

21/10/2020  
Tuesday

DEFINITION OF

Accounting → It is an art of recording, classifying, summarizing financial transactions and interpretation thereof.

Necessity and advantages of maintaining book of Accounts :-

- ↳ To know profit / loss earned by business
- ↳ To know the financial position of the business
- ↳ For purposes of taxation, we need to have a proper accounting system.

For commercial <sup>purpose</sup>, we have a system called  
⇒ "Double Entry Book keeping" :

All financial transactions are being recorded in 2 places / under 2 heading

- ① DEBIT - A charge / burden
- ② CREDIT - A favour / advantage / gain

Basic Rule for DEBK :- (Both sides must always be equal)

"For every debit there must be a corresponding credit" and vice versa.

Assumptions (concepts) behind accounting system :-  
[Based on which the DEBK system is built]

① ENTITY CONCEPT : (owner, company as different)

- ↳ All businesses are treated as separate entities i.e. The proprietor and the business are being treated as different persons.
- ↳ Basically all business units are being treated as artificial person in the eyes of law.

EXTRA)

## Different forms/types of business:-

(i) PROPRIETORSHIP BUSINESS - Any business with a single owner or proprietor.

In索vency - state where the assets < Liabilities  
can't pay back the money loan

(ii) PARTNERSHIP FIRM - When 2/more person join together for running a business where there should be a partnership deal/agreement among the partners.

Every partner is equally liable / responsible to the lenders for repaying the loan. No one partner can escape from that responsibility.

(iii) COMPANY - promoted by a promoter after which the company issues documents known as shares for collecting / mobilising money from the public who become shareholders of the company.

L → (Limited - Liability of shareholders is limited only for an extent of the capital invested by him in the company) ↴

disadvantage of partnership firm

↳ whenever company issues shares, they usually issue it with a premium.

↳ Here shareholders are not responsible to the lenders like in partnership firm.

↳ Company - managed by board of directors. They are responsible for the shareholders.

↳ Companies conduct meetings where the shareholders can raise queries (questions).

**Dividend** → share in a company's profit  
company has 2 documents :

I) Memorandum - details of capitals, assets, etc.,  
of Association

II) Articles - day to day activities, etc.,  
of Association

(iv) Private Limited Company - shares not offered to public, they are being held within certain members / a circle.

② GOING CONCERN CONCEPT: (Business is going to continue forever)

→ It is assumed that all business entity will have/do have a perpetual life or long lasting.

→ (Even in i) and ii), Business is assumed to go on even if the proprietor/partner is dead and also the books of accounts are not closed. (will everlast)

③ COST CONCEPT: (Every transaction has some cost)

→ Cost - the amount of expenditure incurred on a given object/products is known as cost.

→ All transactions/activities under cost concept are being recorded on the basis of actual cost incurred only and not on the basis of market value or any notional (assumed) value.

⊗ NOTE: Income tax & cash payment > 10,000 is prohibited ⊗

(everything should match)

④ MATCHING CONCEPT:-

→ After recording all financial transactions, income and expenditures are being matched against the other and Assets and liabilities are getting matched against other.

### ⑤ ACCOUNTING PERIOD (CONCEPT):

continuously for full period)

↳ Although the business are having perpetual life, the books of accounts are being closed by end of every accounting period and balances are carried over to the following accounting period.

30/12/2020

wednesday

OR CONCRETE EVIDENCE CONCEPTS

TRANSACTIONS

### ⑥ VERIFYABLE OBJECTIVE CONCEPTS:-

are considered only with transaction

↳ All financial transactions which are recorded in the books must be supported by vouchers (a documentary support).

#### → Accounting conventions:-

(General  
in nature)

(i) Consistency: (Stability) - maintain past concepts, methods, don't change

Any system / procedure followed within the accounting system should be followed consistently (or else) which the financials would end up in inconsistencies. Eg: some stock valuation methods, depreciation methods, etc.

(ii) Disclosure: (Anything related to business, disclose it)

Any major points touching / concerning the financial transactions recorded should be highlighted as a part of the financial statement.

(iii) Materiality: (Write transaction related to present business information). Financials involving significant values have to be given due importance or have to be prominent in the financial statements.

(iv) Conservatism: Go towards profit and loss the profit. // what's exactly the company's position.

## Financial statements :-

① Profit and loss account :- All incomes and expenses due or accrue during the accounting period are being matched to arrive at the financial results namely profit or loss.

(extra) Types of accounting systems :-

### I Cash based Accounting System:

Under this system, financial transactions involving cash alone are being recorded. e.g.:- Incomes and expenses are recorded only when cash is being received / paid towards the sale.

### II Mercantile system of accounting:- (mostly used)

Any income / expense whether involves cash or not is being recorded in the books of accounts on due or accrual basis. This system is mostly followed by all the business units.

② Balance sheet :- (using this we can <sup>easily</sup> judge the fact about the accounts i.e either profit / loss)

↳ It is a statement showing state of affairs of a business. In a Balance sheet there (present state) are 2 sides - one for assets and other for liabilities which will always be equal.

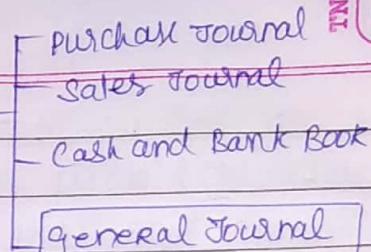
<sup>to be</sup>  
Books of accounts maintained by a business :-

like rough notes

- 1) Journal (Every activity recorded then and there)
- 2) Ledger (↓ classify and record separately based on activity)

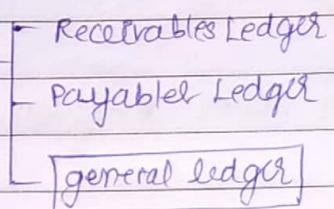
for sake of  
convenience  
we classify,

### \* Journal



subsidiary  
books  
(or)  
special journals

### \* Ledger



Actually, Journal



Ledger



Trial Balance



Profit & Loss Account AND Balance sheet

Trial Balance, - It is a

check list within we list the  
balances extracted from the  
(sum of all ledgers) - ledger

## Recording Financial Transactions in the Accounting

— BOOK —

Step 1 :

— Identification of nomenclature or title or  
head of account to be recorded in the book.

Step 2 :

— Identification of classification or type of  
the head of account concern.

Step 3 :

— Follow the accounting rule for recording  
the head of account on the credit or debit side

Step 4 :

— Recording heads of accounts in the journal.  
By default, in every financial transactions, a

heads of accounts are recorded.

#### Step-5:

- All the financial entries recorded in journal (Day Book) are being posted over to the ledger. (Journal includes all kinds of journals where journal is a day book - where transactions are recorded daily e.g. purchases, sales, cash and general journals too).

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#### Step-6:

- Balancing or arriving at the net Balance (credits over debits and vice versa). Arriving at the net Balance of each and every head of account (title) contained in the ledger accounts / books.

#### Step-7:

- Preparation of a checklist known as trial balance wherein the net balance of each and every head of accounts from the ledger book in either debit / credit column as stated appearing in the ledger. The sum of the balances placed in both debit and credit columns shall always be equal.

#### Step-8:

- Preparation of trading, profit and loss account for the period concerned.

#### ⇒ PROFIT AND LOSS ACCOUNT :-

After every accounting period (generally 1 yr), the ledger account balances of all the expenses and all incomes are being transferred to profit and loss account through accounting

entries thereby making the closing balance of those items as zero. By this, the incomes and expenses of the following year starts with zero, whereas ledger account balances of all assets and liabilities are being concerned over year after year.

### Step 9 :

- Preparation of a Balance Sheet in which the assets and liabilities are being listed separately, the sum of which must be equal.

### Balance sheet

#### Liabilities

- are source of money

#### Assets

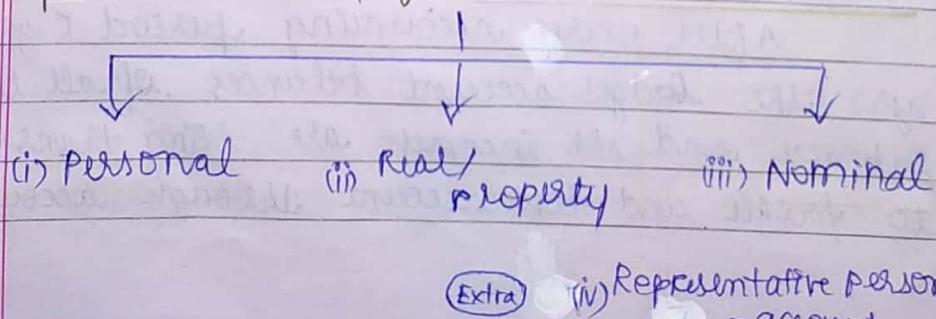
- are where money is being deployed.

↓                      ↓  
fixed                  current  
(value is fixed)    (changes)

### Rules of accounting:-

- The entries (finance activities) in the accounting book may take place in 2 aspects
  - ① Credit
  - ② Debit.

### Types/classification of accounts:-



(i) Personal account:

- Accounts of individuals and legal entities like organisations (Eg :- business, companies, persons who are alive in the eyes of law, banks, etc.,)

(ii) Real/property/class account:

- All assets are classified as real account

Eg:- Any property including cash

(iii) Nominal account:

- All incomes and expenses are classified as nominal accounts. These accounts are intangible in nature (which can't be seen like in personal/real accounts). Eg: sales, purchases, wages,.

Also,	Debits		Credits	
	The Receiver	The giver	what comes in	what goes out
Personal				
Real (Eg: Machinery)	What comes in	What goes out		
Nominal	All expenses & losses	All incomes & gains		

05/01/2021 ① From the following transactions prepare journal entries:-

DAY	ACTIVITIES
01/12/2020	Mr. A started (commenced) a business by investing Rs 10 Lakh
02/12/2020	He also brought in a machinery worth Rs 2 lakhs and building worth Rs 5 lakhs as part of his investment
03/12/2020	A current account was opened with SBI by depositing Rs 7 lakhs
04/12/2020	Cash purchases of raw materials for Rs 45,000.

	05/12/2020.	wages paid to operators Rs 700
whenever buy a property, record name of the property	06/12/2020 <small>sell</small> <small>(Instruction to the bank unconditional order)</small>	Purchases against issue of cheque of Rs 82,000
	07/12/2020	Purchase of machinery for Rs 25,000 from atm limited
	08/12/2020	Purchase of land from Mr. X by issue of cheque for Rs. 1 lakh
	09/12/2020	Power charges paid by cheque Rs 15,900
	10/12/2020	Credit purchases for Rs 12,000
	11/12/2020	Cash sales for Rs 22,000 to Mr. C.
	12/12/2020	Sale of machinery for Rs 10,000 to Mr. K against cash
	13/12/2020	Discount received by cheque from Mr. S, Rs 5000
	14/12/2020	Credit sales of Rs 47,000
	15/12/2020	From SBI current account, a fixed deposit for Rs 60,000 was raised in SBT
	16/12/2020	Long term loan of Rs 2 lakhs was sanctioned by Indian bank and the same was transferred to the current account of SBT

Steps :-

- \* Title to be written
  - \* type of title
  - \* Rules that can be applied.

Income, cash, both  
are different.  
 $\downarrow$                      $\downarrow$   
Sales                 assets,  
which we  
always see

→ Here, In the above problem

## CASH - Real Account

## A's capital - personal/nominal account

Investment made by proprietor

DATE	SERIAL NO V.N JOURNAL ENTRY	DESCRIPTION (Record the title)	LEDGER FOLIO (Ledger Page Reference)	DEBIT	CREDIT
01.12.2020	1	CASH A/c (R) A's Capital A/c (P) [being capital introduced by A]		10,00,000	10,00,000
02.12.2020	2	Machinery A/c (R) A's Capital A/c (P) [being capital introduced by machinery]		3,00,000	3,00,000
03.12.2020	3	SBI Current A/c (P) CASH A/c (R) [being current A/c opened by SBI]		7,00,000	7,00,000
04.12.2020	4	CASH A/c (R) Purchases (N) [being cash purchase]		45,000	45,000
05.12.2020	5	Wages A/c (N) CASH A/c (R) [being wages paid]		7,000	7,000

DATE	V.N	DESCRIPTION	Ledger Fol'd	DEBIT	CREDIT
		Purchase (N)		38,000	
06.12.2020	6	SBI current A/c (P) [Being purchased against issue of cheque]			38,000
		Machinery A/c (R)		25,000	
07.12.2020	7	HMT (P) [Being purchased by machinery from HMT]			25,000
		Land A/c (R)		1,00,000	
		SBI Current A/c (P) [Being purchase of land by issue of cheque]			1,00,000
		Power charges A/c (N)			15,000
09.12.2020	9	SBI current A/c (P) [Being power charges paid by cheque]			15,000
		Purchase A/c (N)		12,000	
10.12.2020	10	Duniry creditors / ] (P) Suppliers A/c [Being credit purchases]			12,000
		Cash A/c (R)		22,000	
11.12.2020	11	Sales A/c (N) [Being cash sales]			22,000
		Machinery A/c (R)			10,000
12.12.2020	12	CASH A/c (R) [Being sales of machinery]		10,000	

DATE	V.N	DESCRIPTION	Ledger Folio	DEBIT	CREDIT.
13.12.2020	13	Discount received (N) SBI current account (P) [Being discount received]			7000 7000
14		Sundry Debtors A/c / customers (P) <sup>income</sup> Sales N/c (N) A/c [Being credit sales]		47,000	47,000
15		asset) Fixed Deposit A/c (R) SBI current A/c (P) [Being Fixed deposit made with SBI]		60,000	60,000
16		SBI current N/c (P) Long Term Loan (N) from Indian Bank (P) [Being Long Term Loan from Indian Bank.]		2,00,000	2,00,000

07/01/2021  
Thursday. Prepare a journal entry from the following:

IN → DATE	ACTIVITIES
01.11.2020	M.R.K commenced the business by investing Rs 5 Lakhs in cash, Rs 2 Lakhs as machinery, Rs 3 lakhs as furniture and Rs 1 lakh as stock.
02.11.2020	opened a current account with Indian Bank and Canara Bank by depositing Rs 1 lakh and Rs 2 lakh respectively
03.11.2020	Purchase of goods against cash

from Mr-S, Rs 40,000

04.11.2020

Credit sales good sold to  
Mr-T for Rs 37,000 on  
account.

05.11.2020

Purchase of raw materials from  
Mr-D, Rs 31,000.

06.11.2020 (onward)

*Step 1: Supply received from value  
the cheque - from value  
Step 2:*

Cheque received from Mr-S  
for Rs 37,000 was dishonored  
and the Indian bank has debited  
our account with Rs 300 as  
bank charges in respect of the sale

07.11.2020

Canara bank cheque for Rs.  
30,000 was issued to Mr-D in  
settlement of their account.

08.11.2020

Salary payable is Rs 10,000  
against which only Rs 7,000  
was paid in cash.

09.11.2020

Sale of equipments to Mr-Y for  
Rs 40,000 against down payment

10.11.2020

Short term loan from Indian  
Bank of Rs. 2 Lakh was availed  
from there, which was transferred  
to current account

11.11.2020

Interest on short term loan  
paid to Indian Bank is Rs  
4000 which has been debited to  
our current account with Indian Bank

12.11.2020

Commission due from Mr. A is Rs 13,000 out of which Rs 7000 has been transferred by him to the current account in Indian Bank.

13.11.2020

Wages due but not paid Rs 15,000

14.11.2020

Bad debts (can't be recovered) expected from one of the customers, namely Mr. J for Rs 2000.

15.11.2020

Machinery with a book value of Rs. 25000 was destroyed in fire.

16.11.2020

Mr. A has drawn Rs 40,000 for his personal dues.

17.11.2020

Office expenses paid Rs 4000.

18.11.2020

An amount of Rs 22,000 has been transferred from Canara Bank current account to that of Indian Bank.

19.11.2020

Cash withdrawn from Indian Bank Rs 50,000 for office expenses.

20.11.2020

Indian Bank has waived Rs 25000 out of the short term loan dispersed (paid) by them as per govt. directions.

DATE	V.N.	DESCRIPTION	LEDGER FOLIO	DEBIT	CREDIT
		CASH A/c (R)		500000	
01.11.2020	1	Machinery A/c (R)		200000	
		Furniture A/c (R)		300000	
		To M.R.K's capital A/c (P)			100000
		Stock A/c (R) (dynamic)		100000	
		[Being capital introduced by M.R.K in cash]			
		Canara Bank A/c (P)		200000	
02.11.2020	2	Indian Bank A/c (P)		100000	
		To Cash A/c (R)			300000
		[Being current A/c opened]			
03.11.2020	3	Purchases A/c (N)		40,000	
		Cash A/c (R)			40,000
		[Being purchase of goods]			
		To Salter A/c (N)			37000
04.11.2020	4	M.R.T.'s A/c (P)		37000	
05.11.2020	5	Purchase A/c (N)		31,000	
		M.R.D.'s A/c (P) (Other Raw Materials)			31,000
		[Being purchased from D]			
06.11.2020	6	M.R.S. A/c (P)		37000	
		Indian Bank <sup>Current</sup> A/c (P)			37000
	7	Bank charges (N)		300	
		Indian Bank current A/c (P)			300
08/11/2020	8	M.R.D.'s A/c (P)		30000	
		Canara Bank current A/c (P)			30000
		[Being charge issued to M.R.D.]			

DATE	V.N.	DESCRIPTION	LEDGER FOLIO	DEBIT	CREDIT
9		M.R.D'S Account (P) discount received (N)		1000	1000
08.11.2020	10	Salary (N) CASH (R) [Being cash paid]		7000	7000
11		Salary (N) To employee (P) (salary outstanding)		8000	8000
09.11.2020	12	Cash (R) (To) Equipment (R) [Being sale of equipments]		40000	40000
10.11.2020	13	Short term loan from Indian Bank (P) or (N) Indian Bank current A/c (P)		200000	200000
11.11.2020	14	Interest (on short term Loan) (N) (To) Indian Bank current A/c (P) [Being interest paid on ST Loan]		4000	4000
12.11.2020	15	Commission received Indian Bank current A/c Commission due from B [Being commission partially received]		13600	13600
13.11.2020	16	Wages A/c (N) (Wages outstanding to) employee (P) [Being wages yet to be paid]		15000	15000

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DATE	V-N	Description	Credit Folio	Debit	Credit
14.11.2020	17	Bad debts (N) (To) customers A/c (P)		2000	
15.11.2020	18	Loss on Machinery N/c (N) (To) Machinery A/c (R) [Being machinery destroyed in fire]		25000	25000
16.11.2020	19	Mrs A's Drawings (P) (To) CASH A/c (R) [Being drawing for personal use]		40000	40000
17.11.2020	20	Office expense (N) (To) CASH A/c (R)		4000	4000
18.11.2020	21	Indian Bank current A/c (P) (To) Canada Bank current A/c (P) [Being amt. transferred from Canada bank to Indian Bank A/c]		25000	25000
19.11.2020	22	CASH (R) Indian Bank current A/c [Being cash withdrawn for office expenses]		50000	50000
20.11.2020	23	Short term Loan for Indian Bank A/c (To) Grain ON ST Loan [Being waiver on ST loan]		25000	25000



DATE	PARTICULARS	CASH	
		DEBIT	CREDIT
01.11.2020	To Mr K's Capital	5,00,000	
02.11.2020	By Indian Bank current A/c		100,000
	By Canara Bank current A/c		20,000
03.11.2020	By Purchases		40,000
05.11.2020	By salary A/c		7000
09.11.2020	To Equipments A/c	40,000	
16.11.2020	By Mr A's drawing		40,000
17.11.2020	By Office expence		4000
19.11.2020	To Indian Bank current A/c	50,000	
30.11.2020	By balance carried over.		199,000
	TOTAL	5,99,000	5,90,000
01.12.2020	Balance A/c (Brought down) (Any asset can't show credit balance)	199,000	

⇒ Trial balance :- (as on 30.11.2020) PAGE : 11

DATE : / /

(Just take balances on respective side that appear in the Ledger Book)

	Ac	Debit	Credit
	Cash A/c	1,99,000	
	A's Capital		11,00,000

Both total should tally

- It's a statement
- Can be prepared anytime (but advised to prepare yearly once).

