

VIDYAPITH ACADEMY

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CERTIFICATE IN **FINANCIAL** **ACCOUNTING (CFA)**

TOPIC 1: BASIC CONCEPTS OF ACCOUNTING & MANUAL ACCOUNTS

TOPIC 2: BOOK KEEPING & DOUBLE ENTRY SYSTEM

TOPIC 3: MAINTAINING ACCOUNTS BOOKS & FINANCIAL ACCOUNTS

TOPIC 4: TAXATION & BANKING SYSTEM

TOPIC 5: COMPUTERIZED ACCOUNTS

PRACTICAL LAB ASSIGNMENT & VIVA VOICE

FINANCIAL ACCOUNTS

Purpose of keeping Accounts or Need For Proper Accounts

Systematic recording of business and professional transactions in money terms is a necessity to estimate, ascertain and forecast the business results. A business enterprise must keep a systematic record of its daily transactions. So that it can know where it stands and adjudges its performance. This systematic recording of transactions is termed as accounting or book-keeping.

The basic purpose of accounting is to present a complete financial picture of the business enterprise with the help of two financial statements. The Profit and Loss Account showing how much profit has been earned or loss suffered and the Balance Sheet showing the assets and liabilities of the Business and Proprietor's interest in the enterprise. The account books are the financial records which are of interest for the owners and numerous other parties such as Creditors, Employees, Government, Banks, Financial Institutions etc. The uses of the account/ financial statement, to the various groups of person are as follows:

□□ To Owners

Ascertainment of true profits.

Ascertainment of liabilities to outsiders.

Ascertainment of growth in capital.

Planning for business.

Cost determination and cost control with price fixation.

Optimum utilization of source, resources to keep the fixed assets intact and in workable position.

Control over assets and properties.

Legal requirements as regards taxation etc.

□□ Utility To Others government:

Whether the taxes have been duly paid by the enterprise or not.

Whether the enterprise has complied with all the legal requirements.

□□ To Bank / Financial Institutions:

Whether or not the enterprise to which they have lent money is running successfully and maintaining its capital intact.

Whether the enterprise is earning adequate to pay back its loan and interest in time.

Whether the enterprise are sufficient to secure and repay the loan given by them to the enterprise. LL

Labour:

To ascertain the profits earned by the enterprise, so that they can get bonus or wages revision fixed on that basis.

Whether in view of present financial health of the enterprise their job is secured and permanent.

Creditors:

Whether they will be paid in time.

Whether their money is secured in such enterprise.

Whether to continue supplying goods on credit and allow higher credit.

Public: To

LL

Whether it is worth while to invest in the enterprise or withdraw their investment, as debenture holder or other persons who have given loans to the enterprise.

What Is Accounts?

Accounting: is the art of recording, classifying and summarizing in a significant manner and in term of money transactions and events which are in part at least, of a financial character, and interpreting the results there of “Book keeping is the art of recording business dealing in a set of books.” **Object of Book- Keeping are:**

- L To record correctly all business transactions, which involve transfer of money or goods.
- L To indicate the effect of each transaction and combined effect of all transactions upon the financial position of the party entering into the transaction.

Legal Requirements for Maintaining Books of Accounts

Cash book, journal and ledger are the basic account books which are supported by vouchers, purchase and sale bills memos.

Apart from being a business necessity, maintenance of proper books of accounts is necessary under section 44 - AA of the income -tax Act 1961. It provides for compulsory maintenance of account by persons carrying on business as well as profession.

Every person carrying on legal, medical, engineering or architectural profession, or the profession accountancy or technical consultancy or interior decoration or authorized representative or film artist or company secretary whose gross receipts (not income) from such profession exceeds Rs. 1,50,000/-. In any of the three years immediately proceeding the current year is required to maintain proscribed books of accounts.

Penalty under Income Tax Act:

If a person fails to keep and maintain accounts books or retain them for the prescribed period of 8 years (16 year for cash book and ledgers) he is liable to penalty Rs. 25000/- under section 271A of the Income Tax Act.

Accounting Terminology

L **Business** : Business is a generic term including any activity undertaken for the purpose of making profit. It refers to any establishment or organization setup for the conduct of trade, commerce or industry.

□□ **Profession** : Profession is practice of intellectual skill by a person in a particular field requiring specialized training on the part of the person engaged in it , for example a doctor, a lawyer, an accountant, an architect ,a chartered accountant etc.

□□ **Owner / Proprietor / Partner**

One who owns the business is called the owner or proprietors. He provides the necessary capital, attends to business activities, undertakes the risk of running the business, is entitled to receive the profits and is liable for the losses resulting there from.

An owner is different from the business, in the accounting terminology. He is called a Sole proprietor in one man business, partner in a partnership firm.

Accounting Equation: It means that in mathematical terms total assets of a business are always equal to the aggregate of its liabilities and capital. i.e.

$$\text{Total Assets} = \text{Liabilities} + \text{Capital}$$

Capital: Capital means the amount invested by the proprietor in the business. Suppose “Sudeep” starts a business with Rs. 1, 00,000/-. The amount of Rs. 1, 00,000/- invested by Sudeep in the business is called the **capital of the business**. For the business, capital is a liability towards the owner.

Drawing: Drawing refer to the amount of cash or value of goods withdrawn by the proprietor out of business for his personal use. Suppose “Ramesh” withdraws Rs.20, 000/- from his business for purchase of “scooter” for his domestic use. The amount of Rs. 20,000/- withdrawn by the proprietor for his personal use is called drawings.

Goods: The things or items in which a business deals are called as “Goods” for the business example in a stationary shop goods means “Stationary Items “. In a Furniture Shop/ Business goods means “Furniture Items”.

Debtors: The term “debtor” represents the persons who have purchased goods on credit from the business and have not paid for the goods sold to them. For example if goods worth Rs. 10,000/- have been sold to “Mahesh”, he will continue to remain the debtor of the business, so far, he does not make the full payment. Thus “debtor” is a person from whom the business has to receive some money on account of goods supplied /sold (on credit).

Creditor: Creditor is a person to whom a business owes money for the goods purchased from such person on credit. Suppose a firm purchased some goods on credit from Mahajan Traders for Rs. 30,000/- . In such a case Mahajan Traders will continue to remain the creditors of the firm so far the full payment of Rs 30,000/- is not made to it.

Income/ Revenue: It is the monetary gain resulting from the sale of goods or services during a given period and is measured by the price charged from customer, clients or tenants for goods and service furnished to them. It also includes interest and dividends earned on investments and rent received from letting out property.

Expenses: Expense refers to an expenditure whose benefit is enjoyed and finished immediately. Examples of expenses are: Rent of Building, Salary Paid to Employees, Wages paid to Labour, payment of Taxi charges etc. Expense is the cost of use of things or services For the purpose of generating revenue. Expenses are voluntarily in curved to generate income.

Losses: Losses are unwanted burden which the business is forced to bear. Losses of goods due to theft or fire, or flood or accident are termed as “loss” in accounting. Losses are different from expenses in the sense that expenses are voluntarily incurred to generate income, where as losses are forced to be borne. Losses are outcome of the activity. They are beyond control.

