find the data of previous year and these data has been used for comparison purpose. A Cost Sheet can be prepared either by using historical cost or it can be prepared with the help of estimated cost. Thus, it is evident that Cost sheet may be prepared on the basis of actual data or on the basis of estimated data. In practical life the estimation of costs is very necessary for the purpose of submitting tenders or for the purpose of quoting for a specific order.

1.3.1 Purpose of Cost Sheet

A correctly drawn cost sheet helps the following purposes-

- It helps in fixing selling prices more precisely.
- It delivers information for compilation of evaluations, quotations or tenders.
- It actually works as a guide to the producer and assist the company in formulating a definite production policy.
- By revealing the numerous basics of costs which contribute to the production cost of each cost unit, it delivers useful information to trace wastes, losses and inadequacies and thus effect economises.

1.3.2 According to CIMA London a Cost Sheet is "A statement which delivers for the assembly of the detailed cost of a centre or a cost unit". Cost Sheet is also a periodical declaration. In Cost Sheet the outlay which has been suffered upon a product for a period is actually been removed from the financial books and the records has been stored, store records; and this is set out in a memorandum declaration. If this report is confined to the revelation of the cost's units which has been produced and separated the period, it is termed as Cost-Sheet, but where the report records total cost, profit and sales, it is frequently recognized as Statement of Cost or Production Account.

1.3.3 Advantages of Cost Sheet

The advantages of a cost sheet are enumerated below –

Cost Sheet helps the management to fix up the Selling price more accurately.

- It is a simple and useful medium of communication which gives information regarding costs to all levels of management.
- Cost Sheet helps the producer to keep a close vigil and control on cost of production.
- It shows the total cost and per unit of cost for the units produced on a given period.
- Cost Sheet do comparative study of the various elements of costs with the past results and standard cost, which immensely help the management.
- Cost Sheets helps in minimising the expenses thus it is very much helpful to common person also.

1.3.4 Specimen of Cost Sheet

The specimen of a cost sheet showing the elements of costs is given-

Cost Sheet
For the period ended................

Particular	**Amount Rs.**	**Amount Rs.**	**Cost per unit Rs.**
Direct Materials: Opening stock of raw material Add: Purchases of raw material	*** *** ***		

Add: Carriage inwards/import duty	***		
	***		
Less: Closing stock of raw material	***		
Less: Materials return	***		
Less: Materials lost by fire		*****	
		*****	
Direct Material Consumed			
		*****	
Direct Labour/Productive or Direct wages			
Direct Expenses:	***		
Hire charges for special	***		
Plant & Machinery	***		
Cost of Blue-print for production	***		
Royalty related with production	***		
Research and Development expenses	***		
Other chargeable expenses		*****	
<u>Prime Cost:</u>			
Add: Factory or Works Overhead:	***		
Indirect Wages	***		
Indirect Materials Factory Rent & Rates	***		
Factory lighting	***		
Factory insurance			
Depreciation, repairs and maintenance	***		
power, lubricating oil etc.	***		
Cost of idle time	***		
Less: Sale of Scrap	***		
Add: Opening Work-in-Progress	***	*****	
Less: Closing Work-in-Progress			
<u>Factory Cost:</u>			
Add: Office administrative overhead:	***		
Office rent & rates	***		
Office salaries	***		
Remuneration of management	***		
Office lighting & insurance	***		
Establishment charges	***		
Depreciation of Office Assets	***		
Audit Fees	***		
Legal Charges	***		
Bank Charges	***	*****	
General office expenses		*****	
Cost of Production	***		
Add: Opening finished stock	***		
Less: closing finished stock		***	
(No. of units x Cost of production per unit)			
Cost of Goods Sold			
Add: Selling and distribution overhead:	***		
Showroom rent and rates	***		
Lighting	***		
Salesmen’s salaries	***		

Packing	***		
Commissions	***		
Advertisement	***		
Market Research & Development Cost	***	***	
Bad Debts			
Cost of Sales/Total Cost		****	****
Add: Profit		****	****
Sales Value		****	*****

If a cost sheet is prepared and costs are analysed according to behaviour, the specimen of cost sheet will be as follows-

Particulars	Details Rs.	Total cost Rs.	Cost per unit Rs.
<u>Variable Direct Cost:</u>			
Raw materials consumed		***	***
Direct wages		***	***
Direct expenses		***	***
PRIME COST		****	****
Add: Variable factory overhead:			
Variable factory expenses		***	***
Total Variable factory cost		***	****
Add: variable administration overhead		****	***
Total Variable cost of production		***	****
Add: Variable cost of opening finished stock		****	
Less: variable cost of closing finished stock		***	***
variable cost of Goods sold		***	
Add: variable selling & distribution overhead		***	
Variable or Marginal cost of sales			***
		****	***
			****

Note: When the opening and closing working progress is valued at works cost, hence these should be adjusted with factory cost. But if the work-in-progress is valued at prime cost, it should be adjusted with prime cost.

Illustration- 1:
The accounts of Basu Manufactures Ltd for the year ended 31st December 2018 are shown as under:

Particulars	Amount Rs.
Stock of Material on 01.01.2018	5,000/-
Materials purchased	1,00,000/-
Materials returned to suppliers	10,000/-
Direct labour	20,000/-
Direct expenses	43,000/-
Factory expenses	20,000/-
Office & Administrative Expenses	10,000/-

Selling & Distribution Expenses	6,000/-
Stock of Materials on 31.12.2018	8,000/-
Profit	10,000/-

Find out: a) Material Consumed, Prime Cost, Works Cost, Cost of Production, Total Cost and Sales.

Solution:

In the books of Basu Manufactures Ltd.
For the Year ended....

Particulars	**Details Rs.**	**Amount Rs.**	**Amount Rs.**
Opening stock of Materials		5,000	
Add: purchases of Material	1,00,000		
Less: Materials returned of suppliers	10,000	90,000	
		95,000	
Less: Closing stock of Materials		8,000	
RAW MATERIALS CONSUMED		87,000	
Direct Labour		20,000	
Direct Expenses		43,000	
PRIME COST			1,50,000
Factory Overhead:			
Factory Expenses			20,000
WORKS COST			1,70,000
Office & Administration Overhead:			
Office & Administration Expenses			10,000
COST OF PRODUCTION			1,80,000
Selling & Distribution Overhead:			
Selling & Distribution Expenses			6,000
TOTAL COST/COST OF SALES			1,86,000
PROFIT			10,000
SALES			**1,96,000**

Illustration- 2:

Prepare a statement showing Works Cost.

Raw materials used	Rs.60,000/-
Direct wages	Rs.40,000/-
Labour hours worked	10,000 units
Labour hour rate	Rs.2.00/-
Office Overhead	Rs.10,000/-

Solution:

Statement Showing Cost

Particulars	Unit Rs.	Amount Rs.	Amount Rs.	Per unit Rs.
Raw Materials used		60,000		
Direct wages		40,000		
PRIME COST			1,00,000	
Factory Overhead				
Labour hours worked [10,000 units × Rs.2.00]			20,000	
WORKS COST			**1,20,000**	

Illustration-3:

A manufacturing company incurred the following expenses during a certain period 31.03.2018. You are required to prepare a statement showing the sub-division of total cost.

Materials used on jobs Rs.1,00,000/-	Depreciation of plant Rs.4,000/-
Wages traceable to jobs Rs.50,000/-	Depreciation of delivery vans Rs.2,000/-
Wages paid to men on maintenance work Rs.10,000/-	Insurance on finished goods Rs.3,000/-
Salesmen's salaries Rs.20,000/-	Lubricating oil Rs.3,000/-
Directors' fees Rs.5,000/-	
Carriage inwards on raw materials Rs.10,000/-	Commission to salesmen Rs.2,000/-
Carriage outwards Rs.2,000/-	Cost of idle time in factory Rs.500/-
Factory rent and rates Rs.5,000/-	Auditors' fees Rs.3,000/-
Works salaries Rs.20,000/-	Dividends paid Rs.5,000/-
Consumable stores Rs.5,000/-	Lighting of showroom Rs.1,000/-
Direct Expenses Rs.10,000	Office salaries and expenses Rs.2,000/-
	Income tax Rs.5,000/-

Solution:

Statement of Cost

For the period ended 31st March, 2018

Particulars	Amount Rs.	Amount Rs.
Direct material	1,00,000	
Add: Carriage inwards	10,000	
		1,10,000
Direct wages		50,000
Direct expenses		10,000

Prime cost		1,70,000
Works overhead:		
Wages paid to men on maintenance work		
Factory rent and rates	10,000	
Works salaries	5,000	
Consumable stores	20,000	
Depreciation of plant	5,000	
Lubricating oil	4,000	
	3,000	
	3,000	50,000
Works Cost		
Administration overhead:		2,20,000
Directors' fees		
Auditors' fees	5,000	
Office salaries and expenses	3,000	
	2,000	
Cost Production		10,000
Selling and distribution overhead:		2,30,000
Salesmen's salaries		
Carriage outwards	20,000	
Depreciation of delivery vans	2,000	
Insurance of finished goods	2,000	
Commission to salesmen	3,000	
Lighting of showroom	2,000	
	1,000	30,000
Total Cost		
		2,60,000

Note: 1) Assumed that the idle time and bad debts are within normal limits.

Illustration- 4:

Production cost of VSK Ltd. A manufacturing company, for the year ending 31st March, 2018, are as follows-

Direct wages Rs.30,000/-
Direct material Rs.50,000/-
Drawing office salaries and expenses Rs.2,000/-
Salary of general manager Rs.8,000/-
Advertisement display material Rs.4,000/-
Wages of dispatched department Rs.6,000/-
Salaries and expenses of directors Rs.11,500/-
Travellers' salaries Rs.7,000/-
Depreciation of delivery vans Rs.5,000/-
Chargeable expenses Rs.4,000/-
Office overhead (5% o works cost)
Sales office expenses Rs.5,000/-
Salary of sales manager Rs.3,000/-
Rent and rates of warehouses Rs.9,000/-
Catalogues a price lists Rs.7,000/-
Rent and rates showrooms Rs.4,000/-
Production overheads (10% of prime cost)

Draw up a cost statement from the above bearing in mind those goods are sold at a profit of 20% on selling price.

Cost statement
For the year ended 31st March, 2018

Particulars	**Details Rs.**	**Amount Rs.**
Direct material		50,000
Direct wages		26,000
Chargeable expenses		4,000
Prime Cost		80,000
Works overhead:		
Production overhead (10% of prime cost)	8,000	
Drawing office salaries and expenses	2,000	10,000
Works Cost		90,000
Office and administration overhead:		
Office overhead (5% of works cost)	4,500	
Salary of general manager	8,000	
Salaries and expenses of directors	11,500	24,000
Cost of Production		
Selling and distribution overhead:		1,14,000
Advertisement display material		
Traveller's salaries	4,000	
Sales office expenses	7,000	
Salary of sales manager	5,000	
Catalogues and price lists	3,000	
Rent and rates of showrooms	7,000	
Wages of dispatch department	4,000	
Depreciation of delivery vans	6,000	
Rent and rates of warehouses	5,000	
Cost of Sales	9,000	50,000
Profit (20% on sales i.e., 25% on cost)		1,64,000
		41,000
Sales		**205,000**

1.4 Summary

From the above discussion, we could understand the concept of Costing and installation of a Costing System; Methods and Techniques of Costing; Cost Centre; Cost Unit; Job Costing; Process Costing; Classification of Costing; and Cost Sheet.

1.5 Questions

A. Multiple Choice Questions (MCQ)-

1. …………….. is also known as overhead costs.
   a) Charge of direct labour
   b) Charge of Indirect labour
   c) **Indirect expenses**
   d) None of these

2. Composite cost unit, in cinema halls, is-
   a) A chair per show
   b) Charge of screening

c) Wages of worker d) None of these

3. ……………is calculate the actual cost of product?
   a) Cost estimation b) Costing
   c) Both 'a' and 'b' d) None of these

4. ……………. factor that causes change in cost of activity-
   a) Activity cost b) Driver cost
   c) Cost pool d) None of these

5. Over exploitation of factory overheads, due to in proficiency of management, should be disposed of by-
   a) Carry forward to following year b) Accompanying rate
   c) Transfer to costing Profit and Loss A/c d) None of these

6. …………………is the actual cost of product.
   a) Cost estimation b) Costing
   c) (a) and (b) both d) None of these

7. …………is cost of direct materials.
   a) Freight charges b) Grease
   c) Coolant d) None of these

8. Which costing is a type of job costing?
   a) Multiple b) Operating
   c) Batch d) None of these

9. The method of unit costing is adopted by-
   a) Transport service b) Steel Industry
   c) Bicycle industry d) None of these

10. The following is cost of indirect material-
    a) Lubricating oil b) Octroi
    c) Import duties d) None of these

Answer Key.

1 (c)	2 (a)	3 (c)	4 (a)	5 (c)	6 (c)	7 (a)	8 (c)	9 (c)	10 a)

B. Short Answer Type Questions

1. What do you mean by Costing?
2. What is Cost Accountancy?
3. Discuss two advantages of Cost accounting?
4. Discuss three objectives of Cost accounting?
5. What is Cost accounting?
6. What is Cost Sheet?
7. Discuss the Advantage of Cost Sheet
8. What is Cost Centre?

9. What is Cost Unit?
10. Discuss the purpose of Cost sheet.

C. Broad Answer Type Questions

1. Discuss Classification of Cost accounting.
2. What is Cost Accounting? Discuss the Limitation of Cost accounting?
3. Write a short note on:
   a) Cost Concept b) Cost Centre
4. What is Job Costing? Discuss the methods and techniques of cost accounting?
5. What is Cost Unit? Discuss Four Advantage of Cost Sheet?
6. What is Cost Sheet and Cost centre?
7. From the following particulars prepare a cost sheet for the month of January 2018-

   Stock of Raw materials on 1.1.2018 Rs.50,000/-
   Purchase of Raw Materials Rs.10,000/-
   Depreciation Rs.8,000/-
   Factory Rent Rs.20,000/-
   Stock Raw Materials on 31.1.2018 Rs.20,000/-
   Material Destroyed by fire Rs.5,000/-
   Office Rent Rs.10,000/-
   General expenses Rs.8,000/-
   Selling Overhead Rs.15,000/-
   Number of units produced during the month are 5,000 units
   Stock of finished goods on 1.1.2018-4,000 units valued at Rs.2,000/-
   Stock of finished goods on 31.1.2018 1,000 units
   Apply FIFO Method.

8. Prepare Cost sheet showing Direct Materials, Prime Cost, Works Cost, Cost of Sales and Sales for the period.

Opening Raw materials Rs.30,000/- Purchase of RM Rs.1,50,000/- Freight & Insurance on materials Rs.12,000/- Carriage Inwards on materials Rs.8,000/- Return of Material to suppliers Rs.10,000/- Closing Stock of materials Rs.40,000/- Normal Loss of Material Rs.4,000/- Accidental Loss of Materials Rs.12,000/-	Productive wages paid Rs.1,00,400/- Wages Outstanding Rs. 8,000/- Factory Expenses Rs.40,000/- Office & administration Expenses paid Rs.64,000/- Office Expenses prepaid Rs.4,000/- Selling Expenses Rs.40,000/- Distribution expenses Rs.10,000/-

   The selling price is fixed by a profit of 40% on selling price.

9.
   Direct Materials Consumed Rs.40,000/-
   Productive Labour 7% of Factory
   Factory on cost Rs.12,000/-
   Office Overhead 7.5% of works cost
   Selling and distribution expenses Rs.5,000/-
   Production of Finished items 5,000 units
   Opening Stock of Finished Goods (1,500 units) Rs.12,000/-
   Closing Stock of Finished Goods (3,500 units) Rs?

You are required to find out what will be the profit which is uniformly earned at 10% on the selling price.

The company adopts Average Cost (Weighted) method for valuation of its inventories.

10. From the following information prepare a Cost Sheet for the month of March, 2018-

Raw Materials Used:

X: 200 tons @ Rs.50 per ton	Factory Overhead: 80% of direct wages
Y: 800 tons @ Rs.20 per ton	Office Overhead: 20% of Works Cost
Z: 2,000 tons @ Rs.20 per ton	Selling Overhead: Rs.4 per unit sold
Direct Wages: Rs.40,000/-	Direct Expenses: Rs.10,000/-

Units produced and sold during the month is 20,000 units. The company earns profit of 20% on selling price.

Unit 2: Inventory Management

Structure

2.0 Objectives

After studying this unit, you will be able understand the concept of-

- Inventory Accounting;
- Strategies of Inventory Management;
- Inventory Management Techniques;
- ABC Analysis;
- Economic Order Quantity;
- Stock Levels;
- Reorder Level;
- Minimum Level;
- Maximum Level;
- Danger Level; and
- Average Level.

2.1 Introduction

Inventory management is the supervision of inventory and stock. As an element of supply chain management, inventory management comprises aspects such as regulatory and overseeing ordering inventory, storage of inventory and regulating the amount of product for sale. Inventory management is a discipline which mainly works on the fact of getting the shape and placement of stocked goods. It is essential at dissimilar locations within a facility or within many places of a supply network to proceed the plan in a consistent manner and planned course of production and stock of materials.

2.2 Concept of Inventory Management

The activities which are associated to the weight, dimensions, amount and locations of stocks are simply recognized as inventory management. The opportunity of inventory management specifies about the fact which balances amid replenishment lead times, carrying costs of inventory, asset management, inventory forecasting, inventory valuation and faulty goods and demand forecasting. Balancing these competing necessities leads to optimal inventory levels, which is an ongoing procedure as the business wants to shift and respond to the wider environment. Inventory management comprises a retailer seeking to attain and preserve an appropriate merchandise collection while ordering, shipping, handling and connected costs are reserved in check. It also may contain ABC analysis, lot tracking, cycle counting support etc.

2.2.1 Role of Inventory Accounting

The main role of inventory accounting is to make better choices, the accountants can give assistance for utilizing Inventory Accounting in a proper way and this will increase the value of the taxpayer's investment. Inventory accounting also helps the organisation to make progress and it ensures that the reforms are maintainable and operative for the long term, by confirming that success is suitably known in both the formal and informal rewards system of the organization.

Strategies to Improve Inventory Management:

The following approaches can help companies advance and optimize their inventory management for better results-

- **Inventory Management Tools:** There are numerous tools and strategies available in the market today. The right tool can bring correctness into the procedure and avoid errors that occur due to human oversight. Also, the assistance to manage inventory across various channels like physical stores, online stores and mobile apps.
- **Data Analytics:** Data analytics is gradually being used in enhancing inventory management. Its gives assistance to companies to look at inventory from an organizational level in its place of a branch level.
- **Mobile Inventory Management:** Mobile application that interrelates with inventory in real time can be used by store managers and connections for precisely tracking the stock, improve customer service and plan offers and promotions.

Mobile Inventory Management permits tracking and update of inventory at the most elementary level, product details, brand information etc to the store's links.

- **Product Segmentation:** It pays to take a smooth look into your inventory for the purpose of selecting the products based on their appearances like market appeal, profitability and supply versus demand pattern. This strategy gives assistance in maximizing profits and minimizing operational costs on less profitable products.
- **Inventory Optimization Software:** Inventory optimization software takes an organizational level opinion of the inventory in its place of a localized branch or store level view. It practices historical data to regulate probability of demand, which aids inventory managers to preserve optimal level of inventory and reduce risk of product obsolescence.

2.2.2 Inventory Management Techniques

Some of the most widespread and operative inventory management techniques are as follows-

- **Economic Ordering Quantity:** Economic Ordering quantity is the bottom amount of inventory one must order to meet the peak of customers request without going out of stock and without making obsolete inventory.
- **ABC Analysis:** ABC Analysis is a method of dividing inventories into 3 groups. The classification of the inventory under the ABC Analysis is done conferring to how well the inventory can sell and how much it will cost to hold. Always better regulator systems (ABC) analysis categorizes inventory into three categories namely: A, B and C

Category	Inventory Specification
A	Best-selling items that don't partake in warehouse space or cost.
B	Mid-range selling items, these items are sold regularly but it costs more than category "A" items to hold
C	This inventory is excluding categories 'A' and 'B' that makes up the bulk of inventory costs.

- **Drop shipping:** This inventory management method removes the cost of holding inventory altogether. When one has a drop shipping agreement, you can straight handover the customer the orders and shipment details to your manufacture or wholesaler, who then ships the goods straight to your customer.

- **Cross-docking:** A system similar to drop transport where both approaches rule out the requirement for warehouse or labour costs and risk intricate with inventory handling, cross docking is a practice where incoming semi-trailer trucks or railroad cars unpack materials straight into outbound trucks, trailers or rail cars with little or no storage in between.

