Netaji Subhas Open University

Paper: II

Cost and Tax Management

(Diploma in Entrepreneurship Development and Small Business Management)

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Structure

Unit 1: Costing

1.0 Objectives

After studying this unit, you will be able to-

- The concept of Costing
- Understand the objectives of Costing
- Learn the advantage of Costing
- Learn installation of Costing
- Understand the methods and techniques of Costing
- Learn limitation of Costing
- Understand the Cost Centre, Cost Unit, Job Costing, Process Costing,
- Learn Classification of Cost
- Understand the purpose of Cost Sheet
- Learn the Cost Sheet
- Learn the Advantage of Cost Sheet

1.1 Introduction

The role of Cost Accounting plays a vital role all over the world. Starting as a branch of Financial Accounting, Cost Accountancy has made a remarkable progress during the last few decades. Until the late 1880s, cost accounting was in the domain of the engineers. Whereas the first book, entitled 'Cost of Manufacturers' written by **Henry Metcalfe,** was published in 1885 in New York. It is only after the World War-I that Cost Accounting has increasingly been looked upon as a managerial tool for planning and control of cost.

Cost Concept: According to Cost Accounting Standard-1 (CAS-1) cost is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services. Actually 'cost' represents a sacrifice, a forgoing or a release of something of value. For example, cost of each element i.e. material, labour, overhead etc. means the amount of money that had to be paid to procure the item.

1.2 Costing

The term 'cost' is the main basis of costing and cost accounting. But it is not easy to define the term 'cost' in exact terms acceptable by 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. According to the Terminology of ICMA, London, costing is "the technique and process of ascertaining costs". It is the technique of measurement and accumulation of cost of different activities, products, process or services.

Wheldon, used the term costing in broader sense. According to him costing is "the classifying, recording and appropriate allocation of expenditure for the determination of costs of products or services, the relation of these costs to sale values and the ascertainment of profitability."

Cost Accounting: Cost Accounting is a quantitative method which deals with the classification, recording, allocation, summarisation and reporting of current of probable cost of a product. Cost Accounting is actually a scientific system of computation and analysis of costs of the product, job, order, contract, process, service etc.

Cost Accountancy: Cost accountancy is defined as "the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability". Cost Accountancy facilities management with cost control initiatives, ascertainment of profitability and informed decisions making. It also includes determination of selling price for the products, division and unit wise profitability. Forecasting expenses and Future probable income is also part of the practice of Cost Accountancy.

1.2.1 Objectives of Costing

The key objectives of cost accounting are-

- **Determination of Cost:** It is a process of accounting for determination of costs.
- **Records Income and Expenditure:** It records income and expenditure relating to production of goods and services.
- **Providing Data:** It provides statistical data on the basis of which future estimates are prepared and quotations are submitted.
- **Control:** It is concerned with cost ascertainment, cost control and cost reduction.
- **Budgeting:** It establishes budgets and standards so that actual cost may be compared to find out deviations or variances.
- **Decision Making:** It involves the presentation of '***right information to the right person at the right time'*** so that it may be helpful to management for planning, evaluation of performance, control and decision making.

1.2.2 Advantages of Costing

The advantages of cost accounting are-

- **Cost Object Analysis:** Revenue and expenses can be clustered by cost object, such as by product, product line and distribution channel, to determine which ones are profitable or require further support.
- **Trend Analysis:** Cost can be tracked on a trend line to discover expense flows that may be indicative long term trends.
- **Budget Compliance:** Actual cost incurred can be compared to budgeted or standard costs, to see any part of a business is spending more than expected.
- **Capacity:** The ability of a business to support increase sales levels can be examined by exploring the amount of its excess capacity.
- **Inventory Valuation:** The cost accountant is usually tasked with accumulating the cost of inventory for financial reporting purpose. This includes charging direct labour to inventory, as well as allocating factory overhead to inventory.

1.2.3 Installation of a Costing System

When the requirements of two firms are alike, the system must be designed to meet the specific needs of a particular organization. So, for introducing a sound costing system one should ensure that-

- The technical side of the business is carefully studied to design a suitable costing system.
- It is helpful in planning the future and controlling the present.
- The system is simple and easy to operate.

- The necessary data can be collected regularly and promptly.
- The results shown under two sets (viz. Cost and financial accounting) are so correlated that reconciliation between the two can be done easily.
- The cost accountant must receive full cooperation from the technical staffs and have such a power to access easily to all factory records as and when required.

1.2.4 Methods and Techniques of Costing

Various methods and techniques of cost accounting are used to ascertain cost. They are designed to suit the needs of individual business conditions. The most significant techniques of costing are—

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

The major methods generally used are-

i. Job Costing
ii. Process Costing
iii. 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 involves lots of clerical won for maintaining various costing records for different purpose. For medium and small size concern, the benefit derived from costing system may not justify the cost involved.
- **Dependent:** It is not an independent system of accounting. It depends on other accounting system.
- **Does not include all items of expenses and income:** Items of purely financial nature such as interest, financial charges, discount and loss on issue of share and debenture etc. are not taken into consideration in Cost Accounting.
- **Not an exact Science:** Like other accounting system, it is not an exact science but an art that has developed through theories and practices.

1.2.6 Cost Centre

Cost centre may be defined as the smallest part of operation or area of responsibility for which cost are collected. It is a location, person or item of equipment (or group of these) for which cost may be ascertained and used for cost control.

There are two types of Cost Centre—

i. Production cost centres.

ii. Service cost centres.

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

ii. Services cost centres: Services cost centres are incidental to the production process as products or cost units are not produce by them. As well as these are although necessary for it to take place. Examples are canteen, personnel, stores, boiler house and maintenance etc.

1.2.7 Cost Unit

Cost unit refers to the unit or quantity of product, service or time units (or combination of these) in relation to which cost may be expressed or ascertained. It is a device used for the purpose of breaking up or separating cost into smaller subdivisions attributable to products or services, for instance we may determine cost per tonne of coal, per kilo-watt hour of power, rate per machine hour, or per tonne-kilometre of a transport service etc.

1.2.8 Job Costing

Job costing system determine manufacturing cost systematically by dividing them in overhead, direct material and direct labour costs and estimating them at their actual value. Manufacturing firms are using job costing to control the use of raw materials, labour hours and equipment by allocating the cost of each customer order separately.

As well as, when a firm are not identical, job costing is an effective tool to allocate the cost of each product and keep track of the order expenses. Now a day's most business is using computerized job costing system to improve cost control and boost their profitability.

1.2.9 Process Costing

Where manufacturing is carried out a continuous process, process costing is used. Process costing is most commonly used when goods are mass produced and when the costs linked to individual units cannot be easily distinguished from each other. If goods are manufactured with small-scale productions runs or on an individual basis, costs are assigned using job costing. If a production process combines elements of mass manufacturing and customization, a hybrid costing is used.

1.2.10 Classification of Cost

In order to provide useful information for management, it is necessary to classify costs. Total costs can be classified in several ways and the following are examples of the more usual forms of classification-

A) Cost Classification by Nature

By nature, cost may be classified into three; such as-

- **Material Cost:** It is the cost of material of any nature used for the purpose of production of a product or service. Material cost includes cost of procurement, freight inwards, taxes and duties, insurance etc.
- **Labour Cost:** A labour cost includes salaries and wages paid to permanent employees, temporary employees and also to employees of the contractor.
- **Expenses:** The costs other than material cost or labour cost which are which are involved in an activity. Expenditure on accounts of utilities, payment for bought-out services, job processing charges etc. can be termed as expenses.

B) Type of Cost based Classification

On the basis of cost, it may be classified into four; such as-

- **Direct Cost:** The direct costs are those which can be identified easily and indisputably with a unit of operation or costing unit or cost centre. Cost of direct labour, direct material and direct expenses can be directly allocated.
- **Direct Material:** Raw materials are the directly identifiable as part of the final product and are classified as direct material. For example- wood used in production of tables and chairs, steel bars used in steel factory etc.
- **Direct Labour:** The labour cost incurred on the employees who are engaged directly in making the product, their work can be identified clearly in the process of converting the raw materials into finished products is called 'direct labour cost'.
- **Direct Expenses:** The direct expenses refer to expenses that are specifically incurred and charge for specific or particular job, process, services cost unit or cost centre. These expenses are also called 'Chargeable expenses'.

C) Cost Classification by Time

On the basis of time cost may be classified into four; such as-

- **Historical Cost:** The historical cost is the actual cost, determined after the event. Historical cost valuation states cost of plants and materials for example at the price originally paid for them.
- **Predetermined Cost:** This cost relating to the product is computed in advance of production, on the basis of specification of all the factors affecting cost and cost data. Predetermined cost may be either standard or estimated.

- **Standard Cost:** It is a predetermined calculation of how much costs should be under specific working conditions. Its main purpose is to provide basis for control through variance accounting for the valuation of stock and work-in-progress and in some cases for fixing selling prices. A standard cost is a planned cost for a unit of product or service rendered.
- **Estimated Cost:** It is predetermined cost based on past performance adjusted to the anticipated changes. It is used in budgetary control system and historical costing system. It emphasis is on the level of costs not to be exceeded.

D) Cost Classification for Decision Making

On the basis of decision making, cost may be classified into five; such as-

- **Marginal Cost:** The term 'marginal cost' is defined as the amount at any given volume o output by which aggregate costs are changed if the volume of output is increased or decrease by one unit. It is a variable cost of unit of a product or a service i.e. a cost which would be avoided if that unit was not produce or provided.
- **Differential Cost:** It is also known as 'incremental cost'. It is the difference in total cost that will arise from the selection of one alternative to the other. It is an added cost of a change in the level of activity.
- **Opportunity Cost:** Opportunity Cost can be defined as the revenue forgone by not making the best alternative use. Opportunity costs represent income forgone by rejecting alternatives. They are therefore not incorporated cash receipts or outflows.
- **Normal Cost:** The Normal cost is normally incurred at a given level of output in the condition in which that level of output is achieved. Normal cost includes those items of cost which occur in the normal environment of the business. The normal idle time is to be included in the ascertainment of normal cost.
- **Abnormal Cost:** It is an unusual or a typical cost whose occurrence is usually irregular and unexpected and due to some abnormal situation of the production. Abnormal cost arises due to idle time for some heavy breakdown or abnormal process loss. They are not considered in the cost of production for decision making and charged to profit and loss account.

E) Cost Classification by Nature of Production Process

On the basis of nature, cost may be classified into six; such as-

- **Batch Cost:** It is the aggregate cost related to a cost unit which consist of a group of similar articles which maintain its identity throughout one or more stages of production.
- **Process Cost:** when the production process is such that goods are produced from a sequence of continuous or repetitive

operation or processes, the cost incurred during a period is considered as process cost. The process cost per unit is derived by dividing the process cost by number of units produced in the process during the period. The average cost per unit produced during the period is process cost per unit.

- **Operation Cost:** It is the cost of a specific operation involved in a production process or business activity. When there are distinctly separate operations involved in a process, cost for each operation is found out for effective control mechanism.
- **Operating Cost:** It is the cost incurred in conducting in a business activity. Operating costs refers to the cost of undertakings which do not manufacture any product but which provide services
- **Contract Cost:** It is the cost of a contract with some terms and conditions of adjustment agreed upon between the contractee and the contractor. Contract cost usually implied to major long-term contract as distinct from short-term job costs.
- **Joint Cost:** These are the common cost of facilities or services employed in the output of two or more simultaneously produced or otherwise closely related operations, commodities or services. For example- in a petroleum refinery industry, petrol, diesel oil, naphtha etc. are produce jointly in the refinery process.

1.2.11 Self-Examination Question

Objectives Questions-

1) The following is also known as overhead costs
   a) Cost of direct labour
   b) Cost of Indirect labour
   c) Direct expenses
   d) Indirect expenses
2) In cinema halls, composite cost unit is----------------
   a) A seat per show
   b) Cost of screening
   c) Salary of staff
   d) Rent of cinema hall
3) Which of the following calculate the actual cost of product?
   a) Cost estimation
   b) Costing
   c) Both (a) and (b)
   d) None of these
4) Which factor that cause change in cost of activity
   a) Activity cost
   b) Driver cost
   c) Cost pool
   d) Cost drivers
5) Over absorption of factory overheads, due to in efficiency of management, should be disposed of by
   a) Carry forward to next year
   b) Supplementary rate
   c) Transfer to costing P&L A/c
   d) Any of these

Ans.

1 (d) 2 (a) 3 (c) 4 (a) 5 (c)

Short Answer Type Question

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?

Broad Answer Type Question

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) Write a short note on:
   a) Job Costing
   b) Process Costing
   c) Cost Unit
   d) Cost Centre
6) Discuss Batch Cost, Process Cost, and Contract Cost.
7) What are Marginal Costing, Abnormal Cost, and Normal Cost?
8) Write Short Note on:
   a) Joint Cost
   b) Operating Cost

1.3 Cost Sheet

Cost sheets may be prepared on the basis of actual data or on the basis of estimated data. It is necessary to make estimation of costs for the purpose of submitting tenders or quotations for a specific order.