Assets: Assets mean right of ownership over anything valuable. This refers to properties that can be expressed in terms of money like plant and machinery, vehicles, stocks, cash etc. It also includes money due to the business from debtors For goods and services or for money lent. Rights available to a business such as patent or copy rights goodwill, trademark etc. is also included in assets.

Net Worth: Net worth of a business is the excess of its total assets over its total liabilities to outsiders. Net worth is the amount payable or recoverable from the owners of the business.

Profit (Income): Excess of all revenues over all costs and expenses is called profits (income).

Purchases: Purchases means purchase of goods. Goods purchased on cash are called “cash purchases” and those purchased without payment at the time of purchase are called “credit purchases”.

Purchase Returns: Goods returned to the seller, being in excess of the quantity ordered or found to be defective, or for any other dispute, are called purchase return.

Sales: Sales refer to sales of goods to customers. Sales for cash are called “cash sales” and when payment is not received at the same time it is called Credit Sale.

Sales Returns: Goods returned by the costumer due to some defects, or excess quantity etc. are called as sales returns.

Voucher: A voucher is a written documentary proof originating and supporting a business transaction. It is the basis of recording a transaction in the books of account. For example cash-memos, pay-in-slips, invoices etc.



MEANING OF BOOK KEEPING

'Book-Keeping' is a composite term made of 'book' and 'keeping'. The word 'book' refers to books of account and 'keeping' refers to maintenance in a systematic manner. Book keeping is the systematic record of business transactions in a set of books.

Business involves a number of transactions such as buying, selling, receiving, paying etc. which cannot be remembered for a long period. As such, it becomes necessary to write or record the transactions in book of account in a scientific manner. Book-keeping is, therefore the art of applying the principles of accounting, in keeping books of account.

According to **Mr. J.R. BATLIBOI**, "Book-Keeping is the art of recording business transactions in a set of books."

Recording of Business Transactions Is To Be Done In a Proper Set of Books

By proper set of books, we mean the various books of account or registers maintained by a businessman from which he wants to ascertain the necessary information regarding the affairs of his business.

The two most important books of accounts maintained by a business are:

Journal cum Cash Book

Ledger

Instead of above, the following subsidiary books all or some, according to requirements may be prepared:

Cash Book

Purchase Book / Purchase Day Book

Sales Book / Sales Day Book

Purchase Return Book

Sales Return Book

Bill Receivable Book

Bill Payable Book

Journal Proper

Book Keeping involves the following steps:

All business transactions which are financial in nature desirably having documentary proof are accounting transactions.

Identifying Accounting Transactions

Preparation of Cash Book

Preparation of Ledger Book

Balancing of Ledger Accounts

Preparation of Trail Balance

Preparation of Final Accounts

Accounting: Accounting may be defined as the art of recording, classifying and summarizing the day to day transactions of the business and interpreting the results thereof.

Difference between Book Keeping and Accounting:

Book Keeping is a narrow term, concerned with the art of recording the day to day transactions of the business in proper books of account.

The term Accounting is wider in meaning and is concerned with recording, classifying and summarizing the daily business transactions and interpreting the results thereof. Book Keeping is in fact the part of Accounting.

Advantages of Book-Keeping & Accountancy

Avoidance of the Limitation of Memorizing Power: Due to limited memorizing power, a

Businessman may not remember all his business transactions for a long period. Accounting helps him

In keeping a permanent record of his business transactions.

Ascertainment of Profit and Loss of the Business : It helps the businessman in ascertaining the profit or loss made by his business, over a period of time (By preparing Profit & Loss Account).

To know the Financial Position of Business: By preparing **Balance Sheet**, the business man comes to know about the asset, liabilities, capital etc. of the business at a point of time.

Assessment of Tax : Nowadays a businessman is required to pay a number of taxes that is Income Tax, Sales Tax, Excise-duty etc. Fair assessment of these taxes is possible only if proper and systematic records of income, sales and production of the business have been maintained.

Know ledge of Debtors/ Creditors: A businessman can daily know the amount due from his debtors and amount due to his creditors if he has maintained proper records of his transactions with debtors and creditors.

Objective of Accounting

Accountings:

- Trading A/C
- Profit & loss A/C
- Balance sheet

Book Keeping: To maintain Account books

- Journal
- Cash Book
- Ledger
- Return Books
 - Sales Return Book
 - Purchase Return Book
- Bill Receivable Book
- Bill Payable Book
- Sales Day Book
- Purchase Day Book
- Petty cash book
- Stock Register

Objective of Financial Accounting

Financial Accounting is the art of recording, closing and summarizing in a sufficient manner and in forms of money transaction and events which are in part at least of a financial character and interpreting the result there off.

The objective of financial A/C is

To keep systematic record of business

To protect business properties: This is only possible on A/C of supplying the following information to the manager etc.

- The amount of proprietor's funds invested.
- How much the business has to pay?
- How much the business is recovered from others?
- How much the business has in the form of fixed assets?
- "Cash" in hand
- "Cash" at bank
- Stock of raw material
- Work in progress
- Finished goods.

To ascertain the operational loss or profit.

To ascertain the financial position of the business that is where it stands, what it owes and what it's won.

Golden Rules of Accounting

There are basically three types of accounts:

- Real**
- Personal**
- Nominal**

Basic Principle:

Personal Account:

The transactions of a business which relate to individuals, business enterprises or other organizations are classified as transactions relating to personal account under personal account a person either receives something from the business or gives something to the business like any person RAM, VIJAY, SUNITA, LAL & CO, BANK, HOSPITAL, SHOPS, CLUB, HOTEL, CINEMA HALL, whose capacity is of receiver/ giver.

Personal Account Is A Operator

Personal Account

DEBIT THE RECEIVER

CREDIT THE GIVER

Example: Cash paid to SH. K.L.SHARMA Rs 10000/- Sh.K.L .Sharma --->

Receiver ---> Dr.

Cash received from Mann Rs 5000/-Cr.

Mann ---> Giver ---> 5000/- Cr.

L _Real Account:

Remaining transactions of a business have been grouped under "Real Account" These include all transactions which represent receipts by the business, whether of properties, goods or services and all out goings from business like all sale, purchase , cash, assets, land and building, machinery vehicle, means assets and liabilities which has money value other than Personal Account.

Real Account Is a Source of Operation of Real Account

DEBIT WHAT COMES IN

CREDIT WHAT GOES OUT

Example: CASH ---> COMES IN ---> DR
CASH ---> GOES OUT ---> CR.

L _Nominal Account:

The transactions of a business relating to incurring of an expenditure or loss and earning of income or gain are classified by Nominal Account like : discount, rent, loss due to fire, insurance, traveling, salary, wages, rent, commission, freight, octroi, bank charges, donation etc.

Nominal Account Is a Result of Operation

Rules of Nominal Account

DEBIT ALL EXPENSE & LOSS

CREDIT ALL INCOME & GAINS.

Example: Rent Paid Rs 3000/-
Rent ---> Exp. ---> Dr.

