



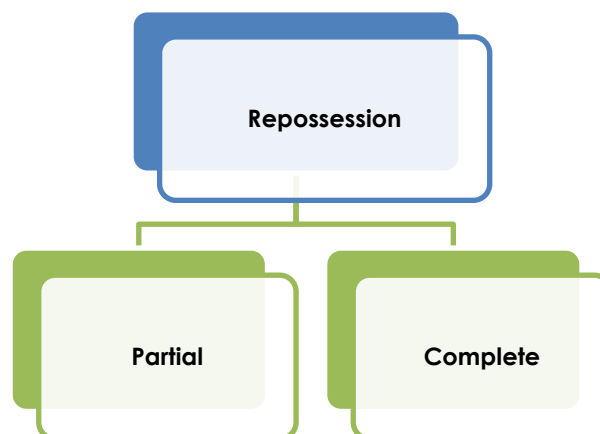
SURRENDER OF ASSET / REPOSSESSION UNDER HIRE PURCHASE METHOD

Under hire purchase agreement, the property or ownership of the asset purchased does not pass to the buyer until he pays the last instalment.

If the buyer fails to pay any instalment, the hire vendor can take back the goods. The latter does not have to pay any compensation to the defaulting buyer. If the vendor has sold more than one item to the same buyer, he (the vendor) can take back all the items or any portion thereof [**Partial Repossession**]. This recovery of possession is called **Repossession** from the vendor's point of view. From the buyer's standpoint this may be termed as **Surrender of Asset**.



Repossession can be classified:





Here we will discuss about the Partial Repossession:

- (i) Neither the Buyer nor the Hire vendor should close the other's Account.
- (ii) Usually the portion repossessed is separately valued as per agreement. If the agreed basis is not given, the depreciated value of repossessed goods as on the date of repossession should be taken as the agreed value.

(iii) In the Buyer's book the entries will be –

Hire Vendor A/c Dr
 To Hire Purchase Asset A/c

[With the amount of the agreed value of goods repossessed]

The Balance of the Asset Account should be the depreciated value of the assets not repossessed.

The Balance of the Hire Vendor Account will show the amount due to him for not repossessed goods.

Any difference in the Asset Account will show the profit / loss on surrender and shall be transferred to Profit & Loss Account.

(iv) In the Hire Vendor's Book the entry should be –

H.P. Goods Repossessed Asset A/c Dr.
 To Hire Purchase Debtors A/c

[With the amount of the agreed value of the repossessed goods]

The Balance of the Buyer Account will represent the amount due from him for goods not repossessed.

Example:

3 machines purchased on Hire Purchase costing ₹2,00,000 each.

Down Payment - ₹1,50,000.

Instalment - @ ₹2,00,000 p.a. for 3 years.

Interest @ 10% p.a. Depreciation @ 15% p.a. SLM.

2nd instalment could not be paid for which there is a repossession of 2 machines at a depreciation @25% WDV. The vendor spent ₹ 15,000 for repairs of plant and sold it ₹ 2,50,000

Ascertain Profit/Loss on surrender.

Statement showing Profit/Loss on surrender:

	As per Hire Purchaser	As per Hire Vendor
	@ 15% of SLM	@ 25% WDV
Cost Price of 2 Machines	₹4,00,000	₹4,00,000



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(-) Depreciation for 1 st yr	₹60,000	₹1,00,000
	₹3,40,000	₹3,00,000
(-) Depreciation for 2 nd Yr	₹60,000	₹75,000
	₹2,80,000	₹2,25,000
Loss on Surrender = ₹2,80,000 - ₹2,25,000 = ₹55,000		

In the books of Hire Purchaser

Dr	Machinery Account		Cr.
Particulars	(₹)	Particulars	(₹)
To, Hire Vendor A/c	6,00,000	By, Dep A/c	90,000
		By, Balance c/d	5,10,000
	6,00,000		6,00,000
To, Balance b/d	5,10,000	By, Dep A/c	90,000
		By, Hire Vendor A/c	2,25,000
		By, P/L A/c	55,000
		[Loss on default]	
		By, Balan c/d	1,40,000
	5,10,000		5,10,000

Dr	Hire Vendor Account		Cr
Particulars	(₹)	Particulars	(₹)
To, Bank A/c	1,50,000	By, Mach A/c	6,00,000
[Down Payment]		By, Interest A/c	45,000
To, Bank A/c	2,00,000		
[Instalment]			
To, Balan c/d	2,95,000		
	6,45,000		6,45,000
To, Mach A/c	2,25,000	By, Balan b/d	2,95,000
To, Balan c/d	99,500	By, Interest A/c	29,500
	3,24,500		3,24,500
		By, Balan b/d	99,500