1.3.1 Purpose of Cost Sheet

A properly drawn cost sheet serves the following purposes-

- It helps in fixing selling prices more accurately
- It provides information for compilation of estimates, quotations or tenders.
- It acts as a guide to the producer and helps him in formulating a definite production policy.
- By revealing the various elements of costs which contribute to the production cost of each cost unit, it provides useful information to trace wastes, losses and inefficiencies and thus effect economises.

1.3.2 Cost Sheet

According to CIMA London Cost Sheet is "A statement which provides for the assembly of the detailed cost of a centre or a cost unit". It is also a periodical statement. The expenditure which has been incurred upon product for a period is extracted from the financial books and the store records; and is set out in a memorandum statement. If this statement is confined to the disclosure of the costs units produce dividing the period, it is term as Cost-Sheet, but where the statement records total cost, profit and sales, it is usually known as Statement of Cost or Production Account.

1.3.3 Advantage of Cost Sheet

The advantages of a cost sheet are-

- It is a simple and useful medium of communication which gives information about costs to all levels of management in a simple and clear form.
- It helps in comparative study of the various elements of costs with the past results and standard cost. Thus, its help the management in control process.
- It shows the total cost and cost per unit of the product produced during the given period.
- It helps the producer to control over the cost of production.
- It helps the management in fixing up the selling price of their products.

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			
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 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	***		
	***		
Prime Cost:		*****	
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	***		
	***		
Factory Cost:	***	*****	
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			
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, hen 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 shownas 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 Factory Overhead: Factory Expenses			1,50,000 20,000
WORKS COST Office & Administration Overhead: Office & Administration Expenses			1,70,000 10,000
COST OF PRODUCTION Selling & Distribution Overhead: Selling & Distribution Expenses			1,80,000 6,000
TOTAL COST/COST OF SALES **PROFIT**			1,86,000 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.5,00/-
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	10,000	
Factory rent and rates	5,000	
Works salaries	20,000	
Consumable stores	5,000	
Depreciation of plant	4,000	
Lubricating oil	3,000	
	3,000	
		50,000
Works Cost		2,20,000
Administration overhead:		
Directors fees	5,000	
Auditors fees	3,000	
Office salaries and expenses	2,000	
		10,000
Cost Production		2,30,000
Selling and distribution overhead:		
Salesmen's salaries	20,000	
Carriage outwards	2,000	
Depreciation of delivery vans	2,000	
Insurance of finished goods	3,000	
Commission to salesmen	2,000	
Lighting of showroom	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 an 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 Direct wages Chargeable expenses		50,000 26,000 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		1,14,000
Selling and distribution overhead:		
Advertisement display material	4,000	
Travellers salaries	7,000	
Sales office expenses	5,000	
Salary of sales manager	3,000	
Catalogues and price lists	7,000	
Rent and rates of showrooms	4,000	
Wages of dispatch department	6,000	
Depreciation of delivery vans	5,000	
Rent and rates of warehouses	9,000	50,000
Cost of Sales		1,64,000
Profit (20% on sales i.e.25% on cost)		41,000
Sales		**205,000**

1.2.5 Self-Examination Question

Objectives Questions-

1) Which of the following calculate the actual cost of product?
   a) Cost estimation   b) Costing
   c) Both (a) and (b)   d) None of the above
2) The following is cost of direct materials
   a) Freight charges   b) Grease
   c) Coolant   d) Cotton waste
3) ------ costing is a type of job costing.
   a) Multiple   b) Operating
   c) Unit   d)Batch
4) The method of unit costing is adopted by
   a) Transport service   b) Steel Industry
   c) Mines   d) Bicycle industry
5) The following is cost of indirect material
   a) Lubricating oil   b) Octroi
   c) Import duties   d) Insurance

Ans.

1 (c)   2 (a)   3 (d)   4 (d)   5 (a)

Short Answer Type Question

1) What is Cost Sheet?
2) Discuss the Advantage of Cost Sheet
3) What is Cost Centre?
4) What is Cost Unit?
5) Discuss the purpose of Cost sheet

Broad Answer Type Question

1) What is Cost Unit? Discuss Four Advantage of Cost Sheet?
2) What is Cost Sheet and Cost centre?
3) 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 5, 000
    Stock of finished goods on 1.1.2018-4, 000 units valued at 2, 000
    Stock of finished goods on 31.1.2018 1, 000 units

    Apply FIFO Method

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

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

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

5)

    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.

6) 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 to-

- Understand the Concept of Inventory Management
- Role of Inventory Accounting
- Understand the Advantage of ABC Analysis
- Understand the Disadvantage of ABC Analysis
- Learn the Objectives of ABC Analysis
- Understand the Limitations of ABC Analysis
- Concept of Economic Order Quantity (EOQ)
- Understand the Advantages of EOQ
- Concept of Stock Levels
- Different Stock Levels

2.1 Introduction

Inventory management is the management of inventory and stock. As an element of supply chain management, inventory management includes aspects such as controlling and overseeing ordering inventory, storage of inventory and controlling the amount of product for sale. Inventory management is a discipline primarily about specifying the shape and placement of stocked goods. It is required at different locations within a facility or within many locations of a supply network to precede the regular and planned course of production and stock of materials.

2.2 Concept of Inventory Management

The activities which are related to the weight, dimensions, amount and locations of stocks are simply known as inventory management. The scope of inventory management concerns that balance between replenishment lead times, carrying costs of inventory, asset management, inventory forecasting, inventory valuation and defective goods and demand forecasting. Balancing these competing requirements leads to optimal inventory levels, which is an ongoing process as the business needs shift and react to the wider environment. Inventory management involves a retailer seeking to acquire and maintain a proper merchandise assortment while ordering, shipping, handling and related costs are kept in check. It also may include ABC analysis, lot tracking, cycle counting support etc.

2.2.1 Role of Inventory Accounting

By helping the organization to make better decisions, the accountants can help the public sector to change in a very positive way that delivers increased value for the taxpayer’s investment. It can also help to incentives progress and to ensure that reforms are sustainable and effective in the long term, by ensuring that success is appropriately recognized in both the formal and informal rewards system of the organization.

2.2.2 Strategies to Improve Inventory Management

The following strategies can help companies improve and optimize their inventory management for better results-

- **Inventory Management Tools:** There are many tools and platforms available in the market today. The right tools can bring accuracy into the process and prevent errors that happen due to human oversight. Also, they help manage inventory across various channels like physical stores, online stores and mobile apps.
- **Data Analytics:** Data analytics is increasingly being used in optimizing inventory management. It helps companies to look at inventory from an organizational level instead of a branch level.
- **Mobile Inventory Management:** Mobile application that interact with inventory real time can be used by stores mangers and associates to accurately track stock, improve customer service and plan offers and promotions. Mobile Inventory Management allows tracking and update of inventory at the most rudimentary level, product details, brand information etc to the stores associates.
- **Product Segmentation:** It pays to take a smooth look into your inventory to segments products based on their characteristics like market appeal, profitability and supply versus demand pattern. This strategy helps in maximizing profits and minimizing operational costs on less profitable products.
- **Inventory Optimization Software:** Inventory optimization software takes an organizational level view of the inventory instead of a localized branch or store level view. It uses historical data to determine probability of demand, which helps inventory managers to maintain optimal level of inventory and reduce risk of product obsolescence.

2.2.3 Inventory Management Techniques

Some of the most popular and effective inventory management techniques area as follows-

- **Economic Ordering Quantity:** Economic Ordering quantity is the lowest amount of inventory you must order to meet peak customer demand without going out of stock and without producing obsolete inventory.
- **ABC Analysis:** ABC Analysis is a technique of sporting of inventories into 3 categories. The categorization of the inventory under the ABC Analysis is done according to how well the inventory can sell and how much it will cost to hold. Always better control techniques(ABC) analysis classifies 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 cost 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 technique eliminates the cost of holding inventory altogether. When you have a drop shipping agreement, you can directly transfer customer orders and shipment details to your manufacture or wholesaler, who then ships the goods directly to your customer.

- **Cross-docking:** A technique similar to drop shipping where both methods rule out the need for warehouse or labour costs and risk involved with inventory handling, cross docking is a practice where incoming semi-trailer trucks or railroad cars unload materials directly into outbound trucks, trailers or rail cars with little or no storage in between.

2.2.4 Self-Examination Question

Objectives Questions-

1) Which of the following is not an inventory?
   a) Machines b) Raw materials
   c) Finished goods d) Consumable tools
2) The time period between placing an order its receipts in stock is known as
   a) Lead time b) Carrying time
   c) Shortage time d) Over time
3) Buffer stock is the level of stock
   a) Half of the actual cost
   b) At which the ordering process should start
   c) Minimum stock level below which actual stock should
   d) Maximum stock in inventory not fall
4) An example of purchasing costs include
   a) Incoming freight b) Storage costs
   c) Insurance d) Spoilage

Ans.

1 (d) 2 (a) 3 (c) 4 (a)

Short Answer Type Question

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?

Broad Answer Type question

1) Briefly discuss 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) Briefly discuss the techniques of Inventory Management system.

2.3 Concept of ABC Analysis

ABC analysis is a formed of control of inventories according to its value or nature of importance. Under this method total material are divided into three categories-A, B and C. "A" items with very tight control and accurate records, "B" items with less tightly controlled and good records and "C" items with the simplest controls possible and minimal records. The ABC Analysis suggested that inventories o f an organization is not equal value. Thus, the inventory is grouped into three categories (A, B and C) in order of their estimated importance.

"A" items is very importance of an organization. Because of the high value of these 'A' items frequent value analysis is required. On the other hand, "B" items are important but less important than 'A' items and more important than "C" items. Whereas "B" items are intergroup items and "C" items are marginally important.

2.3.1 Advantage of ABC Analysis

The advantages of ABC Analysis are as follows-

- **Strict Control:** Under ABC analysis, strict control can be exercised to the material in group "A" that have higher value.
- **Saving in Time:** A significance effort is made or management o the material from group 'A' it helps to save time as well.
- **Minimum Storage Cost:** It reduce storage cost.
- **Economy:** ABC analysis is economical method, since equal time and labour is not needed for all types of material.
- **Working Capital:** Under this method working capital can be profitably channelized elsewhere.
- **Reduction in Investment:** Under ABC analysis, the materials from group 'A' are purchase in lower quantities as much as possible. With this the effort to reduce the delivery period is also made. These in turn help to reduce the investment in material.

2.3.2 Disadvantage of ABC Analysis

The disadvantage of ABC analysis is as follows-

- ABC analysis will not be effective if the material is not classified into the groups properly.
- It is not suitable for the organization here the costs of materials do not very significantly.
- The classification of the materials into different groups may lead to extra cost. Hence it may not be suitable for small organization.
- There is no any scientific based for the classification of material under ABC analysis.

2.3.3 Objectives of ABC Analysis

The ultimate objectives of ABC analysis are to secure economy through efficient materials management. It has also the object of developing policy guide lines for selective control. The ABC analysis helps the managements to discriminate items and concentrate on the most important items first, then on the second grade items and then on the rest—the third grade.

2.3.4 Limitation of ABC Analysis

ABC analysis suffers from certain limitations. It is not fully effective without standardisation and codification. ABC analysis is based on gradation, programme of the material being the main criterion that is by V.E.D--- Vital, Essential and Desirable. Even some items with less monetary value may be vital for the plant and may need special attention. The ABC analysis needs periodical review and updating.

3.2.5 Self-Examination Question

Objectives Questions-

1) ABC analysis does-
   a) Minimization of storage cost b) Increase of storage Cost
   c) The number of units on hand d) None of these
2) ABC analysis is not effective without-
   a) Standardisation b) Codification
   c) Both (a) and (b) d) None of these
3) Which of the following is NOT a type of inventory?
   a) Raw materials b)MRP
   c) Finished goods d) Work-in-progress
4) In ABC analysis A class consists of items having
   a) Accurate records b) Good records
   c) Minimal records d) No records

Ans.

1 (a) 2 (c) 3 (b) 4 (a)

Short Answer Type Question

1) What do you mean by ABC Analysis?

2) Discuss the two Advantage of ABC Analysis
3) Discuss the three Disadvantage of ABC Analysis
4) Discuss the limitation of ABC Analysis
5) Discuss the two Objectives of ABC Analysis

Broad Answer Type Question

1) Discuss the Objectives of ABC Analysis
2) What is EOQ Level? State its Objectives?
3) Discuss Bin Card and Store Ledger
4) State the limitation of ABC Analysis?
5) Write a short note on:
    a) Variable Cost
    b) Operating Cost
    c) Marginal Cost
    d) Abnormal Loss

2.3 Economic Order Quantity (EOQ)

EOQ applies when demand for a product is constant over the year and each new order is delivered in full when inventory reaches Zero. There is fixed cost for each order place, regardless of the number of units ordered. There is also cost for each unit held in storage, commonly known as holding cost, sometimes expressed as a percentage of the purchase cost of the item. In Inventory management, Economic Order Quantity (EOQ) is the order quantity that minimizes the total cost i.e. holding cost and ordering costs. It is one of the oldest classical production scheduling models. The model was developed by Ford W. Harris in 1913, but R.H. Wilson, a consultant who applied it extensively, and K. Andler are given credit for their in-depth analysis.