#### objection

- Useful for financial statement
- without committing any errors
- Summary of Ledger

#### rules

- 1) Debit - Assets, Losses, Expenses
- 2) Credit - Liabilities, incomes, gain

#### Limitations:-

- ↳ Transaction has not been entered at all in journal
- ↳ Wrong amt mentioned in journal
- ↳ An entry has not been posted in ledger
- ↳ Entry twice in the ledger.

Date	Activities
01.10.2020	MR. J started a business by introducing building worth ₹ 50,000 and cash ₹ 7 Lakh
03.10.2020	Opened current A/c with SBI with ₹ 1 Lakh
04.10.2020	Goods purchased against cash ₹ 10,000 and on account ₹ 35,000
05.10.2020	Expenses paid Rs 8000
06.10.2020	Goods sold on credit ₹ 42,000 and against cash ₹ 6,000
07.10.2020	Cheque issued to supplier Rs 4000
10.10.2020	Sale of Building ₹ 10,000.

⇒ Write the Journal, Ledger Book, Trial Balance, Profit and Loss account with the given entries:-

QUESTION ENTRIES

19/10/2020

ORIGIN FOR EVERYTHING

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Date	VN	DESCRIPTION	LEDGER FOLIO	DEBIT	CREDIT
01.10.2020	1	J's Capital (P) Buildings (R) Cash (R)			750000
				50000	
				700000	
03.10.2020	2	SBI current A/c (P) Cash A/c (R)		100000	
					100000
04.10.2020	3	Purchases (N) Cash A/c (R) Suppliers A/c (P)		45000	
					10000
					35000
05.10.2020	4	Expense (N) Cash A/c (R)		8000	
					8000
06.10.2020	5	Salaries (N) Cash A/c (R) Customers A/c (P)			1,30,000
				61,000	
					42,000
07.10.2020	6	SBI current A/c (P) Suppliers A/c (P)			4000
				4000	
10.10.2020	7	Building (R) Cash (R)			10,000
				10,000	

J/S Capital

Date	V.N.	Particulars	Debit	Credit
		Cash A/C		700000
		Building A/c		50000
31.10.2020		Balance c/f	750000	
			75000	750000
01.11.2020		Balance b/f		750000

CASH A/c

Date	V.N.	Particulars	Debit	Credit
		To J/S Capital	7,00,000	
		By SBI A/c		100,000
		By purchases		10,000
		By expenses		8000
		To Sales	61,000	
		To Buildings	10,000	
31.10.2020		By Balance c/f		6,53,000
			7,71,000	7,71,000
01.11.2020		To Balance b/f	6,53,000	

BUILDING A/c

Date	V.N.	Particulars	Debit	Credit
		To J/S Capital	50,000	
		By Cash A/c		10,000
31.10.2020		By Balance c/f		10,000
			50000	50000
01.11.2020		To Balance b/f	40000	

## SBI Current A/c

Date	V.N	Particulars	Debit	Credit
		To cash A/c	100000	,
31.10.2020		By suppliers account		4000
		By balance c/f		96000
01.11.2020		To Balance b/f	100000	100000
			96000	

my expense  
always show  
balance  
debit

## Purchases A/c

Date	V.N	Particulars	Debit	Credit
		To cash A/c	10000	,
		To suppliers A/c	35000	
31.10.2020		By Balance c/f		45000
			45000	45000
01.11.2020		To Balance b/f	45000	

## Suppliers A/c

Date	V.N	Particulars	Debit	Credit
		By purchases		35000
31.10.2020		To SBI current A/c	4000	,
		To Balance c/f	31000	
			35000	35000
01.11.2020		By Balance b/f		31000

## Sales A/c

Date	V.N.	Particulars	Debit	Credit
		By customers A/c		42,000
		By cash		61,000
31.10.2020		To Balance c/f	10,8000	
			10,8000	10,8000
01.11.2020		By Balance b/f		16,3000

## customers A/c

Date	V.N.	Particulars	Debit	Credit
		To Sales	42000	
31.10.2020		By Balance c/f		42000
			42000	42000
01.11.2020		To Balance b/f	42000	

## Expenses A/c

debit	Date	V.N.	particulars	Debit	Credit
			To cash	8000	
			By Balance c/f		8000
				8000	8000
			To Balance b/f	8000	

## expenses

direct → related to manufacturing

(Credit - less, Debit more → Gross loss)

else gross profit (Debit is less, Credit is more).

indirect → office level expenses.

(Expenses more, Income less - Net loss)

(Expenses less, Income more - Net profit)

⇒ Trial Balance (as on 31.10.2020)

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20/11/2020  
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Account	Debit	Credit
J's Capital A/c		750000
Cash A/c	653000	
8BI current A/c	96000	
suppliers A/c		31000
customers A/c	42000	
sales A/c		103000
purchases	45000	
Expenses A/c	8000	
Buildings A/c	40000	
	8,84,000	8,84,000

coffee related transaction

⇒ profit and loss account for November 20

EXPENSES	INCOMES
{ 90 opening stock goods) PURCHASES - Purchase Return DOME charges	By sales - Sales return Closing Stock
wages	
direct expenses	
GROSS PROFIT → (58000)	1,03,000
	1,03,000
Instalment { 90 Salary (for staff) - 8000 Interest	By commission, discounts received by gross profit brought down - 58000
	58000
NET PROFIT → 50,000	

⇒ BALANCE SHEET AS ON 30.10.2020

(From where we got  
the money)

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(This page is deployed)

Statement →

Net profit will  
go to Balance  
sheet in Capital

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	750000	Fixed Assets	
Add: Net Profit	50000	Land	40000
Less: Drawing		Building	
Loans		Machinery	
Suppliers	31000	Furniture	
Expenses outstanding		Equipments	
		Fixed deposits with	
		Current Assets	
		Stock	
		Cash	653000
		Bank Balance	96000
		Customers outstanding	42000
			831000
			831000

- We have 4 types of Journals

- \* Purchase Journal
- \* Sales
- \* Cash and Bank Book
- \* General Journal

Subsidiary Books

Advantage of having separate journal?

- Reduces 50% of work

(say, instead of writing 2 lines, we can write in a single line itself).

// Cash purchase / cash sales will not appear in purchase/ sales Journal. They appear in cash Journal and when cash and bank book is there, no need to take those entries in ledger book //.

21/01/2021

Thursday

⇒ PROFIT AND LOSS ACCOUNT for 30.09.2020

EXPENSES		INCOME	
Jo Opening stock	9000	By sales	114000
Jo Purchase	?	⇒ Sales Return	
Jo ⇒ Purchase return	15000	By closing stock	14000
22000 - 7000			
Jo Purchase exp.	5000		
Jo Freight inwards	1000		
Jo Power & Fuel	10000		
Jo Wages	3000		
GROSS PROFIT carried down	80000		
	128000		128000
Jo Salaries 9000	6000		
⇒ Wages - 3000		⇒ By gross profit brought down	80000
Jo Office expenses	1000		
Jo Interest	1000		
Jo Stationery	2000	By commission 6000	5000
		⇒ commission in - 1000 advance	
Jo Freight outwards	7000		
Jo Depreciation on vehicles	5000		
" " on Buildings	1500		
Jo Net Profit carried forward	61500		
Or to Balance sheet			
	85000		85000

①

10000

15000

9000

4000

38000

5000

43000

128000

- 38000

90000

128000

43000

85000

⇒ Balance sheet as on 30.09.2020 PAGE : 11  
 DATE : / /

29/10/2021

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Prop's Capital 85000		Fixed	
Add: Net Profit 61500		Vehicles 50,000 } 15000 (-) Depreciation 5000 }	
Less: Drawings 22000	1,8500	Land 12500	
Bank O/D	44,000	Buildings 30,000 } 28500 (-) Depreciation 1500 }	
Bills Payable	82,000	Patents and Trade mark 4000	
Commission received in advance	1000		
		CURRENT	
		Dena Bank C/N/C 10,000	
		Bills receivable 25000	
		Stock (closing) 14000	
	2,51,500		2,51,500

// Current Assets - Cash at Bank, Cash in hand

Fixed Assets - Land, Furniture, Bills Receivable

Debtors (to whom we are selling), Loan given, Closing Stock

// Liabilities - Bills Payable, Credits (from whom we are purchasing). Bank Overdraft (extra amount taken), Capital, Loans taken,  
 ↳ Net profit - added to capital

Both sides should be same.

ON 2/

→ Trading, P and L Account for 31/3/2020. / /

PAGE :

DATE :

EXPENSES	Amt (RS)	INCOME	Amt (RS)
To opening stock	28000	By sales 2,20000 ↳ Returns 2000	218000
To purchase 60,000 ↳ Returns -5000	55000	By closing stock 4000	
To Freight Inwards	4000		
To Power and Fuel	5000		
To gross profit carried over	166000		
	258000		258000
		By Gross profit/f	166000
To salaries 8000 ↳ Salary O/S 3000	11,000	By Discount (received) 9000 By Commission due 2000	
To carriage outwards 6000			
To depreciation on machine (10%)	34000		
To provision for doubtful debts (5%)	4000		
To net profit carried over	132000		
To Balance sheet	177,000		177000

Balance sheet

As on 31.3.2020

Liabilities

Pimp's Capital

340000

Rs

Add: Net Profit

182000

Inv. Drawing

9000

183000

Long term Loan

10000

Creditors

41000

Salary outstanding

7000

577000

577000

Assets

Cash

Rs

95000

Goodwill

20000

Machinery

340000

306000

Debtors

80000

Inv. Doubtful debts

-4000

76000

Closing stock

60000

VCO Bank S.B A/c

38000

Commission due

2000

575000

577000

On

→ pass L account as on 30.09.2020

TNPL

PAGE : 11  
DATE : / /

02/02/2021

Tuesday.

Expenes	Amt(₹)	Income	Amt(₹)
To opening stock	40000	By sales 100000 (-) Sale of furniture 20000	100000
To purchases	65000	By closing stock 10000	
To purchase exp.	9000	By gross loss 4/8	9000
To wages 5000 + Wages o/s 3000	8000		
To Power charges	7000		
	1,29,000		1,29,000
To Gross Loss b/f	9000	By msc. income 6000	
To machine maintenance	8000	By discount received 5000	
To Interest 7000 (-) Paid in advance 3000	4000	By relief on sundry creditors 2000 (-) 5%	2000
To salaries	10000		
To Provision for Bad debts			
(-) Existing 7000	3000	By net loss 4/6 to ?	
	4000	Balance sheet (34k-13k) & 1000	
	84000		324000

⇒ Balance Sheet as on 30.09.2020.

Liabilities	Amt(₹)	Assets	Amt(₹)
Props Capital	800000	Furniture 20000	20000
Less (-) Drawings	11000	↳ Wrongly included	0
+/- Net Profit / Loss	21000	Buildings 120000	120000
	1,68,000	Plant and machinery 70000	70000
Long term Loan	90000	Stock 75000	75000
Creditors 40000 (-) Reward 2000	38000	Goodwill 100000	100000
Wages outstanding 3000	3000	Debtors 60000	60000
	879,000	(-) Provision for 7000 frontful debts 53000	53000
		Bank Balance 20000	20000
		Cash 58000	58000
		Interest paid in advance 3000	3000
			879,000

Question - 3

profit loss account as on 31/3/2020.

expenses	Amt	Incomes	Amt
To opening stock	26,600	By sales 1,60,000	1,20,000
To purchase 70000		>Returns 4000	
- returns 3000	62,000		
To freight inwards	2000	closing stock	15,000
To power + fuel	10,000	Commission	11000
gross profit	46,000		
	1,46,000		1,46,000
To office expenses	2500	by gross profit (51F)	46,000
To carriage outwards	10,000		
To salaries 12000	12,000		
To depreciation on merchandise	14,000		
Provision for doubtful debts	2000	By Net loss 4/0 to balance sheet	17,000
	63,000		63,000

of Balance sheet as of 31/3/2020

Liabilities	Amount	Assets	Amount
Prop's capital	3,00,000	Fixed assets	2,000,
- Net loss	17,000	Cash	12,400,
- Drawings	9,000	Machinery 1-4-L - depreciation 1-4-K	1,20,000
	2,74,000	Equipments	2,000
Long term loans	1,00,000	Insurance paid	
creditors	44,000	current:	
		Woodmill	32,000
		IDIB Bank on & 10	18,000
		Closing Stock	15,000
		Trade creditors	41,000
	3,74,000		3,74,000

03/02/2021 → Methods of DEPRECIATION:-

Wednesday ↗ sometimes, some adjustments are needed. The main adjustment is "charging depreciation".  
 // For Land assets - no depreciation eg: Land  
 and also for some current assets like cash.

Why depreciation?

1) Effect of time

2) Usage.

// Book value → values entered in the books

⇒ Rectification of Errors (Errors we come across in books)

Methods of charging:-

1) Straight Line method

2) Written down value (WDV)

(a) Error of omission

(b) Error of commission

(c) Error of principle.

100 years

Book Value.

Every year

Show proportion

Value of asset

Depreciation

rates charged

as per

prescribed by

Income tax.

(a) → When forgot to enter a transaction in books

(b) → Written wrong amount on Balance sheet with balanced total.

(c) → Account entries recorded in incorrect accounts,

⇒ Non-profit making institutions:- (Schools, )

- Income and expenditure account instead of P/L account

- Profit is excess of income over expenditure

- Loss is excess of expenditure over income

- NO gross <sup>and</sup> net; we do it only once

- Day to day expense/income → revenue (Recurring)

- Occasional → capital (Non-Recurring)

- Capital, income & expenditure won't come in P/L account.

- NO prop's capital on Liabilities side . We  
have ~~only~~ Liability fund instead -

## CHAPTER-2 INTERPRETATION OF FINANCIAL STATEMENTS

Like Birth  
chart of  
company or  
Business /

↳ P/L account & BS → collectively called financial statement of Accounting (Helps in knowing financial position of Business)

↳ Work on financial ratios

↳ Also P/L Account indicates financial soundness

1 Ratio analysis - is a technique of analysing the financial statement by computing various ratios.

04/02/2020  
Thursday →

P and L account :- by computing various ratios it measures the profitability, efficiency, financial soundness

① Net Profit Ratio // should be high of the business

Higher the  
ratio we  
say that's a  
good company

$$= \frac{\text{Net Profit}}{\text{Net Sales}} \times 100 // \text{Profit \%}$$

↳ Total sales - Sales return

② Gross Profit Ratio // Gross profit = Sales - cost of goods sold

$$= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

ROI  
(OP)  
ROCE

③ Return on Capital Employed OR Investment

$$= \frac{\text{Net profit}}{\text{Capital Employed}} \times 100$$

(OR) Investment in Business

Capital employed is not seen in P and L  
As Capital is an element under capital employed

\* CAPITAL EMPLOYED (Current Liabilities are subtracted from the total assets)

Equity share Capital (+) Preference share Capital (+) Debentures  
(+) Long Term Loans → accumulated losses and  
(+) Reserves and Surplus  
Investments outside // calculated only from Balance sheet

re have in balance sheet

1. In case of company, 'share capital' and types of shares are equity share and preference share.  
 Debenture - type of bond or other debt instrument issued by the company for mobilizing money from the proprietor.

Part  
of  
Profit

④ operating profit Ratio :-

$$= \frac{\text{operating profit}^*}{\text{Net Sales}} \times 100 = \underline{\hspace{10cm}}$$

\* operating profit → profit due to operation

= Net profit + Non-operating expenses (-) Non-operating incomes.

(Total  
of  
expenses  
on sales)

⑤ operating Expenses ratio, //should be less

$$= \frac{\text{operating expenses}^*}{\text{Net Sales}} \times 100 = \underline{\hspace{10cm}}$$

\* operating expenses = All operating expenses (indirect expenses)

// selling, administrative expenses.

→ Ratios Based on Turnover:-

Turnover means Sales

① working Capital Turnover ratio:

= Sales

Working Capital

\* 2 types of Capital

↳ investment in fixed assets

↳ deployed in day to day life

(Found out  
from Balance sheet)

Working capital = Current Assets - Current Liabilities  
(to be invested by us)

Stock + Debtors  
Cash + Bank + Prepaid  
Expense

Bank overdraft  
+ sundry creditors  
+ Expense O/S

## ② Fixed assets Turnover ratio:-

$$= \frac{\text{Sales}}{\text{Fixed Asset}}$$

05/02/2021,  
Friday

### ANALYSING BALANCE SHEET:

#### 1) $\Rightarrow$ Working Capital utilization

$$\text{Working capital turnover ratio} = \frac{\text{Net sales}}{\text{Working capital}}$$

#### 2) $\Rightarrow$ Fixed assets utilization

$$\text{Fixed assets turnover ratio} = \frac{\text{Net sales}}{\text{Fixed assets}}$$

#### 3) Stock utilization

$$= \frac{\text{Net sales} - \text{Profit}}{\text{* Average stock}} // \text{cost of goods sold}$$

// Average stock, bcoz the value of stock is  
totally dynamic. \* Avg stock = opening stock + closing stock

#### 4) Average collection period formula

$$= \frac{\text{Avg. debtors}}{\text{Net sales}} \times 12 \text{ months} = \text{months}$$

#### 5) Average payment period.

$$= \frac{\text{Avg. creditors}}{\text{Credit Purchase}} \times 12 \text{ months} = \text{months}$$

Financial capability / position :-

(or)

Solvency

① Short term financial stability

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

// Ideal ratio is 2:1

② Instant financial position

$$\text{Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Liquid Liabilities}}$$

// Current assets  $\rightarrow$  Stock  $\leftrightarrow$  Prepaid expense = Quick assets  
 current liability  $\rightarrow$  Bank overdraft = Quick liability

③ Own funds vs loan

$$\begin{aligned} \text{Debt Equity Ratio} &= \text{Debt} \rightarrow \text{Long-term Loan + Debentures} \\ &\quad \text{Equity} \rightarrow \text{Share Capital + Reserves} \\ &\quad (\text{Shareholders funds}) \end{aligned}$$

// Ideal ratio is 3:1

09/02/2021  
Tuesday

④ Debt service coverage ratio (Loan repayment capacity)

$$\text{DSCR} = \frac{\text{Net Profit after Income Tax}}{\text{But Before Interest}}$$

Turnover Interest +

Turn Loan instalments

⇒ Shareholders :-

1) Earnings per share [EPS] // must be high

Net profit ← Income tax → Dividend payable to  
= preference share capital

NO. of Equity shares

2) Price Earnings ratio (PER) //

// comparison between share price and earnings  
per share

= Market price of the share

Earnings per share

3) Dividend payout ratio

// Dividend is a portion of income given / shared  
among shareholders.