In the books of Hire Vendor

Dr.		Hire Purchase Debtors Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To, Hire Purchase Sales A/c	6,00,000	By, Bank A/c	1,50,000		
To, Interest A/c		[Down Payment]			
		By, Bank A/c	2,00,000		
	45,000	[Instalment]			
		By, Balance c/d	2,95,000		
	6,45,000				6,45,000
To, Balance b/d	2,95,000	By, Goods Repossessed A/c	2,25,000		
To, Interest A/c	29,500	By, Balance c/d	99,500		
	3,24,500				3,24,500
To, Balance b/d	99,500				

Dr.		H.P. Goods Repossessed Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To, Hire Purchase Debtors A/c		By, Bank A/c	2,50,000		
To, Bank A/c	2,25,000	- Sale			
- Repairs					
To, P/L A/c	15,000				
Profit on sale of repossessed goods	10,000				
	2,50,000				2,50,000

THANK YOU





BANKER – CUSTOMER RELATIONSHIP



Banker

There is no statutory definition of the term 'banker'. The business of a banker in ordinary course consists in receiving money from or on, account of a customer and repaying the same on demand or when drawn by a cheque. "A banker", according to Hart, "is one who, in the ordinary course of his business, honours cheques drawn upon him by persons (customers) from and for whom he receives money on current accounts."

The Negotiable Instruments Act defines a 'banker' as including any person acting as a banker. The Banking Regulation Act, 1949 defines a 'banking company' as "a company which transacts the business of banking in India" [Sec.5 (b)], and the term 'banking' has been defined as "accepting for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise, and withdraw able by cheque, draft, order or otherwise." [Sec. 5 (c)].

Customer

The term 'customer' is also not defined in any of the Statutes. A person becomes a customer of a bank when the latter agrees to open an account of the former. Thus a customer is a person who has some sort of account with a banker. The duration of the relationship is immaterial.

In *Ladbroke v. Todd*. (1914) 111 L.T. 43, it was observed: "The relation of banker and customer begins as soon as the first cheque is paid in and accepted for collection and not merely when it is paid." But mere casual acts of service do not create the relationship of banker and customer [*Commissioner of Taxation v. English, Scottish Australian Bank Ltd.*, (1920) A.C., 683], and merely because a banker performs a casual service for a person does not make that person a customer. Thus a person who goes to the bank to remit his life insurance premium to the



Life Insurance Corporation, or to buy a draft or cash a cheque issued to him by someone else, is not a customer. To become a customer, a person must have some sort of account with the banker.

LEGAL RELATIONSHIP BETWEEN BANKER AND CUSTOMER

The relationship between a banker and his customer is essentially contractual. It is fundamentally the relationship of a debtor (the banker) and a creditor (the customer) with the modification that the banker is only liable to repay the customer when the customer demands payment. The relationship is sometimes reversed. This happens when the banker lends money to the customers.

The relationship between a banker and his customers also partakes many aspects of the relationship of agent and principal.

Special features of this legal relationship—Rights and obligations of banker

- 1. Obligation to honour cheques.** A banker, having sufficient funds of the customer, properly applicable to the payment of cheques, is duty bound to honour his customer's cheques (Sec. 31). If he wrongfully refuses to honour these cheques, he is liable to the customer in damages.

In order to make a banker liable for wrongful dishonour of a customer's cheque, it is necessary that the cheque should have been duly presented for payment. The loss or damage which the customer can recover in such a case not only includes any pecuniary loss or damage but also the loss arising on account of injury to his reputation. He can recover very substantial damages if he can show that the dishonour of the cheque resulted in a loss of credit. In this case, the rule of law is that the smaller the amount of the cheque which is dishonoured, the larger the amount of the damages awarded (as the loss of reputation in such a case is more). But where the drawer does not suffer any damage, he can recover only nominal damages. The banker is liable for wrongful dishonour of a cheque to the drawer (his customer) only and not to the payee or the holder of the cheque as there is no privity of contract between the banker and the payee or the holder.