2.3.1 Advantages of Economic Ordering Quantity

The main advantages of Economic Order Quantity (EOQ) are-

- **Known Demand or Usage:** Demand or usage for a given period is known i.e. deterministic.
- **Constant Unit Price:** Per unit price of material does not change and is constant irrespective order size.
- **Constant Carrying Cost:** The cost of carrying is a fixed percentage of the average value of inventory.
- **Constant Ordering cost:** Cost per order is constant whatever it be the size of the order.
- **Constant Demand:** The demand or usage is 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 × 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 cos

EOQ= Economic Order Quantity

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

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

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

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

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

= 1,788.85 (approx.)

2.3.2 Self-Examination Question

Objectives Questions-

1) An assumption of EOQ is
   a) Demand is variable
   b) Demand is unknown
   c) An item is produced continuously
   d) Demand for a product is constant over the year
2) In the EOQ formula, the variable A represents-
   a) Annual usage in units
   b) Ordering cost in dollars per order
   c) Annual carrying cost expressed as a percentage
   d) Unit cost in dollars
3) In the EOQ formula, the variable Q represents
   a) Annual usage in units
   b) Ordering quantity in units
   c) Ordering cost in dollars per order
   d) Unit cost in dollars
4) The EOQ can be calculated in-
   a) Monetary units
   b) Physical units
   c) Both monetary and physical units
   d) Neither monetary nor physical units

Ans.

1 (d) 2 (a) 3 (b) 4 (b)

Short Answer Type Question

1) What is EOQ Level?
2) State two objectives of EOQ.
3) State three Advantages of EOQ Level.
4) What is Bin card?
5) What do you mean by Stores Ledger?

Broad Answer Type Question

1) What do you mean by EOQ Level? State its Objectives.
2) Discuss the Advantages of EOQ Level.

3) What is Raw Material? State the Limitations of ABC Analysis.
4) 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.

5) 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.

6) 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 Rs.20%.
Normal lead time 20 days.
Safety stock 30 days' consumption.

7) The annual requirement of an item is 20,000 units, each costing Rs.5. Every order costs 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, I the price per unit is reduce by 6% for this quantity.

8) 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.

2.4 Stock Levels

'Stock' is defined as the quantity item that you have available for sale. And 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 tool to prevent a customer from purchasing a product that you don't have in stock, or to provide an easy reference to see what products you are running low on and need to order more of. An importance technique 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 ensure scientific control and optimum level of inventory, different levels of stocks are fixed, which are-

i. Re-Order level
ii. Maximum level
iii. Minimum level
iv. Danger level
v. 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 between the maximum and minimum level of stock. The minimum stock should be enough for the time being as the new purchase requisition takes sufficient 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 × 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 since 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 stopping of production 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, rations funs 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

Generally, this level is fixed below the minimum level and represents the stage where immediately steps are taken for getting stock replenished. In some 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-

- Average and minimum rate of consumption of material
- Normal delivery period/lead time
- Urgent delivery time

Formula: Danger level= Normal Usage × Urgent lead time

Illustration- 5:

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 o consumption × Delivery time required at emergency

= 200× 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 cost of storage depends on this average stock.

Formula: Average Level= $\frac{\text{Maximumlevel+Minimumlevel}}{2}$

Illustration- 6

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 required to calculate Average level.

Solution:

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

= 24000 + 2000 – 800 × 10
= 26000 – 8000
= 18000 units

Average level= $\frac{\text{Maximumlevel+Minimumlevel}}{2}$

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

=10000 units

2.4.7 Self-Examination Question

Objectives Questions-

1) 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) The profit and loss statement
2) 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) The FI FO method
3) Perpetual inventory system
   a) Cannot be maintained manually
   b) Can be maintained through point of sale devices
   c) Utilize only the Optical Character Recognition technology
   d) Cannot be combined with physical inventory system
4) Extra inventory that protects against out-of-stock conditions is called

a) The reorder point
b) Safety stock
c) Service level quantities
d) Order processing quantities

Ans.
1 (c) 2 (b) 3 (c) 4 (b)

Short answer Type Question

1) What is Stock?
2) What do you mean by Stock exchange?
3) What do you mean by differential stock levels?
4) What is Re-Order Level?
5) Discuss Minimum Level?

Broad Answer Type Question

1) What do you mean by Stock exchange? Discuss Maximum Level of stock?
2) Write a short note on
   a) Minimum Level
   b) Maximum Level

3) What do you mean by Minimum level, Average Level and Danger Level?
4) 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

5) 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

6) 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 2 days, Re-Order Quantity=2,000 units

Unit 3: QUALITY MANAGEMENT

Structure

3.0 Objectives

After studying this unit, you will be able to-

- Learn the basic concept of Quality Management
- Learn Objectives of Quality Management
- Understand Quality Tools
- Learn the Concept of Cause and Effect Diagram
- Concept of Control chart
- Concept of Process Capability Analysis
- Concept of Affinity Diagram
- ISO 9000 System
- Management Responsibility
- Quality System Certification Procedure

3.11 Introduction

The quality management system is a legitimatized process which serves document collections, techniques and obligations to acquire standard guidelines and purposes. It also assists to cooperate and prescribe an institution's operations to reach consumers and authoritative necessities including the development of its productiveness and proficiency in a consecutive manner.

3.2 Objectives of Quality Management

The principal aim of any quality management system is to develop product or service standard of a company. And this system has three essential parts such as high value appropriateness, consent to sufficient quality and high consumer contentment. The targets and destinations of a company prescribes on behalf of a quality management system must be distinct, attainable and reasonable. A distinct target is one that directs a particular objective from the company's skilful contrivance. This also incorporates the trifles about the target achievement of the employees. To concentrate the workers while the company has succeeded its objective, the objective has reasonable features that reveal how much development is needed and whenever the company has completed its attainable targets and objectives.

3.3 Quality Tools

Any kind of instrument that is utilised to assist the standards of entire products is called a 'Quality Tools". It may also be termed as 'seven tools of quality'. It may be accepted as the form of a table, method or skill that can be utilised to confirm the standards is continued at the time of production methods. The quality tools may be utilised to develop any type of technique, incorporating manufacturing procedures, trade procedures and educational procedures. There is not any difficulty to understand the quality tools. All these tools are categorized into three principal classes just as traditional tools, the management tools and the 1995 tools. From the beginning of this work, the development may occur any time of the continuing process. But some of the traditional tools have been mentioned underneath-

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

3.3.1 Concept of Cause and Effect Diagram

The 'cause and effect diagram' is an explorative tool to manifest probable reasons of a particular complication or situation. Moreover, it is the discovery of Kaoru Ishikawa, who introduced standard management procedures in the Kawasaki shipyards sector, and in the procedure deserved one of the developing figures of present management system. Simultaneously, this diagram is utilised to invent all the effective or practical reasons that cause in a single impact. But, the causes have been organised in accordance with their level of value or description, improving in an illustration of affinities and gradation of occurrences. Also it may assist one to find out basic reasons, problematic fields and assimilate the corresponding value of various incidents. Reasons in a cause and effect diagram are often organised into four principal classes. Whenever these classes may be varied, one will frequently observe such as-

- Sufficient employee, techniques, raw materials and instrument are conferred for constructing unit.
- Ingredients, plans, methods and inhabitant are conferred for management and assistance.

Apart from these, a 'cause and effect diagram' assists to visualize the reasons of a complication or standard feature utilising an arranged accession. It also inspires team work and uses team experience of the procedure. This utilises a methodical, easy to study arrangement to the diagram for cause and effect affinities or kinships. It enlarges the experience of the procedure by assisting everybody to acquire more about the incidents at employment and how they are concerned. This diagram signifies probable reasons of variation in a procedure and determines the fields where information should be accumulated for more analysis.

3.3.2 Concept of Control Chart

The control chart which is utilised to analyse about the procedure changes over the period, is a kind of design or graph. And 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 chart features of the quality management according to the Institute of Business Management have been discussed underneath.

The control charts manifest the activity of a procedure from the 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 improving. Procedure trends are essential as they use to assist in determining the out of control situation whether it virtually subsists or remains. Moreover, they use to assist to identify 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.

The idea of standard has been with the people at the time of beginning from it. So, from the early creation of the world description in the "Bible in Genesis", the almighty God accepted his creation as 'good' thing including its adoptable quality. The techniques of 'Artisan' and 'Craftsmen' and also with standard of their work are illustrated throughout the entire historical analysis of the story. Essentially, the internal standard of their products was narrated by some characteristic of the products just as capacity, elegance and conclusion. Still, it was not until the appearance of the volume production of products that the regeneration of the surface of a product became a standard issue or exposure.

The 'standard' or 'quality', specifically the expansion of ingredient parts, became an important issue for as much as no longer were the parts hand-built and separately chained until the completion of its production. But, now-a-days the volume-produced portions have to operate accurately to build each and every product. The quality was achieved by observing every portion and qualifying only those that acquire particularizations. According to the above mentioned analysis, a process control may be understood.

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 deficiencies per million advantages
- 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 capability analysis on behalf of parallel 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 assemble the composition with complex edition
- Destroying a complex edition into large groups or classes
- Accomplishing or obtaining assent on a condition

There are so many movements to formulate 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 allude to the quality system design of ISO-9001, ISO-9002 and ISO-9003. Apart from these, the various types of this series are presented as the following-

- 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.

There are so many **components** of ISO-9001 systems. Some of the essential systems have been discussed underneath-

- The liability of the authority
- Standard of the method
- Observation of the agreement
- Management of the graphic
- Management of the information
- Buying the assets
- Buyer-supplied the product
- Recognition of the product and depict capability
- Procedure monitoring ability
- Investigation and examination
- Observation, calculation and explore ingredients
- Supervision and examine condition
- Management of non-assuring manufacture
- Accumulative operation
- Conducting, savings, bundling and allotting
- Standard registers
- Interior standard audits
- Instructing
- Checking
- Statistical methods

So, all these are the essential elements to expose the great quality of ISO-9001 system.

Apart from these, there are so many **opportunities** to accept the ISO-900 systems. And they have been discussed underneath explicitly-

- Inspires traders or exporters
- Influence on employment discipline to amend and accomplish consumer-assurance
- Self-reliant survey and authority observation or investigation contribute better promulgation or contact
- Establishment of fundamental line or way
- Introduce the legitimate quality for the government attainment
- Decreases time consuming surveys by consumers and authorities
- Concentrates on training and occupational improvement.
- Develops the organization's standard concept
- Develops proficiency or competency
- Provides marketing opportunity
- Contributes an identifiable symbol or design that can be conjoined to sales literature
- Instrumental obstruction will become an extinct by an ordinary quality of ISO.
- Contradictions in survey will be dissolved.

Side by side, it has some **disadvantages**. The execution of a natural standard method is very formidable compatibility. Furthermore, it is time expending and may concern an operative secretarial consumption. Appraisement and registration expenses are very high. Huge kind of group work is arranged, unless cautiously organized, the procedure can become non-expensive impact and calamities. Whether, an institution has built some development on entire standard, the attempt will lessen, once the method is initiated, the work will be lessened usually.

The "**Registration process of ISO**" signifies the exemplification of institution's standard procedures by a third party organization. The consumers in European Countries use to deliberate on Indian companies to have their standard testified or registered method according to the ISO-9001, ISO-9002 or ISO-9003 methods.

The **validity of registration** is another essential factor. The entrusted registrar of a third-party organization will accomplish temporary observation to confirm that the standard method is being preserved. Recapitulation of scrutiny or inspection trusts on enterprise's temperament, methods accepted and so on.

The documentations of **preparation** required to equip for the registration are presented as follows-

- Entire experience of standard confirmation methods.
- Employment experience of the contextual ISO-9001 series quality.
- Appreciation of measurement procedure.
- Proper individual efficiency.
- Measurement knowledge.

The organizing of the documentation is absolutely necessary. Because every institution has applied whereby it generates products, contributes service to consumers, decides non-assuring products etc. But most of the functions are likely recorded to some length in the form of strategies, functional procedures, quality handling process, outpour graph, disorder lists, manuscripts, investigation benefits epistle or memorandum and manual things. The primary action for those institutions which do not have enough knowledge in improving a standard commitment method is explaining the formerly explained reports to become acquainted what has been made nowadays. The reports may be kept in reserve into deals in accordance with how the data engages to the certain quality with which it is needed to follow.