Interest recieved Rs. 300/-
Interest ---> Income ---> Cr.

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Double Entry System

Transaction

Every business event or transactions has two aspects. If it increases any asset it either increases liabilities correspondingly or reduces some other asset. Likewise, incurring of expenditure involves decrease in an asset or increase in some liability.

So recording the double effect of any transaction is known as double entry system. As the assets of a business are always matched by an equal amount of financial claims against them, all the accounting transactions maintain this equality and no entry for recording of an accounting transaction is complete unless the debit is equal in value to the credit entry. This is the rule of Double Entry.

Double Entry system facilitates automatic checking of arithmetical accuracy of books of accounts through preparation of Trial Balance. Once two sides of Trial Balance have agreed, it normally leads to a confidence that books of accounts are arithmetically correct.

Under this system position of any particular aspect of a business can be easily ascertained in the manner that Debtor's account or supplier's account gives complete information about balance outstanding in their account at any point of time.

Voucher

Voucher is documentary evidence in support of a transaction. These documents may be internal or external. Under the double entry system, recording of a transaction originates from a Voucher. Followed by an entry in the prime books of record that is journal or cash book. Type of Voucher is specified by Narration. Narration is the proof or evidence of any Entry or Transaction. Narration is of different types:

Like

| | | | |
|---|------|---|-----------------------------|
| <input type="checkbox"/> <input type="checkbox"/> Capital | ---> | Capital Introduce | ---> |
| <input type="checkbox"/> <input type="checkbox"/> Cash Deposited | | Cash deposited into Bank | ---> |
| <input type="checkbox"/> <input type="checkbox"/> Purchases | | Bill.M No. | |
| <input type="checkbox"/> <input type="checkbox"/> Sale | --- | C.M No. | --- |
| <input type="checkbox"/> <input type="checkbox"/> Expense | | | ---> C.M No., R.No. |
| <input type="checkbox"/> <input type="checkbox"/> Cheque | --- | Chq. No. | |
| <input type="checkbox"/> <input type="checkbox"/> D/D | --- | D.D. No. | |
| <input type="checkbox"/> <input type="checkbox"/> Salary | --- | To Mohan for the month of April 99 | |
| <input type="checkbox"/> <input type="checkbox"/> Rent | | | ---> To paid for the |

month of March 99 Some different types of vouchers are used in business:

Payment Voucher or Debit Voucher

This Voucher is used to record all payment and other expenses paid in cash. In case of expenses the relevant support of expenses such as cash memo or bill etc. should be attached so far as possible. In case of cash payment exceeding rupees fifty it is necessary to affix revenue stamp on the voucher to make it legally enforceable. The signature of recipient should be obtained on voucher across the revenue stamp.

Receipt Voucher: This Voucher is prepared for recording all receipts of money whether by cash or by cheque and on whatever Accounts.

Journal

Voucher: A journal voucher is prepared to record transactions other than those involving cash. Journal voucher is prepared to ensure that each approved liability is recorded as incurred.

Journal: Journal is a systematic recording of transactions on the basis of VOUCHERS as and when they occur. It is a book of primary entry or foundation for accounting.

Procedure for recording transaction in the Journal:

In each transaction identify the head of accounts.

Classify the identified Accounts.

Apply the appropriate rules of Debit/ Credit.

Record the debit account firstly in the particulars columns with the date and amount in the debit column.

Then enter the credit account by starting with "To" giving a little margin in the left hand side and put the amount in credit column.

Give the brief narration of the transaction in the particular column in respect of the entry.

Example:

Cash Received from Sharma 1000/-

Cash --> comes in --> Real --> DR 1000/-

Sharma --> giver --> Personal --> Cr 1000/-

Cash A/c Dr. 1000/-

To Sharma's A/c 1000/-

(On receipt of cash from Sharma's)

Rent paid to Mr. Mohan for Jan 2001 Rs. 5000/-

Rent --> Nominal --> Exp. & Loss --> Dr. 5000/-

Cash --> Goes Out --> Real --> Cr. 5000/-

Rent A/c Dr. 5000/-

To cash A/c 5000/-

(Being paid rent for the month of Jan 2001 To Mr.

Mohan) **Some Important Heads of Expenditure**

Rent A/C

Water & Electricity A/C

Telephone & Trunk Call A/C

Office Expenses A/C

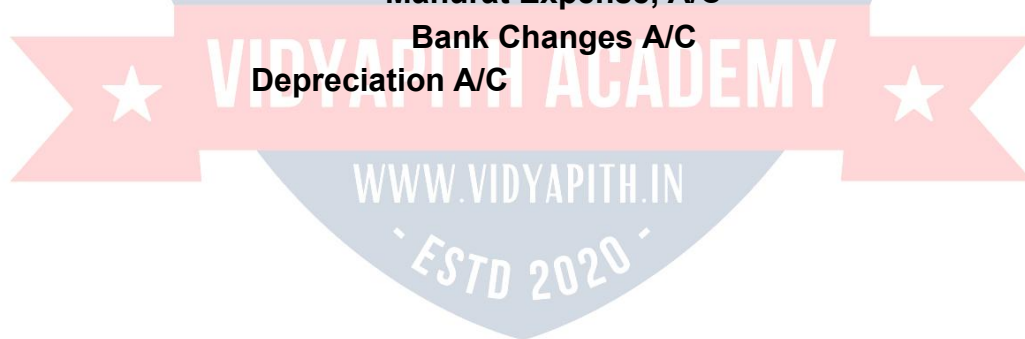
Miscellaneous Expense A/C

Salary A/C (Administration staff)

Wage A/C (Factory Labour)

Professional charges A/C

Audit Expense A/C (C.A. / Auditor)
Legal Expense A/C (Advocate+ Stamps)
Printing & Stationary A/C
Postage & Telegram A/C
Traveling & Conveyance A/C
Petrol & Maintenance A/C
Donation A/C (Receipt required above Rs 50/-)
Purchase A/C
Staff Welfare A/C
Entertainment A/C
Business Promotion or Advertisement A/C
Repair & Maintenance A/C
Freight & Cartage A/C
News paper & Periodicals A/C
Furniture & Fixture A/C
Drawing A/C
Insurance A/C
Parking Charges A/C
Interest A/C
Sales promotions A/C
Discount and allowances A/C
Bad debts A/C
Mahurat Expense, A/C
Bank Charges A/C
Depreciation A/C



ACCOUNT BOOKS

Cash Book

A cash book is a record of all cash receipts and payments kept and maintained from day to day and giving the cash balance in hand at the end of a specified period not exceeding a month. A cash book records all cash transactions with their further classification and summarization. There are two types of transactions recorded in cash book.

└ **Cash:** It's having only one effect and comes in outer column of cash book. Cash Dr. or Cash Cr. In cash Book, Cash A/C not to be mentioned.

└ **Noncash:** Non Cash is having Double effect Cr. and Dr. and comes in Inner column.

The cash book is normally divided into two parts:

The left hand side is used for recording all receipts of cash or whether it is loan or income or the proprietor's capital introduced into the business and the right hand side records all payment, whether payment for expenses or repayments of loans and for Cash Balance at the end of the day total of receipts minus total of payments.