2.3 Concept of ABC Analysis

ABC analysis is designed to utilize the inventories according to its value or nature of significance. Under this technique total material are separated into three categories-A, B and C. "A" item with very tight resistor and precise records, "B" items with less strongly measured and good records and "C" items with the humblest controls probable and minimal records.

The ABC Analysis recommended that inventories of an organization arenotofequal value. Thus, the inventory is assembled into three classes (A, B and C) in order of their estimated importance.

"A" item is very significant of an organization. Because of the high value of these 'A' items common value analysis is essential. On the other hand, "B" items are significant but less vital than 'A' items and more significant than "C" items. Whereas "B" items are intergroup substances and "C" items are marginally significant.

2.3.1 Advantages of ABC Analysis

The advantages of ABC Analysis are as follows-

- **Strict Control:** Under ABC analysis, harsh regulator can be trained to the material in group "A" that have higher value.
- **Saving in Time:** A significance effort is made or organization of the material from group 'A' its assistances to save time as well.
- **Minimum Storage Cost:** It decrease storage cost.
- **Economy:** ABC analysis is economical technique, since equal time and labour is not wanted for all kinds of material.
- **Working Capital:** Under this technique working capital can be gainfully channelized elsewhere.
- **Reduction in Investment:** Under ABC analysis, the resources from group 'A' are purchase in lower amounts as much as probable. With this the effort to decrease the distribution period is also made. These in turn aid to decrease the investment in material.

2.3.2 Disadvantages of ABC Analysis are being enumerated below:

- This requires extensive efforts to put items into each category**.**
- Only consider the financial value of items ignoring the other factors.
- Company needs to have standardization for the materials.
- It does not support GAAP.
- Proper standardization & codification of inventory items needed.
- Periodic review becomes difficult if only ABC analysis i recalled.
- When other important factors make it obligatory to concentrate on "C" items more, the purpose of ABC analysis is defeated.
- The classification of the resources into dissimilar classes may lead to additional cost. Hence it may not be appropriate for small organization.
- There is no any methodology based for the classification of material under ABC analysis.

2.3.3 Objectives of ABC Analysis

The objectives of ABC analysis have been economically protected with the help of effective materials management. ABC analysis assists the managements to focus on the most significant items first, and then the company will focus on the other things which are not that important.

2.3.4 Limitations of ABC Analysis

ABC analysis suffers from precise boundaries. It is not fully operative without standardisation and codification. ABC study is based on gradation, programme of the ABC analysis is being performed by V.E.D--- Vital, Important and Needed. Even some substances with less monetary value may be energetic for the plant and may attract essential superior attention. The ABC analysis wants periodical review and updating.

2.3 Economic Order Quantity (EOQ)

Economic Order Quantity applies when demand for a product is determined over the year and each new order is transported in full capacity and when inventory influence is Zero. There is immovable cost involved for each order placed, irrespective of the number of units ordered. There is also price for individual unit held in storage, as holding cost, sometimes it is stated as a percentage of the purchase cost of the element. In Inventory management, Economic Order Quantity (EOQ) is the order quantity that reduces the total cost i.e., holding cost and ordering costs. It is one of the oldest traditional production scheduling models. The model was developed by Ford W. Harris in 1913, but R.H. Wilson, an advisor who applied it widely, and K. Andler are given credit for their in-depth analysis.

2.3.1 Advantages of Economic Ordering Quantity

The chief advantages of Economic Order Quantity (EOQ) are enumerated below:

- **Known Demand or Usage:** Under Economic order quantity, usage for a given period is recognized in prior hand i.e., deterministic.
- **Continuous Unit Price:** Per unit price of material does not alter and it is continuous irrespective of the order size.
- **Constant Carrying Cost:** The cost of carrying is an immovable percentage of the average value of inventory.
- **Constant Ordering cost:** Cost per order is always continuous whatever it be the size of the order.
- **Constant Demand:** The demand or usage is always even through-out the period.

Formula: EOQ = $\frac{\sqrt{2AB}}{C}$

Where, A = Annual Consumption/demand.

B = Buying cost per order.

C = Carrying cost per unit p.a. i.e., % of carrying cost $\times$ Cost per unit.

Illustration- 1:

From the following information calculate the Economic Order Quantity:

Annual usage 20,000 units

Cost of Materials (per unit) Rs.250/-

Cost of placing and receiving order Rs.2,000/-

Annual cost of carrying inventory (including interest) 10% of cost

EOQ = Economic Order Quantity

EOQ = $\frac{\sqrt{2AB}}{C}$

$= \frac{\sqrt{2 \times 20{,}000 \times 2{,}000}}{250 \times \frac{10}{100}}$

$= \frac{\sqrt{2 \times 20{,}000 \times 2{,}000 \times 100}}{250 \times 10}$

$= \frac{\sqrt{8{,}00{,}00{,}00{,}000}}{2{,}500}$

= $\sqrt{32{,}00{,}000}$

= 1,788.85 (approx.)

2.4 Stock Levels

'Stock' is distinct as the quantity price that one has presented for sale. A stock level refers to the different levels of stock generally used for effective material control and computed scientifically or avoiding problems of over-stocking and under-stocking of materials. You can use the stock management instrument to avoid a purchaser from purchasing a product that one doesn't have in stock, or to provide an easy reference to see what goods one is running low on and want to order more of. A significant method of material control is the setting of certain stock levels for the items of materials used by a concern. The quantity of material to be held in store at different times and the quantity to be purchased can be fixed up scientifically for an effective material control.

2.4.1 Different Stock Levels

The different levels of stock generally used for effective material control. It is computed scientifically which avoids problems of over-stocking and under-stocking of materials.

In order to confirm technical control and optimum level of inventory, dissimilar levels of stocks are fixed, which are-

- Re-Order level;
- Maximum level;
- Minimum level;
- Danger level;
- Average level.

2.4.2 Re-ordering Level

Re-Order level is the inventory level at which a company would place a new order or start a new manufacturing run. Re-Ordering level is the level of stock amid the maximum and minimum level of stock. The minimum stock should be sufficient for the time being as the new purchase demand takes adequate time.

The Re-Ordering level of material is computed by considering the following factors-

a) Normal and maximum rate of consumption/usage of material
b) Minimum level of the material
c) Normal delivery time or lead time

d) Variations in delivery time

Formula: Re-Order level = Maximum period × Maximum usage or consumption per day/week/month

Re-Order level = Lead time in Days × Daily Average usage

Re-Order level = Minimum stock + Normal consumption during the lead time

Illustration- 2:

Normal Usage 50 Kgs. Per week
Minimum Usage 25 Kgs per week
Maximum Usage 60 Kgs. Per week
Reorder Quantity 300 kg
Reorder period 3 to 5 weeks

Solution:

Re-Order level = Maximum Usage × Maximum Re-Order Period

= 60 kgs × 5

= 300 Kgs.

Illustration- 3:

In manufacturing gents and lady's shoes in 50 different designs the company is running its operations 20 years without any issue. But recently it is facing some issues in its inventory. Some inventory items are in the store for 6 months while some stocks are out of stocks which are causing delays in the production. The stock which is very low in quality in store has following data available

Maximum level = 5000 shoe cards

Minimum level = 1000 shoe cards

Daily demands of shoe cards = 200 shoe cards

It takes around 10 days to receive the fresh supply of shoe cards once the purchase requisition is placed with the purchaser.

You are required to calculate the Re-Ordering level of shoe cards.

Solution:

Lead time consumption (10) days = 200 × 10 = 2000 shoe cards

Re-Ordering level = Minimum stock + Lead time consumption

= 1000 + 2000

= 3000 units

2.4.3 Minimum Level`

The minimum level is that level of stock below which stock should not be allowed to fall. In case of any item falling below this level, there is danger of production will be stopped and, therefore, the management should give top priority to the acquisition of new supplies.

Formula: Minimum level = Re-Order level – Average or normal usage × Normal Re-Order Period

Illustration- 4:

Normal usage 200 units per day
Minimum usage 100 units per day
Maximum usage 300 units per day
Re-Order period 10 to 20 days

You are to calculate Minimum levels of stock.

Solution:

Re-Order level = Maximum daily usage × Maximum re-order period

= 300 × 20 days

= 6000 units

Minimum Level = Re-Order level – Average or normal usage × Normal re-order period

= 6000 − (200 × 15)

= 6000 −3000

= 3000 units

2.4.4 Maximum Level

The maximum level of inventory could be described as the maximum capacity of a business to stock goods in its store, which may be due to reasons like demand limitation of goods, the storage capacity of business etc. The maximum level of stock is usually achieved when those goods arrive which were ordered at the re-order level of the stock. The maximum level of a material is computed by considering the following factors-

- Storage space available
- Amount of capital needed and available
- Cost of storage, insurance charges and other storing cost
- Possibility of price fluctuation
- Market trends
- Changes in fashion, habits etc.
- Turnover of inventory
- Maximum, minimum and normal rate of consumption/usage of material
- Maximum, minimum and average lead time/delivery period.

Formula: Maximum Level = Re-Order Level + Reorder Quantity – Minimum Usage × Minimum Reorder Period

Illustration- 5:

Normal usage 300 units per day
Minimum usage 400 units per day
Maximum usage 800 units per day

Re-Order period 10 to 30 days
Re-Order Quantity 2000kg

You are to calculate Maximum level of stock

Solution:

Re-Order level = Maximum daily usage × Maximum re-order period

= 800 × 30 days

= 24000 units

Maximum Level = Re-Order Level + Re-Order Quantity – Minimum usage × Minimum Reorder period

= 24000 + 2000 – 800 × 10

= 26000 – 8000

= 18000 units

2.4.5 Danger Level

Normally, this level is static below the minimum level and signifies the phase where instantly steps are taken for getting stock restocked. In other cases, danger level of stock is fixed above the minimum level but below the re-ordering level.

The danger level of a material is computed by considering the following factors-

- Normal delivery period/lead time.
- Urgent delivery time.

Formula: Danger Level = Normal Usage × Urgent lead time

Illustration- 6:

Normal Consumption 200 units
Maximum consumption 400 units
Delivery period within 10-20 days
Delivery period for emergency-5 days
You are required to calculate Danger level.

Solution:

Danger level = Norma rate of consumption × Delivery time required at emergency

= 200 $units$ × 5

= 1000 units

2.4.6 Average Level

The average level of stock is that amount of stock that should be maintained throughout the year. The Average level of a material is not generally fixed by the management or appropriate authority. The storage cost depends on this average stock.

Formula: Average Level = $\frac{\text{Maximum Level} + \text{Minimum Level}}{2}$

Illustration- 7

Normal usage 300 units per day
Minimum usage 400 units per day
Maximum usage 800 units per day
Re-Order period 10 to 30 days
Re-Order Quantity 2000 kg
You are required to calculate Average level.

Solution:

Maximum Level = Re-Order level + Re-Order Quantity − Minimum usage × Minimum Reorder period

$= 24000 + 2000 - 800 \times 10$

$= 26000 - 8000$

$= 18000$ units

$$\text{Average level} = \frac{\text{Maximum Level} + \text{Minimum Level}}{2}$$

$$= \frac{18000 + 2000}{2}$$

=10,000 units

2.6 Summary

From the above discussion, we could understand the concept of Inventory Accounting; Strategies of Inventory Management; Inventory Management Techniques; ABC Analysis; Economic Order Quantity; Stock Levels; Reorder Level; Minimum Level; Maximum Level; Danger Level; and Average Level.

2.7 Questions

A. Multiple Choice Questions (MCQ)-

1. ……………. is not an inventory.
   a) Consumable tools b) Raw materials
   c) Finished goods d) None of these

2. The time period amid placing an order its takings in stock is identified as-
   a) Lead time b) Carrying time
   c) Shortage time d) None of these

3. Buffer stock is what type of stock?
   a) Half of the actual cost
   b) At which the assembling procedure should start
   c) Minimum stock level below which authentic stock should
   d) None of these

4. An example of purchasing costs include-
   a) Incoming freight b) Storage costs
   c) Insurance d) None of these

5. ABC analysis does-

a) **Minimization of storage cost** b) Increase of storage Cost
c) The number of units on hand d) None of these

6. ABC analysis is not effective without-
   a) Standardisation b) Codification
   c) Both a and b d) None of these

7. ………..is NOT a form of inventory?
   a) Raw materials **b) MRP**
   c) Finished goods d) None of these

8. In ABC analysis A class contains of matters having-
   a) Accurate records b) Good records
   c) Minimal records d) None of these

9. An assumption of EOQ is-
   a) Demand is variable
   b) Demand is unknown
   c) Need for a product is persistent over the year
   d) None of these
10. In the Economic Order Quantity formula, the variable A signifies-
    a) Annual usage in units
    b) Ordering cost in dollars per order
    c) Annual carrying cost expressed as a percentage
    d) None of these

11. In the Economic Order Quantity formula, the variable Q signifies-
    a) Annual usage in units
    b) Ordering quantity in units
    c) Ordering cost in dollars per order
    d) None of these

12. The EOQ can be calculated in-
    a) Monetary units
    b) **Physical units**
    c) Both monetary and physical units
    d) None of these

13. The inventory system in which ending inventory-recorded at cost-is measured by counting merchandise still in stock at the close of a selling period is called-
    a) The physical inventory system
    b) The book inventory system
    c) The retail inventory system
    d) None of these

14. Which of the following methods of inventory valuations matches inventory value with a retailer current cost structure?
    a) The cost complete method
    b) The weighted average cost method

c) The LIFO method
d) None of these

15. Perpetual inventory system-
    a) Cannot be maintained manually
    b) Can be maintained through point-of-sale devices
    c) Use only the Optical Character Appreciation technology
    d) None of these

16. Extra inventory that protects against out-of-stock conditions is called-
    a) The reorder points
    b) **Safety stock**
    c) Service level quantities
    d) None of these

Answer Key.

1 (a)	2 (a)	3 (c)	4 (a)	5 (a)	6 (c)	7 (b)	8 (a)	9 (c)	10 (a)
11 (b)	12 (b)	13 (c)	14 (b)	15 (c)	16 (b)				

B. Short Answer Type Questions

1. What is Stock?
2. What do you mean by Inventory Management?
3. What do you mean by EOQ system?
4. Shortly discuss ABC Analysis?
5. What is Bin Card?
6. What do you mean by ABC Analysis?
7. What is EOQ Level?
8. State two objectives of EOQ.
9. What do you mean by Stock exchange?
10. Discuss Minimum Level?

C. Broad Answer Type Questions

1. Briefly discuss the role of inventory accounting system.
2. State the importance of Inventory Accounting System.
3. Discuss the strategies of Inventory Accounting System.
4. What do you mean by Drop shipping techniques? Discuss ABC Analysis?
5. From the following information calculate the Economic Order Quantity-

   Annual usage 10,000 units.
   Cost of Materials (per unit) Rs.300/-.
   Cost of placing and receiving order Rs.4,000/-.
   Annual cost of carrying inventory (including interest)-20% of cost.

6. Find the EOQ level from the following data-

   Actual consumption 9,000 units (per annum).
   Cost per unit Rs.2.00.
   Cost of placing order and processing the delivery Rs.10 per order.
   Inventory Carrying Cost 10% of unit value.

7. Find EOQ Level-

   Annual Consumption 20,000 units (in 360 days).

Cost per unit Rs.1.
Ordering Cost Rs.15 per order.
Inventory carrying change 20%.
Normal lead time 20 days.
Safety stock 30 days' consumption.

8. The annual requirement of an item is 20,000 units, each costing Rs.5. Every order cost Rs.100 at release and inventory carrying charge are 10% of the average inventory per annum.
   Find out: i) Economic Order Quantity and corresponding total inventory cost (including item costs) ii) Whether the item should be purchased in lots of 5,000 units at a time, if the price per unit is reduced by 6% for this quantity.

9. From the following particulars compute the Economic Ordering Quantity for a chemical-
   Monthly emand-2000 units
   Ordering cost per order-Rs.50/-.
   Inventory carrying cost per annum per unit-Rs.20/-.
10. Write a short note on
    a) Minimum Level
    b) Maximum Level
    c) What do you mean by Minimum level, Average Level and Danger Level?
    d) Calculate Maximum Level, Minimum Level, Re-Order Level on the basis of following data-

    Normal Consumption 300 units
    Maximum Consumption 400 units
    Delivery Period within-10-20 days
    Minimum Consumption 100 units
    Normal delivery period-15 days
    Delivery period for emergency-10 days
    Economic Order Quantity-2,000 units

11. From the following information compute Re-Order level, Re-Order Quantity, Average Level, Maximum Reorder Period:
    Normal usage 100 units
    Minimum Usage 60 units per day
    Maximum Usage 130 units per day
    Minimum Level 1,400 units
    Maximum Level 7,800 units
    Reorder Period Normal-25 days; minimum 20 days

12. From the following data for the last 7 days, compute the Average Stock Level for a component:
    Maximum usage in a week 500 units
    Minimum usage in a week 200 units
    Average usage in week 300 units

You also ascertain the Danger Stock Level from the above information

Time-lag procurement of material: Maximum 4 days, Minimum 2days, Re-Order Quantity = 2,000 units.

Unit 3: Quality Management

Structure

3.0 Objectives

After studying this unit, you will be able understand the concept of-

- Quality Management;
- Quality Tools;
- Cause-and-Effect Diagram;
- Control Chart;
- Process Capability Analysis;
- Affinity Diagram;
- ISO 9000 System;
- Quality System;
- Management Responsibility; and
- Statistical Techniques.

3.10 Introduction

The quality management system can be defined as a legitimatized process. Quality management serves as document collections, techniques and obligations to acquire standard guidelines and purposes. Quality Management is being used for the purpose of assisting for the purpose of cooperating and prescribing an institution’s operations to reach consumers and for the purpose of authoritative necessities including the development of its productiveness and proficiency in a consecutive manner.

3.2 Objectives of Quality Management

The objectives of quality management have been enumerated below**:**

- **(i) Setting Benchmark of Standard of Product or Service:** The main aim of quality management system is to develop a benchmark of standard of product or service for the company.
- **(ii) Focus on the Training Needs of the Company:** Training is needed to improve quality of work done and services provided. With the help of quality management system company can improve the skills and ability of the workers, which will improve the quality of the goods manufactured and services produced.
- **(iii) Quality Management Improve Organisational Culture:** Quality management helps to improve the organisational culture. Once the organisational culture has improved then it will lead to better productivity for the organisation.
- **(iv) Quality Management Helps to Lowering Cost and Reducing Waste:** With the help of quality management cost can be lowered and waste can be reduced. Thus, in this way cost of production can be reduced, which will improve the productivity.
- **(v) Meeting Organisational Requirements**: Proper implementation of quality management helps to achieve organisational requirements, which will help the organisation to meet customer need and demand.

3.3 Quality Tools

"Quality tools" means, this is an instrument that is utilised for the purpose of assisting the standards of product. Quality tools can also be termed as 'seven tools of quality'. Quality tool may be accepted as the form of a table, method or skill. Quality tools can be utilised for the purpose of maintaining the standards. These quality tools may be utilised for the purpose of following things, like developing any type of technique, incorporating manufacturing procedures, trade procedures and educational procedures. It is not very difficult to understand quality tools. All these tools are categorized into three principal classes. These three categorizations are being defined in the following classes, such as –

a) Traditional tools,

b) The management tools

c) The 1995 tools.

Quality tool is a continued process and thus this is ever changing. Quality tool is being developed every day and the development may take place at any time of the continued process. Some of the traditional tool regarding quality control are as-

- Graphics of histogram;
- Cause and consequences of representations;
- Check incidents or occurrences;
- Pareto charts or presentations;
- Monitoring schedules;
- Outstretched illustrations; etc.

3.3.1 Concept of Cause-and-Effect Diagram

Cause and effect diagram was developed by Professor Kaoru Ishikawa in the 1960. Cause and effect are a diagram-based approach for finding out the cause and its effect for a particular problem. A cause-and-effect diagram is a very useful tool for the purpose of identifying or finding out the possible causes of any effect or incident.

The cause-and-effect diagram' is a very important tool to manifest probable reasons of a particular complication or situation. Thus, the discovery of Professor Kaoru Ishikawa, who introduced standard management procedures in the Kawasaki shipyards sector and by introducing this he also developed this management system. Again, cause and effect diagram help to find out the basic reasons, problematic fields behind any problem and assimilate the corresponding value of various incidents.