- 2. Obligation to keep a proper record of transactions.** The banker must keep a proper and accurate record of all the transactions of the customer. Sometimes he may make some wrong credit in the account of a customer. If he intimates this fact to the customer and the customer acts upon the intimation bona fide (and not negligently) and alters his position (say, by withdrawing cash), the banker is estopped from contending that the entries were wrongly made. Further he shall not succeed in that case in recovering the amount from the customer.
- 3. Obligation to abide by the instructions given by the customer.** The banker must abide by any express instructions of the customer provided these are within the scope of the relationship between the banker and the customer. This relationship is subject to the terms of the contract between the banker and the customer and the rules laid down in the Negotiable Instruments Act. The customer should make sure that the instructions are specific and clear and are not likely to mislead the banker. In the absence of any express instructions, the banker must act according to the usage prevailing at the place where the banker conducts his business and the banker is also bound to use reasonable skill and diligence in his work .



4. **General lien of bankers.** According to Sec. 171 of the Indian Contract Act, 1872, the banker may, in the absence of a contract to the contrary, retain, as a security for a general balance of account, any goods and securities bailed to him by the customer.
5. **Obligation not to disclose the state of his customer's account or affairs.** The banker must take utmost care not to disclose the state of account of his customer's affairs as this may result in considerable harm to the credit and business of the customer. If he fails in this duty, he is liable to damages.
6. **Incidental charges and interest.** The banker has the right to claim from the customer incidental charges and interest on money lent to the customer as per the rules and regulations communicated to him at the time when the account is opened.
7. **Right to set-off.** Where the banker has two accounts of the customer, one showing a credit balance and the other a debit balance, the banker has the right to combine the two accounts and set off the balance of one against the other. But to exercise such a right, the debit and credit balances of two accounts must be due by and to the customer in the same right.
8. **Right of appropriation.** The Banker also has right of appropriation as stated in Secs. 59 to 61 of the Indian Contract Act, 1872.

Rule in Clayton's Case (1816) 1 Mer. 572. This rule is applicable where the parties have a current account, i.e., an unbroken account between them. In such a case appropriation impliedly takes place in the order in which the receipts and payments take place and are carried into the account. Presumably, it is the sum first paid in that is first drawn out. It is the first item on the debit side of the account that is discharged or reduced by the first item on the credit side: the appropriation is made by the very act of setting the two items against each other.

When may a banker dishonour a customer's cheque?

A banker may dishonour a customer's cheque in the following cases:

1. Where the banker does not have sufficient funds to the credit of the customer. If, for example, a cheque for ₹ 500 is presented for payment and the customer has only ₹ 490 to his credit, the banker may dishonour the cheque. Again, if two cheques of ₹ 250 each are presented at one time, the banker may dishonour both the cheques.
2. Where the funds to the credit of the customer are not applicable to the payment of the cheque, e.g., when the money is held in trust.
3. Where the cheque is ambiguous or of doubtful legality.
4. Where the cheque is mutilated (torn so as to make it imperfect).
5. Where the cheque is irregular or materially altered.
6. Where the cheque is not duly presented.
7. Where the customer's signature does not agree with his specimen signatures.
8. Where the cheque is post-dated. In such a case, if the banker makes payment before the ostensible date of



- the cheque, and the customer countermands payment, or issues another cheque bearing a prior date and it is dishonoured because the funds have depleted, the banker is liable to the customer in damages.
9. Where the cheque has become stale [i.e., has not been presented for payment for six months from the date of its issue].
 10. Where the cheque is presented at a branch other than the one where the customer has the account.
 11. Where an account is in joint names of a few persons, but they have not all signed the cheque.
 12. Where the banker has a claim for a set-off on the funds of the customer and the cheque is for an amount in excess of the balance above the claim.

When **must** a banker dishonour a customer's cheque?

A banker must dishonour a customer's cheque in the following cases:

1. When the customer becomes insolvent or an order of adjudication has been made against him. The reason for this is obvious. All the assets of the insolvent (the customer) vest in the Official Receiver or Assignee.
2. When the customer countermands payment (i.e., orders the banker not to honour the cheque).
3. When the banker receives notice of the customer's death. But if he pays the cheque before he receives notice, the payment is valid.
4. When the banker receives notice of the customer's insanity.
5. When a garnishee or other legal order attaching or otherwise dealing with the money in banker's hands is received by the banker.
6. When the customer gives notice to the banker to close the account.
7. When the customer gives notice of assignment of the credit balance of his account.
8. When the banker suspects, or has reason to believe, that the title of the person presenting the cheque is defective.
9. When the holder gives a notice of loss of the cheque to the banker. The banker may, however, insist that the holder should obtain a countermand from the drawer.