Ledgers

Ledgers are the main book of account which classifies and summarizes transactions and events into groups according to their nature. For example all the transactions relating to purchase are recorded in a separate account namely '**Purchase Account**' those relating to sales in a '**Sales Account**', expense of different nature are recorded in different accounts so that expenses of a particular type are reflected at the same place.

Ledger Posting:

Accounts for each item are indexed and maintained in ledger and the entries in the ledger are posted from cash book and it is very simple. All cash and non cash credit entry in credit side and debit entry in debit side and a balance account may have a debit balance, a credit balance or nil balance.

Trial Balance

After preparing the cash book and ledger the next stage is to prepare "Trial Balance". **What is a Trial Balance?**

Trial Balance is a statement prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books of Accounts.

Special Features of Trial Balance

- └ The Trial Balance is prepared on a specific date.
- └ It is prepared with the debit or credit balances of Ledger Accounts. It
- └ contains the list of all ledger accounts including each balance.
- └ The amount column of Trial Balance is divided as "Debit Column" and "Credit Column".
- └ The total of the debit and credit column of the amount must be equal.
- └ If the total of debit and credit side doesn't tally, it means that certain mistakes have been committed

Somewhere in Cash Book, Ledger, Journal.

- └ Cash in Hand is taken from the cash book.
- └ Closing stock is kept out of Trial Balance.
- └ Opening stock from Balance Sheet of Previous year.

Why is Trial Balance Prepared?

The Trial Balance is prepared for the following objects.

└ To check the arithmetic accuracy of the books of accounts. To

└ obtain the summarized position of ledger Accounts.

└ Basis for preparing Final Accounts like “Trading and Profit and loss Account” and “Balance Sheet”.

Financial Accounts

Assets & Liability

Assets: Assets are the resources raised by the business from the funds made available either by the owner or others.

Kinds of Assets

Fixed Assets: There are acquired for relatively long periods for carrying on business and are not meant for resale like Land, Building, Machinery, Furniture & Fixture, Copyright, Goodwill, Trademark, Computer, Typewriter, Air Conditioner and Television etc.

Investment and Advances: Other than in the regular business are called investment.

Current Assets: These are those assets held in the business which are expected to be converted into cash within 12 months i.e. is in short run e.g.

Cash in hand

Cash at bank

Marketable Securities

Debtors

Advances to Staff

Advances to Supplier

Earnest Money

Prepaid Expenses

Closing Stock

Liabilities

Capital: Share Capital or Equity Capital.

Secured Loan: The loan taken against security is called secured loan. It is called long term loan (>12 months) from bank.

Unsecured Loan: This is short time (≤ 12 months) loan without security from friends, relatives etc.

Current Liabilities: Creditors bills payable, advances received from supplier, securities received, out standing expenses. Which is expected to be paid within 12 months?

Adjustment in Profit & Loss A/c with Journal Entries:

Salary and Salary payable (Salary Dues will be shown as Salary payable).

Salary A/C Dr.

To Salary payable A/C Cr.

In Profit & Loss A/C it will be added in the salary A/C and in Balance sheet it will be shown as salary payable.

Telephone any telephone bill out standing

Any telephone bill received before 31st march not yet paid will be shown as due.

Telephone A/C Dr.

To Telephone Expenses Payable A/C

In Profit & Loss A/C it will be added in Telephone & Trunk call expenses A/C in Balance sheet it will be shown as liability.

Water & Electricity Payable

Any water electricity bill received before 31st March not yet paid will be shown as due.

Water & electricity A/C Dr

To water & electricity payable A/C

Advance Given

Insurances paid in Advance will be deducted from expenditure and in Balance sheet it is shown as an asset.

Prepaid insurance A/C Dr.

To insurance A/C Cr.

Income due (but not received is also known as accrued income - Receivable)

Accrued Tuition fees A/C Dr.

To Tuition Fees A/C Cr.

Tuition fees will be added in the income shown in Profit & Loss A/C and accrued Tuition Fees will be shown as an asset.

Loss of stock by fire: There are two types of loss of stock

└ Uninsured loss Insured loss

Closing: Accounts are closed on 31/3 and financial accounts are prepared to know the standing of the business during the previous year with regard to Profit and Loss and Assets and Liability.

- ☐☐ **Manufacturing A/C** : Cost of production
- ☐☐ **Trading A/C** : Gross Profit
- ☐☐ **Profit & Loss A/c** : Net Profit
- ☐☐ **Balance Sheet** : Balance of Assets and Liabilities

☐☐ **Cash in hand is taken from the cash book.**

└ **Closing stock is kept out of Trial Balance.**

Closing stock: Raw Material, Work In Progress, Finished Goods

Opening stock: Raw Material, Work In Progress, Finished Goods

Profit & Loss A/c: A Profit and loss Account shows the total revenues/ incomes from the sale of goods or services, during an accounting period and the total expenses incurred during that period in earning the revenues, Excess of revenues over expenses is the net profit or net income. If total expenses are in excess of revenues, the net result is loss.

Balance Sheet: A Balance sheet is a statement showing the state of affairs of a business as on a specified date. The state of affairs includes what the business owns and what the business owes. It displays the properties, assets and other rights owned by the business

on the right hand side. The liabilities to outsiders and amounts invested by owners as capital on the left hand side. Balance sheet reflects as to what proportion of the total assets belongs to proprietors of business and what proportion to outsiders. It is a formal representation of the accounting equation



BASIC CONCEPTS OF TAXATION

Types of Tax: Taxes are basically of two types i.e. Direct Tax and Indirect Tax

- 1. Direct Tax:** where the incidence and impact of Tax is on the one and same person, then it is called a Direct Tax. In other words we can say that where the Tax is charged directly on the Person, it is a Direct Tax e.g. Income Tax.
- 2. Indirect Tax:** where the incidence of Tax is on one person and its impact falls on the other person, then such Tax is called an Indirect Tax. In other words we can say that where the tax is charged on the Person indirectly, it is an Indirect Tax e.g. Sale Tax, Service Tax, VAT Tax etc.

Income Tax: Tax planning is crucial as it reflects on your financial situation and also involves planning for post-retirement life. The Income Tax Act has provisions for benefits, exemptions and deductions to help you reduce your taxes and save money. Income tax is an annual tax on income. The Income Tax Act (Section 4) provides that in respect of the total income of previous year of every person, income tax shall be charged for the corresponding assessment year at the rates laid down by the Finance Act for that assessment year.

Previous Year: Income tax is calculated on the income received or accrued during a financial year, and that year is known as the previous year.

Assessment Year: Assessment year is the year after the previous year.

Assesses: An assessee is a person who pays tax or any other amount under the Income Tax Act.

Person : Section 2(31) of the Income Tax Act defines a person as An individual, A Hindu undivided family, A company, A firm, An association of persons or a body of individuals whether incorporated or not, A local authority, Every artificial person not falling within any of the proceeding categories.