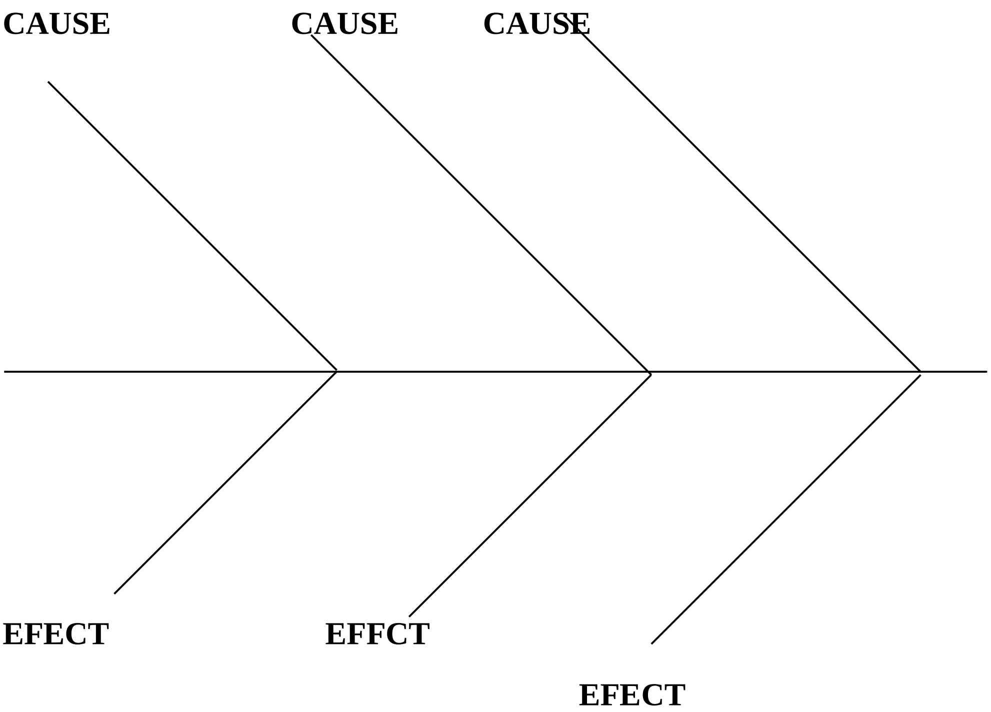
Constructing a Cause-and-Effect Diagram can help in the following way-

- Identifying the possible root causes, the basic reasons, for a specific effect, problem, or condition.
- Sort out and relate some of the interactions among the factors affecting a particular process or effect.
- Analyze existing problems so that corrective action can be taken.

Some important benefits of using a Cause-and-Effect Diagram are as below:

- Cause-and-Effect Diagram helps to determine the root causes.
- It encourages group participation.
- It uses an orderly, easy-to-read format.
- It indicates possible causes of variation.
- It increases process knowledge.
- It identifies areas for collecting data.

Basic Layout of Cause-and-Effect Diagrams



Cause effect diagram looks like fish bone, thus this also called fish bone diagram**.**

3.3.2 Concept of Control Chart

The control chart is utilised for the purpose of analysing the procedure of changes over the period, control chart is a kind of design or graph. Here the Information is arranged according to the order of time. But this chart has always a middle range for the approximation, a higher range for the higher control barrier and a lesser range for the lesser control barrier.

The control charts manifest the activity procedure from two different view-points or aspects. Primarily, it displays a snapshot of the procedure at the time of information accumulation. Secondarily, it displays the procedure aptitude or tendency or trends as the time of improving. Procedure trends are essential as they use to assist in determining the out-of-control situation. Moreover, they use to assist for identifying the differences outside the natural activity barriers and to observe the reasons varieties. The above-mentioned analysis manifests the usual manifestation of a control chart.

A control chart is a statistical tool used to distinguish between variation in a process resulting from common causes and variation resulting from special causes. It presents a graphic display of process stability or instability over time.

Every process has variation. Some variation may be the result of causes which are not normally present in the process. This could be special cause variation. Some variation is simply the result of numerous, ever-present differences in the process. This is common cause variation. Control Charts differentiate between these two types of variation.

One goal of using a Control Chart is to achieve and maintain process stability. Process stability is defined as a state in which a process has displayed a certain degree of consistency in the past and is expected to continue to do so in the future.

3.3.3 Concept of Process Capability Analysis

The most essential method is utilised to impose how well a procedure reaches to a series of particular barrier is known as "process capability analysis". And this analysis technique is depended on a sample of information collected from usual methods such as-

- The budget from the shortages per million rewards.
- Many capable exponents or index.
- The budget of the sigma quality level at which procedure functions or acts.

But now-a-days, the statistical graphics contributes "process capability analysis" in case of such cases-

- Process capability analysis for calculation of information from a natural allocation.
- Process capability analysis for calculation of information from an unnatural allocation.
- Process ability examination on behalf of similar calculation.
- Process capability analysis for enumerations.
- Process capability analysis for values or costs.
- Process capability analysis for conditional probability of the event or incident.
- Process capability analysis of sample volume imposition for capability exponents

Thus, the process capability analysis theorem may be explained or understood comfortably.

3.3.4 Concept Affinity Diagram

The term "affinity diagram" is a kind of creative method, utilised with a group to accumulate and arrange concepts, implications, issues, reasons etc. it is utilised as the following-

- To accumulate the composition with compound edition.
- Abolishing a complex edition into big groups or classes.
- Completing or obtaining agreement on a condition.

There are so many actions to express an affinity diagram. And they are manifested just as follows-

- Specify the exposure to be investigated and begin with a distinct representation of the complication or target and contribute a time barrier.
- Intellectual concepts for the complications and every candidate should contemplate about the concepts and compose them personally or exponent cards or adhesive annotations.
- Accumulate the exponent cards or adhesive annotations first, later mix them up and scattered out on a clean heads or periphery. Exponent cards may comfortably be brought under control to a baffler with a putty-type colloidal.
- Organize the adhesive annotations into concerned series. On an average, the participants should be provided fifteen minutes to accumulate cards according to the schedule of concerned concepts and ignore them until all the cards are united together respectively.
- Generate a name or title or headline or caption for every section of cards.

So, the above-mentioned analyses are absolutely fit to set up an affinity diagram. There may be various ways, but all these explanations are very much essential for this type of diagram.

3.4 ISO 9000 System

According to the present wide-ranging and free financial discretion, the Indian Industrial area is situated within a large impact of variation from improving stage of conducted and conservative environment to practical repugnant, competing with international open market. At this present condition, the opportunity of progress is depended on product standard and participating expenses. Hence, it is obligatory that all the important steps are accepted so that one can generate exact things for the first time and afterwards due to preserve the standard maintenance expenses of rejected product or working again and associating impediments. This kind of series under quality systems use to contribute conducts of graphic or sampling assurance systems for any constructing service activity or productiveness according to the basic rules of entire quality management. While, one mentions about the ISO-9000 systems easily then one usually alludes to the quality system design of ISO-9001, ISO-9002 and ISO-9003. Apart from these, the various types of this series are as-

- To conduct for choice and utilise according to the principle of ISO-9000 Quality Management and Quality Assurance standards.
- To improve the model under the rules of ISO-9001 Quality System Model for Quality Assurance to generate, install and serve.

- To install and generate sample for quality assurance according to the ISO-9002 Quality Systems.
- To investigate and experiment the sample for ultimate quality assurance according to the ISO-9003 Quality System.
- To advice under the rules of ISO-9004 Quality Management and Quality System Elements.
- To develop the command of language according to the ISO-8402 Quality.

The ISO-9000 method combines or amalgamates the functions of an institution in reaching the consumers contentment in terms of manufacture and service standard, duration of time and allotment and at financial expenses or at participating value.

This method also provides the formation of the quality system to be utilised in terms of improvement, manufacture, settling and contributing the production as well as standard and quick service. The institution has to establish the methods in the quality system to exercise for reaching the consumer gratification. The above-mentioned analysis may be acquired whether the quite institution works together on behalf of same factors, in such a way this method is responsible to acquire the second quality and also being taken part by the entire member of the institution. But the entire strategy is an accumulative duty which is indiscriminately divided among the whole member of the institution.

3.5 Importance and Need for Quality Systems

The fundamental or basic requirements of the institutions are standard, value and allotment procedure to remain in a participating market place. Investigation of things is not an exact accomplishment after having generated and marginalized the products. There are a lot of necessities on behalf of the quality management systems or procedures. The ISO-9000 is the one which is universally accessible as conventional grade in terms with quality management system all over the universe. The acknowledgement of ISO-9000 qualities is very much essential in a participating constrained market to obtain entrance to the universal market. Side by side the quality management system has some important benefits or advantages towards the institutions. And these advantages are presented as follows-

- It develops the participation and nobility both in domestic and international.
- It contributes skilful and financial means of assuring the contentment customer's need throughout entire periods, securing magnificent depiction, credible and protected execution, fast allotment and proficient employment.
- It promotes or exaggerates consumer's belief and reliability of an institution.
- It also contributes the base for successive entire standard development.
- It concerns necessity to everybody from the head of an institution to the employees.

Moreover, the quality management systems have **prominent features**. But, some of them have been presented throughout the following analysis of the system-

- Availability
- Independence
- Comprehensive
- Maintenance of standards in an institution
- Incessant development level

Thus, the quality management system may be specified according to the above-mentioned analysis.

3.6 Management Responsibility

The qualities are needed the company to determine and record its stratagem for and assurance to standard and management of all personnel who authorise, execute and observe employment with simulating standard, prescribe authority delegates and guide authority observations. The management responsibility is needed the following points-

- Determining and recording a qualitative strategy and targets.
- Assuring that standard stratagem is appreciated, accomplished and preserved at entire equilibrium in the institution.
- Determining the liability, governance and inter-relationships of entire employees who authorise, execute and authenticate employment.
- Recognizing and contributing sufficient funds and employee supply.
- Inaugurating an authority observer having determined management and liability to allot and sustain necessities of the quality.
- Establishing and allotting methods of authority observation of the standard procedure at particular interlude.

So, these are the special characteristics of a management responsibility in accordance with the explanation. But one should go through the matter properly.

3.7 Statistical Techniques

The institution is needed to set up methods for recognizing the requirement for statistical procedures for investigating the adoptability of the technical proficiency and product features and to allot and manage them. The principal changes in the statistical techniques are discussed as the following-

a) Family standards or quality
b) Large volume of institution
c) Emphasize on five important sections-
    - Standard authority system
    - Liability of the authority
    - Fund monitoring
    - Apprehension of the product
    - Calculation hypothesis and development
d) Certification or registration
e) Registered or certified institution

Simultaneously, there are a lot of advisors and institutions like CII, ACMA who helps organizations to receive certification. Obtaining ISO-9000 registration is not very simple but demands assurance and assistance from the higher authority. So, the following measures are needed to allot ISO-9000 method-

a) Studying the pertinent quality to allot ISO9000 method
b) Arrangement and statement of standard policy and motive

c) Nomination of authority observer
d) Nomination of interior group for allotment
e) Coaching of entire workers in quality system commitment
f) Arrangements of pertinent divisional processes and job indications
g) Allotment of processes and job indication
h) Choosing and coaching of interior or central observer
i) Interior standard observation for consent
j) Purification of parallelism
k) Composing procedure
l) Evolution of ultimate detailed process
m) Primary observation by certification authority
n) Purification authority statement
o) Ultimate observation by certification authority
p) Distribution of certificate
q) Supporting and developing the system or method

However, all these steps are necessary to formulate the statistical techniques or procedures in case of quality management system. That is why the steps are quietly required to obtain a good statistic measure.

3.8 Summary

From the above discussion we could able to understand the concept of Quality Management; Quality Tools; Cause-and-Effect Diagram; Control Chart; Process Capability Analysis; Affinity Diagram's 9000 System; Quality System; Management Responsibility; and Statistical Techniques.

3.9 Questions

A. Multiple Choice Questions (MCQ)-

1. The objective of ISO-9000 family of quality management is-
   a) Customer satisfaction
   b) Employee satisfaction
   c) Skill enhancement
   d) None of these

2. Total Quality Management focuses on-
   a) Employee b) Customer
   c) **Both (a) and (b)** d) None of these

3. ……………. is responsible for quality objective?
   a) Top level management
   b) Middle level management
   c) Frontline management
   d) None of these

4. Overall Superiority Management & ISO both focuses on-
   a) Customer
   b) Employer
   c) Supplier
   d) None of these

5. CMM stands for-
   a) Capability maturity model
   b) Capability monitoring model
   c) Capability measuring model
   d) None of these

6. Which of the following is environment management?
   a) ISO-9000
   b) ISO-14000
   c) ISO-26000
   d) None of these

7. According to Deming, Quality problems are-
   a) Due to manage, management
   b) Due to method
   c) Due to machine
   d) None of these

8. What is ISO?
   a) Indian organization for standard
   b) Internal organization for standard
   c) International organization for standard
   d) None of these

9. EMS stands for?
   a) Environmental management system
   b) Employees management system
   c) Engineering management system
   d) None of these

10. ISO emphasis on-
   a) Prevention
   b) Inspection
   c) Rejection
   d) None of these

Answer Key.

1 (a)	2 (c)	3 (a)	4 (a)	5 (a)	6 (b)	7 (a)	8 (c)	9 (a)	10 (a)

B. Short Answer Type Questions

1. What is Quality Management System?
2. What is ISO-9000 Standards?
3. What are the elements of ISO-9000 standards?
4. Describe management responsibility

C. Broad Answer Type Questions

1. What is the ISO-9000 standards? Describe their salient characteristics.
2. Explain the following terms in relation to ISO-9000 quality management system
   a) Non-conforming product
   b) Corrective and preventive action
   c) Internal quality audits
   d) Contract review
3. What are the elements of ISO-9000 standards? Describe them briefly.
4. What benefits do ISO-9000 Quality standards are to the user's organisation?

Unit 4: Direct Taxation

Structure

4.0 Objectives

After studying this unit, you will be able to understand the concept of-

- Heads of Income which includes the following
- Income under the head ‘Salary’ u/s 17(1);
- Income under the head ‘House Property’ u/s 22 to 27;
- Income under the head ‘Profit and Gains of Business or Profession’ u/s 28 to 44;
- Income under the head ‘Capital Gains’ u/s 45;
- Income from Other Sources; Basic of Charge (u/s 56)**,** Deduction (u/s 57), expenses not deductible (u/s 58)
- Total Income;
- Deduction’s u/s 80C to 80U;
- Set Off and Carry Forward of Losses;
- Inter Sources Set off;
- Inter head Set Off;
- Carry Forward of Losses; and
- E-filling of Return.

4.1 Introduction to Taxation

Tax is a payment which has been computed and charged by the government of India on a product, income or activity. There are two kinds of taxes; viz.-

a) Direct Taxes; and
b) Indirect Taxes.

Direct Taxes: When tax is levied directly on the income or wealth of a person, then it is called direct tax e.g., income tax, Wealth Tax etc.

Indirect Taxes: When tax is levied on the price of goods or services rendered then it is called indirect tax; viz.-Goods and Services Tax (GST), Customs Duty, etc.

Component of Income Tax law: Income Tax (IT) law consists of the following components-

Sr. No.	Components	Brief analysis
1	Income Tax Act, 1961	There are 298 sections and XIV schedules under Income Tax Act, 1961.
2	Finance Acts	Every year the Finance Minister of GOI presents the Budget to the Parliament. Part A of the Budget speech contains the proposed policies of the Government. Part B contains the detailed tax proposals. Such, proposals become finance act once these get approved by the parliament.
3	Income Tax Rules	The administration of direct taxes is looked after by the Central Board of Direct taxes (CBDT).
4	Circulars and Notifications	Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of the provisions. Though, the department is bound by the circulars while the assesses can take only the advantages of beneficial circulars.
5	Legal Directions	The study of case laws is an important and unavoidable part of the study of income-tax law. **Supreme court** is the **apex court** of our country.

Few terminologies what we frequently deal in Income Tax-

- **Income [u/s 2(24)]:** The definition of income is inclusive in nature. It includes profits & gains; Dividends, Contributions received perquisite or profit in lieu of salary, any financial gains etc.
- **Income Tax:** The fees levied on income are simply known as Income tax.
- **Assessment Year [u/s 2(9)]:** Assessment year means a period of 12 months commencing on 1st April every year.
- **Previous Year (u/s 3):** Previous Year means the financial year immediately preceding the assessment year.
- **Total Income and Tax payable:** Income tax is levied on an assessee's total income.
- **Assessee [(u/s 2(7)]:** Assessee means a person by whom any tax or any other sum of money is payable under this act.
- **Person [u/s 2(31)]:** There are 7 categories of persons or assesses; viz.-
  a) Individual;
  b) Hindu Undivided Family (HUF);
  c) Company;
  d) Firm;
  e) Association of Person (AOP) or Body of Individual (BOI), viz. – Any trust;
  f) Local authority (viz. – A municipal corporation, district board etc.); &
  g) Artificial Person (viz. - An idol or deity, university).
- **Dividend [u/s 2(22)]:** Any distribution of accumulated profits is simply known as dividend. But under IT Act it extends few more steps; viz. - release of assets, distribution of debentures or bonus shares and even loan or advances given to a substantial shareholder are treated as dividend.

- **India [u/s 2(25A)]:** The term 'India' means-
  a) The territory of India as per article 1 of the Constitution;
  b) It's territorial waters, seabed and subsoil underlying such waters;
  c) Continental Shelf;
  d) Exclusive economic zone or
  e) Any other specific maritime zone and the air space above its territory and territorial waters.

4.2 Heads of Income

Section 14 of the Act provides that for the purpose of charge of income tax and computation of total income, all incomes shall be classified under the following five heads of income

1) Income under the head "Salaries"
2) Income under the head "House property"
3) Income under the head "Profits and gains of Business or Profession"
4) Income under the head "Capital Gains"
5) Income under the head "Other Sources"

4.2.1 Income under the head 'Salary' u/s 17 (1)

The payment made by an employer to an employee is known as Salary. For Example-Mrs. Rose, an actress is employed in Chopra Films for a monthly remuneration of Rs.2 Lakhs. Here

‘Chopra Films’ is the employer and Mrs. Rose is the employee where the Salary income is Rs.24 (2x12) lakhs annually.

The term Salary includes ***wages, annuity, pension, gratuity, fees, commission, perquisite / profit in lieu of salary, leave salary, advance salary, provident fund receipt or any other receipt*** from the employer in terms of employment.

Element	**Description**
Wages	1. Mr. Roy got a monthly lump-sum wage of Rs. 15000/- from his employer during the **previous year** 2021-2022. Compute income from Salary of Mr. Roy for the assessment year 2022-23. **Ans.** (Rs.15000x12) i.e.Rs.1,80,000/- is the Income from Salary of Mr. Roy for the assessment year 2022-23. 2. Miss. Lata got a job in Aditya Birla from the campus interview of Calcutta University for an annual Lump-sum payment of Rs. 4,80,000/- during the previous year 2021-22. Compute her Salary income for the Assessment year 2022-23. **Ans.** Rs.4,80,000/- is the income from Salary of Miss. Lata for the Assessment year 2022-23
Annuity or Pension	3. Mr. Bulbul Babu after getting retirement from HDFC Bank joined as a Tax Advisor in IDBI Bank for a Monthly lump-sum payment of Rs.2 Lakhs. He also gets an annuity from his earlier employer Rs.30,000/- per month as pension. Compute his Salary income for the Assessment year 2022-23. **Ans.** (Rs.2,00,000 x 12 + Rs.30,000 x 12) i.e., Rs.27,60,000/- is the Salary income of Mr. Bulbul Babu for the Assessment year 2022-23. 4. Dr. Babu is a guest lecturer of IIMC who is getting paid a monthly salary of Rs. 60,000/-. He also gets a pension from his earlier employer Rs.40,000/- per month as pension. Compute his Salary income for the Assessment year 2022-23. **Ans.** Rs. (Rs.60,000 x 12 + 40,000 x 12) i.e., Rs.12,00,000/- is the income from Salary of Dr. Babu for the Assessment year 2022-23. 5. What would his salary income if Dr. Babu would have commuted his 60% of pension and received Rs.6,00,000/- as commuted pension? Under the following circumstances: i) Dr. Babu was a Govt. employee. ii) Dr. Babu was a non-govt. employee and when he receives Gratuity. iii) Dr. Babu was a non-govt. employee and when he does not receive any Gratuity. **<u>Exemption u/s 10(10A) regarding commuted or lump-sum pension</u>** **Category of Employee** — **Exemption** Govt. — Fully.