= Dividend paid per share

Earnings per share

QN 1)

[DOCUMENT - 2]

(a) Return on capital employed

= Operating profit × 100 — %  
Capital employed

where

operating profit : Net profit + non-operating  
expense (→ Non-operating income)

(Contribution). (Loss on Land) (Discount) ..

= 70,000 (+) 5,000 (+) 10,000 (-) 5,000 = Rs 80,000

Long term source of funds  
Capital employed : share capital + general reserve +  
 preferred share capital + LT loan + Equipment fund.

$$= 75,000 (+) 1,25,000 (+) 2,00,000 (+) 80,000 = \text{Rs } 5,40,000  
 (+) 60,000$$

Now operating profit  $\times 100$   
 capital employed

$$= \frac{80,000}{5,40,000} \times 100 = [14.81\%]$$

// Returns are good.

(b) DEPT Equity ratio's

$$\text{ratio} = \frac{\text{Debt}}{\text{Equity}} \text{ or } \frac{\text{Debt}}{\text{Equity}} \times \frac{\text{LT loan}}{\text{Own funds}}$$

Debt : Long term loan  
 = Rs 60,000

Equity : - share capital + general resources + Pre. share  
 capital + Equipment fund = 4,60,000Rs  
 60,000

$$\text{NON Debt} = \frac{60,000}{4,60,000} = \frac{6}{46} = [1:7.67]$$

But ideal ratio is 3:1

Long term financial solvency is good!

(a) operating ratio

$$= \frac{\text{operating exp}}{\text{Sales}} \times 100 = \%$$

&amp; sales

op. exp. : (Sales - Gross profit) + other operational expenses

$$\text{Est} = (\text{Rs } 4,80,000 - \text{Rs } 2,85,000) + \text{Depreciation}$$

$$\text{Rs } 5,000 + \text{Rs } 10,000 + \text{Rs } 20,000 + \text{Rs } 45,000 + \text{Rs } 8,000$$

$$(\text{Rs } 80,000 + \text{Rs } 7,000) = \text{Rs } 4,00,000$$

Now  $\frac{\text{op. exp.} \times 100}{\text{Sales}}$

$$\frac{\text{Rs } 400,000}{\text{Rs } 4,80,000} \times 100 = 83.33\%$$

// operating expense < 90%  
means profit  
> 10% //

If operating expense < 90%, then it's good.  
Hence (Here operating expense < 90%, within the limit) GOOD ✓

(c)

Average payment period

=  $\frac{\text{duniry auditors} + \text{credit purchases}}{\text{to pay our creditors}} \times 12 \text{ months} = \text{months}$

$$\frac{\text{Rs } 80,000}{\text{Rs } 90,000} \times 12 = 4 \text{ months}$$

Given  
// Average payment period here is too long  
(must be 35-40 days) and the company may not be in position to buy raw materials at competitive rates (or) prices

(e) Debtors turnover ratio

$$= \text{Credit sales}$$

Average debtors  
Accounts receivable

$$= \frac{\text{Rs } 48,000}{\text{Rs } 75,000} = 6.4 \text{ times}$$

// since no credit sales given, take the total sales.

// It should be 12<sup>t</sup>. Here collection period is high

(f) Earnings per share

= Net profit  $\rightarrow$  Income tax  $\rightarrow$  Dividends to preference share

No. of equity shares

$$= \frac{\text{Rs } 70,000}{10,000} \rightarrow 20\% \text{ of } 70,000 \rightarrow 9\% \text{ of } 21$$

10,000 shares

$$= \frac{\text{Rs } 3,100}{10,000} = \boxed{\text{Rs } 3.10} \text{ is earned for per share}$$

// Earnings per share is very good.

10/02/2021  
Wednesday

(g) Stock turnover ratio // stock should not be too high (or) too low, maintained at optimum level.  
// Will convert sales to cost of goods sold  
(or) eliminating profit from sales.

$$= \frac{\text{Cost of goods sold}}{\text{Avg. stock}} = \frac{\text{Rs } 195,000}{\text{Rs } 25,000} = \boxed{7.8 \text{ times}}$$

10,000 shares

75,000 face value  $\rightarrow$  Rs 7.5 share value

$$\frac{\text{Earnings per share}}{\text{share value}} = \frac{\text{Rs } 3.10}{7.5} = \boxed{4.40}$$

which is

Almost 40%

$$\text{CGS} = \text{sales} - \text{gross profit} = \text{Rs } 480,000 - \text{Rs } 285,000 \\ = \text{Rs } 195,000$$

$$\text{Avg. stock} = \frac{\text{OS} + \text{CS}}{2} = \frac{\text{Rs } 150,000 + 35,000}{2} = \text{Rs } 25,000$$

// If stock are too high, unnecessarily the stock gets blocked in the business (in form of money)

TNPL

PAGE : / /  
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(say) FOR 1 month = 12 times

// Ideal condition is 12 times. If  $< 12$ , it indicates nearly 1.5 months. 1 month is good, 1.5 its moderate. If exceeds 2, not good. Here stock holding is moderate

(a) Current ratio : Neither good NOR bad

// Indicates current financial position of a business

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{1500000 + 75000 + 20000}{+ 25000} = \frac{\text{Rs } 1828000}{\text{Rs } 175000}$$

$$= 7 \text{ times } (10 \text{ to } 7.8)$$

(Creditors) (wages outstanding)

// If somebody is said to be financially healthy, it means assets are more, liabilities less.

// Fixed deposit  
Fixed Bank  
Fixed Assets

(35,000) (5000) (20,000) (15,000)

CA = Stock (+) Debtors (+) Cash (+) Bank (+) Prepaid expenditure  
(receivables)

CL = Bank O/S (+) Creditors (+) expenses O/S

// Ideal is 2 : 1. Here current ratio is very good (7:1)

(i) Usually, current assets should be twice that of current liability

(ii) Debt service coverage ratio (DSCR).

// Whether loans can be serviced effectively by business

// per quarter

- 3 monthly

so FOR 1 year

amount  $\times 4$

(10) 5000  $\times 4$

= 20K.

= Net Profit (-) Income Tax (+) Interest on Term Loan

Interest (+) TUM Loan installment

$$= \frac{\text{Rs } 70,000 - 21,000 + 8,000}{80,00 + 20,000} = \frac{\text{Rs } 57,000}{\text{Rs } 128,000} = 0.436$$

(5K  $\times 4$ )

$\approx [2 \text{ times}]$

// (i) Profit is twice that of Interest and loan installment repayable (That means if we have a profit of 2 Rs, we need to pay only 1 re. towards interest and loan installment repayable) Here financial position is comfortable. TL interest and installment can be serviced comfortably.

(j) Fixed assets networth ratio :-

// compare value of fixed assets to networth.

$$= \frac{\text{Fixed assets}}{\text{networth (Equity)}} =$$

↓  
(own Funds / Owner's money)

Land & Buildings (+) Fixed Deposit  
with Banks

Share Capital to general reserves (+)

Preference share capital (+) Equipment  
Fund

$$= \frac{Rs 2,10,000 (+) 50,000}{Rs 25,000 (+) 1,25,000 (+) 2,00,000 (+) 60,000} = \frac{Rs 2,60,000}{Rs 4,60,000} = 13: 23$$

$= [0.56 \text{ times}]$

// ideal ratio should be 0.75. (Here source for owner's money  
is 4,60,000 out of which, 2,60,000 is financed toward  
fixed assets which means remaining 2L goes to OA)  
so, here the fixed assets to networth ratio is moderate.

(k) Price earnings ratio :-

$$= \frac{\text{Market price of share}}{\text{Earnings per share}} = \frac{Rs 150}{Rs 2.10} = [48 \text{ times}]$$

// Reputation of company is so high since MPS is quite high  
when compared to EPS. (i.e. here MPS = 50 times of EPS).

(l) Dividend yield ratio :-

/ yield - income/  
which we take back

$$= \frac{\text{MPS}}{\text{Dividend}}$$

// Here dividend not given, neglect this ratio

(a) Current Ratio :- // current financial position of business

$$= \frac{\text{Current assets}^{\text{dynamic}}}{\text{Current Liabilities}}$$

$$= \frac{\text{Receivables} + \text{Stock} + \text{Cash & Bank}}{\text{Bank O/P} + \text{Auditors} + \text{Interest O/S}}$$

85K 80K 15K

$$= \frac{\text{Rs. } 271000}{\text{Rs. } 130000} = 2.0881$$

// Current ratio / short term financial liquidity is good.

(b) Liquid / Quick Ratio or Acid Test Ratio :-

// Instant liquidity,

$$= \frac{\text{Quick assets}}{\text{Quick Liability}}$$

Bank stocks

$$= \frac{\text{CA} (\rightarrow \text{Stock} \& \text{Prepaid expense})}{\text{CLC} (\rightarrow \text{Bank O/P})}$$

$$= \frac{\text{Receivables} + \text{Cash} + \text{Bank}}{\text{Payables} + \text{Interest O/S}}$$

80K 15K

$$= \frac{\text{Rs. } 211000}{\text{Rs. } 95000} = 2.2281$$

// should be min 1%.. Instant assets are twice of instant liability. Instant liquidity is good & strong.

(c) Debt Equity Ratio :- / comparison of Loan and Owners money

$$\frac{\text{Debt}}{\text{Equity}} = \frac{\text{Long Term Loans}}{\text{Share Capital + Reserves}}$$

$\frac{\text{LT loan} + \text{Debenture}}{\text{SC + Reserves} + \text{Preference SC}}$   $\rightarrow$  Bond acknowledging Debt

$$\frac{4L + 8.5K}{4L + 8.5K + 1L} = \boxed{1:4.25}$$

// Can go upto 3:1 i.e. Debt can be twice that of owners money. Debt Equity  $\frac{\text{Ratio}}{\text{Ratio}}$  is good so, still go for some more loans

(d) Operating ratio :- // operational efficiency of business

$$= \frac{\text{Operating Expenses}}{\text{Net Sales}} \times 100 = \text{--- \%}$$

$$\begin{aligned} \text{OP EXP} &= \text{Sales} - (\text{Gross profit} + \text{Other operating expenses}) \\ &= (8,40,000 - 2,70,000) + (\text{Interest} + \text{Indirect power} + \\ &\quad \text{Maintenance} + \text{Depreciation} + \text{Selling Expenses}) \\ &= 8,40,000 - 30K + 33K + 7K + 6K \end{aligned}$$

$$\Rightarrow \frac{8,40,000 - 30K + 33K + 7K + 6K}{8,40,000} = \boxed{49.97 \%} \quad // \text{nearly } 50\%$$

// operating expense are quite low as against sales since it can go upto 90%

## (e) Return on capital employed :-

$$\text{Return} \times 100 = \frac{\text{Net profit}}{\text{Capital Employed}} \quad 1.83\%$$

X 100  
state capital + Reserves & Surplus (+) PSC (+) LT loans  
AT → investment in govt bonds 35L 11 21  
1/ money invested outside 50K

CE : // Total long term

$$= \frac{\text{Rs } 1,83,000}{\text{Rs } 10,00,000} \times 100 = [18.3\%]$$

// Anything about 10%, its good. All ROI is much better

## (f) Working Capital Turnover ratio :-

→ money invested in business in day to day life

$$= \frac{\text{Sales}}{\text{Working Capital}} = \frac{\text{Rs } 8,40,000}{\text{Rs } 1,41,000} = [2.41 \text{ times}]$$

$$\begin{aligned} \text{W.C.} &= \text{Current Assets} \rightarrow \text{Current Liabilities} \\ &= [\text{Receivables } 10,111 \text{ L } \text{ Stock } 60K \text{ C } \text{ Cash & Bank } 35K \\ &\quad \text{payables } 80K \text{ I } \text{ Interest O/S } 10K] - [\text{Bank O/P } 50K] \end{aligned}$$

(5) OR  
// Ideal is about 8-10. All Working Capital is not effectively used. (Working capital is too high)

(not asked)  
⇒ Average collection period (ACP) :-

$$= \frac{\text{Avg. Debitors}}{\text{Credit Sales}} \times 12 \text{ months}$$

$$= \frac{\text{Rs } 1,00,000}{\text{Rs } 3,00,000} \times 12 = [4 \text{ months}]$$

// Collection period is too long / not good.

(not asked)  
Average Payment Period (APP) :-

$$= \frac{\text{Credit Sales}}{\text{Credit Purchase}} \times 12 \text{ months}$$

$$= \frac{\text{Rs } 80,000}{\text{Rs } 47,500} \times 12 = [21 \text{ months}]$$

// APP PS too long

18/02/2021

Friday

(ii) Stock turnover ratio :

$$= \frac{\text{Cost of goods sold.}}{\text{Avg. stock}} = \frac{\text{Rs } 70,000}{\text{Rs } 46,500} = [1.54 \text{ times}]$$

$$\text{CGR} = \frac{\text{Sales} - \text{GP}}{\text{Sales}} = 70,000$$

$$\text{Avg. stock} = \frac{\text{OS} + \text{CS}}{2} = 40,500$$

// It should be very high. Should be about 10 times.  
Less stock, more sales : stock holding is very high.

(v) Debtors turnover ratio :-

$$= \frac{\text{Credit Sales}}{\text{Avg. Debtor}} = \frac{\text{Rt } 3,00,000}{\text{Rt } 1,00,000} = 3 \text{ times}$$

// Generally should be above 8. The debtors outstanding is very high.

(g) operating profit ratio:

= Operating profit / Sales x100 = \_\_\_\_\_ %

$$\frac{= 91,71,000}{13,40,000} = \boxed{51\%}$$

Ultimate profit, it should be about 10%.

// about 50%. If its more than 15%, it good and well. (Gross profit should be about 20%). Here operating profit is very high so good enough.

(k) Price earnings ratio

= Market price of share  
Earnings per share

$$= \frac{Rs\ 25}{Rs\ 240} = \boxed{10.4\text{ times}}$$

// Should be about 10 generally do, it is moderate.

### Earning per share

$$(q) \quad \text{Earnings per share} = \frac{\text{Net profit} - \text{Income tax}}{\text{No. of Equity shares}}$$

TNPL PAGE : 11 DATE : 11

Net profit  $\leftarrow$   $1,83L \times (10\% \text{ of } 1,83L)$   
 Income tax  $\leftarrow$   $1,83L \times 30\%$   
 Dividend preference ratio

$$= \frac{\text{Rs } 1,20,100}{50,000} = \boxed{\text{Rs } 2.40}$$

(l) ~~Dividend yield Ratio // (We won't come across frequently)~~  
 no need

(m) Dividend payout ratio :-

$$= \frac{\text{Dividend paid per share}}{\text{EPS}}$$

$$= \frac{\text{Rs } 1.60 \text{ per share}}{\text{Rs } 2.40 \text{ per share}} = 0.75$$

// Dividend paid is high when compared to EPS.

(n) Fixed asset Turnover ratio :-

$$= \frac{\text{Sales}}{\text{Fixed assets}} = \frac{\text{Rs } 340,000}{\text{Land & Building } + \text{Machinery}} = \boxed{0.41 \text{ times}}$$

// Investment in asset not utilized in sales. We take only tangible assets which are effectively utilized in sales.

∴ Fixed asset utilization has to improve.

QN 3)

commenting on financial position of Business!

NPPL

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⇒ Profitability :-

Ans.

$$1) \text{ Gross profit} = \text{Rs } 2,23,000$$

// Now compare it with sales, to arrive at %

$$\Rightarrow \frac{\text{GP}}{\text{Sales}} \times 100 = \frac{\text{Rs } 2,23,000}{\text{Rs } 3,00,000} \times 100 = [74.33\%]$$

Should be minimum 20%. Here its 74%, so gross profit is very good.

$$2) \text{ Net Profit} = \text{Rs } 1,38,000$$

// compare with sales

$$\Rightarrow \frac{\text{Net profit}}{\text{Sales}} \times 100 = \frac{\text{Rs } 1,38,000}{\text{Rs } 3,00,000} - [46\%]$$

Should be minimum 10%. Here its 46%, so net profit is very attractive or good

$$3) \text{ Operating profit} = \text{Rs } 1,34,000$$

// compare with sales

$$\Rightarrow \frac{\text{Operating profit}}{\text{Sales}} \times 100 = \frac{\text{GP} - (\text{Other operating exp})}{\text{Sales}} \times 100$$

$$= \text{Rs } 2,23,000 \rightarrow [ \text{Salary } (+) \text{ Admin exp } (+) \text{ Maintenance } ]$$

(+) Selling  $\rightarrow$  depreciation

$$\text{Rs } 3,00,000$$

$$\times 100$$

$$= \frac{\text{Rs } 1,34,000}{\text{Rs } 3,00,000} \times 100 = [44.67\%]$$

Should be 15%. Here it is 44.67%, so operating profit is very high and good.

(Just interest  
of operating Profit)

$$\hookrightarrow 4) \text{ operating EXP} \times 100 = 53.33\%$$

// usually in P/L account we see for these things only.

16/02/2021  
Tuesday

### Long-term Financials:

// In BS, we can find what are the assets and loans  
From this, gonna find long term financial health of the business, short term financial position of business too.

First see what is our investment and loans, which determines to a larger extent.

### To find own funds vs Loans

// Own funds is also a liability as both business, owner are different.

own funds  $\rightarrow$  Share Capital ( $\rightarrow$  General Reserve  $\rightarrow$  Preference Share Capital  $\rightarrow$  Reserves & Surplus  $\rightarrow$

Loan  $\rightarrow$  Debentures ( $\rightarrow$  Short term  $\rightarrow$  Long term)  $\rightarrow$  Term loan from SBI

$$\frac{\text{Debt}}{\text{Equity}} = \frac{₹ 2.5L}{₹ 11.75L} = \frac{250,000}{11,75000} = 0.212$$

(i.e.) Only 20% are loans and 180% are owners money.  
Out of 120% [OR] 1/6th is loan and 5/6 is own funds.  
Ideal is 3:1. Thus the long term financials are strong and good. (very safe).

## Short term financial position:-

Compare: Short assets vs ST liabilities  
 Term  
 Immediately receivable? (loans, dues)  
 Immediately payable (immediately payable)

Short term assets  $\Rightarrow$  current assets  
 ST liability  $\Rightarrow$  current liability

CA  $\rightarrow$  Debtors (money due from customers)  $\oplus$  money at bank  $\oplus$  stock  $\oplus$  prepared insurance  $\oplus$  short term advance 2.38 L  
 CL  $\rightarrow$  Bank  $\oplus$  creditors  $\oplus$  Expense o/s 1.51

CL  $\rightarrow$  Bank  $\oplus$  creditors  $\oplus$  Expense o/s

(Current ratio)

$$\Rightarrow \frac{CA}{CL} = \frac{Rs 5.85 L}{Rs 0.90 L} = \frac{5,85,000}{90,000} = [6.5 : 1]$$

The ideal ratio is 2:1. Thus, ST financial position is very healthy. But while doing it other way too much of current assets leads to blocking of money in form of stock, debtors, etc. Thus, conservative style of CA.

## Instant financial position:- // useful when any crisis happens

Compare:

instant assets vs instant liabilities

CA  $\oplus$  stock & prepaid expense (quick assets)  $\downarrow$  CL  $\oplus$  Bank o/d & quick liability  $\downarrow$

Debtors  $\oplus$  cash & bank  $\oplus$  short term advance  $\downarrow$  Creditors  $\oplus$  expense outstanding  $\downarrow$

$$\Rightarrow \frac{QA}{QL} = \frac{Rs 5.28 L}{Rs 0.65 L} = \frac{5,28,000}{65,000} = [8.1 : 1]$$

Ideal ratio is 1:1. Here very very comfortable. Thus instant financial liquidity is good, and also conservative ~~and assets~~ funds/assets management.