PROTECTION OF PAYING BANKER

The bankers are placed in a privileged position as regards the payment of their customers' cheques. Sec. 85 deals with this privilege of the paying banker.

In case of Cheques payable to order [Sec. 85 (1)]. If a cheque payable to order purports to be indorsed by or on behalf of the payee, the drawee (the paying banker) is discharged by payment in due course, i.e., the banker is protected if he pays the amount in accordance with the apparent tenor of the instrument in good faith and without negligence and to a person under circumstances not affording a reasonable ground for believing that he is not entitled to receive the payment. The banker can debit his customer's account with the amount so paid even though—

- (1) the indorsement by the payee might turn out to be a forgery, or
- (2) the indorsement might have been placed on the cheque by the payee's agent without his authority.



Example:

A draws on K bank a cheque payable to R or order and forwards it to his agent, S, with instructions to hand it over to R. S forges R's indorsement and collects payment on the cheque. The banker is discharged by payment in due course.

In the above case, the banker can debit his customer with the amount so paid. Sec. 85 grants this protection to the banker because he is not expected to know the signatures of all the persons, excepting his customers, on earth.

Whenever a cheque purporting to be drawn by a customer is presented before a bank, it carries a mandate to the bank to pay. If a cheque is forged there is no such mandate [Canara Bank v. Canara Sales Corpn., A.I.R. (1987) S.C. 1603]. Thus if a customer's (drawer's) signature is forged and the banker makes payment on the cheque, he cannot debit the account of the customer [Babulal v. State Bank of Bikaner, A.I.R. (1989) Cal. 92]. Payment made on a forged cheque cannot be regarded as payment in due course under Sec. 10. May be that the banker is an innocent victim of the fraud, but so is the customer. If there are two innocent parties, the one whose negligence led to the ultimate loss is primarily liable [Allahabad Bank v. Kul Bhushan. A.I.R. (1989) Punj. 571].

The banker cannot also debit the account of his customer :

- (1) Where the payment is not made in due course and in accordance with the apparent tenor of the cheque.
- (2) Where there is a discrepancy between the name of the payee and his indorsement [Charles v. Blackwell, (1872) 2 C.P.D. 151].
- (3) Where the payment of a crossed cheque is made on the counter [Smith v. Union Bank of London, (1875) Q.B.D. 31].
- (4) Where the signature of the customer is forged. If the forgery is intimately connected with the negligence of the customer and is the proximate cause of the loss, the banker can debit the account of the customer.

Example. A draws a cheque on his banker for ₹50 carelessly leaving a blank space before the words and figures 'fifty'. The holder fills it up as a cheque for ₹ 550, and obtains payment. The banker can charge A with the amount so paid [Bank of Bihar v. Mahabir Lai, A.I.R. (1964) S.C. 337].

In case of Cheques payable to bearer [Sec. 85 (2)]. As regards bearer cheques, the rule is "once a bearer cheque, always a bearer cheque". A banker gets a good discharge by payment in due course of the amount on a bearer cheque to the holder of the instrument. It does-not matter whether the apparent holder is the owner of the cheque or not. Anyone who happens to be in the possession of a bearer cheque can claim payment on it and the banker will be justified in debiting the account of the customer when payment is made to the holder of it.

In case of Crossed cheques. A cheque may be crossed (1) generally, or (2) specially.

- (i) Payment of **cheque crossed generally**. Where a cheque is crossed generally, it is a direction to the banker on whom the cheque is drawn to pay it to a banker only (Sec. 126, para 1). The drawee banker is discharged by payment in due course of a generally crossed cheque to a banker.



- (ii) In case of Payment of **cheque crossed specially**. Where a cheque is crossed specially, it is a direction to the banker on whom the cheque is drawn to pay it only to the banker to whom it is crossed, or his agent for collection (Sec. 126, para 2). The drawee banker is discharged by payment in due course of a specially crossed cheque to the banker to whom it is crossed or his agent for collection.
- (iii) In case of Payment of **crossed cheque in due course**. If the drawee banker pays a crossed cheque in due course (i.e., in good faith and without negligence and in accordance with the provisions of Sec. 126), he is put in the same position as if he had paid to the true owner of the cheque. He can debit his customer, i.e., the drawer, with the amount so paid on the cheque. It does not matter even if the amount of the cheque does not reach the hands of the true owner (Sec. 128).
- (iv) In case of Payment of **crossed cheque out of due course**. When a cheque is crossed generally and the drawee banker pays it otherwise than in accordance with such crossing (i.e., pays a cheque crossed generally otherwise than to a banker to whom the same is crossed), he is liable to the true owner of the cheque for any loss he may sustain by such default (Sec. 129).