Assessing Officer: An assessing officer is the Income Tax officer, or the assistant commissioner of Income Tax officer, or the deputy commissioner of Income Tax, or the joint commissioner of Income Tax, who has jurisdiction over an assessee. The assessing officer makes the assessment and collects taxes under the Act.

CALCULATE YOUR TAX

Step 1: Assess your income. Each of these heads recognizes an income from a different area or profession and is classified under different heads. Each of the heads of income allows certain deductions or exemptions as per rules.

Step 2: Aggregate the gross income. The next step is to sum up the income under the different heads to arrive at the gross total income.

Step 3: Calculate the net taxable income. From the gross total income, the Income Tax Act allows certain deductions under chapter VI A to arrive at the net taxable income.

Step 4: Calculate tax. On this net taxable income, calculate the tax payable as per the tax-slabs given in the finance act every year.

Step 5: Deduct rebates. Tax rebates are available under section 88, 88B and 88C on certain conditions. Deduct these rebates from tax payable.

Step 6: Final tax payable. If you have paid any advance tax or have tax deducted at source, reduce the same from the balance tax amount. Any additional tax should be paid as self-assessment tax before filing the income tax return.

Gross Total Income (GTI): Section 14 of the Income Tax Act provides that for the purpose of charge of income tax and computation of total income all income shall be classified under the following heads of income:

- 1. Income from "Salaries".**

2. **Income from “House Property”.**
3. **Income from “Business or Profession”.**
4. **Income from “Capital Gains”.**
5. **Income from “Other Sources” (any income that does not come under any of the above heads)**

The total income from all the above heads of income is calculated in accordance with the Provisions of the Act as they stand on the first day of April of any assessment year.

Salary: Section 17(1) of the Income Tax Act gives the definition of salary. Essentially, income from salary consists of all types of cash amount paid to an employee for services rendered to an employer. You should have an employee-employer relationship and such cash amount is taxable as ‘salary’. It includes basic pay, dearness allowance, overtime, bonus, incentives, allowance, and Children allowances. Some of these allowances are exempt from taxes under section 10 subjects to limits, after which standard deductions are allowed under section 16 and then the final net income is computed.

Salary from more than one source: Salaries received from more than one employer during a year are taxable under salary. Such salaries are aggregated or clubbed together.

House Property: This is the second head for taxable income. The IT Act classifies house property under two distinct heads: self-occupied property and let out property. The house owner has to ascertain an annual value on these properties, which is taxable income. **Self-occupied property:** Simply put, the annual value of the house where the owner is residing, and which has not been let out, is taken as ‘nil’.

Let out property: For the property that has been let out or deemed to be let out, the taxable value of the property shall be the higher.

PROFIT FROM BUSINESS OR PROFESSION : This is the third head under which taxable income has to determine and in the case of individuals, it is applicable to those who are selfemployed, the sole proprietor of the business, or a professional. Business can be explained as any trade, commerce, or manufacture, or any concern in the nature of trade, commerce or manufacture. Profession includes any profession that requires manual or intellectual skills. Professions include categories such as doctors, lawyers, singers etc. Any profits or gains from business or profession or any other service shall be treated as income from business or profession. Important expenses can be claimed as deductible expenses, some of which are:

Rent, Taxes, Repairs And Maintenance Of Buildings, Salary, Bonus, And Commission To Employees Expenditure Incurred On Entertainment, Traveling, Advertising Etc.

Capital Gains: This is for those who have made a profit or a loss by selling a capital asset and by making capital gains thereon. Capital asset is property of any kind held by a person whether or not it is connected with his business. However, it does not include inventory, raw material or stores for the purpose of business, or any personal goods such as clothes and moveable property, and jewellery. Rural agricultural land and gold bonds and gold deposit bonds, too are not considered capital assets. **Short and long term assets** asset’s nature along with its holding period (the number of years of possession) determine whether an asset is a long or short-term one.

INCOME FROM OTHER SOURCES : This is the Income that cannot be classified under any of the above heads such as salary, house property, etc. Interest income from securities,

company fixed deposits, savings accounts, bank deposits, pension received by legal heirs and lotteries come under this head.

Service Tax: Service tax is tax of 21st Century. Service Tax is a form of indirect tax imposed on specified services called “taxable services”. Service tax cannot be charged on any service which is not included in the list of taxable services. Over the past few years, service tax been expanded to cover new services. The intention of the government is to gradually increase the list of taxable services until most services fall within the scope of service tax.

Value Added Tax (VAT): VAT or Value Added Tax is a consumption tax, which is charged at each stage of production based on the value added to the product at that stage. Many States in India have adopted VAT in place of sales tax. In the sales tax structure, there are problems of double taxation of commodities and multiplicity of taxes, resulting in a cascading tax burden. VAT is a modern and simplified system of taxation where the tax is levied and collected at each stage on the value additions with a provision for set off against tax paid at the various stages / tax paid on inputs. VAT is a system of indirect taxation, which has been introduced in lieu of sales tax. It is the tax paid by the producers, manufacturers, retailers or any other dealer who add value to the goods and that is ultimately passed on to the consumer. VAT has been introduced in India to ensure a fair and uniform system of taxation. It is an efficient, transparent, revenue-neutral, globally acceptable and easy to administer taxation system. It benefits the common man (consumer), businessman and the Government.

Banking System: The Banking Sector is the most dominant sector of the financial system in India, and with good valuations and increasing profits, the sector has been among the top performers in the markets. Banking dates back to 1786, the first bank established in India, then the nationalization of banks in 1969. In India the banking sector is Separate as public or private sector banks, cooperative banks and regional rural banks. Foreign banks have been given a different head followed by upcoming foreign banks in this section. Bunch of services are at customers demand in today’s banking system. Different types of accounts and loans, facilitating with plastic money and money transfer across the globe.

Types of Business

There are four types of business:

Proprietorship: (Single person or sole proprietor)

No formalities are required, No registration or whatever.

Firm: (Partnership)

Member 2-20 Registration - Not compulsory, but it is advisable to get it registered with the registrar of firms. It is registered in Estate Office in Registrar’s Office. Registration is applied on Form no 1. Registration fee is Rs 3.00 deposited through Challan no. 32A .Chillan Code no- Head of A/c 1475 - Other General and Economic Account. Under Partnership Act, 1932 partnership Deed on stamp paper of Rs 25.00 and attached to application Form no. 5 is used for incoming and outgoing members.

Private Limited Company:

It’s having member 2 to 50 at least two directors.

Registration is compulsory. Registration is done in Registrar of Companies, Jalandhar for Himachal, Punjab and Chandigarh.

We cannot start without Registration.

It can not issue shares.

Registration fee is based on Capital It has contributory capital of all members.

Public Limited Company:

Members 7 to no limit.

Registration is compulsory in the Office of Registrar of Companies near bus stand, Jalandhar.

It can issue shares.

It has share capital of all share holders.

Depreciation: Depreciation A/C is change in the value of fixed Assets through wear and tear and obsolescence due to passage of time or Reduction in the value of fixed assets, except Land. These are called Adjustment entries.