Loan servicing capacity :- Ability to repay the loans by the company.

TL = ₹ 8,00,000. Does the company can repay it easily?

Net profit = ₹ 1,38,000. A day Repayment of ₹ 0.5L/year

Income Tax  $\rightarrow$  ₹ 41,000

$\longrightarrow$  ₹ 97,000

R.

Company can easily repay the LT loan

utilization of assets :-

Compare :- Fixed assets vs sales



Machinery 5L  $\rightarrow$  ₹ 3,00,000

Land & Buildings  
3.5L

$$\frac{\text{Now sales}}{\text{FA}} = \frac{\text{₹ } 8L}{\text{₹ } 8.5L} = \frac{8,00,000}{8,50,000} = [0.95 \text{ times}]$$

Hence,

Fixed assets utilization has to be improved / must be atleast 2 or 3 times / OR FA value is much higher when compared to sales.

Debtors :- Evaluate whether high or low or reasonable

(Fin)

Average collection period

$$= \frac{\text{Debtors} \times 12 \text{ months}}{\text{Credit sales}} = \frac{\text{₹ } 1,40,000 \times 12}{\text{₹ } 3,00,000} = 5.6 \text{ months}$$

The average collection period for credit period to customers is 5.6 months. // Very bad, should be at least max of 2 months // Here, collection period is <sup>very</sup> too long, and debt can also become bad.

Creditors :- // Analyse creditor outstanding extra high or low or normal

Ans) Average payment period

$$= \frac{\text{Creditors}}{\text{Credit purchases}} \times 12 = \frac{\text{Rs } 60,000}{\text{Rs } 65,000} \times 12 = 11 \text{ months}$$

Here, Avg. payment period is very long, Not good; The company will not get competitive rate from suppliers. // Lesser the period, supplier show more interest

17/02/2021 Wednesday Stock holding patterns - // Effectiveness of stock holding

(Avg. stock)

Stock  $\rightarrow$  Sales cost of goods sold

Compare :- Stock to sales

(Stock Turnover Ratio)

Sales  $\times$  Gross profit

// If above 6, good (within 2 months). Should be high & between 6 to 10. If less than 6, not good.

Working capital vs sales

$$= \frac{\text{Sales}}{\text{Working Capital}} \quad (\text{should be}) \\ > 5$$



EA - CL // Higher the ratio, its good. (i.e.) With lesser working capital, we are achieving higher sales.

## Advantages of Ratio analysis and Interpretation !

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- \* From the management perspective,
  - ↳ It helps in interfirm comparison (between companies)
  - ↳ It helps in intrafirm comparison (from year to year (OC) between any units)
  - ↳ A tool for budgeting / planning in advance (We use ratios as indicators. Keep % for each and every ratio, to achieve the ideal % & good %)
- \* From the investor perspective,
  - ↳ Earnings per share (EPS)
  - ↳ Dividend payout =  $\frac{\text{Dividend per share}}{\text{EPS}}$   
↓ Dividend payed by the company
- \* From the supplier perspective,
  - ↳ Avg. payment period
  - ↳ Profitability
  - ↳ loans

### Financial Limitations of Ratios :-

(a) Interpretational mistakes (Every author has their own conviction. Ratios too may vary from season to seasons)

(b) When the Business environment / conditions vary (Ratio analysis won't be comparable OR Ratio comparison won't be

Problem:-

$$CR = 1.4, \text{ Working capital} = 80,000 \text{ Rs/-} \quad CA, CL = ?$$

Soln:-  $WC = CA - CL = 80,000$

$$CR = \frac{CA}{CL} \Rightarrow CA = CR * CL = 1.4 * CL$$

$$\Rightarrow WC = CL(1.4 - 1) \Rightarrow 80,000 = 0.4 * CL \Rightarrow CL = 2,00,000 \text{ Rs}$$

$$\Rightarrow CA = RS 2,80,000$$

## [CHAPTER - 3]

*Both are different.*

\* Cost, — Amount of expenditure incurred on a given output / thing.

\* price,  $\Rightarrow$  Cost + profit

\* Overhead, — (Something extra / unwanted) still Indicated, expenses are collectively known as overhead.

\* Direct expenditure, — Which directly goes into the product *e.g.: Material cost, direct labour, direct power charges, charges for machinery*

\* Indirect " , — Which can't be directly identified with the product. *e.g.: Indirect material, indirect labour, salary of workers, A.C. (for office).*

and types

Classification of costs:- // independent

- 1) By element :- // When classify costs, elementwise
  - material cost
  - labour cost
  - direct expenses
  - indirect expense (overheads)

- 2) By function :- // When classify costs, functionwise
  - manufacturing costs
  - Administrative costs
  - selling costs

- 3) By nature :- *NOT Based on output*
  - Fixed costs (Period costs, many administrative, etc, are fixed)
  - Variable costs (Labour, fuel cost, incentives are all variable)
  - Semifixed costs
  - semivariable costs.

4) By normality (behaviour):

- normal costs (occur regularly)

- abnormal costs (occur suddenly)

5) By controllability:

- controllable costs

- uncontrollable costs

Other types of costs:-

①  $\hookrightarrow$  opportunity costs  $\rightarrow$  cost of opportunity foregone  
(or) sacrificed while we are going for a proposal

$\Rightarrow$  ②  $\hookrightarrow$  Notional costs, (or) imputed cost  $\rightarrow$  cost by assumption

③  $\hookrightarrow$  sum cost,  $\rightarrow$  stock incurred long back (historical cost)

④  $\hookrightarrow$  conversion cost,  $\rightarrow$  cost of converting material to the required products (total cost - material cost)

⑤  $\hookrightarrow$  value added, /value addition  $\rightarrow$  sales  $\leftrightarrow$  material cost.

Costing methods:-

1) Job (or) Batch costing  $\rightarrow$  Applied in engineering industry; manufacturing products

2) Process costing  $\rightarrow$  Followed by process industries; textiles, chemical industry.

3) Service (or) operating costing  $\rightarrow$  calculate services cost; transport, job works

4) Material costing  $\rightarrow$  Bill of material (BOM), list shows various materials used for manufacturing a product along with quantity, value.

(ii) Labour cost → Time taken for manufacturing a product is calculated and using labour cost we can know labour cost per hour. // how much we pay for labour

(iii) Expenses → which can be directly identify  
(~~Product expenses~~)

(iv) Overheads → other than direct expense. (Indirect)

Calculation of service cost :-

(say) we introduce, buy a bus from che to chennai. To find:  
operating cost of bus to be charged.

(Close)

Cost of bus = Rs 100L // Bus can't take as it is

Depreciation =  $\frac{\text{cost} - \text{residual value}}{\text{life of the bus}} \times \text{year}$

$$\therefore \frac{75 \text{ Lakhs}}{6 \text{ years}} = \text{Rs } 12.5 \text{ lakhs/year}$$

$$\therefore \text{Rs } 12.5 \text{ lakhs} = 1.04 \text{ /month}$$

Fixed costs.

Amt ~~to~~ per month

(a) Depreciation on Bus

104,000

(b) Interest on loan }

$$\left. \begin{array}{l} \text{Rs } 70 \text{ Lakhs} \times 10\% \text{ pa} \\ 12 \end{array} \right\}$$

58,333

(c) salary of drivers (say 3 people)

// FOR one person say Rs 20,000

60,000

(6 people x 8000rs)

(d) Road tax = 3,20,000

12

26,000

(e) Insurance roughly 6 L PA	6,00,000 12	50,000
(f) garage rent		25000
(g) cleaning Maintenance		20,000
(h) office expenses		Rs 5000 (50k)
TOTAL		Rs 3,64,000
∴ Fixed cost per month is Rs 3,64,000/-		

Variable costs	Amt (Rs) /per Km
(a) cost of fuel <u>Rs 84/Ltr</u> 3 Km (Rate)	Rs 28
(b) Drivers, Insentive	Rs 2
(c) Maintenance /Service the bus	Rs 5
TOTAL	(Rs 35/-)
variable cost per km	

We have Fixed cost = Rs 3,64,000.

Estimated operation = 500 Km x 30 days = 15,000 Km /month

$$\therefore \text{FC per Km} = \frac{\text{Rs } 3,64,000}{15,000 \text{ Km}} = \frac{\text{Rs } 24.25}{\text{per Km}} \approx \text{Rs } 25 \text{ per Km}$$

$$\begin{aligned} \text{Cost per Km} &= \left[ \begin{array}{l} \text{FC per Km} \\ + \text{VC per Km} \end{array} \right] = \frac{\text{Rs } 25/\text{km}}{\text{+} \text{Rs } 35/\text{km}} \\ &= \underline{\text{Rs } 60} \end{aligned}$$

$$\text{Distance } 500 \text{ km} \times \text{Rs } 60 = \text{Rs } 30,000$$

∴ cost of running the Bus upto Chennai

$$\Rightarrow \text{Cost per passenger per trip} = \frac{\text{Total cost}}{\text{No. of passengers}} = \frac{\text{Rs } 30,000}{(\text{say}) 40}$$

$$= \text{Rs } 750 / \text{passenger}$$

$$\text{Now, Occupancy \% = 70 \% (say). Then, cost} = \frac{\text{Rs } 30,000}{28} = \frac{\text{Rs } 1080}{\text{per passenger}}$$

∴ since not 100% always.

19/02/2021

Friday  
8N 19

## Machine hour rate:-

// Here too segregate costs as fixed and variable costs.

Estimated working hours (p.a) = 800 hours

Ans

ANS	Fixed costs	And (Rs) per year
(A)		
1) Depreciation on M/C (10% per annum) // 20L should not be taken as such; proportionate of cost of m/c in form of depreciation should be taken OR Fixed cost //	2,00,000	
2) Interest on Bank Loan // Bank loan - not an expense, only interest is an expense. (9% of 15,00,000)	1,35,000	
3) Maintenance // Lubricating, cleaning machine	25,000	
4) Helpers wages (2000 x 12 months)	24,000	
5) Consumables	10,000	
6) Rent	30,000	
7) Lubrication	1,00,000	
8) Share of administrative Expenses	60,000	
Total Fixed cost per annum	₹ 1,84,000	
∴ Fixed costs per m/c hour = $\frac{₹ 1,84,000}{8000} = 23 \text{ Rs per hour}$		
(B)	Variable costs	Rs per hour
1) Power charges	50	
2) Operators wages	60	
3) Tooling cost	75	
Variable cost per machine hour	185	

$$\therefore \text{M/c hour rate} = \frac{\text{Fixed cost}}{\text{hour}} + \frac{\text{variable cost}}{\text{hour}} = \frac{98+185}{\text{per hour}} = 283$$

Ques) calculate MHR :-

Ans:-

## (A) Fixed costs

Amt (Rs)

per month

(a) Depreciation =  $\frac{\text{cost} - \text{scrap value}}{\text{life}}$

$$= \frac{\text{Rs } 3,50,000 - 50,000}{5} = \frac{\text{Rs } 60,000}{12}$$

5000

(b) Operators wages

10K per hour is a variable cost

8000

(c) Interest on term loan

$$= \frac{10\% \text{ on Rs } 2,00,000}{12} = \frac{20,000}{12}$$

1667

(d) Consumables and tools

10,000

(e) Admin expense

5000

(f) Factory rent =  $\frac{\text{Rs } 12,000}{4}$

8000

(g) Helpers salary

6000

Total fixed cost per month

38,667

∴ Fixed costs per m/c hour =  $\frac{\text{Rs } 38,667}{300}$  (no. of working hrs) =  $\text{Rs } 129 \text{ per hour}$

## (B) Variable costs

Amt (Rs) per hour

(a) Operators wages

10

(b) Power cost

30

Variable cost per machine hour

40

∴ Machine hour rate =  $\frac{\text{Fixed cost}}{\text{hr}} + \frac{\text{variable cost}}{\text{hr}}$

$$= \frac{129+40}{\text{hr}} = 169 \text{ Rs/hour}$$

// Considering competitors rather market share, MHR is determined.

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JOB costing (or) Batch costing:- // costing of product or component.

// Here, instead of arriving at the cost by the end of operation, we calculate by using 4 (or) 5 stages

Stage 1

"cost sheet"

Lot size :- (Say n) like a batch

/ around 70 to 75%

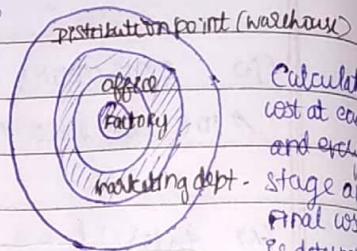
Direct material cost ↗

Opening stock of material  
↗ Purchases ↗ Purchase exp.  
↗ closing stock

/ material which directly go into product

Cost per unit (Rs)

Total cost (Rs)



Purchase consumption both are diff  
hence we adjust purchase with stage, neglect consumption.

Direct labour cost

// 5 to 10% ; who directly work on production, on conversion of the products (Direct Labour - wages to these person).

/ Whereas electricians, helpers, quality controllers, supervisors → Indirect labour

Direct expense

↳ Direct power (power connected to machinery)

// power used for lights, fans, other than production - indirect

↳ Expenses directly involved in production

\* At this stage we arrive at cost (factory stage), called as prime cost.

Add:  
Stage 2

Factory overheads,

(Indirect expense, indirect labour, indirect material)

Add : opening stock

of work in progress

sub : clg stock of

work in progress

// In energy industry we will be having working work in progress (materials which are under progress).

\* Cost at this stage is known as factory cost

// This is the cost when the products move out of the factory. //

23/02/2021  
TuesdayAdd : Admin overheads

↳ Staffs salary

↳ Office expense

Actual cost of making the product

Cost at this stage is called "cost of production".

Add : O/Pg stock of Finished goodsLess : C/Lg stock of Finished goods

Cost here is called as "COST OF GOODS SOLD".

// convert cost of production to cost of sales  
 Buy all the time, production cost of sales is not same always

Add : selling & distribution overheads

↳ Advertisement

↳ Freight

↳ Salary of marketing people,

At the point of delivery to customers..

Cost here is known as "COST OF SALES".

Ultimate cost

Take actual sales

O/Pg stock 4

Production ? ⑥

C/Lg stock 2

On (a) COST SHEET :-

= Sales 8

Lot size - 6 nos.

DIRECT MATERIALS consumed

↳ Opening stock of Raw material 5000

↗ Purchases 1,20,000

↗ Purchase expense ↗ 700

125700

→ Closing stock of raw materials ↗ 12,000 ↗ 18950 1,13,700

113700

18950

Cost per (as) unit

Total cost (as)

Direc Labour

↳ operator wages 28,000

4667 28000

Direc expenses

↳ factory power 12,000

(+) direct expenses 6000 3000 18,000

PRIME COST  $\Rightarrow$

26,617 159,700

Stage 1

Add: Factory Overheads (Indirect)

11 Expenses incurred inside Factor

which can't be directly identified

↳ Depreciation on plant 10,000

↳ Consumables & tools (+) 1,000

↳ Factory lighting (+) 9,000 333 20,000

26,000

Stage 2

adjust the value of working progress

Add: Opg stock of WIP

8000

Less: Clg stock of WIP

3000

$\Rightarrow$  FACTORY WORKS COST  $\Rightarrow$  22,183 1,8470A

Add:- Administrative overheads

↳ office expense 5000

↳ Depreciation on office equipment 4000 1500 9000

7000

Stage 3

$\Rightarrow$  COST OF PRODUCTION  $\Rightarrow$  23,783 193700

Add:- Opg stock of finished goods 60,000

Less:- Clg stock of finished goods (2)

(xx)

25370  $\Rightarrow$  50,740

COST OF GOODS SOLD (8 numbers) 25370 202960

## Stock valuation :-

Rough  
work

- opening stock (4) Rs 60000
- production (6)      Rs 1,93,700
- for 10 numbers i.e., Rs 253700
- for one number =  $\frac{Rs\ 2,53,700}{10} = 2,53,70\ Rs$

→ (continued...)

Add : selling & distribution overheads

Marketing expense	6000		
Sales Depot Expense	5000		
Sales manager salary	30,000		
Commission to salesman	2000	5375	43,000
	43000		

cost of sales	30,745	2,45,960
sales (8 numbers)	50000	400,000
Profit (as sales > cost of sales)	19255	154,040

24/02/2021

## COST SHEET :-

Wednesday

Lot size = 110 nos.

QN

(b)

To find lot size:

Opng stock 10 ←

Rough  
work

(+) Production ? (10)

(-) Sales 100

= Cng stock 20 ↗

## DIRECT MATERIAL CONSUMPTION

↳ opng stock of raw material 18,000

(+/-) Purchases 66,000

→ Purchase expense	4000	543	
→ Inv. stock of RM	25,000	618	68000
	<u>68000</u>	(572.4)	

Direct labour

→ Labour wages	200	20000	
----------------	-----	-------	--

Direct expense

→ Factory power machinery	73	8000	
	(72.4)		

PRIME COST  $\Rightarrow$  845 93,000

Stage 1

Add: Factory overheads

Consumables and tools	1000		
Factory power for lighting	200	0	
Factory manager's salary	10,000	0	
Consumable tools	3000		
G.M.'s salary (1/6th of 10000)	3000		
Depreciation of machinery	9000		
		28000	

Add:- O/Pg stock of NIP

Less:- Clg. stock of WIP	5000		
	69000		

Stage 2

FACTORY WORKERS COST  $\Rightarrow$

1064 1,17,000

Add:- Admin overheads.

Office maintenance	2000		
Gm salary (1/3rd)	3000		
Dep. on office equipment	4000		
	9000	9000	

COST OF PRODUCTION  $\Rightarrow$

1064 1,26,000

Add : Opg stock of Finished goods

Less : Clg stock of finished goods (20)

20,000

1217 (x20)

24,340

1/ Opg stock (10) 20000

Production Cr. 1,26,000

For 120 nos,  $\Rightarrow$  12600

$\therefore$  cost per unit of finished goods

$$= \frac{12600}{120} = 1217 \text{ (1216.6)}$$

rough work

cost of goods sold  $\Rightarrow$

1217

121660

Add : selling & distribution overhead

Selling van Expenct 5500

Advertisement 7000

Sales Depot expenses 5000

GM's salary (1/3 rd of 9000) 3000

Dep. on Warehouse 5000

(+) 27500

275

27500

Saleman's commission 2000

cost of sales  $\Rightarrow$  1492 149160

Sales (100 nos.) 1800 180000

PROFIT 308 30,840

26/02/2021

Friday:

→ Whether it's an ongoing business or new business, we should ensure what is the minimum cutoff point of business or what should be the min turnover so that there is atleast neither profit nor loss.

→ Need to <sup>determine</sup> know that point - min sales or min production or min turnover so that we don't incur a loss atleast. (CUTOFF POINT)

→ Eg (day) One vendor has a shop, where he is buying and selling tender coconuts. His purchase price of coconut is Rs 20, and selling it for Rs 30. // do for crazy coconut, there is a margin of Rs 10/- //

Expenditure of the shop:-

fixed expenses →	Shop rent	Rs 5000
	Staff's salary	Rs 10,000
	All other	Rs 3000

Total monthly expense Rs 18,000 (Necessarily Part A)

→ What is the quantum of tender coconut to sell so that he atleast takes back the cost (Part B)

$$\text{Total fixed expense} = 18,000 \quad | \quad \text{Margin} = \text{Rs } 10 \quad | \quad \frac{18,000}{10} = 1800 \text{ (Output)}$$

(he should sell),

for having neither P (or) L.