<table>
<tr>
<td></td>
<td>
<table>
<tr><td rowspan="2">Non-Govt.</td><td>When the employee gets Gratuity.</td><td>$\frac{1}{3}$ x (commuted pension received) x 100/commutation %</td></tr>
<tr><td>When the employee does not get Gratuity.</td><td>$\frac{1}{2}$ x (commuted pension received) x 100/commutation %</td></tr>
</table>
Note:

High court or Supreme Court judges will get tax exemption maximum ½ of commuted pension.
If the commuted pension is being received from LICI will be exempted.

</td>
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<tr>
<td>Gratuity</td>
<td>
Gratuity received during service period is fully taxable.
But when it is being received at the time of retirement the following deduction is available
<table>
<tr><th>Category of Employee</th><th colspan="2">Exemption</th></tr>
<tr><td>Govt.</td><td colspan="2">Fully exempted.</td></tr>
<tr><td rowspan="2">Non-Govt.</td><td>Covered under Gratuity Act, 1972</td><td>Least of the following three:
a) Rs.10,00,000/-
b) Actual receipt.
c) Last month’s salary (15/26) x No of completed year of service or partly completed i.e., > 6 months.
Note: Salary = Basic + D.A.</td></tr>
<tr><td>Not covered under Gratuity Act, 1972</td><td>Least of the following three:
a) Rs.10,00,000/-
b) Actual receipt.
c) $\frac{1}{2}$ x Salary based on last 10 month’s average x No of completed year of service.
Note: Salary = Basic + D.A. (The portion of retirement benefit) + Commission of fixed % on turnover.</td></tr>
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	6. Mrs. Pamela Devi got retired on 15.06.2020 from Bulbul India Ltd. after completion of 30 years 8 months of service and received Gratuity of Rs.8,00,000/-. At the time of retirement his salary was: Basic salary Rs.32,000/- D.A. (60% retirement benefit) Rs.20,000/- Commission on sale 1% Turnover in last 12 monthsRs.36,00,000/- Bonus Rs.60,000/-p.a. i) Compute her taxable gratuity if she is a non-govt. employee but covered under Gratuity Act, 1972. ii) Compute her taxable gratuity if she is a non-govt. employee and not covered under Gratuity Act, 1972. iii) Compute her taxable gratuity if she is a Govt. employee. **Ans.** i) Nil. ii) Rs.95,000/- iii) Nil.
Fees & Commission	7. Mr. Paul is a notary officer who is getting a monthly payment of Rs. 60, 000/- during the financial year 2018-19. In addition of that he got a proportion of fees collected by him from his employer of Rs.2,40,000/-. Compute his Salary income for the Assessment year 2022-23. **Ans.** Rs. (Rs.60,000 x 12 + 20,000 x 12) i.e., Rs.9,60,000/- is the income from Salary of Mr. Paul for the Assessment year 2022-23. 8. Dr. Roy has been appointed in Apollo Clinic as a general physician. Last financial year he got a monthly salary of Rs. 60,000/- and 10% of patient fees collected by the Clinic because of him. He dealt with the Patient of the value of Rs.15,00,000/- during the financial year 2020-21. Compute his Salary income for the Assessment year 2022-23. **Ans.** Rs. (60,000 x 12 + 10% of 15,00,000) i.e., Rs.8,70,000/-. 9. Mr. Dutta got posted as a Sales Executive in Air voice Co Ltd. for a Monthly remuneration of Rs.60,000/-. He also gets 1% of sale made by him as an incentive. Sale made by him during the financial year 2021-22 of Rs. 45,00,000/-. Compute his Salary income for the Assessment year 2022-23. **Ans.** Rs. (60,000 x 12 + 1% of 45,00,000) i.e., Rs.7,65,000/-.
Perquisites or Profit in Lieu of Salary	10. Miss. Ria got a payment from her employer an amount of Rs.10,00,000/- towards her voluntary retirement during the previous year 2021-22. Compute her Salary income for the Assessment year 2022-23. **Ans.** Rs.10,00,000/- is the Salary income of Miss. Ria for the Assessment year 2022-23. 11. Mrs. Dutta got a payment of Rs.4,80,000/- as the amendment of her Salary during the previous year 2021-22. She also gets a monthly remuneration of Rs.40,000/- from her present

employer. Compute her Salary income for the Assessment year 2022-23.

Ans. Rs. (4,80,000 + 40,000 x 12) i.e., Rs.9,60,000/-.

12. Miss. Lata was an employee of Tata Motors at Singur office. Because of some political issue she lost her personal car and some related assets costing Rs.7 Lakhs in 2011. In April, 2020 she got posted in Gujarat office. She gets a monthly payment of Rs.60,000/-. She also got Rs.4 lakhs in the previous year towards the loss suffered by her in 2012. Compute her Salary income for the Assessment year 2022-23.

Ans. Rs.7,20,000/-, profit in lieu of salary is nil as the reimbursement towards the losses of personal assets is not related in terms of employment. Such income will be charged under the head "Income from Capital Gains".

Tax Implication on Provident Fund (PF)

Employer's Contribution:

Categories of PF	Contribution	Interest	At the time of Maturity
Recognized	>12% of Salary.	>9.5% of Salary.	Exempted from Tax if service period ≥ 5 years or < 5 years but terminated by the ill health of employer.
Un-recognized	Not taxable yearly.	Not taxable yearly	Fully taxable.
Public	NA as here the employer does not contribute.	Exempted.	Fully exempted u/s 10 (11).
Statutory	Exempted.	Exempted.	Fully exempted u/s 10 (11).

Employee's Contribution:

Categories of PF	Contribution	Interest	At the time of Maturity
Recognized	Eligible for deduction u/s 80C.	>9.5% of Salary.	Exempted from Tax if service period ≥ 5 years or terminated by the ill health of employer.
Un-recognized	Not eligible for deduction.	Not taxable yearly	NA (Interest is taxable under the

			head “Income from Other Sources”.
Public	Eligible for deduction u/s 80C.	Exempted.	Fully exempted u/s 10 (11).
Statutory	Eligible for deduction u/s 80C.	Exempted.	Fully exempted u/s 10 (11).

Salary = Basic + DA (Only the portion of retirement benefit) + Commission as % of turnover.

13. Miss. Sewli Devi is working in Sunshine Ltd. and has given the details of his income for the P.Y. 2021-22. You are required to compute his gross salary from the details given below:

Basic Salary Rs.20,000/- P.M.
D.A. (50% for retirement benefits) Rs.10,000/- P.M.
Commission as a % of turnover 1%
Turnover Rs.5,00,000/-
Bonus Rs.40,000/-
Gratuity Rs.2,00,000/-
His own contribution to RPF Rs.40,000/-
Employer’s contribution to RPF 20% of his basic salary.
Interest accrued in the RPF @ 10% p.a. Rs.20,000/-

Ans.
Statement showing the computation of gross salary of Miss. Sewli Devi for the Assessment year 2022-23.

Particulars	**Amount Rs.**
Basic salary (Rs.20,000 x 12)	2,40,000
D.A. (Rs.10,000 x 12)	1,20,000
Commission (Rs.5, 0,000 x.01)	5,000
Bonus	40,000
Gratuity (Note: 1)	2,00,000
Perquisites:	
Employee’s contribution to RPF 48,000	
Less: 12 % of Salary (Note: 2) 36,600	11,400
Interest accrued on RPF (20,000 x (10-9.5)/10	1,000
Gross Salary	**6,17,400**

Note:
1. Gratuity received during service period is fully taxable.
2. Employer’s contribution in the RPF is exempted up to 12% of salary.
Salary = 2,40,000 + 1,20,000/2 + 5000
= Rs.3,05,000/-
Therefore, 12 % of Salary = 3,05,000 x 0.12
= Rs.36,600/-

14. Miss. Meeta Devi is working in Air voice Ltd. and has given the details of his income for the P.Y. 2021-22. You are required to compute her gross salary from the details given below:

Basic Salary Rs.20,000/- P.M.
D.A. (50% for retirement benefits) Rs.10,000/- P.M.
Commission as a % of turnover 1%
Turnover Rs.20 00,000/-
Bonus Rs.40,000/-
Gratuity Rs.2,00,000/-
His own contribution to RPF Rs.40,000/-
Employer's contribution to RPF 20% of his basic salary.
Interest accrued in the RPF @ 10% p.a. Rs.20,000/-

Ans. Rs.6,17,600/-.

15. What would her gross salary if there was un-recognized PF? What would her gross salary if there was Public PF?

Ans. Rs.6,05,000/-; Rs.6,05,000/-.

16. What would her gross salary if there was Statutory PF?

Ans. Rs.6,05,000/-.

<u>House Rent Allowances</u>

Location	Taxable Allowances
Having population > 25 lakhs	15% of salary.
Having population >10 lakhs but not>25 lakhs	10% of salary.
Having population up to 10 lakhs	7.5% of salary.

Note:

1. Salary = Basic + D.A. (Only the portion of retirement benefit or superannuation fund) + any other cash allowances like commission, Bonus etc.
2. If accommodation is provided in a hotel >15 days, then 24% of Salary for that period or actual expenses made by the employer whichever is lower reduced by any payment made by the employee will be taxable perquisite.
   [Except those are exempted from tax, employer's contribution to PF, and value of perquisite u/s 17(2) i.e. reimbursement of medical expenses or medical insurance premium]
3. If furnished accommodation is provided perquisite will be added by 10% of cost of furniture.
4. Where rented accommodation is provided the actual Rent or the calculated value whichever is lower will be taxable allowances.
5. If the Assessee pays any amount that should be deducted from the taxable allowances.
6. If the employer is Central or State Government, the license fees will be the taxable perquisite.

7. Any accommodation provided to officer of parliament, union minister or leader of opposition of parliament is not taxable perquisite.
8. Any accommodation provided to an employee working at a mining site or an on-shore oil exploration site or project execution site, or a dam site or a power generation site or an off-shore site will not be taxable perquisite if satisfies any one of the following two conditions:
    a) The accommodation is of temporary in nature, has a plinth area within 800 square feet and is located at least 8 kms away from any municipality or cantonment board.
    b) The accommodation is located in a remote area which is located at least 40 kms away from a city having a population not exceeding 20,000 based on latest census.

17. Mrs. Meeta Devi is working in Air voice Ltd. at Navi Mumbai office and has given the details of his income for the P.Y. 2021-22.

Basic Salary Rs.20,000/- P.M.
D.A. (60% for retirement benefits) Rs.10,000/- P.M.
Commission as a % of turnover 1%
Turnover Rs.20,00,000/-
Bonus Rs.40,000/-
Gratuity Rs.2,00,000/-

In addition, that she was allowed an accommodation facility throughout the previous year 2021-22.
You are required to compute the value of perquisite: If
i) The accommodation was un-furnished.
ii) The accommodation was furnished. The cost of furniture was Rs.4,60,000/-.

Ans. Rs.85, 800/-, 1,31,800/-.

18. From the above problem compute the value of perquisite if Miss. Meeta Devi is a Govt. employee and the license fees is Rs.10,000/-.

Ans. Rs.56,000/-.

19. Mr. Roy is working in Sunshine Ltd. and has given the details of his income for the P.Y. 2021-22. You are required to compute value of taxable perquisite from the details given below:

Basic Salary Rs.20,000/- P.M.
D.A. (50% for retirement benefits) Rs.10,000/- P.M.
Commission as a % of turnover 1%
Turnover Rs.5,00,000/-
Bonus Rs.40,000/-
Gratuity Rs.2,00,000/-

His own contribution to RPF Rs.40,000/-
Employer's contribution to RPF 20% of his basic salary.
Interest accrued in the RPF @ 10% p.a. Rs.20,000/-
In the last year he was allowed an accommodation in a hotel for a period of 45 days for an official tour. For this purpose, Sunshine Ltd. spent Rs.75,000/-.

Ans. Rs.67,192 /- (Approx.).

20. Mr. C is a Finance Manager in ABC Ltd. The company has provided him a rent-free unfurnished accommodation in Mumbai. He gives you the following particulars:

Basic salary Rs.24,000/-
Advance salary for April, 2019 Rs.40,000/-
D.A. (60% Retirement benefit) Rs.10,000/-
Bonus Rs.6,000/- P.M.

Even though the company allotted the house to him on 01.04.18, he occupied the same only from 01.01.18. Calculate the taxable value of perquisite for the Assessment year 2022-23.

Ans. 15% of salary for the relevant period i.e., 15% of (24,000 + 6,000 + 6,000) x5 i.e., Rs.27,000/-.

21. What would your answer if Mr. C would have to pay a rent of Rs.5,000/- per month when the company has taken the house at a rent of Rs.16,000/-? Would your answer differ if the rent would be Rs.5,500/- instead of Rs.16,000/-?

Ans. Rs.2, 000/-, Nil.

<u>Value of Perquisite on car allowances (P.M.)</u>

Circumstances	**Cubic capacity of engine $\leq$ 1.6 liters**	**Cubic capacity of engine > 1.6 liters**
Used exclusively for Official purpose	-----Nil------	-----Nil------
Used exclusively for personal purpose	Actual exp. incurred by the employer + 10% cost of car	Actual exp. incurred by the employer + 10% cost of car
Used both for Official & Personal purposes	Rs.1800/- P.M. but Rs.600/- P.M. when the expenses on running and maintenance for private or personal use are fully met by the assessee (900 if chauffeur is provided)	Rs.2400/- P.M. but Rs.900/- P.M. when the expenses on running and maintenance for private or personal use are fully met by the assessee (900 if chauffeur is provided)

Note:

1. If the car is owned by the employee, used for both official and personal purposes then---

Perquisite = (Actual reimbursement – Rs.1800/- or Rs.2400/- as applicable).

1. Where the user uses any other automotive conveyance and the employer reimburses the expenses, Perquisite = (Actual reimbursement- Rs.900/-).
2. Where the employee uses more than one car both for official and personal usage, one car will be treated as both for official and personal purpose and the other will be treated exclusively as for private purposes.

22. Miss. Archana Devi is an employee of HDFC Bank. Her salary details are as under:

Basic Salary Rs.20,000/- P.M.
D.A. (50% for retirement benefits) Rs.20,000/- P.M.
Commission as a % of Business drawn1%
Business Drawn Rs.50,00,000/-
Bonus Rs.40,000/-
Gratuity Rs.2,00,000/-
His own contribution to RPF Rs.40,000/-
Employer's contribution to RPF 20% of his basic salary.
Interest accrued in the RPF @ 10% p.a. Rs.20,000/-

In addition, the above considerations Miss. Devi was allowed a personal loan of Rs.10,00,000/- at a rate of interest 7.5%, (the market going rate is 10.75%), a four-wheeler of a cubic capacity of engine exceeding 1.6 liters which she used both official and private purposes. Compute her salary income for the Assessment year 2021-22.

23. Would your answer differ if Miss. Devi would use the Car exclusively for office/personal use only? What would your answer if Miss. Devi was allowed a chauffeur (car driver) and a Car allowance of Rs.6,000 P.M. where she incurred the expenses regarding car in the year Rs.64,000/-?

Reimbursement of Medical Expenses

Application of Expenses	Exemption
Employer's own hospital employee or any family member	Fully exempted.
Govt., local authority or any recognized hospital	Fully exempted.
In a hospital approved by the chief commissioner for any prescribed Disease or ailments of him or any member	Fully exempted.
Any medical premium paid for employee or any member of his family under any scheme of central Govt.	Fully exempted.
Any other hospital or any pvt. doctor	Actual exp. or Rs.15,000/- whichever is lower.

<table>
<tr>
<td></td>
<td>
<table>
<tr><td>Outside of India (Treatment + travel and stay abroad)
[Condition: The Assessee's GTI should be ≤ 2 lakhs]</td><td>The amount permitted by RBI</td></tr>
</table>
Family = Spouse + Children (Dependent or independent, married or un-married) + Parents, Brothers, sisters (only if they are partly or wholly dependent)

24. Mr. Hot is working in Lotus Ltd. He got the following allowances in the previous year in regard of medical facilities:
Treatment of Mr. Hot by his family doctor Rs.5,000/-
Medical premium of Mr. Hot Rs.7,000/-
Treatment of Mrs. Hot in a Govt. hospital Rs.25,000/-
Family medical premium Rs.20,000/-
Treatment of his mother by family Doctor Rs.10,000/-
Treatment of Mr. Hot's grandfather in a Pvt. Clinic Rs.12,000/-
Treatment of his grandmother by family Doctor Rs.8,000/- (78 years old and dependent)
Treatment of his sister in a nursing home (Dependent)Rs.3,000/-
Treatment of his brother (independent) Rs.6,000/-
Treatment of his father (Dependent, 55 years) abroad Rs.50,000/-
Staying abroad of the patient Rs.30,000/-
Limit specify by RBI Rs.75,000/-

Compute taxable value of perquisite of Mr. Hot regarding medical facilities availed Mr. Hot for the assessment year 2022-23

Ans. Rs.34, 000/-.
</td>
</tr>
<tr>
<td>Leave Salary</td>
<td>
Leave salary means the salary for unutilised leaves. Such salary during service period is fully taxable but when it is given at the time of retirement the following exemption u/s 10(10AA) is available:
Exemption u/s 10(10AA)
<table>
<tr><th>Category of Employee</th><th>Exemption</th></tr>
<tr><td>Govt.</td><td>Fully exempted.</td></tr>
<tr><td>Non-Govt.</td><td>Least of the following four:
a) Rs.3,00,000/-
b) Actual receipt.
c) 10 month's salaries (On the basis of last 10 month's average).
d) Cash equivalent of unutilized leave. [Last 10 month's average salary x Un-utilized leave/30]</td></tr>
</table>
[Salary = Basic + D.A. (Only the part of retirement benefit) + Fixed % of commission on turnover.]
</td>
</tr>
</table>

	25. Miss. Anita Devi, an employee of IDBI Bank Ltd. retired on 1.12.2020 after 20 years 10months of services. She got leave salary Rs.6,00,000/- at the time of retirement. Basic Salary Rs.20,000/- P.M. D.A. (50% for retirement benefits) Rs.15, 000/- P.M. Bonus Rs.40,000/- Gratuity Rs.2,00,000/- Commission as a % of Turnover 1% Turnover Rs.30,00,000/- His own contribution to RPF Rs.40,000/- Employer's contribution to RPF 20% of his basic salary. Interest accrued in the RPF @ 10% p.a. Rs.20,000/- Leave availed 480 Days She was entitled 30 days leave every year. You are required to compute her taxable leave salary for the Assessment year 2022-23. **Ans.** Rs.1,20,000/-. B) If Miss. Anita Devi would be an RBI employee would your answer differ? **Ans.** Nil. Note: Maximum leave salary exempted from tax is Rs.3,00,000/- irrespective of nos. of employers or nos. availing times.
Advance Salary	Treat like normal salary.
Provident Fund receipt	See perquisite.

4.2.1.1 Deduction from Salary

The revenue chargeable under the head 'Salaries' is calculated after making the following deductions:

a) Entertainment Allowance (Only Govt. employees) u/s 16(ii).
b) Professional Tax u/s 16(iii).

Note:

i) Least of the following 3 is allowable as deduction irrespective of actual expenses in entertainment purposes:
   a) 1/5th of Basic Salary.
   b) Rs.5,000/-
   c) Entertainment allowance receipt.
ii) Professional tax paid by the employer is first to be added with the salary and then to be deducted.

4.2.2 Income under the head 'House Property' u/s 22 to 27

The income derived from house or relating to house like garden, garage, godown or any commercial premises is known as income from House property. There are 4 types of house property. Such as-

- Self-Occupied
- Let Out
- Partly let out and partly occupied
- Deemed to be let out.

4.2.2.1 Computation of Gross Annual Value (GAV)

<table>
<tr><th>Nature of House</th><th>Valuation Method</th></tr>
<tr><td>Self-Occupied</td><td>-------------Nil--------------
Cases:
1. Mr. Roy has a self-occupied house in Kolkata. The Municipal Corporation of Kolkata valued it as Rs.6 Lakhs in 2020-21, Fair Rent is Rs.8 lakhs and Standard Rent is Rs.6.5 lakhs. Compute the Gross Annual Value of the house of Mr. Roy for the assessment year 2022-23.

Ans. Nil.</td></tr>
<tr><td>Let Out</td><td>GAV is higher of ALV and Actual Rent Receipt or Receivable (ARR) whereas ALV is higher of MV and FR subject to SR. [But if the house is vacant any part of the year and due to that reason the ARR becomes lower than ALV we will consider ARR as GAV.]