Rate of depreciation is same for every type of business.

| | | |
|------------------|---|---|
| Land | : | No depreciation |
| Building | : | Residential : 5% value is decreased every year Commercial Area : 10% |
| Furniture | : | 10% is ordinary Business: 15% is Rush Area (School, Club, Academy) |
| Vehicle | : | 20% in ordinary business, 40% if used for Transport Business |
| Machinery | : | Less than 5000/- or 100% Depreciation will be charged. Fridge/ AC/ T.V/ Typewriter/ Remaining Electronics item etc - 25%, computer 60% |

Income Tax And Accounts

Accounts books should not only show a true and fair view of the business profits and its state of affairs but should also enable the taxing authorities to calculate the taxable income of the business. The account books should there fore be maintained in a manner that is acceptable to the income tax authorities. Books of accounts must be prepared in such a manner that the account is not rejected by income-tax authorities on ground that:

- L Income cannot be properly determined there from.
- L The accounts are not correct & complete.
- L The method of accounting has not been consistently followed by the assesses.
- L There are sufficient and strong reasons to indicate that the accounts are unreliable.
- L Where there are defects and omissions and tax-payer fails to explain them unsatisfactorily.

Where there is no quantitative tally between purchases and sales and there are suspicious features.

L If only a part of sales or purchases can be verified and rest can not be verified or some purchases are omitted from records.

L The absence of proper documentary evidence to support the entries in the account would remake the account liable for rejection.

L

L

If it appears that the cash book has been written up at a stretch and not from day to day. Where the account shows an abnormally low rate of profit.

Income of Five Types

- Income from salary**
- Income from home property**
- Income from business**
- Income from capital gain**
- Income from other sources like lottery**

Banking System

Introduction

The Banking Sector is the most dominant sector of the financial system in India, and with good

Valuations and increasing profits, the sector has been among the top performers in the markets. Banking dates back to 1786, the first bank established in India, then the nationalization of banks in 1969. In India the banking sector is Separate as public or private sector banks, cooperative banks and regional rural banks. Foreign banks have been given a different head followed by upcoming foreign banks in this section. Bunch of services are at customers demand in today's banking system. Different types of accounts and loans, facilitating with plastic money and money transfer across the globe.

Banking Industry in India

The General Bank of India was set up in the year 1786. Next came Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were combined in 1920 and Imperial Bank of India was established which started as private shareholders banks, mostly Europeans shareholders.

In 1865 Allahabad Bank was established and first time exclusively by Indians, Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian

Bank, and Bank of Mysore were set up. Reserve Bank of India came in 1935. During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with The Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India as the Central Banking Authority. During those days public has lesser confidence in the banks. Side by side of it the savings bank facility provided by the Postal department was comparatively safer.

Government took major steps in this Indian Banking Sector Reform after independence. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country.

Seven banks forming subsidiary of State Bank of India was nationalized in 1960 on 19th July 1969, major process of nationalization was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi. 14 major commercial banks in the country were nationalized. Nationalization of Indian Banking Sector Reform was carried out in 1980 with seven more banks. This step brought 80% of the banking segment in India under Government ownership.

After the nationalization of banks, the branches of the public sector bank India raised to approximately 800% in deposits and advances took a huge jump by 11,000%. Banking in the sunshine of Government ownership gave the public contained faith and huge confidence about the ability of these institutions.

This phase has introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M Narasimham, a committee was set up by his name, which worked for the liberalization of banking practices. The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking is introduced. The entire system became more convenient and fast. Time is given more importance than money.

Reserve Bank of India (RBI): RBI is the central bank of the country since 1934. It regulates, controls credit, issue licenses and functions as banker of all banks and the government.

Various Banking Operation & Bank Deposited: Banking is an important aid to business. A bank may be defined as an institution which deals in money. The bank pay a certain amount of money as interest, on the money they have borrowed. Similarly they charge interest on the money lent. Interest is always calculated at a certain rate presented per annum. The rate of interest on loans advanced is always greater than that on deposits. The difference between the two rates is the banks margin of income.

Looked at from a different point of view, a bank may be said to be a dealer in the money market. In the money finance market, money is the item that is bought and sold. Banks act as middleman between the savers and borrowers of money. The difference between the banks selling price and purchase price is the banks income. There are three main types of accounts which a person can open with a bank, namely fixed deposit, saving bank deposit and current accounts.

Fixed Deposit Account: A customer can deposit his money with a bank for a fixed period. Such an account is called 'fixed deposit account' usually varies from fifteen days to five years. The amount deposited cannot be withdrawn before the expiry of the fixed period. The bank normally allows a higher rate of interest on fixed deposits. The rate of interest increases with the period of deposit. Bank offer very high rates of interest on such deposits because it is assured of funds for the period. If the depositor is in need of money in between he may borrow up to 70% of the deposit at 2% above the interest rate applicable to that particular deposit.

Saving Bank Account: A saving bank account provides limited withdrawal facility and carries a moderate rate of interest on deposits. Interest is allowed on the saving bank account on the lowest credit balance kept in a particular month. Some restrictions are placed on withdrawals. Further a specified minimum balance must always be maintained in the account.

Current Bank Account: A current account may be defined as a running account between a banker and a customer. Customer can deposit money into or withdraw money from a

current account whenever they like. There are no restrictions to the number of withdrawal, subject, however to the minimum credit balance to be kept as per the rule of the bank. As a rule no interest is allowed on a current account. An exception however is sometimes made if the credit balance in a current account is not allowed to fall below a prescribed figure. In other words current account is simply a business account.

Bank Cheque: A cheque is an unconditional order on the bank made by a client instructing the bank to pay on demand a certain sum of money to or to the order or a specified person or to a bearer. In other words, when a trader wants to discharge his debts he signs a written order on his bank authorizing the bank to pay a certain sum of money-to his creditor. The order is known as 'cheque'.

Types of Cheques: Bearer Cheque: A bearer cheque is made payable to the bearer i.e. it is payable to the person who presents it to the bank for encashment. The language of such a cheque runs thus pay to X or bearer or self. It is payable to anybody who presents it at the counter.

Crossed Cheque: crossed cheques are those which cannot be encashed at the counter but which can be collected only by a bank from drawer bank. A cheque is crossed by drawing two Cross lines across its face with or without Account Payee only words. **Types**

of Cheques: Bearer Cheque: A bearer cheque is made payable to the bearer i.e. it is Payable to the person who presents it to the bank for encashment. The language of such a cheque runs thus pay to X or bearer or self. It is payable to anybody who presents it at the counter.

Crossed Cheque: Crossed cheque is those which cannot be encashed at the counter but which can be collected only by a bank from drawee bank. A cheque is crossed by drawing two Cross lines across its face with or without Account Payee only words.

Introduction To Tally

Among the most important application of computers in the offices is the Financial Accounting. It has made the life of accountants very easy. Gone are those days of spending long hours to tally the accounts manually. These days most of the companies use computerized financial accounting for their accounts purposes. Even most of the Chartered Accountants use them. Now the software used by them may differ from user to user.

In these recent years on the Indian market, one financial accounting software which has taken the fancy of most of the accountants is called Tally.