(i) If he sells only 1000 coconuts, margin =  $\frac{\text{total}}{10,000}$   
 $\text{monthly expense} = \text{Rs } 18,000$ . So every month he will be incurring a loss of  $18,000 - 10,000 = \text{Rs } 8,000$ .

(ii) If he sells 3000 coconuts, total margin = Rs 30,000 from which he can pay FE of 18,000 and gets a profit of Rs 12,000.

↳ Technically, that 'margin' is called as 'CONTRIBUTION'.  
 // It something like profit but not exactly profit //.  
 profit - ultimate stage whereas contribution can be taken as intermediary profit like gross profit.

↳ How to find contribution?

Sales  $\leftrightarrow$  Variable costs = margin  
 // variable costs  $\rightarrow$  expenses which directly vary with the output //

↳ Here in this example he has to pay Rs 20 for each coconut, to the supplier.  $\rightarrow$  Rs 20 for 1 coconut, Rs 2000 for 100 coconuts, do on. The purchase price of coconut is the variable cost.

contribution.

$$\Rightarrow \text{Rs } 30 \text{ (per unit)} - \text{Rs } 20 \text{ (per unit)} = \text{Rs } 10 \text{ per unit}$$

Sales  $\leftrightarrow$  Variable cost



contribution



contribution  $\leftrightarrow$  Fixed cost



Profit / Loss

↳ Fixed cost gives us the "cutoff-point" below which contribution per unit

We should not operate, else gets a loss.

↳ This cutoff point is called as "BREAK EVEN POINT".

(Point where there is no profit or loss) ↪

↳ Also it's the point where Total sales = Total expense.

Assumption: (For finding cutoff pt)

Costs  
variable      fixed

**Formula** =  $\frac{\text{Fixed costs}}{\text{contribution per unit}}$  - units

Where contribution = sales ( $\rightarrow$ ) variable cost

Check at 1800 units :-

$$\text{Sales } (1800 \times 30) = 54,000 \text{ // Break even sales per month}$$

$$\text{less: Variable costs} = \text{Rs } 36,000$$

$$(\text{Rs } 18,000) \rightarrow \text{Contribution}$$

( $\rightarrow$ )

$$\text{less: Fixed cost} = \frac{18000}{(5000+10000+300)} = \text{Rs } 0/-$$

Margin of safety =  $\frac{\text{Actual sales} - \text{Break even sales}}{\text{Actual sales}}$

(54,000)

Actual sales ( $\rightarrow$ ) Break even sales

$$\begin{array}{r} 1,00,000 \\ - 54,000 \\ \hline + 6,000 \end{array}$$

(i) If sales is 1,00,000,

$$\text{then margin of safety} = 1,00,000 - 54,000 \\ = \text{Rs } 46,000$$

(ii) If sales is 40,000,

$$\text{margin of safety} = 40,000 - 54,000 \\ = \text{Rs } (-14,000)$$

AND

Right now Business is going very well since we have a profit of Rs 16,500.

(ii) Break-even point :-

$$\frac{\text{Fixed cost}}{\text{contribution per unit}} = \frac{\text{Rs } 20,000}{\text{Rs } 730 \text{ per unit}} = 27.4 \text{ units}$$

// round off to 28

where

$$\text{contribution} = \text{Sales} \rightarrow \text{Variable cost} = \frac{\text{Rs } 730}{\text{Rs } 1400 \text{ /unit}} \text{ /unit}$$

$\downarrow$   $\downarrow$

$$\begin{aligned} \text{Material cost} &= \frac{27000}{50} = \text{Rs } 540 \\ \text{Labour cost} &= \frac{4000}{50} = \text{Rs } 80 \\ \text{Variable expense} &= \frac{2000}{50} = \text{Rs } 50 \\ &\hline \text{Rs } 670 \end{aligned}$$

$$\Rightarrow \text{BEP sales} = (27.4 \times \text{Rs } 1400 \text{ per unit})$$

$$= \boxed{\text{Rs } 38360}$$

Check at BEP sales of Rs 38,360 :-

At  
 $\text{BEP sales} = \text{Rs } 38360 \text{ (OK) } 27.4 \text{ units.}$

$$\text{Now sales } (27.4 \times 1400) = \text{Rs } 38360$$

Less: Variable costs  $\rightarrow$

$$\begin{aligned} \text{Material cost} &= \text{Rs } 14,796 \\ (27.4 \times 540) & \end{aligned} \quad \left. \right\}$$

$$\begin{aligned} \text{Labour cost} &= \text{Rs } 2,192 \\ (27.4 \times 80) & \end{aligned} \quad \rightarrow \text{Rs } 18,358$$

$$\begin{aligned} \text{Variable exp} &= \text{Rs } 1370 \\ (27.4 \times 50) & \end{aligned} \quad \left. \right\}$$

$$\text{CONTRIBUTION} = \text{Rs } 8000 \text{ or } \approx 20,000$$

Less: Fixed cost  $\rightarrow$  20,000

0

(Net loss P or L)

03/03/2021 → Variance analysis :-  
Wednesday

Before commencement of a financial year, usually the companies prepare Budget And by the end of the financial year, this budget is compared with the actuals to find out the variance (which is the difference between budgeted figures & estimation and the actual results)

→ Various elements we take for variance analysis:-

i) Material variance // variance in material cost

Actual < budget → favourable (F)

Actual > budget → variance is adverse (A)

Eg:- Budget 10L

Actual 9.8L

⇒ Material variance = R1  
(F) 20,000

↳ 2 reasons why this variance occurred?

- Price Variance (Std. Price → Actual Price) (Actual quantity consumed = 95,000) (19K units)
- Usage Variance (Std. quantity → Actual quantity) (Std. price) (50RL)  
$$= 50,000 \text{ (F)}$$

So here, due to price we lost 95,000 (unfavourable variance) and due to usage, there is a saving of 50,000 (favourable variance)

$$\therefore \text{Material cost variance} = \frac{\text{Material Price Variance}}{\text{Material Usage Variance}}$$

$$= \frac{95000}{50000} \quad \text{A} \quad \text{F}$$

$$= 45000 \quad \text{A}$$

## 2) Labour cost:-

Reasons are as follows:-

### (a) Labour rate variance

$$= [(S\text{td Labour Rate}) - (\text{Actual Labour Rate})] * [\text{Actual hrs worked}]$$

$$= (Rs 40 - Rs 36) (10000)$$

$$= (4) (10000) = 40000 \quad F \quad // \text{since actual < budget}$$

### (b) Labour usage (or) efficiency variance

$$= [(S\text{td usage hours}) - (\text{Actual usage hours})] * [S\text{td hourly rate}]$$

$$= (S\text{td O/P per hour}) - (Actual output)$$

$$= [8 pieces - 10 pieces] * [Rs 40]$$

$$= [10,000 - 12,000] * [Rs 40]$$

$$= 2000 * 40 = 80,000 \quad A$$

## → Techniques for cost control (or) cost reduction:-

- ① Target costing :- Cost is fixed based on the target price. (kind of cost estimate derived from the market price fixed by the customers). Eg: Tata Nano

### How it works:-

- ↳ Target price is fixed (price acceptable to the customer or market)
- ↳ Consider the min profit; Industry knows that we need to have a min profit in any business.

$$\text{Target Price} = \frac{\text{Target Profit}}{\text{cost}} + \frac{10\% \text{ of TL}}{10,000} = \text{Rs } 90,000/-$$

- ↳ Fix target material cost and target labour cost and target expenses, then work on target, try to achieve
- ↳ All the business knowingly or unknowingly follow this target costing.

### (2) Kaizen → continuous improvement :-

// introduced by Japanese

Every professionally managed company are all continuously working on improving their system by trying to introduce some improvement in the process, in design, in many areas. so, within a period, there will be a drastic change (improvement). This <sup>will</sup> sustain the profitability (or) helps in achieving maximum profit.

### (3) Value analysis and value engineering:-

- ↳ value analysis  $\Rightarrow$  Take existing product, divide the major assemblies of the product, then see value demanded by assembly and cost of assembly (component)
- ↳ value engineering  $\Rightarrow$  Given a new product, see the value given for sub-assembly, see the cost of it and try to reduce cost using engineering tools.

// Analysing the cost as against the function / value given by that component

⑦ Reverse engineering:- getting the best product in the market, analyse them and making a similar product (Copying Best thing in the market) with slight modification.

⑧ Re-engineering:- studying the existing processes and products and try to improvising the same.

⑨ Rapid prototyping:- prototype → the very first product which we develop / manufacture; whatever component we wanna develop can be made in no time using system.  
↳ to produce a 3D printing or model quickly.

⑩ Synchronous manufacturing:- various departments / processes working together to achieve the goals of the firm.

⑪ World class manufacturing:- <sup>manufacture</sup> To products in a world class standard (for the product to be the best in world)

04/03/2021

Thursday

⑫ Activity Based cost (ABC) followed by

⑬ Activity Based management (ABM):

↳ Absorption costing → absorb all expenses in a product.

↳ This method gives us a better information about the cost structure of a product.

↳ In any method, the material cost will be more or less same. Here classify labour cost and expenses based on activities. (say machining cost, assembly cost, inspection cost, machine setup time cost, delivery expense, warehouse expense,.)

↳ ABM  $\Rightarrow$  Manage the activities such that cost is under norms.

↳ How to manage those activities:

2 types

i) Value adding Activity // Adds value to product

ii) Non-value adding activity // opposite

(i) Eg: Machining, assembling, machine set up cost, product delivery cost (essential activities)

(ii) Eg: Quality control or inspection cost, material handling cost.

↳ can't totally avoid non-value adding activity but to be maintained at minimum

It is

⑩ Lean manufacturing:- Making a product using minimum resources.  $\Rightarrow$  Maximize value of a product by using minimum time with minimum resources.

⇒ WORKING CAPITAL MANAGEMENT:-

$$\text{W.C.T} \quad \text{Current Assets} \rightarrow \text{Current Liabilities} = \text{Working Capital}$$

↳ Working capital is the amt. required to ensure the smooth functioning of the business.

↳ The success of any business depends on managing this working capital.

↳ Various factors which determine the WC requirement of a business:- // Factors determining Quantum of WC.

1) Nature of a product:- If the product size (or) value is less, then WC will be relatively lesser, whereas in case of products like heavy boiler, car; WC is relatively higher. We may say

$$\boxed{\text{product value} \propto \text{WC requirement}}$$

2) Product lead time (or) growth time:- The time from material arrival to the time when the product gets completed and moves out of the gate. Simply, time taken for converting materials into product. If throughput time is high, WC requirement will be high and vice versa.

$$\boxed{\text{Throughput Time} \propto \text{WC requirement}}$$

3) Seasonal fluctuations:- During un-season, naturally WC requirement will be higher. According to seasonal fluctuations, the WC requirement varies.

4) Credit Allowed to customers: If more, WC requirement is more. If no credit is allowed to customers, WC is less (or) in between; Accordingly WC requirement varies.

5) Credit allowed by suppliers: If less, WC requirement is high. If suppliers gives lot of credit, correspondingly WC requirement goes down.

↳ How to manage individual elements of WC:-

(a) Managing the stocks (OR) Inventory:

(JIT) (i) Just in time inventory:- Instead of keeping of stocks (particularly raw material stock), get the materials into the factory gate only at the time of requirement. Eg: Maruti. Here stock of raw materials can be avoided considerably (OR) eliminated atleast by 90%.

05/03/2021  
Tidcup

(ii) ABC analysis, (OR) VED analysis :- Here items are divided (OR) segregated as,

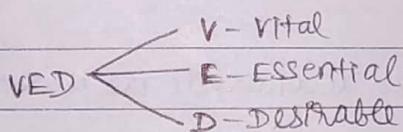
ABC	No of items	Values (cost)
Class A	15-20%	70%
Class B	30%	20%
Class C	50%	10%

Items are less,

↳ Class A, (value is high), class B (moderate), class C (value is negligible).

Items are too many

(OR)



↳ 99% of companies follow ABC analysis not VED analysis

↳ Class A, and class B items are bought only when required while Class C items are bought as a bulk amount since its value is less

(iii) Fixation of inventory, (OR) stock Level :-

ERP - Enterprise resource planning which manages all aspects of the business. Before ERP we had MRP II and Before that we had MRP. Before that only manual planning,

↳ BIN CARD system - This system maintains a bin card (a small storage like), which contains name of the item,

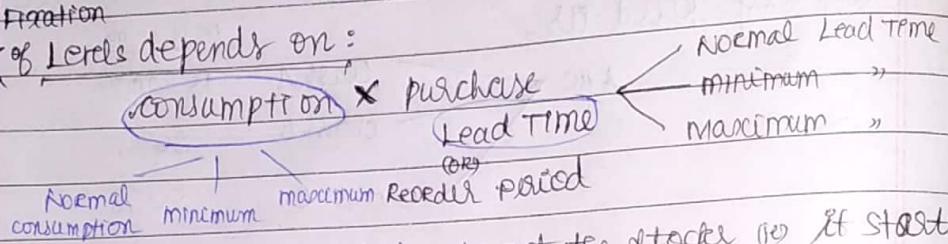
unit of measurement then there will be date, receipt issue, stock. // This bin card shows status of stock of the materials.

⇒ Bill of Material (BOM) OR Bill of quantities (BOQ) - a list showing materials used for manufacturing a product with its value, quantity.

// Inventory should be neither too high nor too low. There should be an optimum point //

Formation

⇒ of Levels depends on :



// Lead Time - time taken to get the stocks if starts with placing an order and ends with getting stocks into the factory //

⇒ Different Levels which can accommodate the above changes :-

Formula

max consumption

$\times$   
Max  
Lead Time

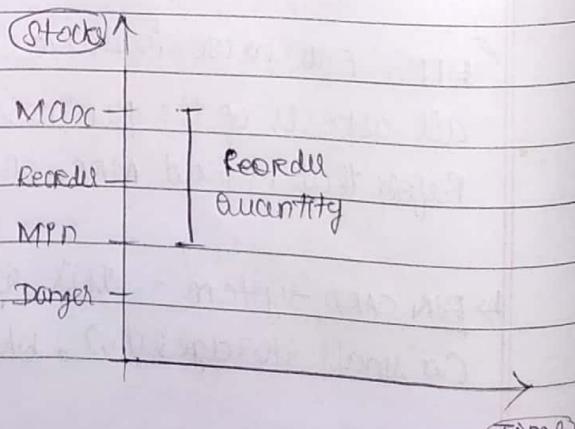
(i) Maximum stock Level - above which stock should not exceed

(ii) Re-order level - between (i) and (iii), here purchase order should be placed

(iii) Minimum stock Level - below which stocks should not fall

[Lead time for]

(iv) Danger Level - consumption during emergency purchases; level below (iii), which indicates that we should take urgent action w.r.t. to getting supply



## (iv) Economic Ordering Quantity (EOQ):-

// How to place order? Either as a whole or small portions in particular intervals of time?

- cost associated with ordering process  $\Rightarrow$
- ↳ Ordering cost // when place an order
  - ↳ Inventory carrying cost // total expense related to storing unsold goods

No. of orders  $\propto$  ordering cost

and

$$\text{Ordering cost} \propto \frac{1}{\text{carrying cost}}$$

$\Rightarrow$  How to balance between these costs? How to find the optimum point, point at which sum of these costs will be min?

$$\text{Formula} \Rightarrow \sqrt{\frac{2CD}{I}}$$

$$= \sqrt{\frac{2 \times \text{Annual demand} \times \text{Ordering cost}}{\text{Inventory carrying cost}}}$$

09/03/2021 Assume, A component requires Rs 25,000 per annum  
Tuesday

Ordering cost = Rs 15 per order

Carrying cost?

(Or)  $J = \text{Rs } 3 \text{ per unit}$

Storage cost

$$\Rightarrow \text{EOQ} = \sqrt{\frac{2 \times 25,000 \times 15}{3}} = \sqrt{2,50,000} = 500 \text{ units}$$

∴ EOQ (i.e) Quantity per order = 500 units.

How many orders we will be placing then?

$$\frac{25000}{500} = 50 \text{ orders, -}$$

→ WKT, at EOQ, sum of ordering and carrying costs should be minimum.

⇒ Checking: // Cross check our EOQ

Should not take carrying cost as 3Rs because, at the beginning of a period quantity will be 1000. (End EOQ) But at the end it will be 0 //gradually decrease.

Ordering quantity	No. of orders	Ordering cost (15 per order)	Carrying cost (go by Average Stock) $\times 3$	Total cost
1000	25	375	500 (1500)	1875
750	33	495 $\approx 500$	375 (1125)	1625
500	50	750	250 (750)	1500 (MIN)
200	125	1875	100 (300)	2175

→ From the table we can infer that, at EOQ, Total cost (Ordering cost + carrying cost) is minimum

### vii Economic Batch quantity:-

→ EOQ is concerned with purchases whereas EBA is concerned with purchases + production.

Formula,  $\Rightarrow \sqrt{\frac{2 \times AD \times Setting\ cost}{I}}$

### viii Continuous Physical verification:

→ All the corporates have an internal audit department whose job is to verify or monitor continuously, the movement of stocks, class-A items on a continuous basis.

### ⇒ ESTIMATION OF WORKING CAPITAL:-

→ WKT WC = Current Assets  $\Rightarrow$  Current Liabilities  
 $\downarrow$   
 (Deploy money)  $\downarrow$   
 (Source of money)

QND

do, we're at the values of current assets and current liabilities and get the working capital.

(ii) Current assets :-

$$* \text{ Raw materials} = \frac{\text{Purchases}}{12 \text{ months}} \times \frac{1}{2} \text{ month} = \frac{6 \text{ Lakhs}}{12} \times 1 = \text{Rs } 50,000$$

$$* \text{ Work in progress} \left( \begin{array}{l} \text{Material in process} \end{array} \right) = \frac{\text{Purchases}}{12 \text{ months}} \times 0.5 \text{ month} = \frac{6 \text{ Lakhs}}{12} \times \left(\frac{1}{2}\right) = \text{Rs } 25,000$$

$$* \text{ Finished goods stock} = \frac{\text{cost of goods sold}}{(2 \text{ months})} \times 2 = \frac{11,50,000}{12} \times 2 = \text{Rs } 191,667$$

$$* \text{ Receivables} = \frac{\text{Credit Sales}}{1 \text{ month}} \times 1 = \text{Rs } 1,09,000$$

//  $\otimes$  whereas cost of goods sold = Sales  $\rightarrow$  Gross profit

$$= 15,00,000 \rightarrow 30\% = 15,00,000 \rightarrow 4,50,000$$

$$= 11,50,000 \text{ Rs AND}$$

$$\text{Credit Sales} = 15,00,000 \times 80\%$$

$$* \text{ Cash Balance to be maintained} = \text{Rs } 20,000$$

$$* \text{ Advance to be made} \left( \begin{array}{l} \text{With suppliers} \end{array} \right) = \text{Rs } 50,000$$

$$\therefore \text{Total of current assets} = \boxed{\text{Rs } 4,36,667}$$

(iii) Current liabilities :-

$$* \text{ Suppliers (or creditors)} \left( \begin{array}{l} \text{1.5 months} \end{array} \right) = \frac{\text{Purchases} \times 60\%}{12} \times (1.5) = \frac{60,000 \times 60\%}{12} \times 1.5 = \text{Rs } 45,000$$

$$* \text{ Advance expected from customer} = \text{Rs } 40,000$$

$$\therefore \text{Total CL} = \boxed{\text{Rs } 85,000}$$

Now, Working Capital = CA - CL  
 $= \text{Rs } 4,36,667 - \text{Rs } 85,000 = \boxed{\text{Rs } 3,51,667}$

Hence, this is the amount of WC to be invested by the entrepreneur for smoothly running the business.