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 Quality System Certification Procedure

There are some basic formalities to obtain the certificate. And most of them have been analysed according to the following way:

a) To apply for certificate to the certificate management
b) To observe the manual standard throughout the certifying authority
c) To inspect primarily
d) Evaluation of the institution's quality system
e) Purgatory operation by the institution to remove uncertainties
f) Authorization of the permit
g) Continuation of the permit

According to, the following certification steps the organization can obtain the certificate from the certification authority or management. Hence the above mentioned characteristics are absolutely necessary for the certification process.

The ISO-9000 is universally adopted quality on behalf of standard monitoring procedures. Obviously, the qualities are autonomous of products. It is also liberal and may be employed to entire kinds of institutions in generating without consideration of their volume and type. Moreover, the standards concern to quality system instead of production to authorise the standard in the institution. It cannot particularise the temperament level, temperament expense level or negation level notwithstanding the allotment of ISO-9000 moves to incessant development in these fields. The ISO registration contributes a commitment to the consumer that the provider has sufficient standard system to reach the temperament necessities coherently. An institution wishful to acquire the ISO-9000 registration needs to change its standard methods in accordance with ISO-9000 necessities and obtain its method inspected from a third party by their techniques of registration. Having accomplished the successful inspection an institution gets a registration certificate which confirms that the standard methods of the organization are agreed with ISO qualities.

3.9 Conclusion

In conclusion, it may be said that the above mentioned analysis are perfect explanation of the Quality Management System. But the entire procedure is not as easy water wheel. All these are hard enough. So, if an institution or company or organization wants to receive the registration certificate of quality management system, they have to follow the above explained analysis carefully.

3.10 Self-Examination Question

Objectives Questions-

1) The objective of ISO-9000 family of quality management is
   a) Customer satisfaction
   b) Employee satisfaction
   c) Skill enhancement
   d) Environmental issue
2) Total Quality Management focuses on
   a) Employee
   b) Customer
   c) Both (a) and (b)
   d) None of the above
3) Which of the following is responsible for quality objective?
   a) Top level management
   b) Middle level management
   c) Frontline management
   d) All of the above
4) Total Quality Management & ISO both focuses on
   a) Customer
   b) Employer
   c) Supplier
   d) All of the above
5) CMM stands for
   a) Capability maturity model
   b) Capability monitoring model
   c) Capability measuring model
   d) Capability matching model
6) Which of the following is environment management?
   a) ISO-9000
   b) ISO-14000
   c) ISO-26000
   d) ISO-31000
7) According to Deming, Quality problems are
   a) Due to manage, management
   b) Due to method
   c) Due to machine
   d) Due to material
8) What is ISO?
   a) Indian organization for standard
   b) Internal organization for standard
   c) International organization for standard
   d) None of the above
9) EMS stands for?
   a) Environmental management system
   b) Employees management system
   c) Engineering management system

d) Equipment management system

10) ISO emphasis on
    a) Prevention
    b) Inspection
    c) Rejection
    d) All of the above

Ans.

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

Short Answer Type Question

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

Broad Answer Type Question

1) What are 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) Describe Quality System Certification Procedure
4) What are the elements of ISO-9000 standards? Describe them briefly.
5) What benefits do ISO-9000 Quality standards are to the user's organisation?

4. Direct Taxation

Structure

4.5 Set Off and Carry Forward of Losses

4.5.1 Steps to be Followed
4.5.2 Inter Sources Set off
4.5.3 Inter head Set Off
4.5.4 Order of Setting Off
4.5.5 Carry Forward of Losses
4.5.6 Self-Examination Question

4.6 E-filling of Return

4.6.1 Types of E-filling
4.6.2 Modes of E-verification
4.6.3 Methods of E-filling Returns
4.6.4 Merits of E-filling
4.6.5 Demerits of E-filling

4.0 Objectives

After studying this unit, you will be able to-

- Concept of Taxation
- Various Heads of Income
- Understand the Concept of Income from Salary
- Explain tax implication of Provident Fund
- Explain Reimbursement of Medical Expenses
- Understand the Meaning of House Property
- Learn Concept of Income from House Property
- Explain how to Compute Gross Annual Value
- Understand the Concept of Income from Business or Profession
- Explain Income Chargeable under the head "Profits and Gains from business or Profession"
- Explain Business Income not chargeable under this head "Profits and Gains from business or Profession"
- Understand the Concept of Income from Capital Gain
- Learn Capital assets, Transfers etc.
- Explain different type of Capital Gain
- Explain Exemption of Capital Gains under various situations
- Understand the Concept of Income from Other Sources
- Learn Dividend Income and Casual Income
- Explain Family Pension
- Understand the Meaning of Deduction
- Understand the Gross Total Income and Total Income
- Concept of Set Off and Carry Forward of Losses
- Learn Concept of E-filling
- Understand Different types of E-filling
- Understand the methods E-filling Returns
- Understand the Benefits of E-filling
- Disadvantages of E-filling

4.1 Introduction to Taxation

Tax is a fee charged by the government on a product, income or activity. There are two types 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 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 get these 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).

- **Dividend [u/s 2(22)]:** Any distribution of accumulated profits is simply known as dividend. But under IT Act it extends few steps more; 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** 2018-19. Compute income from Salary of Mr. Roy for the assessment year 2019-20. **Ans.**(Rs.15000x12) i.e.Rs.1, 80,000/- is the Income from Salary of Mr. Roy for the assessment year 2019-20. 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 2018-19. Compute her Salary income for the Assessment year 2019-20.

<table>
<tr><td></td><td>Ans. Rs.4, 80,000/- is the income from Salary of Miss. Lata for the Assessment year 2019-20.</td></tr>
<tr><td>Annuity or Pension</td><td>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 2019-20.
Ans. (Rs.2, 00, 000x12+Rs.30, 000x12) i.e. Rs.27, 60, 000/- is the Salary income of Mr. Bulbul Babu for the Assessment year 2019-20.

4. Dr. Babu is a guest lecturer of IIMC who is getting pay 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 2019-20.
Ans. Rs. (Rs.60, 000x12 + 40,000x12) i.e. Rs.12, 00, 000/- is the income from Salary of Dr. Babu for the Assessment year 2019-20.

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>

<table>
<tr><td>Category of Employee</td><td colspan="2">Exemption</td></tr>
<tr><td>Govt.</td><td colspan="2">Fully.</td></tr>
<tr><td rowspan="2">Non-Govt.</td><td>When the employee gets Gratuity.</td><td>1/3x(commuted pension received)x100/commutation %</td></tr>
<tr><td>When the employee does not get Gratuity.</td><td>1/2x(commuted pension received)x100/commutation %</td></tr>
</table>

Note:</td></tr>
</table>

<table>
<tr><td></td><td>1. High court or Supreme Court judges will get tax exemption maximum ½ of commuted pension.
2. If the commuted pension is being received from LICI will be exempted.</td></tr>
<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><td>Category of Employee</td><td colspan="2">Exemption</td></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)xNo 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) ½x Salary based on last 10 month’s averagexNo of completed year of service.
Note: Salary = Basic + D.A. (The portion of retirement benefit) + Commission of fixed % on turnover.</td></tr>
</table>
</td></tr>
</table>

	6. Mrs. Pamela Devi got retired on 15.06.2018 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 2019-20. **Ans.** Rs. (Rs.60, 000x12 + 20,000x12) i.e. Rs.9, 60, 000/- is the income from Salary of Mr. Paul for the Assessment year 2019-20. 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 2018-19. Compute his Salary income for the Assessment year 2019-20. **Ans.** Rs. (60, 000x12 + 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 2018-19 of Rs. 45, 00, 000/-. Compute his Salary income for the Assessment year 2019-20. **Ans.** Rs. (60, 000x12 + 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 2018-19.

Compute her Salary income for the Assessment year 2019-20.

Ans. Rs.10, 00, 000/- is the Salary income of Miss. Ria for the Assessment year 2019-20.

11. Mrs. Dutta got a payment of Rs.4, 80, 000/- as the amendment of her Salary during the previous year 2018-19. She also gets a monthly remuneration of Rs.40, 000/- from her present employer. Compute her Salary income for the Assessment year 2019-20.

Ans. Rs. (4, 80, 000 + 40, 000x12) 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 2009. In April, 2018 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 2009. Compute her Salary income for the Assessment year 2019-20.

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. 2018-19. 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 2019-20.

Particulars	Amount

	Rs.
Basic salary (Rs.20, 000x12)	2, 40, 000
D.A. (Rs.10, 000x12)	1, 20, 000
Commission (Rs.5, 00, 000x.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 (20,000x(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, 000x.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. 2018-19. 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?

Ans. Rs.6, 05, 000/-.
G) What would her gross salary if there was Public PF?
Ans. Rs.6, 05, 000/-.

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

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

House Rent Allowances (2001 census)

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. 2018-19.

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 2018-19.
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. 2018-19. 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, 2019Rs.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 2019-20.

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.

Value of Perquisite on car allowances P.M.

Circumstances	Cubic capacity of engine≤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/- but Rs.600/- 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/- but Rs.900/- 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 2019-20.

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 allowances 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	Fully exempted.

<table>
<tr>
<td></td>
<td>
<table>
<tr><td>under any scheme of central Govt.</td><td></td></tr>
<tr><td>Any other hospital or any pvt. doctor</td><td>Actual exp. or Rs.15, 000/- whichever is lower.</td></tr>
<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.

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><td>Category of Employee</td><td>Exemption</td></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.</td></tr>
</table>
</td>
</tr>
</table>

	<table><tr><td></td><td>c) 10 month's salary (On the basis of last 10 month's average). d) Cash equivalent of unutilized leave. [Last 10 month's average salaryxUnutilized leave/30]</td></tr></table> **[Salary = Basic + D.A. (Only the part of retirement benefit) + Fixed % of commission on turnover.]** 25. Miss. Anita Devi, an employee of IDBI Bank Ltd. retired on 1.12.2018 after 20years 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 2019-20. **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 income chargeable under the head 'Salaries' is computed 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.

4.2.1.2 Self-Examination Question

Objectives Questions-

1) P, a chartered account is employed with R ltd. as an internal auditor and requests the employer to call the remuneration as internal audit fee. P shall be chargeable to tax for such fee under the head
   a) Income from salary
   b) Profit and gains from business or profession
   c) Income from other sources
   d) Income from house property
2) The TDS Certificate issued by an employer to his employees in case of salary income is
   a) Form 16
   b) B Form 26
   c) C Form 26A
   d) D Form 26Q
3) Section 17(1) is related to
   a) Income from salary b) Income from house property
   c) Income from other sources d) Income from capital gain
4) Fees received by the employee from the employer are charged to tax as
   a) Business income b) Income from other sources
   c) Capital gains d) Salary income
5) Salary is lieu of notice period is
   a) Taxable
   b) Exempt
   c) Taxable is assessing officer wants to charge to tax
   d) Taxable if assessee wants to offer for tax

Ans.

1 (a) 2 (a) 3 (a) 4 (d) 5 (a)

4.2.2 Income under the head 'House Property' u/s 23

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 2018-19, 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 2019-20.

Ans. Nil.</td></tr>
<tr><td>Let Out</td><td>GAV is higher of ALV and Actual Rent Receipt or Receivable (ARR) where as 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. It's 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 2019-20.

Ans. GAV Rs.54 lakhs.

3. Mr. Lotus has 5 properties in Bandra, all of which were let out during the previous year 2018-19. 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>
</table></td></tr>
</table>

Actual Rent Received	40, 000	50, 000	60, 000	70, 000	80, 000

Compute the Gross Annual Value of each property separately of Mr. Lotus for the assessment year 2019-20.

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. It's 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 2019-20. 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, 2018 at a rent of Rs.75, 000/- per month.

On 31.01.19 he came back and got back the house from the tenant on 07.02.19 after getting two months' rent. Compute the Gross Annual Value of the property of Mr. Lucky for the assessment year 2019-20.

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 2018. Thereafter the tenant vacated the house and Mrs. Gupta used the house for self-occupation. Rent for the month of November and December 2018 could not be realized in spite of her effort. All the conditions prescribed under Rule 4 are satisfied.
   Compute the GAV of the property of Mrs. Gupta for the assessment year 2019-20.

Deemed Let out

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. 2018-19 are as under:

Particulars	House I	House II
Municipal Value p.a.	1,00, 000/-	1, 50, 000/-
Fair Rent p.a.	75, 000/-	1, 75, 000/-
Standard Rent p.a.	90, 000/-	1, 60, 000/-

   Compute the GAV of the properties of Mr. Happy for the assessment year 2019-20.

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 24.03.19 at a cost of Rs.160 lakhs, near science city. The other details of the houses are as under:

Particulars	House of Tala	House of Garia
Municipal Value p.a.	4,00, 000/-	16, 00, 000/-
Fair Rent p.a.	3, 75, 000/-	18, 75, 000/-

Standard Rent p.a.	4,60, 000/-	20, 00, 000/-

During the previous year 2019 both of the houses were self-occupied. Compute the GAV of the properties of Mr. Ali for the assessment year 2019-20.