Tally Screen

The following can be seeing on the Tally screen initially.

As you can see from Gateway to Tally, there are 3 options here:

Select Company

Create Company

Quit

I am sure you do not want to quit at this stage. Since you have not created a company, so you would not be able to select any company. Hence the only logical selection here would be Create a Company. So let us do it.

CREATE A COMPANY

To create the company, you would click at Create a Company, or F3 key, various items on the screen are described below:

Name: Type here the name of the company you want to create.

Mailing Name: Type here the mailing name of the company.

Address: Type here the address of your company.

Income Tax Number: In the case your company has been allotted an income tax number, just fill it up here.

Local Sales Tax Number: If your company has been allotted any number under the Sales Tax Act, then fill it up here.

Inter-State Sales Tax Number: Again fill this number if it has been allotted to your company.

Currency Symbol: You have to specify the currency symbol which you are going to use.

Maintain: There are three different ways you can use Tally.

The options are:

Accounts only

Accounts-with-Inventory

Inventory only

Accounts only Use this option if you do not have any inventory transactions. Using this option you would not be allowed to have any inventory transactions.

Accounts-with-inventory Though this is selected by default, you can always differ to use your own option. Using this you would be able to use both Financial as well as Inventory Management.

Inventory only Use this if you have to use Tally for inventory only. You would not be able to do any accounting related processing if this option is used.

Books Beginning From: Type here the date from which you actually want tally to maintain your accounts.

Use Security Control: This option allows you to provide security password to your company. **Basic Currency Information**

The best part of Tally is that you can work in any currency accounting system. You can in fact use any foreign currency too. In this section you have to provide information related to this.

Basic Currency Symbol: Specify the symbol of your base currency.” For example for an Indian company the base currency is Rupees, whose symbol is “Rs.”, therefore specify this symbol here. Tally uses this symbol in reports, whenever necessary.

Formal Name: Now that you have decided on the currency symbol, you can decide about the currency”, name too. Remember, Rupees is also available in other countries too, for example, Nepalese Rupees. If you wish you can write, here Indian Rupees.

Number of Decimal Places: In this option you can specify a value from zero to four to denote the fractional part of the currency. For example, the fractional part of the Indian Rupee is Paisa for which the number of decimal places is two. The default option is also two.

Show Amount in Millions? : By default this option is No, which means that the amount will be displayed in lakhs and crores. In case you want the amount to be displayed in American system of millions, then select Yes.

Is Symbol SUFFIXED to Amount? : Most currencies have the symbol prefixed to the amount, for example, Rs. 165.00 or \$375.00, but some currencies take the symbol to the right of the digits, for example 600 Yen or 1000 Lira. Depending upon the currency you wish to deal in, choose an appropriate option. The default choice for the option is No. This means that the symbol be on the left hand side of the digits.

Put a SPACE between Amount and Symbol? : In order to insert a space between the currency symbol and the amount choose Yes and to remove the space specify No.

With this you end the options for creating a new company. Press <Enter> to get a small window which prompts to answer in Yes or No whether to accept the figures as it is or not. Press Y to accept and create the company.

A created company would look like the one shown on the page. Now we have to enter other information about the company.

Various items which can be seen on the screen are defined as following: **Current period:** It displays the financial period in which you are working.

Current date: It displays the date on which you are entering vouchers or viewing reports.

List of Selected Companies: It displays the list of companies you selected. The company on the top of the list in bold is the currently active company. In order to change the currently active company, click on another company in the list or press <F3>.

Date of Last Entry: It displays the date of last voucher entered in the currently active company.

Gateway of Tally: This menu displays the primary options available to the user. These menus are briefly mentioned here.

Accounts Info: This option permits you to handle all the information related to financial accounts. It allows you to work on creation and maintenance of masters like Ledgers, Cost Centers, Cost Categories and other related information.

Inventory Info: Using this option you can handle information relating to the inventory accounts. It enables you to work on stock items, stock groups, stock categories, units of measurement and other inventory related information.

Voucher Entry: This is the most frequently used option. It allows you to make daily vouchers.

Balance Sheet: This option displays the balance sheet of your company as per the last voucher entered.

Profit and Loss A/C: This option allows you to take a look at gross profit and net profit for both opening and closing stock.

Ratio Analysis: This option enables you to have a bird's eye view of your company. Just by looking at the ratio of assets and liabilities loans and profit, you can judge the financial status of your company in a flash.

Display: This option enables you to view all reports like, Trial Balance, Account Books, Statement of Accounts, Inventory Books, Statement of Inventory, Cash Flow, List of Accounts, etc.

Multi-Account Printing: Choose this option to print Account Books, Inventory Books and Day Book.

The Buttons: They are on the right hand side of the screen.

F1: Select Company: This enables you to select companies and add them to the List of Selected Companies.

F1: Shut Company: This enables you to shut down a selected company and remove it from the list of active companies.

F2: Date: In order to change the date.

F2: Period: Using this option you can change the financial accounting period of a company.

F3: Change Company: This option is accessible only if more than one company is present in the list of selected companies. Choose this option when you want to work on another company that is in the list.

F3: Create Company: This option enables you to create another company by bringing up the Company Info menu.

F4: Backup: This option gives you a provision of backing up the company's information on floppy disk. When you choose this option, Tally prompts you to select a company whose backup you wish to take.

F4: Restore: This option allows you to retrieve the information of company whose backup had been taken by you.

F11: Features: This enables you to get the special features like integrating accounts and inventory, invoicing, cheque printing, etc.

LIST OF GROUP UNDER TALLY

ACCOUNT PAYABLE

SUNDRY CREDITORS & SUNDRY DEBITORS

SUSPENSE ACCOUNT

TEMPORARY ACCOUNT

UN SECURED LOANS & SECURED LOANS

ACCOUNT RECIEVEABLE

ADMIN. EXPENSES



BANK ACCOUNT & BANK OCC A/C
BRANCH/ DIVISIONS
CAPITAL ACCOUNT
CASH IN HAND
CURRENT ASSETS
CURRENT LIABILITIES
DEPOSITS (ASSETS)
DUTIES AND TAXES
EXPENDITURE ACCOUNT
EXPENCE (DIRECT)
EXPENCE (INDIRECT)
FIXED ASSETS
IMMOVABLE PROPERTIES
INCOME (REVENUE)
INVESTMENT
LOAN & ADVANCES (ASSETS)
LOAN (LIABILITY)
MFG./ TRDG. (EXPENCE)
MISC. EXPENCES (ASSETS)
PROVISIONS
PURCHASE ACCOUNT
RESERVES & SURPLUS
RETAINED EARNINGS
REVENUE ACCOUNTS
SALES ACCOUNTS
STOCK IN HAND
SUBSIDIARY FARMS & SUNDRY FARMS

VAT VALUE

ADDED TAX What is VAT?