→ Managing customers (or) debtors (or) receivables :-

→ Managing cash // cash Budget :-

↳ Budget is the estimation for a future period (involving financial values)

↳ For managing cash, forecast the 'balance' we have and workout the receipts expect (payments to make) and what is the closing balance.

↳ If closing balance (OR) payments > receipts, then there will be a shortage and suitable arrangements are requirements.

↳ Receipts:-

collection from customer // major receipts

↳ Payments:-

Payment to suppliers

Salaries / Wages

Taxes

Other expenses

↳ surplus / deficit

↳ opening balance (Cash and Bank)

↳ Closing Cash and Bank Balance

10/03/2021  
Wednesday

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QN1)

cash Budget :-

Sales and collection are different. Collection is based on credit period offered by us.

Receipts	March 21	April 21	May 21 (in Rs.)
Dates collection	30000	25000	35000
50% cash			
25% credit collections	JAN 15000 FEB 10000	FEB 10000 MAR 15000	MAR 15000 APR 12500
25%			
TOTAL (A)	55000	50000	62500

Payments	March 21	April 21	May 21
(25%) (25% of 44K)			
Purchases - cash → 11000		7000	7500
\ Credit → FEB (15%) 15000		MAR 23000	APR 21000
Expenses	16000	10000	6000
GST	FEB 4000	MAR 8000	APR 12000
Salaries	FEB 20000	MAR 18000	APR 14000
Machinery Purchase			44000
(B) TOTAL Payments	66000	70000	104500

Surplus / Deficit, (A-B)	(-)	(-)	(-)
1 (A-B)	1000	2000	42000

Closing cash	(Op. Balance of March 30000)	(Op. Balance for April 19000)	(Op. Balance of May → 1000)
and Bank Balance → 19000		→ 1000	→ 43000

If there is negative balance, then cut down the expenditure accordingly (or) boost up the collections.

ON 2) ↳	<u>Receipts</u>	March 21	April 21	May 21
Sales collections				
- 40% adv. collection		APR 26400	MAY 19200	JUN 32000
- 60% after 1 month		FEB 24000	MAR 42000	APR 39600
Sale of Equipment			40000	
TOTAL CA)	50,400	101200	11600	

↳	<u>Payments,</u>	March 21	April 21	May 21
Purchases	cash(50%)	15000	12500	8000
	outfit (cimento)	FEB 7500	MAR 15000	APR 12500
Expenses	(1/4 <sup>th</sup> ) Feb 1250	Mar 2000	APR 1750	
(1 week credit)	(3/4 <sup>th</sup> ) Mar 6000	APR 5250	MAY 42500	4500
GST	10,000	12,000	9000	
Salaries	FEB 80,000	MAR 23,000	APR 28,000	
FD WITH SBI		33,000	68750	
Total Payments (B)	- 65750 59750	102,750	11250	

↳	Surplus/Deficit (A - B)	→ 9350	→ 1550	→ 7850

↳	OPG cash & Bank balance	50000	40650	39100
	CIG cash & Bank balance	34650	39100	-39450
		40650		46950

ie) No negative cash and Bank balance. There will be cash surplus of above 46,000 (nearly 50,000)

103/2021  
Thursday

## → CAPITAL BUDGETING (OR) DECISION MAKING:

↳ We are interested in:- // to make decisions

1) The period within which the investment is taken back is called as 'Payback period' // To know, in what time we get back our investment

2) Which proposal will give us the maximum value in net profit, depreciation is adjusted. But it's only a book expenditure; actually we are not incurring anything in form of depreciation // remains only on paper and we are not paying any money to anybody towards depreciation // Actual profit is Net Profit before depreciation called as "cash profit". // Net Profit

⇒ Depreciation = cash profit. // For all investment decisions, we go by only cash profit (or) cash flow.

↳ Payback Period = Investments = — yrs.

Actual cash profit

(or) cash inflow Highly reliable

✓ Discounted PBP → convert future inflow in terms of present value and do comparison

↳ payback period (PBP)

Simple PBP → we take future inflows as much as investment inflow

Discounted cash flow:- (DCF)

↳ Discount → reducing value of something

// Every year value of money falls down → inflation

↳ If value of commodities increases, value of money decreases

↳ Compound interest =  $(1+q)^n$  // I → interest rate

↳ converting future value in terms of today's value, (inflow)

$$\text{Formula} \rightarrow \left[ \frac{1}{(1+q)^n} \right]$$

// To arrive at present value.

To compare whether receipts after one year is equivalent to today's investment.

↳ If equivalent (are) meted  $\rightarrow$  profit, if not equivalent then loss.

**DOCUMENT-8**

QN 1) PBP :-

↳ Proposal 1

Cost / Investment = Rs 1,10,000

(6) Cumulative Cash Profit	YEAR	Net (NP) Profit	(P) Depreciation	(P) Cash Profit	IT - Income Tax	
					(4) Income Tax 25% on NP	(5) Cash Profit after IT
78000	Year 1	69000	26250	95250	17250	78000
114750	Year 2	14000	26250	40250	3500	36750
165750	Year 3	33000	26250	59250	8250	51000
228750	Year 4	49000	26250	75250	12250	63000

↑ Depreciation = Investment  $\rightarrow$  scrap value  
Life

$$= \frac{610,000 \rightarrow 5000}{4 \text{ years}} = \text{Rs } 26,250 \text{ //} \\ \text{Every year}$$

Now, 12 months  
(78000)  $(110,000 - 78000)$

$$\text{PBP} = \text{Year 1} + \frac{32000}{36750} \times 12 \text{ months}$$

$$= 1 \text{ year} + 10.4 \text{ months}$$

$$= 12 + 10.4 = 22.4 \text{ months}$$

$\therefore$  simple Payback period is 1 year and 10.4 months

12/03/2021  
Friday.

## Discounted Payback Period:-

TNPCL

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Year	Cash Flow after IT	Present value @ 12% p.a	Present value of cash inflow	Cumulative cash inflow
1	78000	0.89	69420	69420
2	36750	0.79	29032	98452
3	51000	0.71	36216	134662
4	63000	0.63	39690	174352

Today's outflow is Rs 110,000 3.8  
 Now PBP Discounted = 2 years +  $\frac{(110,000 - 98452)}{36210} \times 12$  months  
 $= 2 \text{ years} + 3.82 \text{ months} = 27.82 \text{ months}$ .

8. Discounted Payback period is 2 years and 3.8 months

↳ Proposal 2

Cost / Investment - Rs 80,000

YEAR	Net profit	Depreciation	Cash Profit	IT (25%) on Net profit	Cash profit after IT	Cumulative Cash Profit
1	37000	15000	52000	9250	42750	42750
2	11000	15000	26000	2750	23250	66000
3	45000	15000	60000	11250	48750	114750
4	22000	15000	37000	5500	31500	146250
5	76000	15000	91000	19000	72000	218250

// Depreciation = Investment  $\rightarrow$  scrap value  
 Life // For calculation taken as 5000  
 $= \frac{80000 - 6000}{5} = \frac{75000}{5} = \text{Rs } 15000$  per year //

PBP = 2 years +  $\frac{(80000 - 6000)}{15000} \times 12$  months  
 $= 2 \text{ years} + 3.5 \text{ months} #$

8. Simpler Payback Period is 2 years and 3.5 months

### Discounted Payback Period :-

Year	Cash inflow after IT	Present value @ 12% PA	Present value of cash inflow	Cumulative cash inflow
1	42750	0.89	38048	38048
2	23250	0.79	18368	56416
3	48750	0.71	34612	91028
4	31500	0.63	19845	110873
5	72000	0.57	41040	151913

Today's Cash outflow = ₹80,000 (23584)

$$\text{Now Discounted PBP} = \frac{\text{Years}}{2} + \frac{(C89000 - 56416)}{34612} \times \frac{12}{\text{months}}$$

$\approx 8 \text{ months}$

$\Rightarrow$  Discounted Payback Period is 2 years and 8 months

Therefore, Proposal 1 is better (Payback period is less) since

(Instead of Net Profit)  
 1 When directly cash profit is given, then find Net profit (Cash profit - Depreciation) and calculate Income Tax for that Net profit //

### Shortcoming of PBP:-

- It (PBP) just focuses on showing the period within which we take back our investment. But it doesn't say which Product / Project gives us the maximum value.
- It totally ignores (or) doesn't consider the cash flow going to get after the PBP. // so more onto Net Present Value -

(most reliable method)

$\Rightarrow$  NET present value (NPV) :-

$$NPV = \sum \text{cash inflow}$$

$\hookrightarrow$  cash outflow // (ie) What we invested in

16/02/2021  
Tuesday

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↳ OPTION - A :-

YEAR	Cash profit $\leftrightarrow$	Depreciation	Nel profit IT @ 25%	Cash profit after IT	
1	490000	2,20,000	270000	67500	422500
2	340000	2,20000	120000	30000	310000
3	530000	200000	310000	77500	452500
4	390000	220000	170000	42500	347500
5	1,00,000	220000	120000	-	1,00,000
Scrap value	100000				1,00,000
Wkg capital	350000				3,50,000

// Depreciation =  $\frac{\text{Inv} \leftrightarrow \text{Scrap value}}{\text{Life}}$

$$= \frac{1200000 - 1,00,000}{5} = \text{Rs } 2,20,000/-$$

Year	Cash flow after IT	Present value factor @ 14%	Present value of cash flow
0			
1	422500	0.88	371800
2	310000	0.77	238700
3	452500	0.67	303175
4	347500	0.59	205025
5	1,00,000	0.52	52,000
Scrap value	1,00,000		52,000
Wkg capital	3,50,000		182000
		$\Sigma C I F = 1404700$	

CASH OUTFLOW :

Investment = Rs 1200000

Working capital = Rs 50000

2nd year beginning 3L

Present value @ 14% = Rs 264000  
( $3L \times 0.88$ )

∴ sum of cash outflow = Rs 15,14,000/-

$$\text{NPV} = \sum \text{CBA Jnflow} - \text{Cash outflow}$$

= Rs 1404700

(+) M 1514000

Rs (-) 109300

(Loss)

here

10. Not able to take back what we invested.

$$/ \textcircled{7} \Rightarrow \textcircled{5} \times \textcircled{6}$$

↳ OPTION-B :-

⑥ Present value @ 4%	Year	① Cash Profit ←	② Depreciation	③ Net profit	④ IT @ 25%	⑤ Cash profit after IT.	⑦ Present value of cash inflow
0.88	1	810000	280000	530000	35000	335000	2,94800
0.77	2	310000	280000	80000	20000	290000	223300
0.67	3	620000	280000	340000	97500	522500	350075
0.59	4	400000	280000	170000	42500	357500	210925
0.52	5	200000	280000	630000	-	200000	104000
0.46	6	400000	280000	170000	42500	357500	164420
Note: Project, Just inflow		Scrap value 120,000				1,20,000	55200
Net Capital 300000						300000	138000

$$\Sigma CIF = \text{Rs } 1540750$$

$$\text{Depreciation} = \frac{\text{Rs } 15,00,000 - 1,20000}{6}$$

$$= \frac{13,80,000}{6} = \text{Rs } 230000$$

Cash outflow:

$$\text{Investment} = \text{Rs } 15,00,000$$

$$\text{Nkg Capital} = \text{Rs } 1,00,000$$

$$\text{2nd year beginning } 2L$$

$$\text{Present value } @ ? \\ (\text{to } 0.88 \times 2L) = \text{Rs } 1,76,000$$

$$\therefore \text{sum of cash outflow} = \text{Rs } 1776000 \quad (\Sigma COF / Inv)$$

∴  $NPV = \sum \text{Cash Inflow}$   
     $\hookrightarrow$  Cash Outflow.

= Rs 1540750

     $\hookrightarrow$  Rs 1776000

Rs  $\hookrightarrow$  2,35,250 (loss)

17/03/2021

Wednesday

↳ Alternative A :-

QN 4)

year	① Net profit $\leftrightarrow$ Depreciation	② Cash Inflow	③ IT @ 20% on NNP	④ Cash inflow after IT	⑤ PV factor @ 12%	⑥ Pr of cash inflows	⑦ Accumulative P/V CIF
1	50000	25000	75000	10000	0.89	57850	57850
2	25000	25000	50000	5000	0.79	35550	93400
3	40000	25000	65000	8000	0.71	40470	133870
4	35000	25000	60000	7000	0.63	33390	167270
Wk capital Depreciation	35000 (year 1) 35000 (year 2)			35000 } 20000 }	0.89 0.79 0.71 0.63	22050 12600	201920
Capital value	20000						

// Depreciation =  $\frac{\text{Cost} \rightarrow \text{Market value}}{\text{Life}}$

$$= \frac{1,20,000 \rightarrow 20000}{4} = \text{Rs } 25000 \text{ per year //}$$

$$\text{Investment} = \text{Rs } 1,20,000$$

$$\left\{ \begin{array}{l} \text{Wk capital} = \text{Rs } 17,800 \\ (\text{Rs } 20,000 \times 0.89) \\ \text{after 1 year} \end{array} \right.$$

$$\left\{ \begin{array}{l} \text{Wk capital} \\ \text{after year 2} \\ (\text{Rs } 15,000 \times 0.79) \end{array} \right. = \text{Rs } 11850$$

$$\therefore \text{Present value of Investment} = \text{Rs } 1,49,650$$

$(\Sigma \text{COF})$

Now,

$$\text{PBP} = \text{year } 3 + \frac{15780}{83390 \times 12 \text{ months}}$$

$$= \text{year } 3 + 5.67 (\approx 5.7)$$

Discounted

∴ PBP is 3 years and 5.7 months

$$NPV = \sum \text{Cash Inflow} - \sum \text{Cash Outflow}$$

$$= \text{Rs } 201920$$

$$\Rightarrow \text{Rs } 149650$$

Rs 52,270 (Profit)

↳ Alternative - B :-

Net profit	Depreciation	Cash Inflow	IT @ 20% on NP	CF after IT	PV Factor @ 12%	PV of CF	Cumulative P/V CF	Year
40000	28000	68000	8000	60000	0.89	53400	53400	1
18000	28000	46000	3600	42400	0.79	33496	86896	2
70000	28000	98000	14000	84000	0.71	59640	146536	3
20000	28000	48000	4000	44000	0.63	27720	174256	4
50000	28000	78000	10000	68000	0.57	38760	218016	5
10000 (extra value)			10000		0.57	5700	293226	
18+25 = 43000	(new capital)		43000			24510	(Actually 243226 But take as this)	
						(30210)		

$$\text{Depreciation} = \frac{\text{Cost} (\text{₹}) \text{ book value}}{\text{Life}} = \frac{150,000}{5} = \text{Rs } 30,000$$

$$= \frac{150,000}{5} = \text{Rs } 30,000 \text{ each year //}$$

$$\text{Discounted PBP} = \text{11.514}$$

$$4 \text{ years} + (185770 - 174256)$$

$$88760 \times \frac{1}{12} \text{ months}$$

$$= 4 \text{ years} + 3.6 \text{ (} \approx 3.6 \text{)}$$

$\therefore \text{PBP is 4 yrs and 3.6 months}$

$$\text{Investment} = \text{Rs } 1,50,000$$

$$\text{Wkg Capital after yr 1} = \text{Rs } 16020 \\ (18000 \times 0.89)$$

$$\text{Wkg Capital after yr 2} = \text{Rs } 19750 \\ (25000 \times 0.79)$$

$$\therefore \sum \text{COF} = \text{Rs } 185770$$

Hence, when we go by PBP, Alternative -A is better, and safer.

Now

$$NPV = \Sigma CIF$$

$$\rightarrow \Sigma COF$$

$$= Rs 293226$$

$$\Rightarrow Rs 185770$$

$$\underline{Rs 1,07,456} \quad (\text{Profit})$$

And when we go by NPV, Alternative -B seems to be better (since value is more).

↳ generally we don't consider PBP alone; we always go by value maximization (i.e) NPV. Hence, Finally we conclude that 'Alternative B' is recommended.

03/2021

Thursday

## JAXATION:- // In India

Direct Tax      Indirect Tax

→ Government totally depends on taxes. (70% of income earned by government through taxes and other charges goes to pay salaries of govt-employees and only 30% + borrowing outside govt. goes for projects and other welfare schemes).

→ DIRECT TAX - Here the incidence (or) liability is directly fixed on an individual (differs from individual to individual)  
Eg:- Income tax (For every individual it varies. When one's annual income exceeds a threshold limit, then s/he should pay tax based on their income).

Identified  
to an  
object

→ INDIRECT TAX - Here the liability is not directly identified to an individual but indirectly paid by citizens / users.  
Eg :- Main tax is 'GST', then property tax, stamp duty, octroi duty, customs duty

// In some municipal limits, octroi duty is there. If goods enter a particular municipal corporation limit, should pay octroi duty of about 1 to 1.5% to the municipal corporation. To avoid this, when goods instead of having warehouse inside the municipal limits, they keep just outside the limits AND stamp duty - when we go for buying or selling such particularly land, should pay this (about 1% at present) (in customs duty). Any goods when imported into India by any means, it is paid. It depends on type of commodities (clarified by government); ranges from 5 to 20 or 30 (depends) //

#### ↳ GOODS AND SERVICES TAX (GST):

- Tax system was introduced during the later regime of British empire

*(before 1947)*  
Date 30/6/2017  
Note to existence

- Excise Duty (1944): Tax against manufacturer of products or commodities, services not included since that time there were no more no. of service industries and tax on service industry was also very less.

- Service Tax (1994): Started with 5% and gradually increased and when abolished it was about 15% including even more things.

These are taxes levied by Govt. of India (or) central govt.

#### // STATE LEVEL:-

- sales tax: Every govt. had their own sales tax act.

*sales tax*      State sales tax act (inside state)

Central sales tax act (between states)

→ In Tamil Nadu, we had TN general sales tax act (1959) called 'TGST Act'. // For all sales made within TN, this tax was applied. (inter-state sale) contrast

→ When sales made from one state to other, Central sales tax act was applied for those transactions.

- ENTERTAINMENT TAX: From Cinema tickets, It is also a major revenue to state income.

TNPL

PAGE:

DATE: / /

- VALUE ADDED TAX (VAT): From 2006, all states gone for VAT. (From 2006, Sales Tax renamed as VAT) Here, taxes collected for subsequent sales within the state. // At each stage of sale, Tax is charged. But whatever tax paid by a person on his purchase can be adjusted and only the remaining is being remitted to govt. in name of VAT. So, VAT is to avoid cascading effect.

↳ From 01/07/2017, India has a whole merged all taxes into one tax called 'GST' (Goods and Services Tax). Main motto is, "ONE COUNTRY ONE TAX".

- sales within state      Central GST  
-                                  State GST  
- Inter-state                      Interstate GST

- ENTRY TAX: TN introduced this Tax. Whenever we ~~Buy~~ anything from outside state or take it to other state, tax was charged.