Cases:
2. Mrs. Silk has a house property in Vasi, Navi Mumbai. Its Municipal value is Rs.40 Lakhs, Fair Rent Rs.48 lakhs and Standard Rent is Rs.45 lakhs. The property was let out at Rs.4.5 lakhs P.M. Compute the Gross Annual Value of the property of Mrs. Silk for the assessment year 2022-23.

Ans. GAV Rs.54 lakhs.

3. Mr. Lotus has 5 properties in Bandra, all of which were let out during the previous year 2021-22. The details are given below:
<table>
<tr><th>Particulars</th><th>House I</th><th>House II</th><th>House III</th><th>House IV</th><th>House V</th></tr>
<tr><td>Municipal Value</td><td>90,000</td><td>50,000</td><td>75,000</td><td>64,000</td><td>90,000</td></tr>
<tr><td>Fair Rent</td><td>80,000</td><td>60,000</td><td>80,000</td><td>65,000</td><td>1,20,000</td></tr>
<tr><td>Standard Rent</td><td>N.A.</td><td>75,000</td><td>72,000</td><td>N.A.</td><td>1,44,000</td></tr>
<tr><td>Actual Rent Received</td><td>40,000</td><td>50,000</td><td>60,000</td><td>70,000</td><td>80,000</td></tr>
</table>
Compute the Gross Annual Value of each property separately of Mr. Lotus for the assessment year 2022-23.</td></tr>
</table>

Ans.

Particulars	House I	House II	House III	House IV	House V
GAV	90,000	60,000	72,000	70,000	1,20,000

4. Would your answer differ if in the above example the properties were 2 months vacant during the previous year?

Ans.

Particulars	House I	House II	House III	House IV	House V
GAV	90,000	60,000	72,000	70,000	1,20,000

5. Mrs. Munmun has a house property at College Para in New Barrackpore. Its Municipal value is Rs.4 Lakhs, Fair Rent Rs.8 lakhs and Standard Rent is Rs.6 lakhs. The property was let out at Rs.60, 000/- P.M. During the previous year the house was vacant for a period of 4 months. Compute the Gross Annual Value of the property of Mrs. Munmun for the assessment year 2022-23. If Mrs. Munmun would give the house at monthly rent of Rs.40,000/- would your answer differ?

Partly let out and partly self-occupied

GAV is higher of ALV and Actual Rent Received (ARR) in the letting period where as ALV is higher of MV and FR subject to SR.

Cases:

6. Mr. Lucky Bhai has a house at which he has been living since 24.03.1988. The other details of the house are as under:

   Municipal value Rs.10 Lakhs
   Fair Rent Rs.12 Lakhs
   Standard rent by Rent Control Act. Rs.14 Lakhs

   As he had a plan to go to USA to meet with his brother, he arranged a tenant and the whole house was let out to him from 1st day of December, 2021 at a rent of Rs.75, 000/- per month.
   On 31.01.2022 he came back and got back the house from the tenant on 07.02.2022 after getting two months' rent.
   Compute the Gross Annual Value of the property of Mr. Lucky for the assessment year 2022-23.

7. Mrs. Gupta has a house property at New Delhi. The other details of the house are as under:

   Municipal value Rs.5 Lakhs
   Fair Rent Rs.4.20 Lakhs
   Standard rent by Rent Control Act. Rs.4.8 Lakhs

   During the previous year the house was let-out for Rs. 60,000/- p.m. up to December 2021. Thereafter the tenant vacated the house and Mrs. Gupta used the house for self-occupation. Rent for the month of November and December 2021 could not be realized in spite of her effort. All the conditions prescribed under Rule 4 are satisfied.

<table>
<tr><td></td><td>Compute the GAV of the property of Mrs. Gupta for the assessment year 2022-23.</td></tr>
<tr><td>Deemed Let out</td><td>Annual Letting Value (ALV) is the Gross Annual Value (GAV). No rent was earned as here the house was not let out at all.
Cases:
8. Mr. Happy has two houses, both of which are self-occupied. The particulars of the houses for the P.Y. 2021-22 are as under:
<table>
<tr><td>Particulars</td><td>House I</td><td>House II</td></tr>
<tr><td>Municipal Value p.a.</td><td>1,00,000/-</td><td>1,50,000/-</td></tr>
<tr><td>Fair Rent p.a.</td><td>75,000/-</td><td>1,75,000/-</td></tr>
<tr><td>Standard Rent p.a.</td><td>90,000/-</td><td>1,60,000/-</td></tr>
</table>
Compute the GAV of the properties of Mr. Happy for the assessment year 2022-23.

9. Mr. Ali has an old-fashioned house at Tala which was purchased by his father in 1964. He acquired another modeled house at Garia as on 24.03.2021 at a cost of Rs.160 lakhs, near science city. The other details of the houses are as under:
<table>
<tr><td>Particulars</td><td>House of Tala</td><td>House of Garia</td></tr>
<tr><td>Municipal Value p.a.</td><td>4,00,000/-</td><td>16,00,000/-</td></tr>
<tr><td>Fair Rent p.a.</td><td>3,75,000/-</td><td>18,75,000/-</td></tr>
<tr><td>Standard Rent p.a.</td><td>4,60,000/-</td><td>20,00,000/-</td></tr>
</table>
During the previous year 2021-22 both of the houses were self-occupied. Compute the GAV of the properties of Mr. Ali for the assessment year 2022-23.</td></tr>
</table>

4.2.2.2 Deductions from GAV u/s 24

1. Municipal Tax paid.
2. Deduct 30% of NAV u/s 24(a).
3. Eligible interest such as u/s 24(b):
   a) Pre-interest------------ over the 5 years i.e., per year $1/5^{th.}$
   b) Post-interest----------full amount.

   However, the year in which the house is acquired or constructed is known as post-constructed period and the full interest will be eligible for deduction u/s 24 irrespective of date.

<table>
<tr><th>Nature of House property</th><th colspan="2">Deductions</th></tr>
<tr><td rowspan="2">Self-occupied</td><td>Acquired or constructed</td><td>Before 1.4.99 Max. Rs.30,000/-. But on or after 1.4.99 Rs.2,00,000/-</td></tr>
<tr><td>Repair, renewed or reconstructed</td><td>Max. Rs.30,000/-.</td></tr>
</table>

Let Out / Partly let out and partly self-occupied / Deemed to be Let out	Acquired or constructed / Repair, renewed or reconstructed	Actual amount i.e. No upper limit.

Note: The house needs to be completed within 5 years from the end of the financial year in which the capital was borrowed to avail the max. Limit of deduction Rs.2,00,000/- u/s 24(b).

4.2.3 Income under the head 'Profits and Gains of Business or Profession u/s 28 to 44

Has been explained separately in 4.3.

4.2.4 Income under the head 'Capital Gains' U/s 45

The revenue i.e., any profit or gain derived from the **transfer** of **capital asset** which is affected in the previous year, is recognized as Income from **Capital Gain**.

Capital assets u/s 2(14)

A Capital Asset denotes property of any kind held by an assessee, whether or not associated with his or her business or profession, but does not comprise-

i) Any **stock-in –trade**, consumable stores or raw materials held for the purpose of business or profession of the assessee;

ii) **Individual effects**, that is to say, transferable property (including wearing apparel and furniture) held for personal use by the assessee or any member of his family dependent on him (But excludes- ***Jewellery, archaeological collections, drawings, paintings, sculptures or any work of art***);

iii) Rural **agrarian land** in India i.e., agrarian land in India which is not situated in any specified area;

iv) Any Gold or Superior Bearer **Bond** allotted by the Central Government or Gold Deposit Bond issued under the Gold Deposit Scheme, 1999 notified by the Central Government.

4.2.4.1 Transfer u/s 2(47)

Here, Transfer means-

i) The sale, conversion or abdication of the asset; or

ii) The extinguishment of any rights therein; or

iii) The obligatory attainment thereof under any law; or

iv) The proprietor of a capital asset may change the same into the stock-in-trade of a business carried on by him. Such conversion is treated as transfer; or

v) The maturity or redemption of a Zero-Coupon Bond; or

vi) Part-performance of a contract; or

vii) Transferring or enabling the enjoyment of an immovable of property.

Note:

i) Rural means such an area which is not located within the limit of any municipality or cantonment board having a population of 10,000 or more according to the latest census or within a distance of 8 kms from the local limits of such municipality or cantonment board.

ii) Goodwill, leasehold rights, partnership right, manufacturing license even the right to subscribe of shares are also the examples of capital assets.

4.2.4.2 Capital Gains

We know there are two types of Capital Gain. Such as-

a) Short Term Capital Gain.
b) Long Term Capital Gain.

Nature	Situation
Short Term	Any profit or gain arising from the **transfer** of **capital asset** which was being held not more than 36 months. If the assets are shares or securities then 12 months.
Long Term	>36 or 12 months.

Cases under various situations

Situation	Tax Implication
Personal Effect	The profit or gain arising out of personal effected goods, are not taxable income u/s 45 except the following six: i) Jewellery, ii) Archaeological collections, iii) Drawings, iv) Paintings, v) Sculptures or vi) Any work of art. 1. A had a car. On 1st April 2020, he starts a business of purchase and sale of motor cars. He the above car as part of the stock-in-trade of his new business. He sells the same on 31-03-2021 and gets a profit of Rs.1,00,000/-. Discuss the tax implication. **Ans.** As the car is a personal asset which falls under personal effect. Any profit or gain arising because of conversion of such asset will not be treated as capital gain u/s 45. 2. Amit Babu is a student of B. Com (2nd year) who opened a Mobile Shop at College para with his 4 mobiles and small savings of scholarship money on 1st April, 2020. Here he converts his 4 Mobiles at a profit of Rs.16,000/-. Discuss the tax implication. 3. Miss. Devi has had some **jewelries** got from her grandmother at her 18th Birthday. Now, she is 19, studying in a college. As a commerce student she had some idea of commerce. Bye the way she opened a jewelry shop at her locality and engaged a goldsmith to run the shop. On 1st day of April, 2020, **she converted** her all jewelries as stock-in-trade at a price of Rs.4

<table>
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<td>
lakh. Her grandmother got the jewelries at the occasion of her marry. The fair market price of the jewelries were Rs.40,000/- as on 01.04.2001. The current cost inflation index is 301. Compute the income under the head capital gain of Miss. Devi.

Ans. Nil.

4. In the above case if Miss. Devi would have sold all the jewelries' at Rs.6,00,000/- on 31.03.2021 would your answer differ?

Ans.
Computation of Capital Gain of Miss. Devi for the assessment year 2022-23
<table>
<tr><th>Particulars</th><th>Amount Rs.</th></tr>
<tr><td>Sale proceeds
Less: Conversion price
Business Profit</td><td>6,00,000
<u>4,00,000</u>
<u>2,00,000</u></td></tr>
<tr><td>Conversion price
Less: Indexed cost (40,000*317/100)
Long Time Capital Gain</td><td>4,00,000
<u>1,26,800</u>
<u>2,73200</u></td></tr>
</table>

5. Mr. Dream, an individual was fond of archaeological things. So, he started a business with archaeological goods. Last financial year he sold some of his personal collections of such goods at a profit of Rs.1,60,000/-. Discuss the tax implication.

Ans. Such profit will be treated as Capital Gain. Capital Gain is Rs.1,60,000/-.
</td>
</tr>
<tr>
<td>Agricultural Land</td>
<td>
The profit or gain arising because of transfer of rural agricultural land is not taxable income u/s 45. But, if any profit or gain arises due to transfer of land which is situated at any municipal or cantonment board area having a population of ≥ 10,000 or within a distance of 8 kms from the local limits of such municipality or cantonment board, is taxable income u/s 45 as Capital gain.

6. Mr. Paul had some agricultural land at Bira which is not located in the specified area. He bought such land in May, 2010 at a cost of Rs.4,80,000/-. In May 2020, he sold this property at a price of Rs.10,00,000/-. Cost inflation index: For 2020-2021 is 301, for 2010-2011 is 167. Discuss the tax implication of Mr. Paul for the assessment year 2021-22.

Ans. Nil, on the ground of rural agricultural land.

7. Would your answer differ if such land were situated at Madhyamgram, a municipal area?
</td>
</tr>
</table>

Ans. Yes, as Madhyamgram falls under the specified area and hence the tax is leviable u/s 45 if any profit or gain arises because of transfer of any agricultural land. Such as-

Particulars	Amount Rs.
Sale proceeds Less: Indexed cost (4,80,000*317/167)	10,00,000 9,11,137
Long Term Capital Gain	**<u>88,862</u>**

8. Mr. Das & Mr. Argument are two friends. They sold some agricultural lands situated at Nadia and Garia respectively. Mr. Das earns a profit of Rs. 3,00,000/- where as Mr. Argument earns Rs. 2,00,000/-. Subsequently they went to a tax consultant. He advised them that they need to pay Tax on such gain. Now they come to you and seek your advice.

   Ans. Mr. Das needs not to pay any tax u/s 45 as the gain is out of the transfer of **Rural Agricultural Land where** as Mr. Argument needs to pay tax on Capital Gain of Rs.2,00,000/-.

Bonds or Securities

The profit or gain arising because of transfer of any **Gold Bonds or Special Bearer Bonds** is not taxable income u/s 45. But if any profit or gain arises any other securities is taxable income u/s 45 as Capital gain. For any Bonds or Debentures no indexation is used.

9. Miss. Vanessa Devi, purchased National Defense Gold Bonds, 1980 of Rs.1,00,000/-, issued by central Government. During the last financial year, she earned Rs.60,000/- as profit. Discuss the tax implication of Miss. Vanessa Devi for the assessment year 2022-23.

   Ans. Nil.

10. Miss. Antara Devi purchased 200, 10% Debenture @ Rs.100 each at a discount of 10% on 1.4.2017. In January 2022 she sold all the Debentures at a price of Rs.110 each.

Financial year	Cost Inflation Index
2017-18	272
2020-21	301
2021-22	317

Discuss the tax implication of Miss. Devi for the assessment year 2022-23.

Ans. Rs. {200*(110 – 90)} i.e., Rs.4,000/-.

11. Mr. Mehta purchases 1000 equity shares in Airvoice Co. Ltd. @ Rs.15/- per share (brokerage 1%) in January 1998. He gets 1000 bonus shares by virtue of his holding on February 2008. Fair market value of the shares on April 1, 2003 was Rs.25 per share. In January 2021, he transfers all the shares @ Rs.120/- each (brokerage @ 2%). Compute the capital gain taxable in the hands of Mr. Mehta for assessment year 2022-23 assuming-
    i) Airvoice Co Ltd. is an unlisted company and security transaction tax was not applicable at the time of sale.
    ii) Airvoice Co Ltd. is a listed company and shares were sold through a recognized stock exchange and security transaction tax was paid as applicable at the time of sale.

Financial year	Cost Inflation Index
2003-04	109
2007-08	129
2020-2021	301
2021-22	317

Ans.

i) Computation of capital gain for the assessment year 2022-23

Particulars	Amount Rs.
<u>For 1, 000 Original Shares:</u> Sale proceeds (1000*120) Less: Brokerage (1,20,000*2%) Indexed cost (25*1000*317/129)	 1,20,000 (2,400) (61,434)
Long Term Capital Gain (a)	**56,166**
<u>For 1, 000 Bonus Shares:</u> Sale proceeds (1000*120) Less: Brokerage (1, 20, 000*2%) Indexed cost	 1,20,000 (2,400) Nil
Long Term Capital Gain (b)	**1,17,600**
Long Term Capital Gain (a+b)	**<u>1,73,766</u>**

ii) The long-term capital gain on transfer of **equity shares** through a **recognized stock exchange** on which **security transaction tax** is paid is exempted from tax u/s 10(38). Hence, the taxable capital gain is Nil.

12. If Mr. Mehta would get the 1, 000 bonus shares, in 2000 would your answer differ? - If so, show the calculation in details

    Ans. Long Term Capital Gain Rs.95,200/- (47,600*2).

13. Aparna Devi purchased 10,000 equity shares in Lotus India Ltd. @ Rs.10 each on 30th January 2020. She sold all the shares through a **recognized stock exchange** @ Rs.15 each on 30th December 2020. Compute the capital gain taxable in the hands of Miss. Aparna Devi for assessment year 2022-23 assuming **security transaction tax** was paid @ 0.25%.

Financial year	Cost Inflation Index
2019-20	289

<table>
<tr>
<td></td>
<td>
<table>
<tr><td>2020-21</td><td>301</td></tr>
<tr><td>2021-22</td><td>317</td></tr>
</table>

Ans. Short Term Capital Gain Rs. {1,50,000 – (1,50,000*.25% + 1,00,000)} i.e., Rs.49,625/-.
</td>
</tr>
<tr>
<td>Intangible Asset</td>
<td>
The profits or gains arising because of transfer of any Intangible assets such as Goodwill, leasehold rights, partnership right, manufacturing license or the right to subscribe of shares are taxable income u/s 45.
14. On January 31, 2021, Mr. Roy has transferred self-generated goodwill of his profession for a sale consideration of Rs.65,000/- and incurred expenses of Rs.5,000/- for such transfer. You are required to compute the capital gains chargeable to tax in the hands of Mr. Roy for the assessment year 2022-23.

Ans. The transfer of self-generated goodwill of profession is not chargeable to tax. Hence, taxable capital gain is Nil.

15. Mr. Roy had been offered 1,000 right shares @ Rs.40 each in the month of August, 2020. He sold the right to Mr. Anand @ Rs.20/- each. Discuss the tax implication of Mr. Roy for the assessment year 2022-2023.
Ans.
Computation of Capital Gain of Mr. Roy for the assessment year 2022-23.
<table>
<tr><td>Particulars</td><td>Amount
Rs.</td></tr>
<tr><td>Sale proceeds (1,000*20)
Less: Cost of acquisition
Short Term Capital Gain</td><td>20,000
<u>Nil</u>
<u>20,000</u></td></tr>
</table>
</td>
</tr>
</table>

4.2.5 Income from Other Sources u/s 56

The first four heads of income have precise nature of income taxable under that head. "Income from other sources" is the last and residual head. What does not get enclosed under the first four heads of income gets taxed under this head. However, there is certain income, as prescribed in section 56(2) of the Income Tax Act that is essentially to be charged under this head.

4.3 Profit and Gains of Business or Profession

Business revenue may comprise income acquired from the sale of products or services. For instance, fees obtained by a person from the regular practice of a profession are business income and chargeable under the head "Profits and Gains of Business or Profession".

What	**Whom**	**How**

It's an income which derives out of business activities.	Any firm or company or any other person dealing with business or professional activities. Ex. Grocery shop, sweet seller, Fees charged by a doctor, advocate, CA etc.	Through Profit and Loss Account

Business: In brief, Business comprises of any trade, commerce and manufacturing of goods with a determination of making profit within the permissible laws of country.

Professions: It includes services provided by the professionally qualified or technically qualified person according to their qualification.

Income from Business/Profession: It refers any revenue which is exposed in profit and loss account after considering all allowed expenditures.

4.3.1 Basis of Charge i.e., Income chargeable under the head "Profits and Gains from Business or Profession" u/s 28

The following are few instances of revenues which are chargeable under this head: -

- **i)** ***Normal Income*** from overall doings of business or profession;
- **ii)** Profit earned on sale of ***REP License/Exim scrip, cash assistance*** against export or duty drawback of custom or excise;
- **iii)** Amount recovered on account of ***bad debts*** which were already adjusted in profit in earlier years etc.;
- **iv)** Any amount obtained under a ***Keyman Insurance Policy*** including the sum by way of bonus such policy;
- **v)** ***Profit from speculation business*** should be kept separate from business income and shown separately;
- **vi)** Profit on sale of licence approved under Imports (Control), Order, 1955 made under the Imports and Exports (Control) Act, 1947;
- **vii)** Any income on transfer of Duty Entitlement Pass Book (DEPB) Scheme;
- **viii)** Worth of any assistances or perquisites ascending from a business or the exercise of a profession;
- **ix)** Any compensation or other payments due to or received by any person specified u/s 28(ii);
- **x)** Income derived by a trade or profession or similar association from specific services performed for its members' u/s 28(iii);
- **xi)** Any cash assistance under the Govt. Scheme by any person against export u/s 28(iii);
- **xii)** Any interest, salary, bonus, commission or remuneration due to or received by the partner of a firm will be treated as business / professional income in hand of partner. Though, the share of revenue from partnership firm is released in hand of partner;

N. B.-i) *Any profit other than regular activities of a business should be shown as casual income and will be shown under* ***"income from other sources"*** *head.*

ii) Replenishment (REP) Licence for Import of Gold/ Silver/ Platinum in respect of Exports.