VAT or Value Added Tax is a consumption tax, which is charged at each stage of production based on the value added to the product at that stage. Many States in India have adopted VAT in place of sales tax. In the sales tax structure, there are problems of double taxation of commodities and multiplicity of taxes, resulting in a cascading tax burden. For instance, in the sales tax structure, before a commodity is produced, inputs are first taxed, and then after the commodity is produced with input tax load, output is taxed again. This causes an unfair double taxation with cascading effects. In the VAT, a set-off is given for input tax as well as tax paid on previous purchases. In the sales tax structure that existed in India and still exists in some states, there was multiplicity of taxes such as turnover tax, surcharge on sales tax, additional surcharge, etc.

With introduction of VAT, these other taxes have abolished. In addition, Central sales tax is also going to be phased out. As a result, overall tax burden will be rationalized, and prices in general will also fall. Moreover, VAT will replace the existing system of inspection by a system of built-in self-assessment by the dealers and auditing. The tax structure will become simple and more transparent. That will improve tax compliance and also increase revenue growth.

VAT is a modern and simplified system of taxation where the tax is levied and collected at each stage on the value additions with a provision for set off against tax paid at the various stages / tax paid on inputs. VAT is a system of indirect taxation, which has been introduced in lieu of sales tax. It is the tax paid by the producers, manufacturers, retailers or any other dealer who add value to the goods and that is ultimately passed on to the consumer. VAT has been introduced in India to ensure a fair and uniform system of taxation. It is an efficient, transparent, revenue-neutral, globally acceptable and easy to administer taxation system. It benefits the common man (consumer), businessman and the Government.

Further, VAT enhances competitiveness by removing the cascading effect of taxes on goods and makes the levy of tax simple and self-regulatory, ensuring flexibility to generate large revenues. The cascading effect is brought about by the existing structure of taxation where inputs are taxed before a commodity is produced and the output is taxed after it is produced. This causes an unfair double-taxation. However, in VAT, a set-off is given for input tax (tax paid on purchases). This results in the overall tax burden being rationalized and a fall in prices of goods. This concept is explained with an example, in the Computation of VAT section.

VAT works in two different ways:

If VAT-registered businesses receive more output tax than the taxes paid as input, they

Will need to pay the difference to the Commissioner of Taxes (State).

If the input tax paid is more than the output tax collected, you can carry forward the Input credit and adjust it against the output tax in the subsequent months.

You can have the Input Credit refunded to you at the end of the current or following year, by the Government.

You can receive refunds for Input Credit on exports within a period of three months.

Term

Input tax

Output tax

Input Credit

Description

This is a tax paid on purchases

This is a tax charged on sales

The amount of Input tax that is permitted to be set off against Output tax.

VAT Rates

According to the White Paper, there are 550 categories of goods under the VAT system. They are classified into the following four groups, depending on the VAT rate:

VAT @ 4% : The largest number of goods (270) comprising of basic necessity items such as drugs and medicines, agricultural and industrial inputs, capital goods and declared goods are under 4% VAT rate.

VAT @ 1%: This is for a specific category of goods like gold, silver, etc.

VAT@12.5%: The remaining commodities are under the general VAT rate of 12.5%.

Exempted from VAT

There are about 46 commodities under the exempted category. This includes a maximum of 10 commodities that each state would be allowed to select, from a broader approved list for VAT exemption. The exempted commodities include natural and unprocessed products in unorganized sector as well as items, which are legally barred from taxation.

Note: The few goods that are outside VAT as a matter of policy would include liquor, lottery tickets, petroleum products, as the prices of these items are not fully marketdetermined. These items will continue to be taxed under the sales tax act of the respective states.

Registration Process For Existing Dealers

- 1) All the registered dealers under the PGST act 1948 shall apply in VAT-I form with in 30 days of the appointed day.
- 2) Old registration certificates to be attached in original.
- 3) No application fee.
- 4) An eleven digit (TIN) Taxpayer identification number has been generated and is available on the official website i.e. www.chandigarh.nic.in, Excise and Taxation Department Chandigarh and shall be communicated by post.

For Fresh / New dealers.

- 1) Application for registration under VAT act to be submitted in the form VAT-I, along with application fee of Rs. 500/-
- 2) The application has to be submitted with in 30 days of a person becoming Liable to pay Tax.

SERVICE TAX

Service tax is tax of 21st Century. Service Tax is a form of indirect tax imposed on specified Services called “taxable services”. Service tax cannot be charged on any service which is not

Included in the list of taxable services. Over the past few years, service tax been expanded to cover new services. The intention of the government is to gradually increase the list of taxable services until most services fall within the scope of service tax.

Highlights of the service tax are as follows:

1. Service tax is imposed under Finance Act, 1994 as amended from time to time.
2. Service tax is payable @ 12% plus education cess of 2%, plus SAH education cess of

1% (total 12.36%) we've. 11th May 2007 [Section 66]. (The exemption limit was Rs four lakhs up to 31-3-2007).

3. Service tax is payable on taxable services as defined in various clauses of section 65(105) of Finance Act, 1994. Presently, about 99 services are taxable.

4. Service tax is payable on gross amount charged for taxable service provided or to be provided [Section 67].

5. Presently Service tax is payable @ 10% plus education cess of 2%, plus SAH education cess of 1% (total 10.36%) & Small units whose turnover less than Rs. Ten lakhs per annum are exempt from service tax.

6. Every provider of taxable service should apply for registration in form ST-1 within 30 days from date of charge (in case of new services) and date of commencement of business of providing taxable services.

7. Assessee providing service from various premises can have centralized registration [Rule 4(2)]

8. If payment of tax is delayed, interest is payable @ 13% [Section 75]

Invoice by service provider

Assesses should prepare invoice in respect of his services. Details required to be shown in invoice/bill/Chillan - As per rule 4A (1), the invoice/Chillan/Bill should be signed by authorized person of provider of input services, should be serially numbered and should contain following details -

1. Name, address and registration number of person providing taxable service

2. Description, classification and value of taxable service provided or to be provided and

Education Cess and SAH Education Cess (Sec & Higher Edu. Cess) to be shown separately - Education Cess and SAH Education Cess to be shown separately in the Invoice for complying with requirements of Central Credit Rules to facilitate a ailment of Central credit by recipient – Para 5.1 CBE&C Circular No. 97/8/2007-ST dated 23-8-2007.

Procedures of Service tax

Administration of service tax is under Central Excise department. The main procedures to be followed are -

1. Registration
2. Maintenance of records
3. Payment of service tax and
4. Half yearly return.

There are no prescribed forms of records. The records maintained by assesses including computerized data maintained by assesses in accordance with various other laws are acceptable [rule 5(1)].

Registration under Service Tax: A 'person liable for paying service tax' has to register with Superintendent of Central Excise under whose jurisdiction your premises fall. He should register within 30 days from date of commencement of the Business of providing taxable service. The person will have to apply for registration in form ST-1. If a person is providing more than one taxable service; he may make a single application. He should mention in the

application all the taxable services provided by him. [Rule 4(4)]. Applicant should submit following at the time of filing application for registration:

1. Copy of PAN
2. Proof of Residence and
3. Constitution of applicant.

The registration certificate will be granted by Superintendent of Central Excise in seven days in form ST-2.