PROTECTION OF COLLECTING BANKER

The collecting banker may collect the proceeds of a cheque—

- (1) as an agent of his customer, or
- (2) as a holder in due course.

Collecting banker as an agent

The position of the collecting banker as an agent may be studied in relation to crossed cheques and open cheques.

Crossed cheques. According to Sec. 131, a banker who has in good faith and without negligence received payment for a customer of a cheque crossed generally or specially to himself, does not, in case the title to the cheque proves defective, incur any liability to the true owner of the cheque by reason only of having received such payment.

Sec. 131 enunciates the rule that where a banker collects payment on a crossed cheque for his customer, he is protected if the customer's title to the cheque turns out to be defective and he would not be liable to the true owner for conversion. The conditions essential for this protection are:

- (1) That the collecting banker acts in good faith and without negligence.
- (2) That the collecting banker receives payment of the crossed cheque for a customer. The banker is not protected if he obtains payment on a crossed cheque for a non-customer.
- (3) That the collecting banker acts as an agent for collection for the customer.
- (4) That the protection applies to crossed cheques and that the cheque must have been crossed before it gets into the hands of the collecting banker.



It extends a further protection to the collecting banker. Where the collecting banker credits his customer's account with the amount of the crossed cheque before receiving payment thereof, the banker is protected in that case also. However, it shall be the duty of the banker who receives payment based on an electronic image of a truncated cheque held with him, to verify the prima facie genuineness of the cheque to be truncated and any fraud, forgery or tampering apparent on the face of the instrument that can be verified with due diligence and ordinary case [Expl. II to Sec. 131 inserted by the Negotiable Instrument Miscellaneous Provisions Act, 2002]

It shall be the duty of the banker who receives payment based on an electronic image of a truncated cheque held with him, to verify the prima facie genuineness of the cheque to be truncated and any fraud, forgery or transferring apparent on the face of the instrument that can be verified with due diligence and ordinary case [Explanation II as added by the Negotiable Instruments (Amendment and Miscellaneous Provisions) Act, 2002].

EXAMPLE:

The Drawer, Mr. Avinash is induced by Mr. Aditya to draw a cheque in favour of Ms.Radha, who is an existing person. Mr. Aditya instead of sending the cheque to Ms. Radha forges his name and pays the cheque into his own bank. Stet whether Mr. Avinash can recover the amount of the cheque from Mr. Aditya's banker.

Answer:

Mr. Avinash's banker is not liable, since a paying banker is not liable even if it is subsequently found that any endorsement on the cheque has been forged; provided the paying banker made the payment in due course (Sec 85).

Mr. Aditya's banker is not liable since a collecting banker is not liable for any loss caused to the true owner due to defective title of the holder; provided the collecting banker acted in good faith and without negligence while collecting the amount of the crossed cheque as an agent (Sec 131).

EXAMPLE:

A induced B by fraud to draw a cheque payable to C or order. A obtained the cheque, forged C's endorsement and collected proceeds to the cheque through his bankers. B, the drawer, wants to recover the amount from C's bankers.

Decide in the light of the provisions of Negotiable Instruments Act, 1881-

- **whether B, the drawer, can recover the amount of the cheque from C's bankers?**
- **whether C is the fictitious payee?**
- **Would your answer be still the same in case C is a fictitious person?**

Answer:

- B's banker is not liable since a paying banker is not liable even if it is subsequently found that any endorsement on the cheque has been forged; provided the paying banker made the payment in due course (Sec. 85)
- A's banker is not liable since a collecting banker is not liable for any loss caused to the true owner due to defective title of the holder; provided the collecting banker acted in good faith and without negligence while collecting the amount of the crossed cheque as an agent (Sec. 131).
- C's banker is not liable since it has neither collected nor paid the cheque.



C is not the fictitious payee since C, in fact, exists.

If C were a fictitious payee, the answer would have remained same since protection is available to a collecting banker u/s 131 and paying banker u/s 85, irrespective of the fact that the payee is a fictitious person or not; since C's banker would have neither collected nor paid the cheque.