4.3.2 Business Income Not chargeable under the head "Profits and Gains from Business or Profession"

i) **Rental Income from House Property:** It is chargeable u/s 22 and included in the head "Income from House Property". Such income won't be included here even it is a business of the owner.

ii) **Dividend Income:** All dividend income is chargeable u/s 56 and included in the head "Income from Other Sources". Such income won't be included here even the income derived from the Stock- in-trade.

iii) **Income from letting out of Commercial Asset:** If such letting is permanent in nature, won't be included here.

iv) **Income from lotteries, etc.**: Income from lottery, gambling, horse race, etc. are taxable u/s 56(2)(ib) as "Income from Other Sources". Such income won't be included here even it is a business of the assessee.

4.3.3 Computation of Business Income

Illustration-1:

Mr. Roy, a spare parts dealer, furnishes the following particular of his income for the previous year ended on 31st March, 2022.

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To, Salaries	40,000	By, Gross Profit b/d	2,50,000
,, Rent, rates and taxes	12,000	,, Dividend	5,000
,, Legal charges	4,000	,, Interest on post office savings bank account	1,000
,, Interest on loan	13,000		
,, Office expenses	14,000		
,, Provision for bad debts	2,600		
,, Income-tax paid	2,000		
,, Depreciation	13,000		
,, Donation to the P.M's National Relief Fund	5,000		
,, Net Profit	1,30,400		
	2,56,000		**2,56,000**

On scrutiny, the following was found:

i) One-half of the premises are used by him for his residence.

ii) Legal charges include Rs.1,000/- in connection with income-tax proceedings.

iii) Office expenses include Rs.1,000/- as daily Puja expenses in the shop.

iv) Depreciation as per Income-tax Rules is Rs.15,000/-.

Compute Mr. Roy's income from business for the Assessment year 2022-2023.

Solution:

Calculation of Income under the head "Profits and gains of business or profession" of Mr. Roy, a resident individual, for the assessment year 2022-2023 relating to the previous year 2021-2022.

Particulars	Amount Rs.	Amount Rs.
Net profit as per Profits and Loss Account		1,30,400
Add: Expenses disallowed:		
Provision for bad debts	2,600	
Income-tax	22,000	
Depreciation (treated separately)	13,000	
Donation to the P. Ms National Relief und	5,000	
Rent, rates and taxes [Rs.12,000 × ½]	6,000	
		48,600
		1,79,000
Less: Expenses allowed under the I.T. Act		
Depreciation as per I.T. Rules		15,000
		1,64,000
Less: Incomes not chargeable under the head:		
Dividend	5,000	
Interest on post office savings bank account	1,000	
		6,000
Business Income		1,58,000

Notes:

i) Half of the expenses on rent, rates and taxes, being for personal use of the proprietor, has been disallowed.

ii) As per decision of the courts, daily Puja expenses and legal charges for income tax proceedings are allowed as deduction u/s 37(1).

iii) From the assessment year 2004-2005, dividends from Indian companies are exempt u/s 10(34). Interest on post office savings bank is exempt u/s 10(15).

Illustration-2:

The Profit and Loss account of Mr. Das for the previous year 2020-2021 shows a Net Profit of Rs.4,00,000/- after providing for depreciation on assets Rs.18,000/-. The following further information was available. Compute business income of Mr. Das for the Assessment year 2022-2023 giving reasons:

i) An amount of Rs.12,000/- on account of sundry creditors written off was directly credited in the Capital A/c. The said amount was charged in the Revenue A/c of earlier year and was allowed as expenditure.

ii) Depreciation allowance of Rs.18,000/- included depreciation amounting to Rs.8,000/- on an additional to plant and machinery costing Rs.40,000/- during the year (purchased on 1.1.2021 and put to use on the same date) @ 20%.

iii) Samar earned an income of Rs.24,000/- during the year from his money lending business which was unlicensed. Legal charges debited to the profit and loss A/c included Rs.3,000/- paid to a lawyer in connection with prosecution of Samar for this business.

iv) General charges included:

- i) Rs.2,000/- towards donating to political party election fund
- ii) Rs.3,000/- for family planning expenses among the employees.
- iii) Repairs to building include Rs.15,000/- towards cost of addition to premises, construction was complete on 1.7.2019.

Solution:

Computation of income under the head "Profits and Gains of business or profession" of Mr. Das, a resident individual, for the assessment year 2022-2023 relating to the previous year 2021-2022.

Particulars	**Amount Rs.**	**Amount Rs.**
Net profit as per Profit and Loss Account		3,00,000
Add: Expenses disallowed:		
Depreciation (treated separately)	18,000	
Sundry creditors written off which was allowed Earlier	12,000	
Legal expenses in connection with Illegal money lending business	3,000	
Donation to political	2,000	
Extension to building	15,000	
		50,000
		3,50,000
Less: Expenses allowed under the Act:		
Depreciation as per I.T. Rules		15,500
Business Income		**3,34,500**

Notes:

i) Depreciation allowed under the Act:

- Depreciation on plant purchased during the year (Rs.8,000 × ½) (As it used for less than 180 days during the previous year) — 4,000
- Depreciation on remaining assets (Rs.18,000 – 8,000) — 10,000
- Depreciation on extension to building @ 10% on Rs.15,000 (Full years depreciation as it is used for more than 180 days during the previous year) — 1,500

15,500

ii) Family planning expenditure has been presumed to be revenue expenditure. It is, therefore, allowed u/s 37(1).

iii) Legal chares in relation to illegal business are not allowed, although the profits of such business are taxable. It is presumed here that the profit of Rs.24,000 is included in the net profit of Rs.3,00,000
iv) U/s 80GGC, a non-corporate assesses can claim deduction from gross total income on account of donation to political parties.

4.4 Total Income

We see that total income is consequent after subtracting the numerous deductions under section 80 from the Gross total income. So, you first calculate the Gross total income (GTI) and then subtracted the deductions to arrive at the total income.

Total Income = Gross total income – Deduction under section 80

4.4.1 Deductions U/s 80C to 80U

Deduction is the performance or procedure of subtracting a sum of money from a total amount. In computing the taxable income or total income of an assessee, certain deductions are allowed to be made from the gross total income.

The gross total income is the aggregate of income under all the five heads. The total income or taxable income of an assessee is arrived at only after the deductions mentioned in Chapter VI-A of the Income-tax Act. The various deductions available to the different types of assesses are specified in sections 80c to 80U.

Illustration- 1:

For the Assessment Year 2022-23, the gross total income of Mr. Roy was Rs.2,28,240 which includes long-term capital gains of Rs.45,000 and short-term capital gains (from sale of jewellery) Rs.8,000. The gross total income of P also includes interest from bank Rs.12,000. P deposited rs.60,000 in the public provident fund account and also paid rs.11,000 for medical insurance premium. He also contributed Rs.15,000 to a public charitable trust eligible for deduction u/s 80G.

Compute total income of Mr. Roy.

Solution:

Computation of total income of Mr. Roy, a resident individual, for the Assessment Year 2022-23 relating to the Previous Year 2021-22.

Particulars	Amount Rs.	Amount Rs.
Gross total income		2,28,240
Less: Deduction under section 80C to 80U:		
i) u/s 80C in respect of PPF	60,000	
ii) u/s 80D in respect of medical insurance premium	11,000	
iii) u/s 80G in respect of contribution to charitable trust (see note)	5,612	76,612
Total income (Rounded off)		**1,51,628**

Note: Deduction u/s 80G has been calculated as under:

Particulars	Amount Rs.	Amount Rs.
a) Adjusted gross total income:		
Gross total income		2,28,240
Less:		
i) Long term capital gains	45,000	
ii) Deduction u/s 80C	60,000	
iii) Deduction's u/s 80D	11,000	
		1,16,000
Adjusted gross total income		1,12,240
b) Qualifying amount of deduction u/s 80G being 10% adjusted gross total income		11,224
c) Actual deductions: 50% of qualifying amount		**5,612**

Illustration- 2:

Mr. P. Kar furnishes the following particulars for the Previous Year 2021-22. Compute his total income.

a) Income from business (taxable) Rs.6,90,200
b) Income from other sources (taxable) Rs.2,31,500
c) Contribution to PPF Rs.1,20,000
d) Contribution to NPS Rs.1,10,000
e) Deposit in pension scheme of LICI Rs.60,000

Solution:

Computation of total income of P. Kar for the Assessment Year 2022-2023.

Particulars	Amount Rs.	Amount Rs.
Income from business		6,90,200
Income from other sources		2,31,500

Gross total income		**9,21,700**
Less: Deduction under section 80C-80U		
i) Deduction under section 80C (for contributing to PPF)	1,20,000	
ii) Deduction under section 80CCC (for deposit in pension scheme of LICI)	60,000	2,00,000
iii) Deduction under section 80CCD (1B) (for contribution to NPS—maximum Rs.50,000)	50,000	
iv) Deduction under section 80CCD (1) [Contribution to NPS excluding deduction allowed under section 80CCD (1B) i.e., Rs.60,000 (Rs.1,10,000- Rs.50,000) or 105 of gross total income i.e., Rs.92,170, whichever is lower]	60,000	
* Total deduction under section 80C, 80CCC and 80CCD (1) is restricted to Rs.1, 50,000 as per section 80CCE	1,50,000*	
Deduction under section 80CCD (1B)	50,000	
Total Income		
		7,21,700

Illustration- 3:
During the Previous Year 2021-22, X furnishes the following particulars of his income.

a) Gross salary Rs.4,15,200
b) Interest on fixed deposit with a bank Rs.5,000
c) Income on fixed deposit of minor daughter Rs.3,000
d) Income from UTI received by his handicapped son Rs.3,000

During the year X paid the following sums:

- Contribution to LIC for pension fund u/s 80CCC Rs.10,000
- Deposit to public provident fund Rs.55,000
- Deposit under equity savings scheme Rs.20,000
- Tuitions fees for part-time MBA course of son Rs.25,000
- Tuitions fees for full-time Engineering course in India for the daughter Rs.40,000

Compute taxable income of X for the Assessment Year 2022-2023.

Solution:
Computation of total income of X, a resident individual, for the Assessment Year 2021-2022 relating to the Previous Year 2020-21.

Particulars	**Amount Rs.**	**Amount Rs.**	**Amount Rs.**

Income under the head "Salaries": Gross salary Less: Deduction u/s16:		4,15,200 Nil	4,15,200
Income from other sources: Interest on fixed deposit with bank Interest on fixed deposit of minor daughter Less: Exemption u/s 10(32) Income from UTI received by his handicapped son [Exempt u/s 10(33)]	3,000 1,500	5,000 1,500 Nil	6,500
Gross total income Less: Deduction u/s 80C-80U: i) u/s 80C: For specified savings /payments (Note1) ii) u/s 80CCC: For pension fund of LIC		95,000 10,000	**4,21,700**
Total deductions u/s 80C, 80CCC and 80CCD not to exceed Rs.1,50,000, vide section 80CCE] iii) U/s80CCG: For deposit under Equity Savings Scheme (50%)		1,05,000	1,05,000 10,000
Total income			**3,06,700**

Note: Deduction u/s 80C:

Deposit to Public Provident fund	Rs.55,000
Tuitions fees for son 9part-time course not eligible)	Rs. Nil
Tuitions fees for daughter in full-time course	Rs.40,000
Total	**95,000**

Illustration- 4:

For the Assessment Year 2022-2023, the gross total income of X Rs.4,18,240, which includes long-term capital gains of Rs.1,45,000 and short-term capital gains of Rs.18,000. The gross total income also includes interest income from deposits in savings bank account Rs.12,000. The remaining income was earned from a proprietary business. During the year X has invested in the PPF Rs.60,000 and also paid medical insurance premium Rs.16,000. X also contributed Rs.15,000 to a public charitable trust, which is eligible for deduction u/s 80G.

Compute total income.

Solution:

Computation of total income of X

Particulars	Amount Rs.	Amount Rs.
Profits and gains of business or profession: (Note1)		2,43,240
Capital gains:		
Short-term capital gains	18,000	
Long-term capital gains	1,45,000	
		1,63.000
Income from other sources:		
Interest on bank		12,000
Gross total income		4,18,240
Less: Deduction's u/s 80C-80U:		
i) u/s 80C: For deposit to PPF	60,000	
ii) u/s 80D: For medical insurance premium (Note 2)	16,000	
iii) u/s 80G: For donation to charitable institution (Note 3)	9,862	
iv) u/s 80TTA: For interest on savings bank account	10,000	95,862
Total income (Round off)		**3,22,380**

Note:

1. Business income [4,18,240 -1,63,000 -12,000] = Rs.2,43,240
2. For senior citizen's deductions u/s 80D is actual amount paid or Rs.20,000, whichever is lower. It is assumed that the amount has been paid by a cheque.
3. Qualifying amount for deduction u/s 80G:

Gross total income		4,18,240
Less:		
Long-term capital gains	1,45,000	
Deduction u/s 80C	60,000	
Deduction u/s 80D	16,000	**2,21,000**
Adjusted total income		**1,97,240**

Qualifying amount for deduction u/s 80G being 10%
Of adjusted total income i.e., Rs.19,724/-.

Therefore, Actual deduction 50% of the qualifying amount or Rs.9,862/-

Illustration- 5:

Shri S. Basu furnishes the following particulars of his income and losses during the Previous Year 2021-2022:

Long-term capital gain from house property Rs.30,000/-
Short-term capital gain from shares Rs.10,000/-
Short-term capital loss from house property Rs.15,000/-

Income from house property Rs.10,000/-
Loss from trading business Rs.30,000/-
Profits from construction business Rs.50,000/-
Loss from speculation business in bullion Rs.8,000/-

You are required to compute his total income for the Assessment Year 2022-2023.

Solution:
Computation of total income of Shri S. Basu, a resident individual, for the Assessment Year 2022-2023 relating to the Previous Year 2021-2022.

Particulars	Amount Rs.	Amount Rs.
A. Income from House Property:		
B. Profit and gains of business or profession		
Profits from construction business		10,000
Less: Loss from trading business	50,000	
Less: Loss from speculation business to be carried	(−)30,000	
forward, as it can be set of only against profits of a speculation business	Nil	
C. Capital gains:		
Long-term capital gain from House property	30,000	20,000
Short-term capital gain from shares	10,000	
Short-term capital loss from house property (Note)	<u>(−)15,000</u>	
Gross total income		
Less: Deductions under Section 80C to 80U		
		25,000
		55,000
Total income		Nil
		<u>55,000</u>

Note: With effect from the Assessment Year 2022-2023, Section 70 has been amended to provide that short-term capital loss can be set off only against gains arising from transfer of short-term or long-term capital assets.

Illustration- 6:
Mr. R. Saha, a businessman, furnishes the following particulars of his income and loss for the Previous Year 2021-2022.
Income from house property in Dinajpur Rs.30,000/-
Loss from self-occupied house property Rs.10,000/-
Profits from speculation business in jute Rs.20,000/-
Loss from speculation business in grains Rs.10,000/-
Profits from retail business in cloth Rs.20,000/-
Loss from betting Rs.10,000/-
Long-term capital gain on transfer o house property Rs.35,000/-
Long-term capital loss on sale of shares Rs.20,000/-
Short-term capital loss on sale of plant and machinery Rs.20,000/-

Assuming that Mr. Saha has no loss in the earlier years, compute his total income for the Assessment Year 2022-2023.

Solution:
Computation of total income of Mr. R. Saha, a residential individual, for the Assessment Year 2021-2022 relating to the Previous Year 2021-2022.

Particulars	Amount Rs.	Amount Rs.	Amount Rs.
A. Income from house property:			
Income from Dinajpur House		30,000	
Loss from self-occupied house		(−)10,000	
			20,000
B. Profits and gains of business or profession:			
Profits from speculation business in jute	20,000		
Loss from speculation business in grains	(−)10,000	10,000	
Profits from retail business in cloth		20,000	
			30,000
C. Capital Gains:			
Long-term capital gains on transfer of house property	35,000		
Long-term capital loss on sale of shares set off	(−)20,000	15,000	
Loss under the head "Capital gains"		(−)20,000	
Not to be set off against any other head		**(−)5,000**	
			Nil
D. Income from other sources:			
Loss from betting not to be set off against any other income		(−)10,000	Nil
Gross total income			50,000
Less: Deduction under Section 80C 80U			Nil
Total income			**50,000**

Illustration- 7:
Dutta submits the following particulars of his incomes and losses for the Assessment Year 2022-2023:
Income from house property Rs.12,800/-
Income from textile business Rs.35,700/-

Loss from stationery business Rs.10,000/-
Speculation loss Rs.2,000/-
Long-term capital gains Rs.25,000/-
Income from the activity of owning and maintaining race-horses Rs.13,000/-
Wining from lottery Rs.12,000/-

The losses of Dutta brought forward from the Assessment Year 2015-2016 are as follows:
Loss from stationery business Rs.8,000/-
Short-term capital loss Rs.7,000/-
Loss from the activity of owning and maintaining race-horses Rs.4,300/-
Maintaining race-horses Rs.14,700/-

All the above losses were first computed in the Assessment Year 2022-23.

Solution:
Compute his total income for the Assessment Year 2021-2022.

Particulars	Amount Rs.	Amount Rs.	Amount Rs.
A. Income from house property:			
Current years income		12,800	
Less: Brought forward loss of the year 2014-15 set off		8,000	
			4,800
B. Income from business:			
Income from textile business		35,700	
Less: Loss from stationery business		10,000	
		25,700	
Less: Brought forward loss from stationery business of the year 2014-15 set off		7,000	
			18,700
C. Income from capital gains:			
Long-term capital gains		25,000	
Short-term capital gains		10,000	
		35,000	
Less: Brought forward short-term capital loss of the year 014-15 set off		4,300	
			30,700
D. Income from other sources:			
Winnings from lottery		12,000	
Incomes from the activity of owning and maintain race-horses	13,000		
Less: Brought forward loss of the Previous Year 2014-15 (Refer to note 2)	14,700	Nil*	
	(−)1,700		12,000
Gross total income			66,200

Less: Deduction under section 80C 80U			Nil
Total income			**66,200**

Note:

1) Speculation loss in any Assessment Year can be set off only against speculation profit in that Assessment Year as per section 70. Unadjusted loss, If, any can be carried forward for set of against speculation profit for a maximum period of 4 years.
2) Brought forward loss from the activity of owning and maintaining race-horses can be set off only against income from such activity. However, unadjusted loss can be carried forward for set off for a maximum period of 4 years.

Illustration- 8:

T. Saha submits the following particulars of his incomes and losses for the Assessment Year 2022-23:

Income from house property (let out) Rs.8,200/-
Loss from house property (self-occupied) Rs.10,000/-
Profit from grocery business Rs.25,000/-
Loss from radio business (discontinued on June 12, 2015) Rs.12,000/-
Long-term capital gains Rs.25,000/-
Short-term capital loss Rs.5,000/-
Speculation profit Rs.18,700/-
Share o profit from a firm Rs.13,200/-

The details of the losses brought forward from the Previous Year 2018-19 are as follows:

Loss from radio business (first computed in 2014-15) Rs.22,500/-
Loss from grocery business (Do) Rs.5,000/-
Speculation loss (Do) Rs.7,300/-
Share of loss from the firm (Do) Rs.4,700/-
Long-term capital loss (first computed in 2013-14) Rs.4,000/-
Short-term capital loss (first computed in 2004-05) Rs.3,000/-

Solution:

Compute his total income for the relevant Assessment Year

Particulars	Amount Rs.	Amount Rs.	Amount Rs.
A. Income from house property:			
Income from let out property		8,200	
Loss from self-occupied property		(−10,000)	(−)1,800
B. Income from business:			
Speculation profit	18,700		
Brought forward speculation loss	(−)7,300	11,400	
Profit from grocery shop	25,000		
Loss from radio business	(−)12,000	13,000	

		24,400	
Less: Brought forward Business loss from radio business		22,500	
		1,900	
Less: Brought forward business loss from grocery business		1,900	Nil
C. Income from capital gains:			
Long-term capital gain		25,000	
Short-term capital loss		(−)5,000	
		20,000	
Less: Brought forward long-term capital loss		4,000	16,000
Gross total income			14,200
Less: Deduction under chapter VIA			Nil
Total income			**14,200**

Notes:

1) Loss from house property for the Assessment Year 2022-23 can be set of against income under any head in the same Assessment Year
2) Unadjusted loss from grocery business of Rs.3,100 (Rs.5,000 – Rs.1,900) shall be carried forward in the next year or set off. Such carry forward is permissible for a maximum period of 8 Assessment Years.
3) Brought forward short-term capital loss Rs.3,000 cannot be set off as 8 years have already been elapsed from the Assessment Year succeeding the assessment for which the loss was first computed.
4) Brought forward long-term capital loss of Rs.4,000 is set off against net long-term capital gain of Rs.20,000 of the current year.
5) Share of profit from a firm is exempt from tax under section 10(2A)
6) Share of loss of the firm shall be carried forward by the firm. The partners are not allowed to carry forward the share of loss of the firm.