// First every state had its own tax rate which lead to many confusions but after GST, tax rate is same for all across the country.

19/03/2021 → GST Act:-  
Friday

→ Made effective from 01/07/2017.

→ Who has to get registered under GST?

(i) <sup>In</sup> Manufacturing/trading, If <sup>TURNOVER</sup> > 40Lakhs

(ii) <sup>In</sup> services Industry, If > 20Lakhs

// In some states these turnover value changes.

→ If this turnover is reached then they have to register them selves under GST.

In India, even after introducing GST, some more commodities still continued to be with the previous acts.

Central Excise was not totally abolished. Petroleum, Tobacco, alcohol still continued to be under 'Excise Duty Ad' and 'Central Sales Tax Ad'.  
 (e) Not moved under GST till. When brought under GST (CST) the cost decreases.

### ⇒ GST Rate:

↳ 0%, 5%, 12%, 18%, 28%.

↳ <sup>most</sup> AgriBased Product (unbranded products) like rice, sugar, vegetables are exempted from GST // No GST.  
 ↳ But for those products (branded), there may be 5% of GST. Other items 12%.

↳ In India, most items (engineering items) have 18% GST.

↳ All luxury items AC, Fridge, Car attract maximum of 28%.

↳ For exports, ~~NO~~ GST // Exports exempted from GST Ad.

// Depending on necessity (or) nature of the goods, GST percent changes and GST is been extended to cover almost every good and service of the country.

↳ Before, we can have so many registration numbers. But now, a person's GST number is based on PAN number given by Income Tax department.

↳ Most of the educational services are totally exempted (from GST). All religious activities are exempted (marriage or study hall inside temple premises).

If a college (teaching) is affiliated to an Indian university, then the fees they remit is exempted from GST. But outside curriculum activities like educational tour, placement activity, gym fee, the fees for these things attracts GST.

↳ At College which offer courses with a tie-up with foreign universities, GST is (18%) charged ~~on~~ fees paid by students.

↳ Any vacation is ultimately owned by an individual who is using that service or buying the products. But for trader (or) businessman, or

*(Exemption from GST)*

*(tuition, development, computer fees)*

manufactures, its just getting from customer and remitting to the government. // As far as business is concerned, any taxation is neither an expenditure nor an income.

- ↳ Tax avoidance is not illegal But tax evasion is.
- ↳ Previously for construction (if a builder constructs residential flats) it was exempted. Now if total area is less than 900 sq. feet 1% to be paid and those who are gonna buy this, who buys flat from buy builder.
- ↳ For commercial buildings its 12%. For all other buildings like institution, factories, buildings charge 18% GST. // Huge amount
- ↳ But Before GST, when Service Tax was there it was about 6% only.

- > Advantage of GST:- // main attraction of GST
- ↳ Whatever tax paid by the purchaser or person can be taken credit which is known as "Input tax credit".  
ie) Tax paid by a person for his purchases, he can adjust it when he goes to sell the goods he can charge GST from his customers. So he will retain the GST paid by him on his purchase and only the remaining is remitted by him to the government.
  - ↳ For certain purchases we can't set up GST on GST. Eg:  
Buildings construction, vehicles used [take credits] for business purpose like cars.  
ie) In all purchases of ours we are paying GST. But only when we charge GST on our customers, we can take credit of GST paid on our purchases. But when the products we make are exempted, then we can't take credits.

Whom should we pay GST?

↳ Every month we submit a form called 'GSTR-1'

↳ Whenever goods are moved from one place to other, it is accompanied by bill (as invoice). In all the bills GST number must be mentioned.

↳ If goods are valued  $> 50,000$  Rs, then we must generate e-way Bill through government site.

↳ Whenever turnover of company is 100 crores, the companies must generate e-invoice, e-way Bill from the government site and it is accompanied with goods.

↳ 'ITR-1', In this form, every month we have to file a return which includes sales made by us and the GST paid.

↳ ITR-2A, <sup>out</sup> Purchases and Tax (GST) paid on our purchases

↳ ITR-2A, <sup>official</sup> Purchases (Purchase as per data entered by our supplier) // We are allowed to take credit of GST paid on our purchase based on ITR-2A form.

↳ ITR-3, Sales and GST payable against the sales.

↳ So, GST input tax credit can be availed only when the seller remits GST on his sales to us to government.

↳ Hospitals services (as it is essential), exempted from GST. But Pharmacy (<sup>Service</sup> drugs, medicines) are brought under GST and for all life saving drugs GST is 0%.

↳ Many hospitals do cosmetic surgery. For this GST is there.

↳ Dealers whose turnover is  $< 1.5$  crores, can pay GST on compounding basis and allowed to pay only 1% but they can't take credit of GST paid by them on their purchases.

↳ Hotels charge 5% GST. But can't take credit on GST paid on their purchase. // Most of hotel purchases are exempted from GST.

- TNP PAGE : 11 DATE : 11/11/18
- In every bill, rate is divided into
    - 1. C for CGST and other for SGST).
  - In case of interstate sales only one tax (IGST).
  - 'Reverse charge mechanism'. Here instead of tax being imposed by the dealer profited, tax is being remitted by the service recipient and they are allowed to take credit of it as input tax credit.
  - Doctors charge GST. Advocates are still outside the view of GST. // exempted. Here too reverse charge mechanism is applied.

do, Goods transport services and advocate services are outside GST, in which case the recipient of the service is liable for GST, but we can take credit of GST of what we are supposed to pay.

- FORM GSTR-R → Annual return given to the government
- For hotels, If room rent is < 1000, no GST. If > 1000 and < 7500 per day, GST 18%. If > 7500 per day then 28% GST.
- College canteens which supply food to students, faculties is exempted from GST. // But for others 5% GST.

21/03/2021

## Indian Income tax system:-

Wednesday.

- ↳ <sup>income</sup> Whatever we earn in India, is subjected to IT. For both legal and illegal income Income tax is to be paid. In short, According to Indian Income tax act who ever <sup>(earn)</sup> get income has to pay income tax.
- ↳ Exception is agricultural income / no IT

Classifications of Income :- based on which IT is assessed

(Major)

- 1) Income from salaries
- 2) Interest on securities (ie) income on any investment like Fixed deposits, interest from bank deposits, bank accounts,.
- 3) Income from house property (ie) Rent received from commercial OR residential property
- 4) Income from Business/professional (ie) income earned from any business and earned by professionals like chartered Accountant, Architect, consultants,.
- 5) Capital gains - profit whatever arrives from the sale of an asset
- 6) Income from other sources (like income from lottery, gambling, horse race,.)

(Miscellaneous income)

IT Slab :-

If net income of a person (after making some adjustments), is, upto 2.5 Lakhs p.a  $\rightarrow$  NIL

2.5 Lakhs p.a to  $\rightarrow$  5%.

(If income = 4 L then we need to pay  $4 - 2.5 = 1.5$  5% of 1.5 Lakhs as IT)

\* 5 Lakhs to 10 Lakhs  $\rightarrow$   $Rs\ 12500 + 20\%$  p.a From 2.5 to 5 Lakhs

>10 Lakhs p.a  $\rightarrow$   $30\% + 112500$  From 5 L to 10 L

\*\* If income is 8 Lakhs then for 1st 2.5 Lakhs NO IT, then for 2.5 L to 5 L its 5% i.e 5% of 2.5 Lakhs = 12500 then for remaining its 20% i.e 20% of 3 L is 60000 Rs //

Slab system,  $\rightarrow$  having different tax rates for different ranges of income

Senior citizens, (Age > 60 yrs) :-

upto 3 Lakhs → NIL

3 Lakhs to 5 Lakhs → 5%

5 Lakhs to 10 Lakhs → 10000 + 20%.

> 10 Lakhs → 1,10,000 + 30%.

Super senior citizens, (> 80) :-

upto 5 Lakhs → NIL

5 Lakhs to 10 Lakhs → 20%

> 10 Lakhs → 30% + 100000

After calculating IT, add SC (Surcharge)  
+ Cess -

(Health and)

Higher education cess → 4% on IT calculated

cess -  
form of  
tax like  
additional  
tax other  
than existing  
tax

// If income is 10 lakhs then IT = 112500

HE cess @ 4% = 4500

of 112500

117000/-

If income is, // then there is surcharge on IT

↓  
50 Lakhs to 100 Lakhs → 5% on IT ( $31.2\% + 1.5\% \approx 33\%$ )

100L to 200L → 15% on IT ( $31.2\% + 4.5\% \approx 36\%$ )

200L to 500L → 25% on IT ( $31.2\% + 7.5\% \approx 39\%$ )

> 500 Lakhs → 37% on IT ( $31.2\% + 11\% \approx 42\%$ )

// For income upto 150,000 Lakhs we have IT of  
30% + cess of 4% on 30% (i.e. 1.2%). So totally 31.2%  
Eg:- When income > 500L ;  $30\% + 4\% \text{ on } 30\% = 32.6\%$

(i.e. a total of  $\approx 42\%$ ) //

## Calculation of Income under Salaries:-

- DA - Kind of allowance for livelihood (day to day living)
- ↳ Basic pay, DA // Dearness Allowance
  - ↳ HRA // House Rent Allowance
  - ↳ Advance Bonus Attendance
  - ↳ Conveyance or Travelling allowance (given for personal benefits. Official conveyance whatever paid will be paid by the employers is totally exempted)

HRA

- ① For metro, 50% of Basic Pay + DA
- ② Non metro, 4% of (BP + DA)
- ③ Excess of rent paid over 10% of (BP + DA)
- ④ Actual HRA received.

Least of this is  
exempted

Eg:- Day income = Rs 80000      Per month, Annual  
 Let BP + DA = Rs 40,000      4.8 Lakhs.  
 Let HRA = Rs 15,000      1.8 Lakhs  
 Day rent = Rs 12,000      1.44 Lakhs

HRA

- ④ 50% of (BP + DA) = 2.4 Lakhs
- Excess rent paid over 10% (BP + DA) = 1.44 L - 48K
- Actual HRA received = 1.8 Lakhs = (96K)  
Exempted since min

$$HRA = (1.8L - 96K) = 84,000 \text{ taken as income.}$$

Day rent receipt as,

30K per month  $\Rightarrow$  3.6 L per year

So, HRA  $\Rightarrow$

- 2.4 Lakhs
- 3.6 Lakhs - 48K = 3,12,000 (as per receipt)
- 1.8 Lakhs Least (Exempted)

$$HRA = (1.8L - 1.8L) = 0 // \text{will not attract any IT.}$$

(\*) Have to give PAN number of Land Lord also.

15/04/2021  
Thursday

## Deductions: Under section deduction

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- ↳ Employment / Profession Tax
- ↳ std. deduction of Rs 50,000
- ↳ Under section 87A, for people < 5 lakh income p.a., he can claim upto a max of 10,500 (deduction) (no need to pay IT)

## Incentives for investment:-

SECTION  
80C

These fall under

- ↳ section 80C, whatever investment we make in Provident Fund, LIC, National Savings Certificate (NSC)

Here max deduction permissible is 150,000. // In PF, too interest rate is good. Now 8.8% (8.5%) It is meant for post retirement benefit

- ↳ If annual contribution to PF is > 2 Lakhs whatever contribution made by an employee can be claimed as a deduction under this section. All the companies whatever salary they pay for the employees share, they remit only 12% into the PF account. If the employer contributes more than 12%, that excess contribution will be taxed at the hands of employee.

(From 20/April) ↳ Some changes were made by the government.  
⇒ If annual contribution > 2 Lakhs, 4L  $\frac{8\%}{8\%}$   $\frac{32000}{32000}$  interest taxed

Before this change,  $\frac{Annual cont. \text{ (per month)}}{6L} \text{ and } \frac{Interest Rate}{8\%}$  then  $\frac{\text{Taxed (taxable income)}}{48000}$

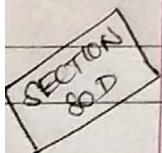
But after this change,  $\frac{(6L - 2L)}{4L} \text{ and } 8\% \text{ then } 32000$   
(For same 6L, we consider the only excess 4L)  $8\% \text{ then } 9600$   
Net Revenue  $\rightarrow 22,400$

- ↳ What this means is, government wants to put a checkmark on us, (for up to 2 Lakhs, 8% rate is fine. But if we contribute more and enjoying the higher rate of interest compared to fixed deposit, there the check comes.)

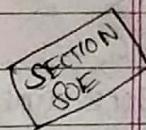
↳ ~~FOR~~ the enhanced contribution, more and above ₹ 1 Lakh, government says to Pay IT.  
 If 80%, then 8%.  
 2.4% (~~30%~~ of 8%)  
5.6% on excess contribution

- ↳ Even for interest on savings Bank account, we have to pay IT.
- ↳ ~~Tuition~~ fees paid for children is also grouped here.  
School / not development OR other fees  
(in Sec 80C)
- ↳ Principal repayment of housing loan also there in this section.
- ↑ But unfortunately we can deduct only ₹ 1,50,000 as against all these things. This is not so useful to the people.

- ↳ National Pension Scheme → Not like the pension received by Bankers, government employee. This is also another kind of investment which gives 6 to 8%.
- ↳ Interest on some Loan can also be taken as deduction
- ↳ All these falls under section 80CC and 80CCD. Under all these mentioned categories, whatever be the investments, we can claim a deduction of only ₹ 1,50,000/-.



- ⇒ This gives deductions for medical insurance premium. Can go upto <sup>max</sup> ₹ 1,00,000; provided for self and family its ₹ 50,000 and for senior citizens we get another ₹ 50,000. Now and then, this limit changes.
- ↳ For medical checkup, upto ₹ 5000 can be claimed as deduction under this section.



- ⇒ <sup>Interest we pay</sup> ↳ Interest on educational loan can be claimed as a deduction under this section.

SECTION 80G  
↳ Deduction against donations. Main condition is the donation should not exceed 10% of taxable income. & types of donations : a) Donation to government Against various calamities like Tsunami relief, cyclone relief fund, under different names prime minister's national relief Fund, Disaster relief Fund, whatever donations we make to government, 100% of that donation can be claimed as deduction. But ~~(x)~~ by all these donations are subject to a maximum of 10% of our total income only. b) If we donate to private trust like temple or orphanage or charitable institutions school, colleges, we are eligible for only a deduction of 50% again subject to 10% of ~~taxable~~ income. // If donations exceed more than 10% of the income, for the remaining necessarily we have to pay IT.

↳ In all the advertisements, where the people are inviting contributions, donations from public for some purpose. They say, it is eligible for section 80G exemption. So it is an incentive to the donors.

↳ ~~Re~~ ANONYMOUS donations, necessarily they need to identify the donor. If they don't get it, charitable trusts getting donations from public, they need to identify the donor. If they don't get it, it will be treated as anonymous donations. For these anonymous donations, the charitable trust needs to pay 30% IT straight away otherwise income, all charitable institutions are totally exempted from IT. But As of now, since inception there is no IT for charitable institutions, ~~bcz~~ of the assumption that whatever they generate is again invested into assets of the charitable institutions, which are again utilized by the public.

SECTION  
80TTA  
↳ Provides deduction of Rs 10,000 on our interest income. — —

Ex:  $\Rightarrow$  While calculating IT of a person, we list all the components of the income, apply deductions and calculate IT.

Say income = Rs 12,00,000 (including BP, DA, HRA, incentive, bonus, etc)  $\rightarrow$

$$\text{Profession tax} = \text{Rs } 20,000$$

$$\text{Std. deduction} = \text{Rs } 4,50,000$$

$$80C = \text{Rs } 1,50,000$$

$$8ED = \text{Rs } 80,000$$

$$\text{Interest on Home Loan} = \text{Rs } 1,00,000$$

Home Loan

$$\text{Taxable Income} = \text{Rs } 8,50,000$$

$\rightarrow$  Deductions

NKT upto 2.5L its 0

2.5L to 5L  $\rightarrow$  5% (ie) 12500 Rs

5L to 10L  $\rightarrow$  20%

$$\text{So, } 8.5L - 5L = 3.5 \text{ Lakhs}$$

$$20\% \text{ of } 3,50,000 = \text{Rs } 70,000$$

$$\text{Rs } 82,500$$

Then, to this HEC less of 4%  $\rightarrow$  4% of 82,500

$$\text{Rs } 3300$$

$$= \text{Rs } 8300$$

$\therefore$  Total Rs 85800 has to be paid as IT pa

↳ Many companies give free food coupon to employees known as dodenco coupon. This is also exempted from IT. If the employer pays food allowance, then that will be taxed. But if the employer gives dodenco pass to his employees, then it's exempted from IT.

30/03/2021

Tuesday

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calculation of income from under house property :-

↳ std. deduction of 30% against annual rent  
can adjust towards maintenance and so  
↳ Municipal tax (OR) Corporation tax // property tax.

Rent = 20,000 per month  
⇒ Rs 2,40,000 p.a

From this municipal tax is deducted, and 30% of 2.4L  
can also be deducted i.e. Rs 72,000

NOW Remainder will be taken as income chargeable  
to Income Tax.

↳ A notion for a long time is, if we go for a  
housing loan, it's a big boon. We can pay our IT  
as anything. But in reality, // Housing interest rate = 6.7%.

say For ₹ 50,00,000 (we bought a house)

6.7% of (50 Lakhs) = Rs 3,35000 p.a

⇒ monthly interest = Rs 28,000

// But if we let out that house, we get a rental of max

Net interest = 6.7 | Rs 15,000.

If we are in 20% slab, then } - 90% of (6.7%) = 1.34

actual consumption will be, } 80% of (6.7%) = 2.1

Effective interest = 4.6%

∴ 4.6%, actual interest paid, after adjusting IT.

↳ If we are investing 50 Lakhs, then net interest  
payable is 4.6% on 50 Lakhs = 2,30,000 p.a  
(OR) 20,000 per month.

↳ For purchasing one house (own house), no need to  
apply all these. But if we go for one more (OR)  
additional houses, this calculation is necessary.

↳ Loss on house property or rentals, can be adjusted only against salary income.

→ ③ INCOME FROM BUSINESS OR PROFESSION:-

↳ Every business, they prepare a Profit & loss account.

For the net profit, they have to pay IT. Main thing here is, the calculation of depreciation.

↳ IT act prescribes rate of depreciation against each and every type of asset. FOR Land - no depreciation Building - 5%, Machinery - 25%, For houses - 10%. It can deduct depreciation upto a maximum of as given under IT act.

→ ④ INCOME FROM CAPITAL GAINS:-

↳ When we sell an asset, If there's a profit, then that profit is known as 'capital gain'. Short term 15%  
Long term 20%

↳ Here slabs won't apply. Any asset carried for  $< 3$  years  $\Rightarrow$  short term capital gain and for  $> 3$  years  $\Rightarrow$  long term capital gain.

↳ For sale of agricultural land, no capital gain provided there's a condition. For major cities, the land should be at least 8km away from city for corporations limit. 10km! Limit depends. If it's a small panchayat, it's 2 km. Depends on population.

↳ If we sell a property, we get a capital gain. If we invest the same in purchase of residential property within 2 years & go for construction within 2 years, no need to pay capital gain's tax on it. If we don't invest it, then part of money in capital account deposit

scheme. we can hold that money in the account without IT for 3 years. If we are not continuing (or) investing it anymore than after 3 years, we have to pay 20% on such gain.