EXAMPLE:

Akash issued a cheque for ₹5,00,000 to Bikash. Bikash did not present the cheque for payment within reasonable period. The Bank fails. However when the cheque was ought to be presented to the bank, there was sufficient fund to make payment of the cheque. Now, Bikash demands payment from Akash under the Negotiable Instruments Act, 1881.

Answer:

The drawer is discharged since the drawer had sufficient balance when the cheque was ought to be presented for payment. The holder has defaulted in presenting the cheque for payment within a reasonable time. The drawer has suffered actual damages due to the failure of the bank after issue of cheque but before presentation of the cheque.

ASSOCIATED ENTERPRISE (AE)

Meaning of Associated Enterprise (AE) [Section 92A]

(1) For the purposes of this section and sections 92, 92B, 92C, 92D, 92E and 92F, "associated enterprise", in relation to another enterprise, means an enterprise-

(a) which participates, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise; or

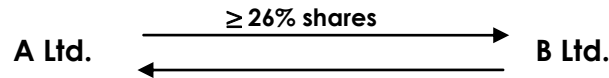
(b) in respect of which one or more persons who participate, directly or indirectly, or through one or more intermediaries, in its management or control or capital, are the same persons who participate, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise.

(2) For the purposes of sub-section (1), two enterprises shall be deemed to be associated enterprises if, at any time during the previous year,-

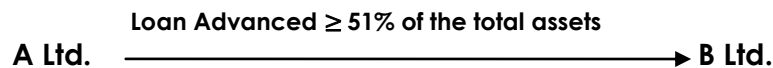
(a) one enterprise holds, directly or indirectly, shares carrying not less than twenty-six per cent of the voting power in the other enterprise; or



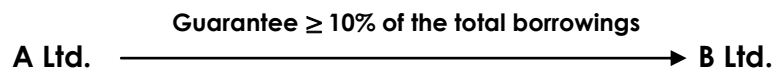
(b) any person or enterprise holds, directly or indirectly, shares carrying not less than twenty-six per cent of the voting power in each of such enterprises; or



- (c) a loan advanced by one enterprise to the other enterprise constitutes not less than fifty-one per cent of the book value of the total assets of the other enterprise; or



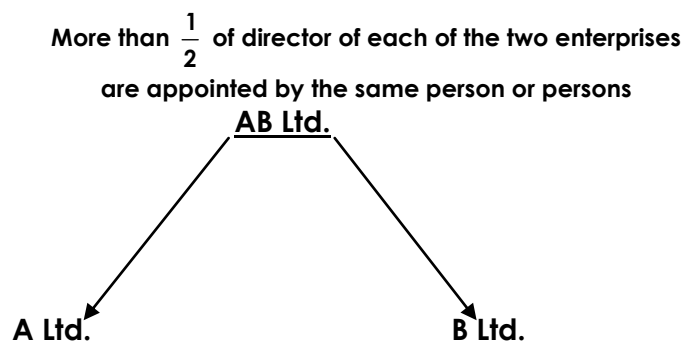
- (d) one enterprise guarantees not less than ten per cent of the total borrowings of the other enterprise; or



- (e) more than half of the board of directors or members of the governing board, or one or more executive directors or executive members of the governing board of one enterprise, are appointed by the other enterprise; or



- (f) more than half of the directors or members of the governing board, or one or more of the executive directors or members of the governing board, of each of the two enterprises are appointed by the same person or persons; or



- (g) the manufacture or processing of goods or articles or business carried out by one enterprise is wholly dependent on the use of know-how, patents, copyrights, trade-marks, licences, franchises or any other business or commercial rights of similar nature, or any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process, of which the other enterprise is the owner or in respect of which the other enterprise has exclusive rights; or



Manufacture or Processing of A Ltd. = wholly depends on the use of Know-how, patents, copyright, trade-marks, licences, franchises etc.
B Ltd. = Owner of Know-how, patents, copyright, trade-marks, licences, franchises etc.

- (h) ninety per cent or more of the raw materials and consumables required for the manufacture or processing of goods or articles carried out by one enterprise, are supplied by the other enterprise, or by persons specified by the other enterprise, and the prices and other conditions relating to the supply are influenced by such other enterprise; or

**90% or more of raw material or consumable acquired by B Ltd.
Supplied by A Ltd or by specified person and price &
condition influence by A Ltd.**

A Ltd. —————> B Ltd.