4.5 Set Off and Carry Forward of Losses

Set off means adjustment of certain losses against the income under other sources in the same Assessment Years. Whereas carrying forward of unadjusted losses to be set-off in subsequent years is called Carry Forward.

4.5.1 Steps to be Followed

Set off and carry forward of losses shall usually be made following the steps mentioned below:

Steps for set off and carry forward of losses	
Inter-source set off	Loss from one source of income shall be set off against income from another source under the same head of income in the same Assessment Year.
Inter-head set off	Where the net income from a particular head results a loss after the inter-source adjustment, such loss shall be set of against income from another head in the same Assessment Year.
Carry forward	Loss remaining unabsorbed after inter-head adjustment in any Assessment Year, if any, shall be carried forward to the next years for being set off.

4.5.2 Inter Sources Set off [u/s 70]

Exclusions: The following are the exclusions to this rule-

- **Losses in Speculation business:** Loss of a speculation business can only be set off against income from another speculation business. However, loss from a non-speculation business can be set off against income from a speculation business.
- **Losses from the activity of owning and maintain race-horses:** Any loss from the activity of owning and maintain race-horses can only be set off against the income from such activity [Sec.74A (3)]
- **Loss from lottery, crossword puzzles, card games, etc:** As per Sec.58(4), a loss cannot be set off against winning from lotteries, crossword puzzles, races including horse races, card games and other sports of any sort or from gambling or betting of any arrangement or nature.
- **Losses from an exempted source of income:** If a source of income is exempt from tax and if a loss arises from such source, such loss cannot be set off against income from another source chargeable to tax.
- **Long term capital loss:** Long-term capital loss can be set off only against long-term capital gains [Sec.70 (3)]. However, short-term capital loss can be set off against short-term capital gain or long-term capital gain [Sec. 70(2)].

4.5.3 Inter-head Set Off [u/s 71]

Exceptions:

- **Loss from business or profession cannot be set of against salary income [u/s 71(2A)]:** Loss from business or profession cannot be set of against income under the head 'Salaries'.
- **Losses in speculation business:** Loss from a speculation business cannot be set of against any other income chargeable under the head other than 'Profits and gains of business or profession'.
- **Losses from the activity of owning and maintaining race-horses:** Such loss cannot be set off against any other income other than the income from the same activity

- **Loss under the head 'Capital gains':** Loss under the head 'Capita gains' cannot be set off against income under other heads of income. However, loss under other heads can be set of against income under the head 'Capital gains' [Sec.71 (2)].

4.5.4 Order of Setting Off: The act does not prescribe the order of setting off of inter-head losses. However, the following order may be followed for this purpose----

- Set off of loss under a head which cannot be carried forward
- Set off losses according the period to carry forward (e.g., loss under a head whose prescribed period of carry forward is shortest should be set off first)

Illustration- 1 (Inter-source set off losses)

Z has the following incomes and losses for the Previous Year 2021-2022-

Income from business A Rs.1,80,000/-
Loss from business B Rs.62,500/-
Income from House I Rs.84,200/-
Loss from House II Rs. (−) 30,000/-
Short-term capital gain Rs.25,000/-
Long-term capital loss Rs. (−) 22,382/-

Compute gross total income of Z for the Assessment Year 2022-2023.

Solution:

Computation of gross total income of Z for the Assessment Year 2022-23

Particulars	Amount Rs.	Amount Rs.
A. Income from house property:		
Income from house I	84,200	
Less: Loss from house II set off	30,000	
		54,200
B. Income from business:		
Income from business A	1,80,000	
Less: Loss from business B set off	62,500	
		1,17,500
C. Income from short-term capital gain		25,000
Gross total income		**1,96,700**

Note: Long-term capital loss cannot be set off against short-term capital gain. It will be carried forward.

Illustration- 2 (Inter-head set off of losses)

Mr. X furnishes the following relating to his income for the year 2022-23. Compute his gross total income.

Income from salaries Rs.3,60,000/-
Loss from textile business Rs. (−) 2,85,000/-
Profit from grocery business Rs.1,20,000/-
Income from house property Rs.85,000/-

Solution:

Computation of gross total income of Mr. X for the Assessment Year 2022-23

Particulars	Amount Rs.	Amount Rs.
Income from salaries:		3,60,000
Income from business:		
Loss from textile business	(−) 2,85,000	
Profit from grocery business	1,20,000	
	(−) 1,65,000	
Income from house property (* refer to note below)	85,000	Nil*
Gross total income		**3,60,000**

4.5.5 Carry Forward of Losses

After making the proper and allowable intra-head and inter-head adjustments, there could still be unadjusted losses. These unadjusted losses can be carried forward to future years of modifications against income of this year. The guidelines of regards carry forward vary slightly for dissimilar heads of income. These have been discussed here:

- **Losses from house property:**
  - Can be carry forward up to next 8 Assessment Years from the Assessment Years in which the loss was suffered.
  - Adjusted only against Income from house property.
- **Losses from non-speculative business:**
  - Can be carry forward up to next 8 Assessment Years from the Assessment Year in which the loss was suffered.
  - Can be adjusted only Income from business or profession
- **Speculative business:**
  - Can be carry forward up to next 4 Assessment Years from the Assessment Year in which the loss was incurred
  - Adjusted only against Income from speculative business

- **Capital losses:**
  - Can be carry forward up to next 8 Assessment Years from the Assessment Year in which the loss was incurred
  - Short-term capital losses can be set off against log-term capital gains as well as short-term capital gains.

- **Losses from Owning and maintaining race-horses:**
  - Can be carry forward up to next 4 Assessment Years from the Assessment Year in which the loss was incurred
  - Can only be set off against income from owning and maintaining race-horse only

Illustration- 3:

X furnishes the following particulars of his incomes and losses for the year 2021-2022:

Income from business Rs.1,12,500/-
Income from house property Rs.84,300/-
The brought forward business losses and unabsorbed depreciation for the year 2014-15 are as follows:
Business loss Rs.1,22,200/-
Unabsorbed depreciation Rs.32,500/-

Compute gross total income of X for the Assessment Year 2022-23

Solution:

Computation of gross total of X for the Assessment Year 2021-22

Particulars	Amount Rs.	Amount Rs.
Income from house property	84,300	
Less: Unabsorbed depreciation of the year 2014-15 set off	32,500	
		51,800
Income from business	1,12,500	
Less: Brought forward business loss of the year 2014-15 set off	1,12,500	Nil
Gross total income		**51,800**

Notes:

1) Brought forward business loss to the extent of Rs.1,12,500 of the year 2020-21 is set off against the business income of the current year. Unadjusted loss of RS.9, 700 (Rs.1,22,200 – Rs.1,12,500) cannot be set off against income from house property. It shall be carried for set off against business income.
2) Unabsorbed depreciation of the year 2020-2021 can be set off against any income of the assessee other than income from salary. In the given case, unabsorbed depreciation is set off against income from house property.

Illustration- 4:

Mr. X has the following income and losses for the year 2021-22:

Income from non-speculation business Rs.2,35,700/-
Income from speculation business Rs.87,300/-
Bank interest from fixed deposits Rs.1,25,200/-

Brought forward losses of the year 2014-15:
Loss from non-speculation business Rs.1,02,200/-
Loss from speculation business Rs.95,200/-

Compute gross total income of X for the relevant Assessment Year 2022-23.

Solution:

Computation of gross total income of X for the Assessment Year 2022-23

Particulars	**Amount Rs.**	**Amount Rs.**
A. Income from business:		
Income from non-speculation business of current year	2,35,700	
Brought forward loss from non-speculation business of the year 2014-15 set off	1,02,200	
Income from non-speculation business (a)	1,33,500	
Income from speculation business of the current year	87,300	
Brought forward loss from speculation business of the year 2014-15 set off	87,300	
Income from speculation business (b)	Nil	
Business Income [(a) + (b)]		1,33,500
B. Income from other sources:		
Bank interest from fixed deposits		1,25,200
Gross total income		**2,58,700**

Note:

1) Brought forward loss from speculation business can only set off against income from speculation business of the year. Unadjusted loss from speculation business i.e., 7,900 (Rs.95, 200 – Rs.87, 300) shall, however, be carried forward.

Illustration- 5: The following are the income and losses of Mr. X for the year 2021-22

Income from non-speculation business Rs.2,01,700/-
Income from speculation business Rs.1,05,300/-
Debenture interest Rs.37,800/-

Brought forward losses of the year 2014-15
Loss from non-speculation business Rs.2,45,100/-
Loss from speculation business Rs.22,300/-
Compute gross total income of X for the Assessment Year 2022-23.

Solution:

Computation of gross total income of X for the Assessment Year 2022-23.

Particulars	Amount Rs.	Amount Rs.	Amount Rs.
A. Income from business:			
Income from non-speculation business of the current year	2,01,700		
Brought forward loss from non-speculation business of the year 2014-15 set off	2,01,700		
		Nil	
Income from speculation business of the current year	1,05,300		
Brought forward loss from speculation business of the year 2014-15 set off	22,300		
	83,000		
Unadjusted brought forward loss from non-speculation business of the year 2014-15 i.e., Rs.43,400 (Rs.2,45,100 – Rs.2,01,700) set off	43,400	39,600	39,600
B. Income from other sources:			
Debenture interest			37,800
Gross total income			**77,400**

Note: Brought forward loss from non-speculation business can be set off against current year's business income (both speculative and non-speculative)

4.6 E-filling of Return

E-File- or electronic filing is the process of submitting tax returns over the Internet using tax preparation software that has been pre-approved by the relevant tax authority, such as the IRS or the Canada Revenue Agency.

4.6.1 Types of E-filling

There are 3 kinds of E-filing are as follows-

- **E-file without using Digital signature**
  a) Generate ITR-V
    - Send to CPC, Bangalore
- **E-file through e-Return Intermediary**

    - Without DSC
    - With DSC
- **E-file using Digital Signature**
- Create and Print Greeting form, on additional action is required

There are 3 paths to file Income tax Returns electronically-

- **Option 1-**Use of DSC to e - file. There is no additional action required, if filed with a DSC.
- **Option 2-**E-file without Digital Signature Certificate. In this situation an ITR-V form is produced. The form should be printed, signed and submitted to CPC, Bangalore using Ordinary post or speed post (Without Acknowledgement) ONLY within 120 days from the date of e-filling. There is no additional action required, if ITR-V form is submitted.
- **Option 3-**E-file the income tax return through an ERI with or without Digital signature Certificate (DSC)

4.6.2 Mode of E-verification

The bellows are the options given to electronically confirm the returns

- E-rectification using E-filing OTP (only obtainable if total income is less than or equal to Rupees 5 Lakhs and refund or tax payable up to 100 rupees)
- Verification using Net Banking login
- Verification using Aadhaar OTP validation
- Confirmation using Bank ATM (SBI, AXIS bank, Canara bank, ICICI bank)
- Verification using Bank Account Number (Punjab National, United Bank of India)
- Verification using Demat Account

4.6.3 Methods of E-filing Returns

- **Physical filing:** This is the old-style technique of filing returns in which taxpayers file returns physically by visiting the income tax office.
- **E-filing intermediaries:** For tax payers hose schedule is too tightly packed to file returns an agent, a chartered accountant or a firm could take the responsibility of formulating and submitting the returns on his/her behalf.

4.6.4 Merits of E-filling

The merits of e-filing are as follows-

- **Convenience:** E-filing returns reduce the strain by facilitating the taxpayers to file returns from the comfort of their homes.
- **Status Tracking:** The method of filing returns online benefits the taxpayers with the option of tracking status according to his/her wish. It facilitates the user to check whether the particular return has been received by the income tax department, its current stage of process or the status of an income tax refund.
- **Access to Documents:** E-filling of returns prompts the user to upload the necessary documents, thus creating a database which could be accessed whenever the needs arise, manual filling of returns had no such provision
- **Errors at Bay:** We, humans are prone to errors, especially when it comes to computations. Filling of return involves a lot of computations and manual filing

could lead to the furnishing o incorrect details due to erroneous calculations. The e-filing instrument curbs this shortfall by way of its tax design mechanism.

- **Efficiency in Cost:** In the absence of a calculation tool, the taxpayers might be required to hire a professional to make the essential computations, which effectively means the tax payers would be obligated to pay more.

4.6.5 De-merits of E-filing

Especially for those who employ an outside or third-party service to do the electronic filing for them, you are providing identifiable information that the service may keep on file or a long period of time. This denotes that more individuals can have access to your information. In a particular case wherein, you are supposed to receive tax refunds and you want to it done immediately, you will have to provide your bank account number and routing number for the deposit to take place. Thus, your data is less secure.

4.7 Summary

From the above discussion, we could understand the Concept of heads of Income; Income under the head ‘Salary’ u/s 17(1); Income under the head ‘House Property’ u/s 23; Income under the head ‘Profit and Gains of Business or Profession’ u/s 28 to 44; Income under the head ‘Capital Gains’ u/s 45; Income from Other Sources; Profits and Gains of Business or Profession; Total Income; Deduction’s u/s 80C to 80U; Set off and carry forward of losses; and E-filling of Return.

4.8 Questions

A. Multiple Choice Questions (MCQ)-

1. The TDS Certificate issued by an employer to his employees in case of salary income is what form?
   a) Form 16
   b) B Form 26
   c) C Form 26A
   d) None of these

2. Section 17(1) is related to-
   a) **Income from salary** b) Income from house property
   c) Income from other sources d) None of these

3. Fees received by the employee from the employer are charged to tax as-
   a) Profession income b) Income from other sources
   c) **Salary income** d) None of these

4. Salary in lieu of notice period is-
   a) Taxable
   b) Exempt
   c) Partly Exempted
   d) None of these

5. Municipal tax is levied on-
   a) Gross annual value
   b) Net annual value
   c) Fair rent value
   d) None of these

6. There are ------- types of house property.
   a) 2 **b) 3**
   c) 5 d) None of these

7. Which of the following duty was levied on the total property passing to the heirs on the death of a person?
   a) Custom duty b) Excise duty
   c) **Wealth tax** d) None of these

8. Wealth tax was presented in India in-
   a) 1967 **b) 1965**
   c) 1955 d) None of these

9. Income of property shifted after 31st Dec. 1969 by affiliate to family shall be-
   a) Included **b) Not included**
   c) Partly included d) None of these

10. ………….is not a capital receipt.
    a) 'Salami' for clearance of Tenancy
    b) Insurance claim obtained on equipment lost by fire
    c) **Goods sold for cash**
    d) None of these

11. Section 45 is associated to-
    a) **Capital gain** b) Capital assets
    e) Assets d) None of these

12. Capital assets comprise-
    a) Stock in trade b) Personal effects
    c) **Shares** d) None of these

13. Forms of capital gain are-
    a) 1 **b) 2**
    c) 3 d) None of these

14. The tax percentage of long-term capital gain is-
    a) 10% **b) 15%**
    c) 20% d) None of these

15. Which of the following revenue are imposed to tax under the head “Income from other sources”?
    a) Income from subletting;
    b) Family pension
    c) Ground Rent
    d) All of the above

16. Gift tax was introduced in-
    a) **1958**
    b) 1960
    c) 1967
    d) None of these

17. Under section 80C Deduction is allowed from-
    a) **Gross total income**
    b) Total income
    c) Tax on total income
    d) None of these

18. Sum of various heads is called-
    a) Taxable income
    b) Total income
    c) **Gross total income**
    d) None of these

19. Gross total income means-
    a) **Sum of heads of income**
    b) Total income after deducting deductions
    c) Income on which tax calculated
    d) None of these

20. Education cess is calculated on-
    a) Total income
    b) Tax on total income
    c) Taxable income
    d) None of these

Answer Key.

1 (a)	2 (a)	3 (c)	4 (a)	5 (a)	6 (b)	7 (c)	8 (b)	9 (b)	10 (c)
11 (a)	12 (c)	13 (b)	14 (b)	15 (d)	16 (a)	17 (a)	18 (c)	19 (a)	20 (b)

B. Short Answer Type Questions

1. What do you mean by Salary?
2. What do you mean by Dearness Salary?
3. What do you know by Bonus?
4. What do you know by Gratuity?
5. What do you mean by leave Salary?
6. What are Arrears rent?
7. What do you mean by Business and Profession?
8. What is personal effect?
9. What are the types of Capital Assets?
10. What is self-generated Asset?

C. Broad Answer Type Questions

1. What is Disallowed expenditure?
2. What is Employees Stock Option plan?
3. Define Capital gain on transfer of shares in demerged company?
4. What is Capital gain in case of slump sale?
5. What do you mean by deemed profits?
6. What is Bonus Stripping?
7. Describe Capital Gain on Buy Back of own securities?
8. Define Tax Audit under section 44AB.
9. What is Disallowed Expenditure under section 40?
10. What is Unabsorbed Depreciation under section 32(2)?

Unit 5: Goods and Services of Tax (GST)

Structure

5.0 Objectives

After studying this unit, you will be able to understand the concept of-

- Goods and Services Tax (GST);
- GST in Indian Context;
- Structure of GST;
- Levy and Collection of GST;
- Centre and State Level Taxes Are Subsumed into GST;
- Some Important Terminologies;
- In Course or Furtherance of Business; and
- Composite Supply and Mixed Supply.

5.1 Introduction

In simple words, Goods and Services Tax (GST) is an indirect taxation system levied on the supply of goods and services.

What	Whom	How
GST is a destination based indirect taxation system.	It extends whole of the India (including Jammu and Kashmir but excluding Special Economic Zones).	**GST:** (SGST + CGST / UTGST) or IGST **Major Rates:** 0.25%, 3%, 5%, 12%, 18% and 28%

5.2 GST in Indian Context

Though GST was first introduced in France in 1954 it was introduced in India in 2017. The journeys to introduce GST India are as under-

2004	Kelkar Task Force recommended the idea of GST
2007	To introduce GST, it was presented in the Union Budget (2007-08)
2014	NDA Government tabled the GST Bill (122nd Constitutional Amendment on GST Bill)
2016	Became Constitutional (101st Amendment) Act. 2016
2017	Introduced on 1st July as GST Act. 2017

5.3 Merits of GST

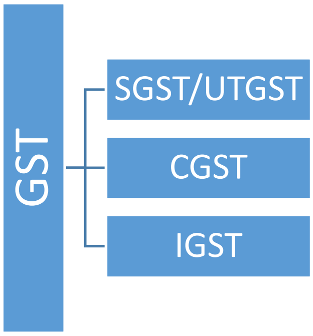
The advantages of GST are as follows:

1. **For the Business and Industry:**
   - **a)** **Seamless Credit Flow:** GST Regime seeks to provide seamless flow of input tax credit of centre and state taxes from one state to another.
   - **b)** **Consistency of Tax Rates and Constructions:** GST will confirm that indirect tax rates and constructions are common across the country, thereby increasing certainty and ease of doing business.
   - **c)** **Elimination of Cascading:** A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would diminish unseen costs of doing business.
   - **d)** **Enhanced Competitiveness:** Drop in transaction costs of doing business would ultimately lead to an improved competitiveness for the trade and industry.

2. **For Central and State Governments:**
   - a) **Modest and Easy to Manage:** Numerous indirect taxes at the Central and State levels are being substituted by GST. Supported with a strong end-to-end IT arrangement, GST would be humbler and easier to manage than all other indirect taxes of the Centre and State levied so far.
   - b) **Better Controls on Leakage:** GST will outcome in improved tax submission due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value calculation, there is an in-built mechanism in the design of Goods and Service Tax that would incentivize tax compliance by traders.
   - c) **Advanced Revenue Productivity:** GST is anticipated to diminution the cost of assortment of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

3. **For the Consumer:**
   - a) **Single and Clear Tax Proportionate to the Value of Goods and Services:** Due to numerous indirect taxes being imposed by the Centre and State, with inadequate or no input tax credits available at advanced stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the producer to the consumer, leading to transparency of taxes paid to the final consumer.
   - b) **Liberation in Overall Tax Weight:** Because of proficiency gains and anticipation of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

5.4 Structure of GST



According to construction of GSTs are of four kinds. Such as-

a) State Goods and Services Tax (SGTS)- for within the state / intra state sale.
b) Central Goods and Services Tax (CGST)- for within the state / intra state sale.
c) Integrated Goods and Services Tax (IGST)- for outside the state or territory / inter-state or territory sale.
d) Union Territory Goods and Services Tax (UTGST)- for within the territory / intra territory sale.