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 year 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.

Nature of House property	Deductions	
Self-occupied	Acquired or constructed	Before 1.4.99 Max. Rs.30, 000/-. But on or after 1.4.99 Rs.1, 50, 000/-
	Repair, renewed or reconstructed	Max. Rs.30, 000/-.
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 3 years from the end of the financial year in which the capital was borrowed to avail the max. Limit of deduction Rs.1, 50, 000/- u/s 24(b).

4.2.2.3 Self-Examination Question

Objectives Questions-

1) Municipal tax is levied on?
   a) Gross annual value
   b) Net annual value
   c) Fair rent value
   d) MRV
2) There are ------- types of house property?
   a) 2 b) 3

c) 5 d) 4

3) 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

b) Estate duty d) Wealth tax

4) Wealth tax was introduced in India in-

a) 1967 b) 1965

c) 1955

5) Income of property transferred after 31st Dec. 1969 by member to family shall be

a) Included b) Not included

c) Partially included d) None of the above

Ans.

1 (a) 2 (b) 3 (d) 4 (b) 5 (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 the unit 4.4.

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

The income i.e. any profit or gain arising from the **transfer** of **capital asset** effected in the previous year is known as Income from **Capital Gain**.

Capital assets u/s 2(14)

A Capital Asset means property of any kind held by an assessee, whether or not connected with his or her business or profession, but does not include-

i) Any **stock-in –trade**, consumable stores or raw materials held for the purpose of business or profession of the assessee;
ii) **Personal effects**, that is to say, movable 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 **agricultural land** in India i.e. agricultural land in India which is not situated in any specified area;
iv) Any Gold or Special Bearer **Bond** issued 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, exchange or relinquishment of the asset; or
ii) The extinguishment of any rights therein; or
iii) The compulsory acquisition thereof under any law; or
iv) The owner of a capital asset may convert 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 2018, 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 31-03-2019 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, 2018. Here he converts his 4 Mobiles at a profit of Rs.16, 000/-. Discuss the tax implication.

3. Miss. Devi has had some **jewelleries** got from her gramdmother 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 jewellery shop at her locality and engaged a goldsmith to run the shop. On 1st day of April, 2018 **she converted** her all jewelleries as stock-in-trade at a price of Rs.4 lakhas. Her grandmother got the jewelleries at the occasion of her marry. The fair market price of the jewelleries were Rs.40, 000/- as on 01.04.2001. The current cost inflation index is 280. 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 jewelleries at Rs.6, 00, 000/- on 31.03.19 would your answer differ?

   Ans.
   Computation of Capital Gain of Miss. Devi for the assessment year 2019-20

Particulars	Amount Rs.
Sale proceeds Less: Conversion price **Business Profit**	6, 00, 000 4, 00, 000 **2, 00, 000**
Conversion price Less: Indexed cost (40, 000*280/100) **Long Time Capital Gain**	4, 00, 000 1, 12, 000 **2, 88, 000**

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/-.

<table>
<tr><td>Agricultural Land</td><td>The profit or gain arising because of transfer of rural agriculturalland 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 $\geq$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, 2008 at a cost of Rs.4, 80, 000/-. In May 2018, he sold this property at a price of Rs.10, 00, 000/-. Cost inflation index: For 2018-19 is 280, for 2008-09 is 137. Discuss the tax implication of Mr. Paul for the assessment year 2019-20.

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

7. Would your answer differ if such land were situated at Madhyamgram, a municipal area?

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-

<table>
<tr><th>Particulars</th><th>Amount Rs.</th></tr>
<tr><td>Sale proceeds
Less: Indexed cost (4, 80, 000*280/137)</td><td>10, 00, 000
9, 81, 022</td></tr>
<tr><td>Long Term Capital Gain</td><td><u>18, 978</u></td></tr>
</table>
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/-.</td></tr>
<tr><td>Bonds or Securities</td><td>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</td></tr>
</table>

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 Defence 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 2019-20.

   Ans. Nil.

10. Miss. Antora Devi purchased 200, 10% Debenture @ Rs.100 each at a discount of 10% on 1.4.15. In January 2019 she sold all the Debentures at a price of Rs.110 each.

Financial year	Cost Inflation Index
2015-16	254
2018-19	280

   Discuss the tax implication of Miss. Devi for the assessment year 2019-20.

   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 2006. Fair market value of the shares on April 1, 2001 was Rs.25 per share. In January 2019, he transfers all the shares @ Rs.120/- each (brokerage @ 2%). Compute the capital gain taxable in the hands of Mr. Mehta for assessment year 2019-20 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
2001-02	100
2005-06	117
2018-19	280

Ans.

i) Computation of capital gain for the assessment year 2019-20

Particulars	Amount Rs.
For 1, 000 Original Shares:	
Sale proceeds (1000*120)	1, 20, 000

Less: Brokerage (1, 20, 000*2%) Indexed cost (25*1000*280/100)	(2, 400) (70, 000)
Long Term Capital Gain (a)	**47, 600**
For 1, 000 Bonus Shares: 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)	**1, 65, 200**

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 2018. She sold all the shares through a **recognized stock exchange** @ Rs.15 each on 30th December 2018. Compute the capital gain taxable in the hands of Miss. Aparna Devi for assessment year 2019-20 assuming **security transaction tax** was paid @ 0.25%.

Financial year	Cost Inflation Index
2017-18	272
2018-19	280

Ans. Short Term Capital Gain Rs. {1, 50, 000 – (1, 50, 000*.25% + 1, 00, 000)} i.e. Rs.49, 625/-.

<table>
<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, 2019, 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 2019-20.

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, 2018. He sold the right to Mr. Anand @ Rs.20/- each. Discuss the tax implication of Mr. Roy for the assessment year 2019-20.
Ans.
Computation of Capital Gain of Mr. Roy for the assessment year 2019-20
<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>

4.2.4.3 Exemptions

Capital gains arising for the transfer of residential house, agricultural land, compulsory acquisition or investment in certain bonds or residential house or shifting industrial undertaking from urban area to any SEZ or other are exempted as under-

What	When	Conditions	Quantum of Exemption
Residential house u/s 54	Individual or HUF	a) Long term capital gains. b) The house is residential house & income from such property is chargeable under the head "Income from house property". c) A new residential house should be- ➢ Purchased within 1 year before or 2 years after the date of transfer or ➢ Constructed within a period of 3 years after the date of transfer.	Long Term Capital gain or the amount investment in the new residential house, whichever is lower.
Agricultural Land u/s 54B	Individual	a) Urban agricultural land. b) Such land must have been used for agricultural purposes either by the assessee himself or his parents in the 2 immediately preceding years. c) Another agricultural land (rural or urban) should be purchased within 2 years.	Short / Long Term Capital gain or the amount investment in the agricultural land, whichever is lower.
Compulsory acquisition u/s 54D	Any assessee	a) Industrial undertaking. b) Should have been used by the assessee for the purpose of business at least 2 years immediately preceding the dater of transfer. c) New land or building for the purpose of business or any industrial undertaking purchased within 3 years.	Short / Long Term Capital gain or the amount investment in the industrial undertaking, whichever is lower.
Investment in Certain Bonds u/s 54EC	Any assessee	a) The gain arising from long term capital assets or depreciable assets will also be taken if such assets were being used ≥ 36 months. b) Should be invested in specified assets within 6 months. Here specified assets means: Bonds issued by the National Highway Authority of India or Rural Electrification Corporation	Short / Long Term Capital gain or the amount investment in the industrial undertaking, whichever is lower.

		Limited which are redeemable after 3 years.	
Investment in residential house u/s 54F	Individual or HUF	a) The profit or gains are from any long term capital assets except residential house. b) A residential house should be- ➢ Purchased within 1 year before or 2 years after the date of transfer or ➢ Constructed within a period of 3 years after the date of transfer. c) Should not own more one residential house on the date of transfer. d) Should not purchase any other new houses within one year or construct any other residential house within a period of 2 years from the date of transfer.	If the cost of new residential house ≥ Net sale consideration of original asset, the entire capital gain is exempted. Otherwise the proportionate CG is exempted i.e. LTCG*Investment/Net sale
Industrial undertaking shifting from urban area to any other areas u/s 54G	Any assessee	a) Shifting from urban area to any other area. b) Profit or gain arising from the transfer of machinery, plant, building or land or any right in building situated in urban area. c) Such transfer should be for the purpose of shifting from urban to other areas. d) The gain should be utilized for any of the following purposes within 1 year before or 3 years after the date of transfer- ➢ Purchase of new plant & machinery; ➢ Acquisition of building or land or construction of building; ➢ Expenses on shifting of the industrial undertaking from the urban area to the other area; or ➢ Any other expenditure certified by the Central Government.	Short / Long Term Capital gain or the amount investment in the new assets plus expenses incurred, whichever is lower.

Industrial undertaking shifting from urban area to SEZ u/s 54GA	Any assessee	Same as above. Only thing is different i.e. here the transfer is being made to an SEZ.	Same as above.

Note:

i) Under sections 54, 54B, 54D, 54G and 54GA should invest in specified assets within the specified time. If such investment is not made before the date of filing of return of income, then the stipulated amount has to be deposited under the Capital Gain Account Scheme (CGAS) to get exemptions.

ii) If the asset is transferred within a period of 3 years of it's purchase or construction, then the capital gain, which was exempted earlier would be deducted from the cost of acquisition of new asset for the purpose of computation of capital gain.

iii) If the said investment under CGAS is not utilized within the stipulated time, then the unutilized amount will be treated as capital gain what was exempted earlier.

iv) Extension of time limit is allowed under the compulsory acquisition, when the compensation is not received on the date of transfer. In this case the stipulated time is being calculated from the date of receipt of compensation.

v) Any improvement cost incurred prior to 1.4.1981 is to be ignored when fair market value as on 1.4.1981 is taken into consideration.

vi) Equity oriented fund means-
   a) The investible funds are invested by way of **equity shares in domestic companies** to the extent of more than **65% of total proceeds** of such funds; and
   b) Such have been set up under a scheme of Mutual Fund specified under clause (23D).

vii) Short term capital gains tax rate applicable, in respect of equity shares/ units of an equity oriented fund u/s 111A is 15%.

viii) **Assessing officer** may refer to the **valuation officer** if the fair market value is **15%** or **> 25, 000/-** of the value of the asset as claimed by the assessee.

ix) Above the basic total income which is not chargeable to tax if any capital gain remains direct 20% tax will be charged long term capital gains.

x) The long term capital gain on transfer of **equity shares or equity oriented fund** through a **recognized stock exchange** on which **security transaction tax** is paid is exempted from tax u/s 10(38. Such transfer might be occurred on or after 1.10.2004.

xi) "Sweat equity shares" means equity shares issued by a company to its **employees or directors** at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

4.2.4.4 Self-Examination Question

Objectives Questions-

1) Which of the following is not a capital receipt?
   a) 'Salami' for settlement of Tenancy
   b) Insurance claim received on machinery lost by fire
   c) Lump sum received on sale of shares
   d) Goods sold for cash
2) Section 45 is related to
   a) Capital gain   b) Capital assets
   c) Assets   d) Capital expenses
3) Capital assets include
   a) Stock in trade   b) Personal effects
   c) Gold deposit bonds   d) Shares
4) Types of capital gain are
   a) 1   b) 2
   c) 3   d) 4
5) The tax rate of long term capital gain is
   a) 10%   b) 15%
   c) 20%   d) 30%

Ans.

1 (d) 2 (a) 3 (d) 4 (b) 5 (c)

4.2.5 Income from Other Sources U/s 56

We have studied earlier that there are five heads of income. "Income from other sources" is the last and residual head. The first four heads of income have specific nature of income taxable under that head. What does not get covered 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 necessarily to be charged under this head.