### → ③ Income from other sources:-

↳ winning from lottery, winning from gambling, speculation, dividends received from companies and any commission received.

at

### — TAX DEDUCTION SOURCE → (TDS)

④

↳ To ensure that the taxes are collected then and there, TDS was introduced. For salaried people, every year the employer tentatively workout the tax of every employee who are liable to pay tax and they arrive at their monthly tax payable. so based on that, they deduct IT from the salary of that employee.

Here if he gets a salary of 2 lakhs pm  $\Rightarrow$  24,00,000 pa, all deductions under 80C, 80D, etc applied and arrive at approximate tax liability of the employee.

day if PTE 4,80,000, every month they deduct  $480,000 \times \frac{1}{12}$  = 40,000 from the salary of the employee. This is Tax deduction at source in case of salary. They deduct that salary and before the end of 7<sup>th</sup> of the following month, they remit to government on the account of this particular employee, under his PAN number).

↳ PAN - Permanent Account Number, possessed by almost everyone in India. (as) the employer cuts the approx tax liability every month and they remit it to the account of the employee consent against his PAN. In fact IT, every assessor can have their own Login ID and password.

↳ FORM 16A/S: If an employee goes to this form 16A/S, whatever IT deducted by the employer and remitted into his account on behalf of him against his PAN will be reflected in this form.

↳ For all other payments also, this TDS applies and IT rates can't be applied for incomes from capital gain, from lottery, etc. They have their own rates.

↳ If Rent > 10,000 per month, they have to pay 10% and they will be remitting this 10% on behalf of the landlord.

↳ If my professional charge to advocate or doctor consultant, we have to set 5% and remit it to IT department as TDS on behalf of the other person.

↳ For contract, if its value every year is ₹5,000, accordingly, we have to deduct IT as 2% OR 1% respectively.

↳ This TDS is not an advance deduction of Tax

↳ Advance Tax → Every businessman should know, approximately calculate the tax liability for the current financial year (APRIL 1 ~~TO~~ MARCH 31). They have remit 30% or 40% by dep 15<sup>th</sup>, another 30% by December 15<sup>th</sup> <sup>(or 31st)</sup> and by March 15, they should have remitted 100% of their approximate tax liability.

\*Advance Tax system states, "Even before the end of the year, during the course of the year, all the business people other than salaried people, have to pay tax in advance through installments".

↳ In case of payments to contractors, rent, professional services, advertising agencies, consultancies, we have a system called TDS, which is the responsibility of the person who is making the payment has to cut 'x%', and remit that to the payee's account.

with the IT department as IT deducted in advance against the tax liability of that particular person.

### TAX COLLECTION AT SOURCE:- (Gst)

↳ Issue of TDS. Here the person who ever makes payments has to cut a portion and remit it to IT department.

various

↳ There are ways that the tax coverage could be widened. If we sell a property worth  $> 50$  Lakh,  $1\%$  extra has to be paid extra to the seller and the seller will collect and remit it on our behalf. → In case of Land or other property

↳ For car/vehicle, if value of it  $> 10$ , Lakh, car dealer will collect  $1\%$  extra from us and remit it in our account with the IT department as advance tax paid.

↳ NOTE: Need not pay any IT on purchase. Government thinks, that if we are capable of buying a car for 10 Lakh, collect at least  $1\%$  as IT advance from him. It doesn't mean that there is IT on Purchase of Land or car.

↳ Whenever we buy scrap, scrap dealer collects  $1\%$  extra which will also be collected and remitted by the seller in our account.

↳ If annual turnover is  $> 5$  Lakh, then from those customers, we have to get  $0.1\%$  extra and pay to IT dept. in their account.

↳ Many companies would add TCS to their bill instead for all collections they get from customer. They remit  $0.1\%$  and raise a debit note on that customer and collect it separately. (debit note  $\rightarrow$  document, like a charge sheet).

as per  
Residential status of IT:

- ↳ Resident (OR)
- ↳ Resident but NOT ordinarily Resident (ORNR)
- ↳ Non-Resident

↳ According to IT act, if a person stays in India for < 180 days in the previous financial year OR < 365 days in a period of 4 years, he is treated as NRI (Non resident Indian).

This NRI whatever income they earn outside India is not taxed within India.

↳ If a person is Resident, whatever income he earns outside India is also taxed within India.

↳ Double taxation Treaty → India signed with many countries. As a resident of India, if I get a income in England and India, then what all income tax we pay in UK, ~~not~~ need to pay tax for that in India.

↳ Previously, there was Gift tax. Now, if gift is less than a limit (50,000Rs) NO IT. ~~Gift~~ is treated as income while exceeding limit.

01/04/2021 → INSURANCE:-  
Thursday-

↳ & types

Life

General

↳ Life Insurance, → For a person, on the event of his death, his family get a sum of money. In India Life Insurance Corporation has been there quite from a long time ago.

↳ Generally, many people see life insurance as an

investment but actually it's not. It's really an assurance to the dependents (family), that in the event of death of a person the family gets some indemnity. // Advantage of making Life Insurance policy

↳ Interest Rate. we will be getting if we make investment in an insurance policy, the returns are hardly 3.5 to 4%. // It's not an investment option can't be taken as an investment option Preferred

↳ Better to take Life Insurance, if we have dependents

↳ suppose if we are unable to continue the insurance policy, if we are unable to pay (<sup>the</sup> Premium) then we are asked to surrender the policy, and we will be getting back only portion of what we have paid

↳ Life Insurance companies keep on introducing new plans, where too the returns are about 5.5 to 5.75%.

↳ In any mutual fund OR in this kind of investment scheme, there are 3 options (1) our money will be invested in bonds. In case of here the returns will be hardly 6.5 OR 7%. But 100% security for money is there (2) Risky.

Investment in sharemarkets. (Buy if share market declines we can't even take back what we invest)

(3) Balanced Funds, → Investing 50% in bonds (where there are less returns) and 50% in shares thereby reducing investors risk (Eg:- 50% in bonds, 50% in shares)

↳ LIC has & more options : I Group gratuity scheme

Gratuity - sum of money paid to an employee at the end of period of employment]. For calculating gratuity,

We take only basic pay and DA. Eg: Total pay = 60,000 p.m. (say He works for 10 years)

out of which BPT+DA = 60% = 60000 p.m. Now, for every

continuously completed year of service, 15 days pay is the

gratuity amount payable by the employer. say salary is 36,000 (for 30 days). So, Daily Basic + DA = 1200. Now

$15 \times 1200 = \text{Rs } 18000$  Rs 18000 is given for every day

completed year of service)  $\Rightarrow 7 \times 18000 = \text{Rs } 126000/-$  (Here last

salary is only considered from which DA + BP is known). As per this scheme, the gratuity of all employee of company is assessed (Actuarial valuation).

Suppose if everybody quits the company, to the extent of what the total gratuity liability, they ask the company to keep a fund, as separate trust with LIC.

From the Fund, the LIC will invest in any of the 3 options. For managing the fund they charge about 2.5% and the return out of the fund is about 7%. Whenever the company is liable to pay gratuity they transfer money from the fund to the company. The main attraction here is, when the company transfer a huge sum to the fund of LIC, they can show that as a deduction in the P/L account, but it depends on financial health of company.

II  
IF SCHEME for Leave salary: In India, for every 15 days of working, every employee is entitled to ~~one day~~ DATE leave. (FOR eg) ~~we are all working 250 days~~, so, as per this scheme for  $250/15 = 16$  days, the company has to pay. Even for this LIC has funds while returns are about 7%.

↳ General Insurance, → FIRST FIRE INSURANCE - which includes FIREWORKS, STRIKE / RIOTS, NATURAL DISASTERS. All industries cover all their property including building, machinery, stocks under this FIRE INSURANCE.

↳ Vehicle Insurance - 2 types   
 Third party liability, Comprehensive Insurance

Comprehensive → pays for repair, damage from other than normal things like accidents - (full)  
Third party → if third party is injured or died, then for that person our insurance company is liable to pay. Only damages to 3rd party are payable by insurance company.

↳ Premium in case of fire insurance will be for 1 CRORE it is roughly about 10,000 rupees.

↳ Burglary insurance, - (Theft) Better to cover our house with this insurance, if it is in isolated areas. Even households, jewellers can be covered under this. But without <sup>claiming</sup> the rate of insurance, we can't say that we had things worth 'some' amount. So, whenever theft occurs immediately the person has to go to police station, register a complaint; After some investigations, only we can go to insurance company and claim. For this necessarily we have to maintain stock register - what things of what worth we usually have in our house. This is for both household and industry.

↳ Money in Transit - Loading money in ATMs; every company from office, they take cash and submit it to the bank, same way petrol bunks, hotels - everyday collections, they take it to the bank the next day.

If anything happens, that can be covered by this insurance. Premium here is very very low, like FOR 1 crore it may 1000 OR 2000 RS.

Here too, Complaint Registering in police station and investigation is involved and necessary. Only if its true, we can claim insurance.

↳ Fidelity Insurance - Every company, they have their own people to handle cash. Due to some reason, if someone loots money from the business, OR they commit a fraud and abscond (looting under by employee itself) is covered under this policy.

↳ Transit Insurance - (Marine Insurance) When goods are transported from one place to other, if there's a breakage due to accident, then that can be claimed under this policy. We have to specify date, commencement of journey, from 'where' to 'where'; For consignment worth of 1 Lakh, Premium could be about 500 OR 600 RS OR maximum it could be 1%. Also, if the goods are totally destroyed, Insurance company pays total amount to the insured person. If it is partially destroyed, option is given to the insured person (i) we can take the available and they can pay the remainder or (ii) they take it & sell it by auction and pay it.

↳ For electronic equipments there's a separate policy (insurance)  
Computer, services, all are covered in here!

↳ Breakdown Insurance - Breakdown of machinery Most of the companies, cover their equipments under this insurance. Premium rate will be about 1% for normal wear and tear of the machine, they don't pay. (Server crash can be covered under either Breakdown OR electronic equipment insurance). Here the main thing is PS, the insurance company wants us to pay premium on the brand new value. But when we claim for a breakdown, then they charge depreciation.

→ Generally, out of insurance, we can't make any profit <sup>at maximum</sup>. We may get the 100% back (say if we had accident in car, the very next day of the purchase of that car).

→ Insurance for professional liability - working very well for doctors. Covers the error or mistake made by professionals. Say, for eg → if anything goes wrong with the patient, their family may go to court asking for claiming huge damages from the doctor who attended that patient (The corporate hospitals covers for mostly surgeons who directly deals with the patients). As per this policy, the hospital (or) doctor need not pay, the insurance company will pay the money instead, as per the court order.

→ Public liability - works well in case of public utility like lifting windmills. If a person is injured or dead, in those cases due to the damage of ones property, if the public suffers they can be covered under this insurance policy.

→ Workmen's compensation - In case of industrial accidents, the employer is liable to pay compensation to the employee. So, as per this policy instead of the employer (or) company, the compensation is paid by insurance company.

→ Personal accident insurance - not only covers road accident, also covers accidental fall into holes. It can also be covered under this policy.

→ Medical insurance - Which every individual is concerned. Cosmetic (or) beauty treatments, are not covered in here.

BANKINGS-08/07/2021  
Tuesday

- ↳ The primary functions of Bank is to Accept DEPOSITS and Give LOANS.
- ↳ How do Banks get money, ??? Lend out ~~of~~ the deposits made by the customers. Also Borrow from Reserve bank of India and in the open money market.
- ↳ They Borrow from the RBI at a rate (repo rate). For deposits its 5%. Private sector banks can still go upto 6.5 (or) 6.75 % and so on but there's a risk on money deposited there.
- ↳ For Loans, there's a rate (MLR or RLR). They have a base rate + margin.
- ↳ Interest rate on savings bank account is about 2.7% (generally). May be 2.3% (or) 2.9% even 3.00% which differs from Bank to Bank.
- ↳ For current account, Banks are not giving any interest. But if the account is overdrawn then they charge interest on the amount overdrawn in the current account.
- ↳ All the business can maintain only current account, not permitted to operate savings bank account.
- ↳ All Banks, for senior citizens, they offer half a percent extra.
- ↳ Average cost of funds at a bank may be 3 to 4%. Whereas while giving loans, they charge (min interest rate is for housing 6.75 (or) 6.85 (or) upto 7% too) Against jewel, they charge 8%, for agri lands 4% interest. For industrial loans (for purchase of an asset) charge 9 to 10% if Balance sheet is good.
- ↳ Under loans we have fund based and non fund based facilities.
- ↳ In Deposits we have savings Bank a/c, fixed deposits, recurring deposits. Here the depositors pay certain money every month ~~or~~ every day for which interest rate is < FD but > SB.

## ↳ Loans:-

- (i) Fund Based Facility → They give rupee loan  
(ii) Non-Fund Based " → They are not giving any loan but they are giving facilities
- ↳ In addition to deposits and advances banks are also extending agency functions commissions.
- ↳ Under fund based we have **Term loans** (for 1 yr or more), overdraft, cash credit, Asset Based Based loan, Mortgage loan, Educational loan
- \* **Overdraft** - facility given by banker to customer for a shorter period which is ~~on~~ again based on the credit worthiness and operations of the customer. For this interest rate is 10+%; **Cash credit** - a kind of facility for financing the working capital requirement of the company. say, somebody starts a company and submit a loan application if the borrower is very good, (if the say his project costs 10 acres) then his own contribution will be 10% and Banks will be 90%. But if the financial standing of borrower is not so good then own contribution may be 20-30% and Banks will contribute for remaining. This is also fitted to CIBR score. Only if its ratings are good, the above conditions are imposed. Now Banks charge between 9-12% based on financial standing of the customer]

**CIBR** → It's an organisation which maintains the rating of individuals who ever avails loan on any credit facility at the bank. If we have credit/Debit card, then our transaction records <sup>amt</sup> can be found out from the CIBR (Credit Information Bureau of India Ltd.) → Here, all info. of who ever operates a credit card (OR) <sup>are updated</sup>

Fund based Facility

Whoever has got loan from any bank. Only bankers can access CIBR site. The bankers decides the credibility of the customer based on this CIBR rating, and this system give an amount of protection to the banks while giving heavy loans.

→ To operate a business, we want money to purchase materials, keep stocks, to give credit to customers → <sup>WORKING CAPITAL</sup>

→ For funding WC, banks are funding financial assistance known as cash credit; <sup>(giving)</sup> With this cash credit buy a car OR can't spend it for our personal expense. It's only for business. From our working cap the banks we will be projecting

What all are our current assets. The Banks after knowing our working capital, some percentage will be contributed by us and remaining <sup>sanctioned</sup> by the bank) Eg: ours 25%. Banks 75%. like this. So,

To our account so we can draw OR borrow only the amount of money sanctioned by the bank, from our account. One basic condition is, this is a

loan against current assets. So every month the customer has to give stock statement to the banker. The value of stocks(+) receivable should be more than the money sanctioned by the bank otherwise the money from bank side will be decreased. cash credit → finance against WC

Requirement of business unit.

[ Asset Backed Loan → Loan against assets. Bankers insist for assets held by the proprietor in the name of the proprietor itself; Mortgage → like a pledge. <sup>(G/LB)</sup> If property is movable; we call it as pawn. If the

<sup>gold from</sup> (pledge) ownership will be transferred to the bank. When we close down the loan, the ownership is again transferred

$$\text{WC} = \text{CA} - \text{C}$$

back to the borrower. If the property is immovable,  
e.g. Housing Loan it is mortgage. Generally companies mortgage  
(mortgage) their properties and get loan from the bank.  
Whenever banks are giving loans, immediately they  
go to register office, create a mortgage against  
that property. For mortgage loan, initially they  
give loan and after sometime it can be topped up.  
For topping up portion, they charge some 0.5%  
extra; Education loan → Many Banks won't insist  
for security upto 7.5 lakhs of loans. For all  
other loans, banks are charging interest on  
interest. But in case of Educational, Banks charge  
only simple interest. Also give a holiday period of  
about 1 year from completion of course and then  
repayment starts. If this loan not settled, then  
it affects CIBR Ratings; (Banks give loans at 7.5% - 8%  
→ Car Loans which is previously above ten). For housing  
loan, the plot or site should be approved. For  
unapproved sites most banks are not giving loans  
for construction. Many banks are giving  
loans even for construction purchase of  
site followed by construction, but with a  
condition that, after the purchase, within 1 or 2  
years construction should be commenced. For  
housing rate of interest is  $6.75 \text{ OR } 8\%$  ( $7\%$  very less). If  
construction is not commenced within the given  
period of time, then a very high rate of  
interest (commercial rate) and it will be 10%.

[Top up Loan, → Facility provided by banks and  
other financial institutions that allows us to  
borrow a certain amount of money over and  
above our existing loan]

↳ Clean loan, → loans without any purpose.  
For this, interest rate is very high ( $> 10 \text{ OR } 11\%$ )

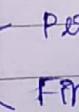
Top up Loan  
Addition loan

on Fund  
Based  
Facility

→ Letter of credit (LC) → In case of foreign trade, the exporter asks for either advance payment from importer or a document (e.g. LC) from his banker where LC → a document certifying to say that the banker gives an undertaking for amount specified in the letter of credit. [ It's a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount and if buyer is unable to make the payment, bank will come for full (or) the remaining amount of purchase ] There will be an intermediary bank between the importer and exporters Bank which is called as 'Advising Bank' which is used to inform that there is an LC from importers Bank (SBI, or anything for eg.).

→ For issue of LC, the Banks insist for security. As Banks are responsible for the money, the banks either asks for a deposit [of borrowed] of amount of LC (or) collateral security (security from the respective person in form of land, building,.) All these foreign trades are facilitated only through LC.

→ Packing credit, → basically a loan, a facility given by the banks. Whenever we get export order the Banks give loan at 4% in the name of packing credit, [ whereas for cash credit interest rate is 8 to 10% ] Which is the credit facility available (or) given by the bank for purchase of materials for facilitating exports.

→ Guarantees   
Performance guarantee  
Financial guarantee

[NOTE] : FOR LC, Banks charge LC charge and they also charge about 0.25 to 0.5% of the value of the

↳ On behalf of customers, Banks are giving guarantee in favour of a 3rd person which can be against the performance of the obligation (or) can be a simple financial guarantee. [Performance guarantee → assurance of compensation in event of inadequate (or) delayed performance on a contract; Financial guarantee → assures repayment of money]. For issuing guarantee, the banks ask for Fixed deposit equivalent to amount of guarantee (or) if it's not possible, then they ask us to give some security against which guarantee is given. For Performance guarantee, banks charge 2% as commission.

↳ cheque → an unconditional order issued on the bank to pay money on our behalf from our account to the payee.

↳ Bank draft → 100% security is there, it carries money's value, issued by bank on the request of Bank's customer

Main difference  
⇒

cheque

Bank draft

- ↳ Issued by customer
- ↳ Not guaranteed
- ↳ Cheque, until it is being honoured it's just a paper, don't carry any money value.

- ↳ Issued by bank
- ↳ guaranteed
- ↳ Always carries money's value

- Due to insufficient funds, if Cheque got dishonoured, its no more value (just a paper) whereas in case of Bank draft, there will be a value for money in the document
- Nowadays, Banks are discouraging Bank drafts - Now people are sending money through RTGS (or NEFT (National electronic fund transfer))  
If money to be transferred < 2 lakhs  $\Rightarrow$  NEFT  
[Real Time gross settlement] " > 2 lakhs  $\Rightarrow$  RTGS  
 $\downarrow$   
RTGS
- and many apps also came google pay, rupay,..
- Many banks in addition to fund based and non-fund based facilities, they also sell insurance products, (where the banks got tie up with insurance company)