- (i) the goods or articles manufactured or processed by one enterprise, are sold to the other enterprise or to persons specified by the other enterprise, and the prices and other conditions relating thereto are influenced by such other enterprise; or

**Goods manufactured or processed and sold to other enterprise
Prices and other condition influenced by other enterprise**

A Ltd. —————> B Ltd.

- (j) where one enterprise is controlled by an individual, the other enterprise is also controlled by such individual or his relative or jointly by such individual and relative of such individual; or

**Both the enterprises are controlled by
same "Individual" and/or his relatives**

A Ltd. —————> B Ltd.

- (k) where one enterprise is controlled by a Hindu undivided family, the other enterprise is controlled by a member of such Hindu undivided family or by a relative of a member of such Hindu undivided family or jointly by such member and his relative; or

A Ltd. = Controlled by 'X' HUF.

B Ltd. = Controlled by a member of 'X' HUF or relative of a member of such HUF.

- (l) where one enterprise is a firm, association of persons or body of individuals, the other enterprise holds not less than ten per cent interest in such firm, association of persons or body of individuals; or

≥ 10% interest in such firm, AOP or BOI

A Ltd. —————> B & Co. (Firm)

- (m) there exists between the two enterprises, any relationship of mutual interest, as may be prescribed.



SIX SIGMA



Motorola pioneered the Six Sigma program in 1987. It took five years to yield significant results. Sigma (σ) is a letter in the Greek alphabet that has become the statistical symbol and metric of process variation. The sigma scale of measure is perfectly correlated to such characteristics as defects – per – unit, parts-per-million defectives and the probability of a failure.



Six Sigma is viewed as a systematic, scientific, statistical and smarter (4S) approach for management innovation which is quite suitable for use in a knowledge-based information society. The essence of Six Sigma is the integration of four elements (customer, process, manpower and strategy) to provide management innovation.

Six Sigma provides a scientific and statistical basis for quality assessment for all processes through measurement of quality levels. The Six Sigma method allows us to draw comparisons among all processes, and tells how good a process is. Through this information, top-level management learns what path to follow to achieve process innovation and customer satisfaction.

Six Sigma provides efficient manpower cultivation and utilization.

Six Sigma is a very rigorous approach to improve quality within products and services. Six Sigma generally follow the following approach





The following steps are followed while implementing Six Sigma in an organization:

Step-1 Define the priorities of the customers with respect to quality. In this step, attributes of the product that are considered most important by the customers in evaluating the quality of the product are identified. These attributes are called critical to quality characteristics. The customer's perception of quality attributes is updated from time to time by conducting customer surveys.

Step-2 Measure the processes and the defects arising in the product due to the process. The important processes influencing the critical to quality characteristics are identified and performance measurement techniques are established for these processes. The processes are measured and thus the defects arising in the product due to processes are identified.

Step-3 Analyse the process to determine the most likely causes of defects. The key variables most likely to be responsible for variation in the process are identified to find the reason for defect generation.

Step-4 Improve the process performance and remove the causes of the defects. Specification limits of the key variables are fixed and a system for measuring the deviations of the variables is established and validated. The process is improvised in order to keep the variables within specification limits.

Step-5 Ensure that the improvements are maintained over time. The modified process is subjected to vigil at regular intervals of time to ensure that the key variables do not show any unacceptable variations (beyond specification limits).

Six Sigma vs. Total Quality Management

Contrasting Six Sigma and Total Quality Management

Six Sigma	Total Quality Management
Executive ownership	Self-Directed work teams
Business strategy execution system	Quality initiative
Truly cross functional	Largely within a single function
Focused training with verifiable return on investment	No mass training in statistics and quality with return on investment
Business results oriented	Quality oriented



STATUS HOLDERS IN RELATION TO FOREIGN TRADE POLICY 2015-2020

Foreign Trade Policy: The Union Ministry of Commerce and Industry announces the integrated Foreign Trade Policy (FTP) in every 5 years with defined objectives. This policy is updated every year in April, in addition to changes that are made throughout the year.

Advantages of Foreign Trade: In the era of globalization, foreign trade has become the lifeline of any economy. Its primary purpose is not merely to earn foreign exchange, but also to stimulate greater economic activity. International trade not only enables a nation to specialize in the goods which it can produce most cheaply and efficiently, but also to consume more than it would be able to produce with its own resources. International trade enlarges the potential markets for the goods of a particular economy.