4.2.5.1 Income Necessarily Charged under the head "Income from Other Sources" (u/s 56 (2))

a) **Dividend Income:** However, the amount declared, distributed or paid by a domestic company by way of dividends (whether interim or otherwise) whether out of current or accumulated profits are chargeable to tax in the hands of the Company only and such income in the hand of the recipient has been made exempt from tax;

b) **Casual incomes:** Like winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature; Such winnings are chargeable to tax at a flat rate of 30% u/s 115B and no expenditure or deduction under chapter VIA can be allowed from such income and un exhausted basic limit can't be adjusted against such income;

c) **Sum of money or property received by an individual or a Hindu undivided family u/s 56 (2) (vii):**

Sr. No.	Nature Asset	Particular	Taxable value
1	Money	Without Consideration	The whole amount, if the same exceeds Rs.50, 000/-.
2	Movable Property	Without Consideration	The aggregate fair market value of the property, if it exceeds Rs.50, 000/-.
3	Movable Property	Inadequate consideration	The difference between the aggregate fair market value and the consideration, if such difference exceeds Rs.50, 000/-.
4	Immovable property	Without Consideration	The stamp value of the property, if exceeds Rs. 50, 000/-.
5	Immovable property	Inadequate consideration	The difference between the stamp duty value and the consideration, if such difference exceeds Rs.50, 000/-.

d) The following incomes are also chargeable to tax under this head only if the same are not otherwise chargeable to tax under the head 'Salaries' or 'Profits and Gains of Business or Profession':-

i) Any sum received by the assessee from his employees as contribution to any provident fund or superannuation fund or fund set up under Employees State Insurance Act or any other fund set up for the welfare of the employees.
ii) Income by way of interest on securities.
iii) Income from machinery, plant or furniture belonging to the assessee and let on hire. Income from letting on hire machinery, plant or furniture belonging to the assessee along with buildings if the letting of the building is inseparable from the letting of the said machinery, plant or furniture.
iv) Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy. This income will additionally not be taxable under this head if it is chargeable to tax under the head Salaries.
v) Any sum of money in excess of Rs 50,000, received by an individual or HUF from any person without consideration is to be included as the income of the recipient under this head.
vi) Salaries received by a person who cannot be termed an employee.
vii) Annuities which are not provided by the employers.
viii) Salaries of Members of Parliament and MLAs.
ix) Debenture interests, if not earned during the course of business or profession.
x) Interest on bank deposits and all other interest incomes if not earned during the course of Business or profession.
xi) Rental incomes from properties which are not owned by the assessee e.g. in cases of subletting or in respect of sub lease of properties etc.
xii) Interest on fixed deposits and other deposits before the commencement of business.
xiii) Family pensions
xiv) Interest on employee's contribution in the case of unrecognized provident fund.

4.2.5.2 <u>Receipt Exempted from the Applicability of u/s 56(2) (vii)</u>

Any sum of money or value of property received-

i) From any relative;
ii) On the occasion of the marriage of the individual;
iii) Under a will or by way of inheritance;
iv) In contemplation of death of the payer or donor, as the case may be;
v) From any local authority as defined in the Explanation to section 10(20);
vi) From any fund or foundation or university or other educational institute or hospital or other medical institution or any trust or institution referred to in section 10(23C);
vii) Form any trust or institution registered u/s 12AA.

4.2.5.3 Meaning of 'Relative'

The expression "relatives" mentioned above means:

In the case of an individual—

i) Spouse of the individual;
ii) Brother or sister of the individual;
iii) Brother or sister of the spouse of the individual;
iv) Brother or sister of either of the parents of the individual;
v) Any lineal ascendant or descendant of the individual;
vi) Any lineal ascendant or descendant of the spouse of the individual;
vii) Spouse of the person referred to in (ii) to (vi) above.
viii) In the case of a Hindu undivided family, any member thereof

4.2.5.4 Meaning of 'Property'

The expression "property" means:

i) Immovable property being land or building or both;
ii) Shares and securities;
iii) Jewellery;
iv) Archaeological collections;
v) Drawings;
vi) Paintings;
vii) Sculptures;
viii) Any work of art; or
ix) Bullion [inserted by the Finance Act, 2010 w.e.f. 1.6.2010]

4.2.5.5 Other incomes which are Chargeable under this head

The list of incomes provided under Section 56, which are chargeable under this head, is not exhaustive.

The following are the instances of other incomes which are chargeable under this head:

i) Income from subletting;
ii) Casual income
iii) Interest on bank deposits or deposits with companies, or loans;
iv) Insurance commission;
v) Directors fees
vi) Family pensions;
vii) Ground rent
viii) Agricultural income from land situated outside India;
ix) Income from vacant land;
x) Income from undisclosed sources;
xi) Interest on securities of foreign Governments;
xii) Income from fisheries
xiii) Interest on securities of foreign Governments;
xiv) Income from racing establishments;
xv) Income from granting of grazing rights

xvi) Annuity payable to the lender of trademark;

4.2.5.6 Family Pension

Family pension received by the legal heirs of the deceased is taxable in the hands of the legal heirs as income from other sources. Family pension for this purpose means a regular monthly amount payable by the employer of the deceased to a person belonging to the family of the employee in the event of his death.

U/s 57(iia), the recipient of the family pension is eligible for standard deduction at the rate of $33\frac{1}{3}\%$ of the pension or Rs.15, 000, whichever is less. However, family pension received by the widow or children or nominated heirs of a member of the armed forces of India, where the death of such member has occurred in the operational duties, shall be exempt from tax.

Illustration- 1:

Mrs. Nobody, a widow, furnishes the following particulars of her income for the Previous Year 2018-2019:

- i) Gross salary received Rs.1,60, 000/-
- ii) Family pension received Rs.50, 000/-
- iii) Income from agriculture(land situated in Nepal) Rs.10, 000/-
- iv) Interests on Government securities Rs.10, 000/-
- v) Income from vacant land in Kolkata Rs.4, 000/-

You are required to compute her gross total income for the Assessment Year 2019-2020.

Solution:

Computation of gross total income of Mrs. Nobody, a resident individual, for the Assessment Year 2019-2020 relating to the Previous Year 2018-2019

Particulars	**Amount Rs.**	**Amount Rs.**
I. Income under the head "Salaries":		
Gross salary	1,60,000	
Less: Deduction u/s 16	Nil	1,60,000
II. Income from other sources:		
a) Family pension	50,000	
Less: Standard deduction u/s 57 (iia) [$33\frac{1}{3}\%$ of pension or Rs.15,000, whichever is less	15,000	
		35,000
b) Income from agriculture in Nepal		10,000
c) Interest on Government securities		10,000
d) Income from vacant land		4,000
Gross total income		**2,19,000**

Illustration- 2:

Miss Puja Chanda, a reader in an undergraduate college furnishes the following particulars of her income for the Previous Year ended on 31-3-2019:

a) Income from salary (computed) Rs.1,20, 000/-
b) Interest paid on money borrowed for the purchase of a flat Rs.34, 000/-
c) Examiners remuneration from the university (expenses incurred for this purpose Rs.5, 00/-) Rs.3,500/-
d) Dividends from Indian company Rs.4, 000/-
e) Royalty from books (typing cost of the manuscripts Rs.3, 000/-) Rs.9, 000/-

Compute her total income for the relevant Assessment Year 2019-2020

Solution:

Computation of total income of Miss Puja Chanda, a resident individual, for the Assessment Year 2019-2020 relating to the Previous Year 2018-2019

Particulars	Amount Rs.	Amount Rs.	Amount Rs.
I. Income under the head "Salaries"			1,20,000
II. Income from house property:		Nil	
Gross annual value		Nil	
Less: Municipal tax paid			
Net Annual Value		Nil	
Less: Deduction u/s 24:			
Interest on Loan [u/s 24(b)]		34,000	
			−34,000
III. Income from other sources:	3,500		
a) Examiners remuneration	500		
Less: incidental expenses		3,000	
	9,000		
b) Royalty from books	3,000	6,000	
Less: Incidental expenses			
c) Dividends from Indian company		Nil	9,000
[Exempt u/s 10(34)]			95,000
			Nil
Gross total income			
Less: deduction u/s 80C to 80U			**95,000**
Total Income			

Illustration- 3:

P submits the following particulars of his incomes and outgoings for the year 2018-19:

a) Dividend received from X C. Ltd. an Indian company Rs.4, 160, interest paid on capital borrowed for the purpose of investment in such shares Rs.5,00
b) Interest on American Government Bond Rs.15, 700
c) Winnings from horse races Rs.13, 200 expenses incurred for the same Rs.2, 000
d) Income by way of owning and maintaining race-horses Rs.8, 900 expenses incurred for maintain such horses Rs.1, 200
e) Winning from lottery (net after deduction of tax @ 30%) Rs.8, 400
f) Rent by way of letting plant and machinery along with a building (rent of building is not separable) Rs.18, 000 rent collection charge Rs.2,50 insurances premium Rs.1, 200 depreciation of buildings, plant and machinery Rs.4, 500

Compute his income from other sources for the relevant Assessment Year 2019-2020

Solution:

Computation of income from other sources of p, a resident individual, for the Assessment Year 2019-20 relating to the Previous Year 2018-19

Particulars	**Amount Rs.**	**Amount Rs.**
Dividend from X Co. Ltd.—exempt under section 10(34)		Nil
Interest on American Government Bond		15,700
Winnings from horse races [no deduction for expenses is admissible as per section 58(4)]		13,200
Income by way of owning and maintaining race horses [Gross income: Rs.8,900(−) Admissible expenses : Rs.1, 200]		7,700
Winning from lottery (Gross: Rs.8, 400 × 100 ÷ 70)		12,000
Rent from letting of building, plant and machinery	18,000	
Less: Admissible expenses (Collections charge Rs.250 + Insurance premium Rs.1, 200 + Depreciation Rs.4, 500)	5,950	12,050
Income from other sources		**60,650**

Illustration- 4:

Family pension received by S on the death of her husband is chargeable to tax in her hands under head 'Income from other sources'. However, she is entitled to deduction of a sum equal to one-third of such pension or Rs.15, 000, whichever is less [Sec. 57(iia)]

Solution:

Income of S under the head 'Income from other sources' for the Assessment Year 2019-2020 is computed as under:

Particulars	**Amount Rs.**
Pension (Rs.2,950 × 12)	35,400
Dearness allowance (30% of Rs. 35,400)	10,620
	46,020
Less: deduction under section 57(iia) [$\frac{1}{3}$ of Rs.46,020 or Rs.15,000, whichever is less]	15,000
Income from other sources	**31,020**

Note: S is entitled to tax relief under section 89 in respect of the above income

4.2.5.7 Self-Examination Question

Objectives Questions-

1) Which of the following income are not chargeable to tax under the head "Income from Other sources"?
    a) Occasional onetime gains derived from sale of capital assets
    b) Winning from lotteries, crossword puzzles and races including horse races
    c) Interest on securities which is not chargeable to tax under the head profit and gains from business or profession
    d) None of these
2) Additional surcharge (education cess) of 3% is payable on
    a) Income tax   b) Income tax plus surcharge
    c) Surcharge
3) Gift of Rs.5,00,000 received on 10 July, 2018 through account payee cheque from a non-relative

    Regularly assessed to income-tax is-
    a) A capital receipt not chargeable to tax
    b) Chargeable as other sources
    c) Chargeable to tax as business income
    d) Exempt up to Rs.50, 000 and balance chargeable to tax as income from other source
4) Which of the following income are chargeable to tax under the head "Income from other sources"?
    a) Income from subletting;
    b) Family pension
    c) Ground Rent
    d) All of the above
5) Gift tax was introduced in
    a) 1958   b) 1960
    b) 1967   d) 1976

Ans.

1 (a) 2 (b) 3 (b) 4 (d) 5 (a)

4.3 Total Income

We know that total income is derived after subtracting the various 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

4.3.1 Deductions U/s 80C to 80U

Deduction is the act or process of subtracting an amount 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 2019-20, 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 2019-20 relating to the Previous Year 2018-19

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) Deductions u/s 80D	11,000	
		1,16,000
Adjusted gross total income		1,12,240
b) Qualifying amount of fro 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 2018-19. 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 2019-2020

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	
	1,50,000*	
* Total deduction under section 80C, 80CCC and 80CCD (1) is restricted to Rs.1, 50,000 as per section 80CCE	50,000	
Deduction under section 80CCD (1B)		<u>**7,21,700**</u>
Total Income		

Illustration- 3:

During the Previous Year 2018-19, 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 2019-2020

Solution:

Computation of total income of X, a resident individual, for the Assessment Year 2019-2020 relating to the Previous Year 2018-19

Particulars	**Amount Rs.**	**Amount Rs.**	**Amount Rs.**
Income under the head "Salaries":			
Gross salary		4,15,200	
Less: Deduction u/s16:		Nil	
			4,15,200
Income from other sources:			
Interest on fixed deposit with bank		5,000	
Interest on fixed deposit of minor daughter	3,000		
	1,500		
Less: Exemption u/s 10(32)		1,500	
Income from UTI received by his handicapped son		Nil	
			6,500
[Exempt u/s 10(33)]			**4,21,700**
Gross total income			
Less: Deduction u/s 80C-80U:			
i) u/s 80C : For specified savings /payments (Note1)		95,000	
ii) u/s 80CCC : For pension fund of LIC		10,000	
Total deductions u/s 80C, 80CCC and 80CCD not to exceed Rs.1,50,000, vide section 80CCE]		1,05,000	1,05,000
iii) U/s 80CCG: For deposit under Equity Savings Scheme (50%)			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
Tutions fees for daughter in full-time course	Rs.40,000
Total	**95,000**

Illustration- 4:

For the Assessment Year 2019-2020, 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: Deductions u/s 80C-80U:		
i) u/s80C: For deposit to PPF	60,000	
ii) u/s80D: For medical insurance premium (Note 2)	16,000	
iii) u/s80G: 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 2018-2019:
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 2019-2020

Solution:
Computation of total income of Shri S. Basu, a resident individual, for the Assessment Year 2019-2020 relating to the Previous Year 2018-2019

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

Note: With effect from the Assessment Year 20019-2020, Section 70 has been amended to provide that short-term capital loss can be set off only against gains arising from transfer o short-term or long-term capital assets.