5.5 Levy and Collection of GST

Though all the taxes i.e., SGST, CGST, IGST or UTGST are collected by the respective States or Union Territories but the SGST is levied by the States, CGST & IGST is by the Central Government and UTGST is by the Union Territories.

Levy and Collection under CGST Act. 2017

CGST is levied-

a) u/s 9(1) of CGST Act. 2017 when any intra-state provides of goods or services or both, excluding on supply of alcoholic liquor for human consumption. Such rate may be of a maximum of 20%.
b) u/s 9(2) High speed diesel, Petroleum crude, Motor sprit (commonly identified as petrol), Natural gas, Aviation turbine fuel etc. will be imposed with the effect from such date as informed by the Central Government.
c) u/s 9(3), CGST is ***to be paid*** on reverse charge basis by the ***recipient of goods or services*** on notified goods/ services or both.
d) u/s 9(4), CGST on taxable supply of goods or services to a registered supplier from an unregistered supplier is to be paid on reverse charge basis by the recipient of goods or services.
e) u/s 9(5), e-Commerce operative is accountable to pay CGST on informed intra-state supplies.

Levy and Collection under IGST Act. 2017

CGST is levied -

a) **u/s 5(1)** of IGST Act. 2017 when any intra-state provides of goods or services or both, excluding on supply of alcoholic liquor for human consumption. Such rate may be of a maximum of 40%.

b) **u/s 5(2)** High speed diesel, Petroleum crude, Motor sprit (commonly known as petrol), Natural gas, Aviation turbine fuel etc. will be imposed with the effect from such date as informed by the Central Government.

c) **u/s 5(3)**, IGST is ***to be paid*** on reverse charge basis by the ***recipient of goods or services*** on notified goods/ services or both.

d) **u/s 5(4),** IGST on taxable supply of goods or services to a registered supplier from an unregistered supplier is to be paid on reverse charge basis by the recipient of goods or services.

e) **u/s 5(5),** e-Commerce operator is liable to pay IGST on notified intra-state supplies.

5.6 Rates of GST

Rates	Products / Services
NIL	Import of expensive life-saving medicines such as Zolgensma, Viltepso or as recommended by a relevant government department for personal use before it was in 12% bracket.
0%	Picture books, colouring books or drawing books for children; Human hair – dressed, thinned, bleached or otherwise worked; Sanitary Napkins etc. are enjoying zero GST tax rate.
0.25%	Precious and semi-precious stones.
3%	Tax on gold.
5%	**Goods:** Household necessities such as edible oil, sugar, spices, tea, and coffee (except instant) are included. Coal, Misti / Mithai (Indian Sweets) and Life-saving drugs are covered under this GST slab. **Services:** Railways-Transportation of goods, passengers; Goods transported in a vessel from outside India; Renting a motor cab without fuel cost; Transport services in AC contract/stage or radio taxi; Transport by air; Tour operator services; Leasing of aircrafts; Print media ad space; Working for printing of newspapers etc. are under this slab.
12%	**Goods:** This includes computers and processed foods. **Services:** Rail transportation of goods in containers from a third party other than Indian Railways; Air travel excluding economy; Food /drinks at restaurants without AC/heating or liquor license; Renting of housing for more than Rs.1000 and less than Rs.2500 per day; Chit fund services by foremen; Construction of building for the purpose of sale; IP rights on a temporary basis etc. are under this slab. Specified Renewable Energy Devices and parts.
18%	Dry foods like biscuits, cornflakes, pasta, pastries and cakes, preserved vegetables, jams, soups, ice cream, mayonnaise, mixed condiments and seasonings, mineral water, footwear costing more than INR 500, etc are under 18% tax bracket.
28%	Chocolate, chewing gum, wafers coated with chocolate, pan masala, aerated water, personal care items like deodorants, after shave, shaving creams, hair shampoo, dye, sunscreen, paint, water heater, dishwasher, weighing machine, washing machine, vacuum cleaner, automobiles, motorcycles, 5-star hotel

	rent, race club betting, lottery, movie tickets above INR 100 etc. are under 28% tax bracket.

N.B. *- Alcohol for human consumption, Petrol etc. are not under GST regime.*

5.7 Centre and State level taxes are subsumed into GST

a) **Central** level, the following taxes are being considered:
- Central Excise Duty,
- Additional Excise Duty,
- Service Tax,
- Special Additional Duty of Customs.

b) **State** level, the following taxes are being considered:
- Octroi and Entry tax,
- Purchase Tax,
- Luxury tax, and
- Taxes on lottery, betting and gambling.

5.8 Some Important Terminologies and their Definitions

Sl. No.	Terminology	Definition
1	**Goods [u/s 2(52)]**	Any kind of ***moveable property*** other than ***money and securities*** but includes ***actionable claim.***
2	**Services [u/s 2(102)]**	Services mean anything ***other than goods, money and securities.*** Though, conversion of money is related to service.
3	**Consideration [u/s 2(31)]**	Consideration in relation to supply of goods or services or both would include: *Any compensation made or to be made, whether in money or otherwise, by the recipient or by any other person;* However, any subsidy given by the Central Government or State Government shall not be treated as a part of consideration.
4	**Money [u/s 2(75)]**	Money means Indian legal tender or any foreign currency, cheque, promissory note, bill of exchange, letter of credit, draft, pay order, traveller cheque, money order, postal or electronic settlement or any other tool authorized by the Reserve Bank of India when used as a consideration to settle an obligation or exchange with Indian legal tender of another denomination. However, amount shall not contain any currency that is held for its numismatic value.

5	**Business [u/s 2(17)]**	Business includes ***any trade, commerce, manufacture, profession, vocation, adventure, wager or any other similar activity***, whether or not for any monetary benefit. Any activity or transaction undertaken by the Central Government, a State Government or any Local Authority in which they are engaged as public authorities also fall under business.
6	**Person [u/s 2(84)]**	Person includes an individual, HUF, a firm or any company, AOP or any trust, Central or State Government or any local authority or any other artificial juridical person, etc.
7	**Related Person [u/s 2(52)]**	Persons shall be deemed to be 'related persons' if it satisfies any of the followings: ▪ Such persons are employer & employee; ▪ A third person directly or indirectly owns, controls or holds 25% or more of the outstanding voting stock or shares of both of them; ▪ They are members of the same person; or ▪ One of them is the sole agent, sole distributor or sole concessionaire of other.

5.9 In-Course or Furtherance of Business

Goods and Service Tax is basically a tax on only commercial transactions. Hereafter, only those supplies which are made in the sequence or persistence of business qualify as 'Supply' under GST. Consequently, any provides made by a separate in his personal capacity do not come under the ambit of GST unless they fall within the meaning of business.

Ex. 1: Mr. Roy buys a car for his personal use and after one year he sells it to M/S Roy Enterprise. Here, sale of car to M/S Roy Enterprise is not a supply under CGST Act because supply is not made by Mr. Roy in course or furtherance of business.

Ex. 2: Miss Puja, a famous artist paints some paintings. The paintings were sold to Mr. Roy for Rs.4,60,000/-.

The sale of paintings to Mr. Roy qualifies as supply even though it is one-time instance.

Cases under various situations

Situation	Tax Implication
Sale or Transfer	Sale or transfer of Goods for ***any consideration or not*** if it is in course or furtherance of business falls within the ambit of 'supply' and so liable to IGST. However, in case of personal use ***permanent transfer*** falls within the ambit of 'Supply' and hence liable to pay GST. 16. Mr. Roy bought a Mobile set from the outlet and gifted it to his mother. Discuss the tax implication.

Ans. The above transfer doesn't fall within the ambit of 'Supply' as it is not for in course or furtherance of business. Thus, shall not be liable to pay IGST.

17. Miss. Puja has a mobile shop. She gifted one Samsung galaxy set from her shop to her mother on which he availed input tax credit. Discuss the tax implication.

    Ans. Though, the above transfer is without consideration it falls within the ambit of 'Supply' under CGST Act and liable to pay GST as he availed input tax credit on the Mobile set even it is not for in course or furtherance of business.

18. Mr. Ghosh, a Chartered Accountant, purchased six Computer sets of Rs.4,00,000 and paid GST on such purchase Rs.72,000/-. He availed input tax credit on the same day. After 3 years of using such computers, Mr. Ghosh donated to local school for their children's use. The estimated of such computers was 5 years and Market value Rs.2,50,000/-. Discuss the tax implication.

    Ans. As Mr. Ghosh availed input tax credit, the donation of such Computers falls under the ambit of 'Supply 'and is liable to pay GST though it is not for in course or furtherance of business.

Computation of GST Payable of Mr. Ghosh

Particulars	**Amount Rs.**
Higher of the following two-	
a) Proportioned ITC (Input Tax Credit) (72,000 x 2/5)	28,800/-
b) GST on Fair Market Value (2,50,000 x 18%)	45,000/-
GST Payable (Higher of a and b)	**45,000/-**

19. M/s Dey enterprise sold 10 Television sets during the month of October, 2018 for Rs.10,00,000/-. Discuss the tax implication of such sale when the applicable GST rate on such television sets is 18%.

    Ans. Sale of television sets is within the ambit of 'Supply' and subsequently such sale is liable is pay GST at applicable rate.
    The amount of GST = 10,00,000 x 18% i.e., Rs. 1,80,000/-.

20. Mr. Roy is engaged in supply of certain goods in Mumbai, Delhi and Nagpur. In the month of July Mr. Roy transferred some goods from Mumbai outlet to Delhi. Discuss the tax implication of such transfer.

	Ans. Here, the outlets will be treated as distinct person and subsequently such transfer is within the ambit of 'Supply' under CGST. Thus, Mr. Roy is liable to pay IGST for the transfer of goods from Mumbai office to Delhi office.
Barter or Exchange	Barter or Exchange is also under the ambit of 'Supply' under CGST Act., 2017. Such transactions involved only exchange of goods or services are partly paid for in goods or service and partly in money. 21. Miss Monalisa purchased a washing machine for Rs.24,000/-. For which she got her old washing machine Rs.8,000/- and the remaining amount paid in 10 equal installments. Discuss the tax implication. **Ans.** This is a Barter transaction. Barter or Exchange transaction is under the ambit of 'Supply' under CGST Act., 2017. Thus, here taxable turnover here is Rs.24,000/- and liable to pay tax. 22. Mr. Roy parched a machinery for Rs.60,000/- and he got exchange value of his old machinery Rs.20,000/-. The remaining amount is paid in cash. Discuss the tax implication. **Ans.** Barter or Exchange is also under the ambit of 'Supply' under CGST Act., 2017. Thus, taxable turnover here is Rs.60,000/- and liable to pay tax.
License, Rental or Lease	23. Mr. Rohit gave his land to Mr. Roy on lease and license basis for a period of 10 years. Rent per months is Rs.10,000/-. Discuss the tax implication. **Ans.** As per Schedule II of the CGST Act, any lease, tenancy, easement, license to occupy land shall be treated as supply of services. Thus, the aforesaid lease of land falls within the ambit of 'Supply' and subsequently liable to pay GST. 24. Miss. Munmun has a ground. She gave the ground to Mr. Roy on rental basis for a rent of Rs.20,000/- per month. Discuss the tax implication of giving rent of such land. **Ans.** As per Schedule II of the CGST Act, any lease, tenancy, easement, license to occupy land shall be treated as supply of services. Thus, the aforesaid lease of ground falls within the ambit of 'Supply' and consequently liable to pay GST.
Disposal made or agreed to be made	Disposal made or agreed to be made of any asset whether or not for a consideration is under the ambit of 'Supply' and hence liable to pay GST. 25. Mr. Roy has a Mobile Shop. On 31st December, 2018 for stock clearance, he sold some damaged mobiles for Rs.10,000/- tough the cost of such Mobiles were Rs.80,000/-. At the time of purchase Mr. Roy, got an input tax credit of Rs.14,400/-. Discuss the tax implications of such sale of damaged Mobiles. If the mobiles were donated to his relatives without any consideration. What would your answer?

<table>
<tr>
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<td>
Ans. i) The aforesaid disposal shall be considered as 'Supply' of goods by Mr. Roy and liable to pay GST. The GST is Rs. 1,800/- (i.e., 10,000 x 18%).
iii) if the Mobiles were donated the tax consequences would be as shown in the below table-
<table>
<tr><th>Particulars</th><th>Amount Rs.</th></tr>
<tr><td>Higher of the following two-
a) Input Tax Credit
b) GST on Fair Market Value (10,000 x 18%)</td><td>14,400/-

1,800/-</td></tr>
<tr><td>GST Payable (Higher of a and b)</td><td><u>14,400/-</u></td></tr>
</table>
</td>
</tr>
<tr>
<td>Import of Services</td>
<td>
Import of services for a consideration whether or not in the course or furtherance of business falls within the ambit of 'supply' and so liable to pay IGST.
26. Mr. Roy of Kolkata imported some tiles from Italy to construct the 1^{st} floor of his house for Rs.16,00,000/-. Discuss the tax implication.

Ans. Import of Goods doesn't fall within the ambit of GST. Here, import of tiles is liable to pay Customs Duty.

27. Miss Meeta Devi, a supplier of goods located in Mumbai. In December of 2020 she took a consultancy service from an IT Company of USA to develop her IT Software for a stipulated consideration of Rs. 10,20,000/-. Will this import of consultancy services be treated as Supply under CGST?

Ans. Yes, the above case falls within the ambit of 'Supply' as it is for a consideration and in course or furtherance of business and shall liable to pay IGST.

28. Mrs. Roy, an analyst has a consultancy office. In January, 2021 she took a consultancy service from a friend of UK to develop his IT Software. Such import was made without any consideration. Will this import of consultancy services be treated as Supply under CGST?

Ans. Yes, though the import of services is made without consideration falls within the ambit of 'Supply' as it is in course or furtherance of business and shall liable to pay IGST.
</td>
</tr>
</table>

5.10 Composite Supply and Mixed Supply

Consisting of ***two or more taxable supplies*** of goods or services or both which are ***naturally bundled*** though ***one of which is principal supply,*** buy for a single price, is known as Composite Supply.

Ex. Air ticket (including food and insurance), Packaged Food etc.

Whereas, Mixed Supply Consists ***two or more taxable supplies*** of goods or services or both which are ***not naturally bundled,*** buy for a single price, is known as Mixed Supply.

Ex. Hampers, buy one Get one offer, Combo Pack (Detergent + Bucket), Combo Pack (Gillette Mach3 bled + Saving gel) etc.

Cases under various situations

<table>
<tr><th>Situations</th><th>What</th><th>Whom</th><th>How</th></tr>
<tr><td rowspan="2">Composite Supply [u/s 2(30)]</td><td>It is a supply where a bundled of goods or services are provided. Out of which one is principal and the other are associated goods or services.</td><td>Any taxable person in India (including Jammu and Kashmir)</td><td>The rate of principal supply is treated as the applicable rate.</td></tr>
<tr><td colspan="3">1. Mr. Roy purchased an air travel ticket from Air India from Kolkata to Mumbai for Rs.6,000/- which includes free food on board and free insurance. Discuss the tax implication.
Ans. Free food on board and free insurance on purchase of air ticket fall within the ambit of supply under CGST. It is a kind of ‘Composite Supply’ and liable to pay GST. The applicable GST is the rate on air ticket as it is the main supply.

2. Hitech Solutions Pvt. Ltd. Supplied 60 laptops @ Rs.60,000/- each including 60 laptop bags and 60 Logitech cord less mouse. The applicable tax rate on Laptop @ 18%, Bag @ 28% and mouse is 18%. Discuss the nature of supply under GST and tax implication.
Ans. Supply of Laptop including Mouse and Laptop Bags is a kind of ‘Composite Supply’ and liable to pay GST. The applicable GST is the rate on which the lap top is charged as it is the main supply i.e., @ 18%.</td></tr>
<tr><td rowspan="2">Mixed Supply [u/s 2(74)</td><td>It is a supply where two or more goods or services are provided for a single price.</td><td>Any person in India (including Jammu and Kashmir)</td><td>The highest tax rate is treated as the applicable rate for the whole price.</td></tr>
<tr><td colspan="3">3. Mr. Das, a sweet seller deals with ‘Pooja Sajja’ containing several items of sweets, various kinds of flowers, Belpata, aagarbati etc. In the month of July, the turnover is Rs.3, 80,000/-. Discuss the tax implication under CGST Act, 2017.
Ans.'Pujasamagri' or items used in rituals are exempt under the Goods and Services Tax (GST).</td></tr>
</table>

	4. Mr. Roy is selling hampers consisting of canned foods, sweets, chocolates, cakes and dry fruits on Diwali and other festivals, for a single price. Discuss the tax implication under CGST Act, 2017. **Ans.** The supply of hampers consisting of canned foods, sweets, chocolates, cakes and dry fruits on Diwali and other festivals, for a single price shall be a Mixed Supply as it falls under the ambit of supply, under CGST Act, 2017. The applicable tax rate which attracts the highest rate of tax among the goods or services supplied. 5. M/S. Ghosh, a cake manufacturer of Kolkata. In the Christmas occasion it deals with 'Christmas Pack' containing different kinds of cakes, Christmas trees and some toys for a single price of Rs.500/-. Discuss the tax implication. **Ans.** The applicable tax rate which attracts the highest rate of tax among the goods or services supplied. 6. Mrs. Devi purchased a Combo Detergent Pack with a Bowel for Rs.400/-. The applicable tax rate on Detergent is 28% whereas rate on Bowel is 5% only. Discuss the tax implication. **Ans.** The applicable tax rate which attracts the highest rate of tax among the goods or services supplied. Thus, Amount of Tax = 400 x 28/100 i.e., 112/-.

5.11 Summary

From the above discussion, we could understand the concept of Goods and Services Tax (GST); GST in Indian Context; Structure of GST; Levy and Collection of GST; Centre and State Level Taxes Are Subsumed into GST; Some Important Terminologies; In Course or Furtherance of Business; and Composite Supply and Mixed Supply.

5.12 Questions

A. Multiple Choice Questions (MCQ)-

1. GST stands for-
   a) Goods and Supply Tax   b) Government Sales Tax
   c) Goods and Services Tax   d) None of these

2. In India GST became effective from-
   a) 1st April, 2017   b) 1st January, 2017
   c) **1st July, 2017**   d) None of these

3. GST is a ------based tax on consumption of goods and services-
   a) Duration   **b) Destination**
   c) Dividend   d) None of these

4. Indian GST model has------basic rate structure.
    a) 10   **b) 4**
    c) 15   d) None of these

5. What does "I" stand for in IGST?
    a) International   b) Internal
    c) Integrated   d) None of these

6. How many forms of taxes shall be in Indian Goods and Services Tax?
    a) 2   **b) 3**
    c) 4   d) None of these

7. First proclamation to present GST by 2010, is made in the year of-
    a) 2000   b) 2004
    c) 2006   d) None of these

8. Which of the following tax is not included in Goods and Services Tax?
    a) VAT   **b) Stamp Duty**
    c) Entry tax   d) None of these

9. What are the taxes imposed on an intra-state supply?
    a) CGST   b) SGST
    c) CGST and SGST   d) None of these

10. SAC codes stand for-
    a) Services Accounting Code   b) Software Accounting Code
    c) System Accounting Code   d) None of these

Answer Key.

1 (c)	2 (c)	3 (b)	4 (b)	5 (c)	6 (b)	7 (c)	8 (b)	9 (c)	10 (a)

B. Short Answer Type Questions

1. GST came into India on which date?
2. What do you mean by Intra-State supply?
3. Power to make laws with respect to goods and service tax has been given by the constitution vide which article?
4. Define Goods under CGST Act?
5. Define money under CGST Act?
6. What do you mean by Consideration under CGST Act?
7. What do you mean by business?
8. What do you mean by blocked credit?
9. Name the person liable to pay GST under RCM?
10. Name the persons who are not eligible for Composition Scheme?

C. Broad Answer Type Questions

1. What are the benefits of GST?
2. Define Levy and collection as per CGST Act 2017
3. Define Levy and collection as per IGST Act 2017
4. Define scope of supply under section 7 of CGST Act.
5. What is composite supply?
6. What is mixed supply?
7. What do you mean by place of supply?
8. Define Reverse charge mechanism?
9. Which goods are exempted under Reverse Charge mechanism?
10. Describe the steps involved in furnishing under GST?

Suggested Readings / References

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