Illustration- 6:

Mr. R. Saha, a businessman, furnishes the following particulars o his income and loss for the Previous Year 2018-2019

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 2019-2020.

Solution:

Computation of total income of Mr. R. Saha, a residential individual, for the Assessment Year 2019-2020 relating to the Previous Year 2018-2019

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			Nil
D. Income from other sources:			
Loss from betting not to be set off against any other income		**(–)5,000**	Nil
Gross total income			
Less: Deduction under Section 80C 80U			
Total income		(–)10,000	
			50,000
			Nil
			50,000

Illustration- 7:

Dutta submits the following particulars of his incomes and losses for the Assessment Year 2019-2020:

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 2019-20.

Solution:

Compute his total income for the Assessment Year 2019-2020

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			
Incomes from the activity of owning and maintain race-horses		12,000	
Less: Brought forward loss of the Previous Year 2014-15 (Refer to note 2)	13,000 14,700		
	(–)1,700	Nil*	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 2019-20:

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	
		1,900	

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

Notes:

1) Loss from house property for the Assessment Year 2018-19 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 o 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.

4.3.2 Self-Examination Question

Objectives Questions-

1) Deduction under section 80C is allowed from
   a) Gross total income
   b) Total income
   c) Tax on total income
2) For claiming deduction u/s 80C, the payment or deposit should be made
   a) Out of any income
   b) Out of any income chargeable to income tax
   c) During the current year out of any source
3) Deduction under section 80C shall be allowed for
   a) Any education fee
   b) Tution fee exclusive of any payment towards any development fee or donation or payment of similar nature

c) Tution fee and annual charges
d) None of these

4) Deduction under section 80D in respect of medical insurance premium is allowed to
a) Any assessee
b) An individual or HUF
c) Individual or HUF who is resident in India
d) Individual only

5) Deduction u/s 80D is allowed if the premium is paid to
a) Life insurance corporation
b) General insurance corporation or any other insurer approved by IRDA
c) Life insurance or general insurance corporation
d) None of these

6) Sum of various heads is called-
a) Taxable income b) Total income
c) Gross total income d) Adjusted income

7) Total income of an individual does not include-
a) Foreign company dividend
b) Salary of a partner in a firm
c) Commission d)Agricultural income

8) 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

9) Education cess is calculated on
a) Total income b) Tax on total income
c) Taxable income d) Agricultural income

10) Rate of tax applicable on the total income of firm is
a) 10% b) 20%
c) 30% d) 40%

Ans.

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

4.4 Profit and Gains of Business or Profession

Business income may include income received from the sale of products or services. For example, fees received 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 includes any trade, commerce and manufacturing of goods with a purpose 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: Means any income which is shown in profit and loss account after considering all allowed expenditures.

4.4.1 Basis of Charge i.e. Income chargeable under the head “Profits and Gains from Business or Profession” u/s 28:

The following are few examples of incomes which are chargeable under this head: -

- **i)** ***Normal Profit*** from general activities 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 sum received 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 granted under Imports (Control), Order, 1955 made under the Imports and Exports (Control) Act, 1947;
- **vii)** Any profit on transfer of Duty Entitlement Pass Book (DEPB) Scheme;
- **viii)** Value of any benefits or perquisites arising 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. However, the share of profit from partnership firm is exempt 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.

4.4.2 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(ib) as "Income from Other Sources". Such income won't be included here even it is a business of the assessee.

4.4.3 Expenses Deductible from Income from Business / Profession

All the expenses relating to business and profession are allowed against income. Following are few examples of expenditures which are allowed against income: -

- Rent rates and insurance of building.
- Payment for know-how, patents, copy rights, trade mark, licenses.
- Depreciation on fixed assets.
- Payment for professional services.
- Expenditures on scientific research for business purposes.
- Preliminary Expenses in case of Limited companies.
- Salary, bonus, commission to employees.
- Salary, interest and remuneration to working partners subject to certain conditions.
- Communication expenses.

- Travelling and conveyance expenses.
- Membership fees etc.
- Advertisement expenses in respect of promotion of business products.
- Discount allowed to customers.
- Interest on loans (Whether Private of Institutional).
- Bank Charges/Bank Commission expenses.
- Entertainment/Business Promotion expenses
- Staff Welfare expenses.
- Festival Expenses.
- Printing and stationery expenses
- Postage expenses.
- All other expenses relating to business/profession

Note: The above expenditures are allowed on the basis of actual payment as well as on accrual basis at the date of finalization accounts.

4.4.4 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, 2019.

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 2019-2020.

Solution:

Computation of Income under the head "Profits and gains of business or profession" of Mr. Roy, a resident individual, froe the assessment year 2019-2020 relating to the previous year 2018-2019

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 2018-2019 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 2019-2020 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 a additional to plant and machinery costing Rs.40, 000/- during the year (purchased on 1.1.2019 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 1.7.2017.

Solution:

Computation of income under the head "Profits and Gains of business or profession" of Mr. Das, a resident individual, for the assessment year 2019-2020 relating to the previous year 2018-2019

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: 4,000
- Depreciation on plant purchased during the year (Rs.8,000 × ½) 10,000
  (as it used for less than 180 days during the previous year) 1,500
- Depreciation on remaining assets (Rs.18,000– 8,000)
- 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) 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.

Illustration-3:

The following is the Profit and Loss Account for the year ending 31st March, 2019 of Lotus Enterprise, a Sugar Mill of which Mrs. Devi is the owner.

Particulars	**Amount Rs.**	**Particular**	**Amount Rs.**
To, Manufacturing expenses	7,01,000	By, Sale of sugar and molasses	11,62,300
,, Excise duty	92,795	,, Rent from agricultural land	950
,, Establishment charges	49,200		
,, Fine paid to excise Department	2,000	,, Revenue from fisheries	4,000
		,, Sale proceeds from canes	6,05,055
,, Salary and Wages	1,21,445	,, Profit on sale of motor truck	3,230
,, General charges	16,750		
,, Interest on bank loan	21,000		
,, Devi's remuneration	38,750		
,, Depreciation	91,000		
,, Income-tax	25,000		
,, Cultivation expenses	4,37,500		
,, Net profit	1,79,095		
	17,75,535		**17,75,535**

Compute the income from business of Mrs. Devi for the Assessment year 2019-2020 after taking the following information into consideration:

i) Sale proceeds of cane include Rs.5,32,000/- on account of cane produced and consumed in the factory and debited to manufacturing expenses, the average market price of such cane being Rs.6,00,000/-

ii) The motor truck sold during the year for Rs.7, 230/- was purchased in the past for Rs.19, 000/-. Depreciation claimed inn respect thereof in the past assessments was Rs.15,000/-

iii) General charges include:

a) Rs.2,000/- being the legal expenses incurred in defending a suit regarding the company's title to certain agricultural lands and

b) Rs.10, 000 paid to Mrs. Devi's son who is an employee in the Sugar mill for a trip to Hawaii to study modern methods of manufacture.

iv) Depreciation in respect of all assets has been ascertained at Rs.50, 000 as per Income-tax Rules.

Solution:

Computation of income under the head "Profits and gains of business or profession' of Mrs. Devi, a resident individual for the Assessment year 2019-2020 relating to the previous year 2018-2019

Particulars	**Amount Rs.**	**Amount Rs.**
Net profit as per Profits and Loss Account		1,79,095
Add: Expenses disallowed:		
Cane consumed in the factory included in Manufacturing expenses	5,32,000	
General charges for legal expenses in relation to	2,000	
Agricultural land	2,000	
Fines paid to excise department	38,750	
Xs remuneration	25,000	
Income-tax	4,37,500	
Cultivation expenses	91,000	
Depreciation (treated separately)		11,28,250
		13,07,345
Less: Expenses allowed under the Act:		
Average market price of sugarcane used for	6,00,000	
Manufacture	50,000	6,50,000

Depreciation as per IT Rules		6,57,345
Less: Incomes either or not taxable under this head:	950	
Rent from agricultural land	4,000	
Revenue from fisheries	6,05,055	
Sale proceeds of cane		
(being agricultural income)	3,230	6,13,235
Profit on sale of motor car		
Income from Lotus Enterprise		**44,110**

Notes:

1) Under Rule 7, only market price of sugarcane used for manufacturing can be deducted. No other expenses for agricultural purpose are allowed;
2) Mrs. Devi's son being an employee of the business, cost of his trip in Hawali is incidental to business. It is, therefore, allowable u/s 37(1).

4.4.5 Self-Examination Question

Objectives Questions-

1) Section 28-44 is related to
   a) Capital gain   b) Business income
   c) Assets   d) House property
2) A person can earn income from
   a) One head   b) Two heads
   c) Various heads   d) Any of above
3) Return from related to individual & HUF not having business/profession income is-
   a) ITR-1   b) ITR-2
   c) ITR-3   d) ITR-4
4) Income under the head profits and gains of business or profession would tax
   a) Income from only one business of assessee
   b) Income from all the business of assessee
   c) Only income from profitable business of the assessee
   d) None of the above
5) Which of the following are taxable under the head profits and gains or business or profession?
   a) Interest received by a partner from a firm
   b) Salary & bonus received by a partner from a firm
   c) Commission received by a partner from a firm
   d) All of the above

Ans.

1 (b)   2 (d)   3 (b)   4 (b)   5 (d)

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 <u>Inter Sources Set off [u/s 70]</u>

<u>Exceptions:</u> The following are the exceptions 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 games o any sort or from gambling or betting of any form 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 <u>Inter-head Set Off [u/s71]</u>

<u>Exceptions:</u>

- **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 <u>Order of Setting Off:</u> 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 o 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 2018-2019—

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 Year2019-2020

Solution:

Computation of gross total income of Z for the Assessment Year 2019-20

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 shall be carried forward.

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

Mr. X furnishes the following relating to his income for the year 2019-20. 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 2019-20

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 appropriate and permissible intra-head and inter-head adjustments, there could still be unadjusted losses. These unadjusted losses can be carried forward to future years of adjustments against income of this year. The rules of regards carry forward differ slightly for different 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 incurred.
  - Can be 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 incurred
  - Can be adjusted only Income from business or profession
  - Cannot be carried forward if the return is not filed within the original due date

- **Speculative business:**
  - Can be carry forward up to next 4 Assessment Years from the Assessment Year in which the loss was incurred
  - Can be adjusted only against Income from speculative business

- **Specified business loss under 35AD:**
  - No time limit to carry forward the losses from the specified business under 35AD

- Can be adjusted only against Income from specified business under 35AD

- **Capital losses:**
  - Can be carry forward up to next 8 Assessment Years from the Assessment Year in which the loss was incurred
  - Long-term capital losses can be adjusted only against long-term capital gains
  - 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 2019-210:

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 2019-20

Solution:

Computation of gross total of X for the Assessment Year 2019-20

Particulars	Amount Rs.	Amount Rs.
Income from house property	84,300	
Less: Unabsorbed depreciation o 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 o the year 2018-19 is set off against the business income o 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 2018-19 can be set off against any income o the assessee other than income from salary. In the given case, unabsorbed depreciation is set off against income from house property.

Illustration- 4:

X has the following income and losses during the Previous Year 2018-19—

Income from salaries Rs.3,15, 000/-
Income from business A Rs.2,02, 600/-
Loss from business B Rs.81, 700/-
Long-term capital gains Rs.43, 600/-
Short-term capital loss Rs.25, 100/-
Bank interest from fixed deposits Rs.42, 800/-

Brought forward losses and unabsorbed depreciation of the year 2019-20 are as follows-

Loss from Business B Rs.15, 700/-
Unabsorbed depreciation Rs.62, 800/-
Loss from Business C (discontinued on February 12, 2018) Rs.52, 100/-
Long-term capital loss Rs.47, 138/-

Compute gross total income of X for the Assessment Year 2019-20

Solution:

Computation of gross total income of X for the Assessment Year 2019-20

Particulars	Amount Rs.	Amount Rs.
A. Income from salaries:		3,15,000
B. Income from business:		

Loss from Business B of the year 2018-19 set off	1,20,900 67,800	
Brought forward loss from business B and C of the year 2018-19 set off	53,100 53,100	
Unabsorbed depreciation of the year 2014-19 set off		Nil
C. Income from capital gains: Long-term capital gains of the year 2015-16 Short-term capital loss of the year 2015-16	43,600 25,100 18,500 18,500	
Brought forward long-term capital loss of the year 2018-19		Nil
D. Income from other sources: Bank Interest from fixed deposit Unadjusted unabsorbed depreciation o the year 2014-15 i.e. Rs.9,700 (Rs.62,800 – Rs.53,100)—can be set off against any income other than salary income	42,800 9,700	33,100
Gross total income		**<u>3,48,100</u>**

Notes:

1) Brought forward loss from Business C is set off against business income o the current year thought it is discontinued in the year 2018-19
2) Brought forward long-term capital loss can be set off only against long-term capital gain. Unadjusted long-term capital loss of Rs.28, 638 (Rs.47, 138 – Rs.18, 500) shall be carried forward for set off.

Illustration- 5:

Mr. X has the following income and losses for the year 2019-20:

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 2019-20

Solution:

Computation of gross total income of X for the Assessment Year 2019-20

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 o 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- 6: The following are the income and losses of Mr. X for the year 2019-20

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 2018-19

Solution:

Computation of gross total income of X for the Assessment Year 2019-20

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 o 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)

Illustration- 7:

The following are the capital gains and losses of Mr. X for the year 2019-20

Long-term capital gain Rs.2,32, 456/-
Short-term capital loss Rs.35, 200/-

Brought forward capital gains and losses of the year 2018-19
Long-term capital loss Rs.85, 235/-
Short-term capital loss Rs.25, 500/-

Compute capital gains chargeable to tax for the Assessment Year 2019-20

Solution:

Computation of capital gains chargeable to tax for the Assessment Year 2019-20

Particulars	Amount Rs.

Long-term capital gain: Long-term capital gain o the year Short-term capital loss of the current year set off	 2,32,456 35,200
	1,97,256
Brought forward capital losses (long-term and short-term) of the year 2018-19	1,09,735
Capital gain chargeable to tax	**87,521**

4.5.6 Self-Examination Question

Objectives Questions-

1) Unabsorbed depreciation can be carried forward for set off..........
   a) For a period of four years only
   b) For an unlimited number of years
   c) For a period of eight years only
   d) For a period of eighteen years only
2) Loss from a speculation business of a particular A. Yr. Can be set off in the same A. Yr. From-
   a) Profit and gains from any business
   b) Profit ad gains from any business other than speculation business
   c) Income of speculation business
   d) None of these
3) Loss under the head capital gain in a particular assessment year can-
   a) Be set off from other head of income in the same assessment year
   b) Be carried forward
   c) Neither be set off nor carried forward
   d) None of these
4) Loss under the head income from house property can be carried forward-
   a) Only if the return is furnished before the due date mentioned u/s 139(1)
   b) Even if the return is not furnished
   c) Even if the return is furnished after the due date
   d) None of these
5) The loss is allowed to be carried forward only when as assessee has furnished
   a) Return of loss
   b) Return of loss before the due date mentioned u/s 139(1)
   c) Or not furnished the return of loss

d) None of these

Ans.

1 (b)	2 (c)	3 (b)	4 (c)	5 (b)

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 three types 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**
     - Generate and Print Acknowledgement form, No further action is required

There are three ways to file Income tax Returns electronically———

- **Option 1-**Use Digital Signature Certificate (DSC) to e file. There is no further action needed, if filed with a DSC.
- **Option 2-**E-file without Digital Signature Certificate. In this case an ITR-V form is generated. 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 further action needed, if ITR-V form is submitted.
- **Option 3-**E-file the income tax return through an e-Return Intermediary (ERI) with or without Digital signature Certificate (DSC)

4.6.2 Mode of E-verification

The bellows are the options provided to electronically verify the returns

- E-verification using E-filing OTP (only available 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
- Verification 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

- **Manual filing:** This is the traditional method of filing returns in which taxpayers file returns manually 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 o returns prompts the user to upload the necessary documents, thus creating a database which could be accessed whenever the needs arises, 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 mechanism curbs this deficit by way of its tax calculation 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. The provision of e-filing is set to spare the taxpayer from such financial burdens.

4.6.5 De-merits of E-filing

Filing records electronically may not be as secured as sending them via mail or post. 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 means 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.

Unit 5: Goods and Services of Tax (GST)

Structure

5.0 Objectives

After studying this unit, will be able to:

- Concept of Goods and Services Tax (GST)
- GST in Indian Context
- Merits of GST
- Demerits of GST
- Levy and collection of GST
- Structure of GST
- Rates of GST
- Centre and State level taxes are subsumed into GST
- Know the meaning of 'In-Course or Furtherance of Business'
- 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:** 0.5%, 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 / benefits of GST can be summarized as under:

1. **For the Business and Industry:**
   a) **<u>Easy compliance</u>:** A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.

b) **Seamless Credit flow:** GST Regime seeks to provide seamless flow of input tax credit of centre and state taxes from one state to another.

c) **Uniformity of tax rates and structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

d) **Removal 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 reduce hidden costs of doing business.

e) **Improved competitiveness:** Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

f) **Gain to manufacturers and exporters:** The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

2. For Central and State Governments:

a) **Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

b) **Better controls on leakage:** GST will result in better tax compliance 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 addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.

c) **Higher revenue efficiency:** GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

3. For the Consumer:

a) **Single and transparent tax proportionate to the value of goods and services:** Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive 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 manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

b) **Relief in overall tax burden:** Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

5.4 Demerits of GST

As every coin has it reverse side GST also suffers from some demerits. Such are as under-

a) **Increased costs due to software purchase:**

Businesses have to either update their existing accounting or ERP software to GST-compliant one or buy GST software so that they can keep their business going. But both the options lead to increased cost of software purchase and training of employees for an efficient utilization of the new billing software.

b) **Being GST-compliant:**

Small and medium-sized enterprises (SME) who have not yet signed for GST have to quickly grasp the nuances of the GST tax regime. They will have to issue GST-complaint invoices, be compliant to digital record-keeping, and of course, file timely returns. This means that the GST-complaint invoice issued must have mandatory details such as GSTIN, place of supply, HSN codes, and others.

c) **GST will mean an increase in operational costs:**

As we have already established that GST is changing the way how tax is paid, businesses will now have to employ tax professionals to be GST-complaint. This will gradually increase costs for small businesses as they will have to bear the additional cost of hiring experts.

Also, businesses will need to train their employees in GST compliance, further increasing their overhead expenses.

d) **GST came into effect in the middle of the financial year:**

As GST was implemented on the 1st of July 2017, businesses followed the old tax structure for the first 3 months (April, May, and June), and GST for the rest of the financial year.

Businesses may find it hard to get adjusted to the new tax regime, and some of them are running these tax systems parallelly, resulting in confusion and compliance issues.

e) **GST is an online taxation system:**

Unlike earlier, businesses are now switching from pen and paper invoicing and filing to online return filing and making payments. This might be tough for some smaller businesses to adapt to.

f) **SMEs will have a higher tax burden:**

Smaller businesses, especially in the manufacturing sector will face difficulties under GST. Earlier, only businesses whose turnover exceeded Rs 1.5 crore had to pay excise duty. But now any business whose turnover exceeds Rs. 20 lakh will have to pay GST.

However, SMEs with a turnover up to Rs 75 lakh can opt for the composition scheme and pay only 1% tax on turnover in lieu of GST and enjoy lesser compliances. The catch though is these businesses will then not be able to claim any input tax credit. The decision to choose between higher taxes or the composition scheme (and thereby no ITC) will be a tough one for many SMEs.

5.5 Structure of GST

According to structure of GSTs are of four types. 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.

5.6 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 supplies of goods or services or both, except on supply of alcoholic liquor for human consumption. Such rate may be of a maximum of 20%.
b) u/s 9(2) Petroleum crude, high speed diesel, Motor sprit (commonly known as petrol), Natural gas, Aviation turbine fuel etc. shall be levied with the effect from such date as notified 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 operator is liable to pay CGST on notified 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 supplies of goods or services or both, except on supply of alcoholic liquor for human consumption. Such rate may be of a maximum of 40%.

b) **u/s 5(2)** Petroleum crude, High speed diesel, Motor sprit (commonly known as petrol), Natural gas, Aviation turbine fuel etc. shall be levied with the effect from such date as notified 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.

5.7 Rates of GST

Rates	Products / Services
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, Mishti / 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 food. **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 accommodation 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.
18%	**Goods:** Hair oil, toothpaste and soaps, capital goods and industrial intermediaries are covered in this slab. **Services:** Food/drinks at restaurants with liquor license; Food /drinks at restaurants with AC/heating; Outdoor catering; Renting for accommodation for more than Rs.2500 but less than Rs.5000 per day; Supply of food, shamiyana, and party arrangement; Circus, Indian classical, folk, theatre, drama; Supply of works contract.

28%	**Goods:** Luxury items such as small cars, consumer durables like AC and Refrigerators, premium cars, cigarettes and aerated drinks, High-end motorcycles are included here. **Services:** Entertainment events-amusement facility, water parks, films, theme parks, joy rides, merry-go-round, race course, go-carting, casinos, ballet, sporting events like IPL; Race club services; Gambling; Food/drinks at AC 5-star hotels; Accommodation in 5-star hotels or above are under this slab.

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

5.8 Centre and State level taxes are subsumed into GST

a) At the **Central** level, the following taxes are being subsumed:
- Central Excise Duty,
- Additional Excise Duty,
- Service Tax,
- Additional Customs Duty commonly known as Countervailing Duty, and
- Special Additional Duty of Customs.

b) At the **State** level, the following taxes are being subsumed:
- Subsuming of State Value Added Tax/Sales Tax,
- Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
- Octroi and Entry tax,
- Purchase Tax,
- Luxury tax, and
- Taxes on lottery, betting and gambling.

5.9 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***; growing crops, grass and things attached to / forming part of the land which are agreed to be severed before supply or under a contract of supply.
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 payment made or to be made, whether in money or otherwise, by the recipient or by any other person; and *The monetary value of any act or forbearance 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 remittance or any other instrument recognised 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, money shall not include 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 officers or directors of one another's business; ▪ Such persons are legally recognized partners in business; ▪ 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;

		▪ One of them directly or indirectly controls the other; ▪ Both of them are directly or indirectly controlled by a third person; ▪ Together they directly or indirectly control a third person; ▪ They are members of the same person; or ▪ One of them is the sole agent, sole distributor or sole concessionaire of other.

5.10 In-Course or Furtherance of Business

GST is essentially a tax on only commercial transactions. Hence, only those supplies which are made in the course or furtherance of business qualify as 'Supply' under GST. Thus, any supplies made by an individual in his personal capacity do not come under the ambit of GST unless they fall within the definition 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.

5.11 Scope of Supply [u/s 7]

U/s 7(1) the expression 'Supply' includes-

- ***All forms of supply of goods or services or both*** such as sale, transfer, barter, exchange, licence, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business;
- ***Import of services*** for a consideration whether or not in the course or furtherance of business;
- The ***activities specified in Schedule-I,*** made or agreed to be made without consideration; and
- The ***activities*** to be treated as supply of goods or services as ***referred to in schedule-II***.

U/s 7(2) though, anything contained in sub-section (1)-

Activities or transactions specified in Schedule-III; or

Such activities or transactions undertaken by the Central Government, a State Government or any Local Authority in which they are engaged as Public Authorities, as may be notified by the Government on the recommendations of the council, shall be treated neither as a Supply of goods or services.

U/s 7(3) expresses that the Government may, on recommendation of the Council, specify, by notification, the transactions that are to be treated as:

a) Supply of goods and not as a Supply of services; or

Supply of services and not as a Supply of goods.

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.** Tough, 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) b) GST on Fair Market Value (2, 50, 000 x 18%)	28, 800/- 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? **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>
<td></td>
<td>
<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%)
GST Payable (Higher of a and b)</td><td>
14, 400/-

1,800/-</td></tr>
<tr><td></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 1st 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 2018 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, 2019he 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>

5.12 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 item 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.' Puja samagri' 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/-.

5.13 Conclusion

Change is not an easy task. The government is trying to smoothen the road to GST. It is important to take a leaf from global economies that have implemented GST before us, and who overcame the teething troubles to experience the advantages of having a unified tax system and easy input credits.

5.14 Self-Examination Question

Objectives Questions-

1) GST stands for
   a) Goods and supply tax
   b) Government sales tax
   c) Goods and services tax
   d) General sales tax
2) In India GST became effective from
   a) 1st April, 2017
   b) 1st January, 2017
   c) 1st July, 2017
   d) 1st March, 2017
3) GST is a ------ based tax on consumption of goods and services
   a) Duration
   b) Destination
   c) Dividend
   d) Development
4) Indian GST model has---- rate structure
   a) 3
   b) 4
   c) 5
   d) 6
5) What does "I" stands for in IGST?
   a) International
   b) Internal
   c) Integrated
   d) Intra

6. How many types of taxes will be in Indian GST?
   a) 2
   b) 3
   c) 4
   d) 5
7. First announcement to introduce GST by 2010, is made in year
   a) 2000
   b) 2004
   c) 2006
   d) 2008
8. Which of the following tax is not subsumed in GST
   a) VAT
   b) Stamp Duty
   c) Entry tax
   d) Entertainment tax
9. What are the taxes levied on an intra-state supply?
   a) CGST
   b) SGST

c) CGST and SGST
d) IGST

10. SAC codes stands for
a) Services Accounting Code
b) Software Accounting Code
c) System Accounting Code
d) Service Application Code

Ans.

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