Objectives of FTP 2015-20: The FTP for 2015-2020 seeks to achieve the following objectives:

- Stable and sustainable policy environment for foreign trade: To provide a stable and sustainable policy environment for foreign trade in merchandise and services;
- Export Promotion Mission: To link rules, procedures and incentives for exports and imports with other initiatives such as "Make in India", "Digital India" and "Skills India" to create an "Export Promotion Mission" for India;
- Diversification of India's export: To promote the diversification of India's export basket by helping various sectors of the Indian economy to gain global competitiveness with a view to promoting exports;
- Expansion and integration of export market: To create an architecture for India's global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India's products and contributing to the government's flagship "Make in India" initiative;
- Regular appraisal: To provide a mechanism for regular appraisal in order to rationalise imports and reduce the trade imbalance.

Status Holder:

- (a) Status Holders are business leaders who have excelled in international trade and have successfully contributed to country's foreign trade. Status Holders are expected to not only contribute towards India's exports but also provide guidance and handholding to new entrepreneurs.
- (b) All exporters of goods, services and technology having an import-export code (IEC) number shall be eligible for recognition as a status holder. Status recognition depends upon export performance. An applicant shall be categorized as status holder upon achieving export performance during current and



previous two financial years, as indicated below. The export performance will be counted on the basis of FOB value of export earnings in free foreign exchange.

- (c) For deemed export, FOR value of exports in Indian Rupees shall be converted in US \$ at the exchange rate notified by CBEC, as applicable on 1st April of each Financial Year.
- (d) For granting status, export performance is necessary in at least two out of three years.
- (e) Export performance of one IEC holder shall not be permitted to be transferred to another IEC holder. Hence, calculation of exports performance based on disclaimer shall not be allowed.
- (f) Exports made on re-export basis shall not be counted for recognition.
- (g) Export of items under authorization, including SCOMET items, would be included for calculation of export performance.

Category of Status Holder:

Status Category	Export Performance FOB/ FOR (as converted) Value (in US \$ million)
One Star Export House	3
Two Star Export House	25
Three Star Export House	100
Four Star Export House	500
Five Star Export House	2000

Grant of double weightage:

- (a) Eligible exports for double weightage: The exports by IEC holders under the following categories shall be granted double weightage for calculation of export performance for grant of status —
 - (i) Micro, Small & Medium Enterprises (MSME) as defined in Micro, Small & Medium Enterprises Development (MSMED) Act 2006.
 - (ii) Manufacturing units having ISO/BIS.
 - (iii) Units located in North Eastern States including Sikkim and Jammu & Kashmir.
 - (iv) Units located in Agri Export Zones.



(b) One Star Export House only eligible: Double Weightage shall be available for grant of One Star Export House Status category only. Such benefit of double weightage shall not be admissible for grant of status recognition of other categories namely Two Star Export House, Three Star Export House, Four Star export House and Five Star Export House.

(c) A shipment can get double weightage only once in any one of above categories.

Privileges of Status Holders: A Status Holder shall be eligible for privileges as under -

- (a) Authorisation and Customs Clearances for both imports and exports may be granted on self-declaration basis;
- (b) Input-Output norms may be fixed on priority within 60 days by the Norms Committee;
- (c) Exemption from furnishing of Bank Guarantee for Schemes under FTP, unless specified otherwise anywhere in FTP or HBP;
- (d) Exemption from compulsory negotiation of documents through banks. Remittance/ receipts, however, would be received through banking channels;
- (e) Two star and above Export houses shall be permitted to establish Export Warehouses as per Department of Revenue guidelines.
- (f) Three Star and above Export House shall be entitled to get benefit of Accredited Clients Programme (ACP) as per the guidelines of CBEC.
- (g) The status holders would be entitled to preferential treatment and priority in handling of their consignments by the concerned agencies.

(h) Manufacturers who are also status holders (Three Star/Four Star/Five Star) will be enabled to self-certify their manufactured goods (as per their IEM/IL/LOI) as originating from India with a view to qualify for preferential treatment under different preferential trading agreements (PTA), Free Trade Agreements (FTAs), Comprehensive Economic Cooperation Agreements (CECA) and Comprehensive Economic Partnership Agreements (CEPA). Subsequently, the scheme may be extended to remaining Status Holders.

TREATMENT OF BORROWING COST (AS – 16)



Enterprises borrow funds to acquire, build and install the fixed assets and other assets, these assets take time to make them useable or saleable, therefore the enterprises incur interest (cost of borrowing) to acquire and build these assets.

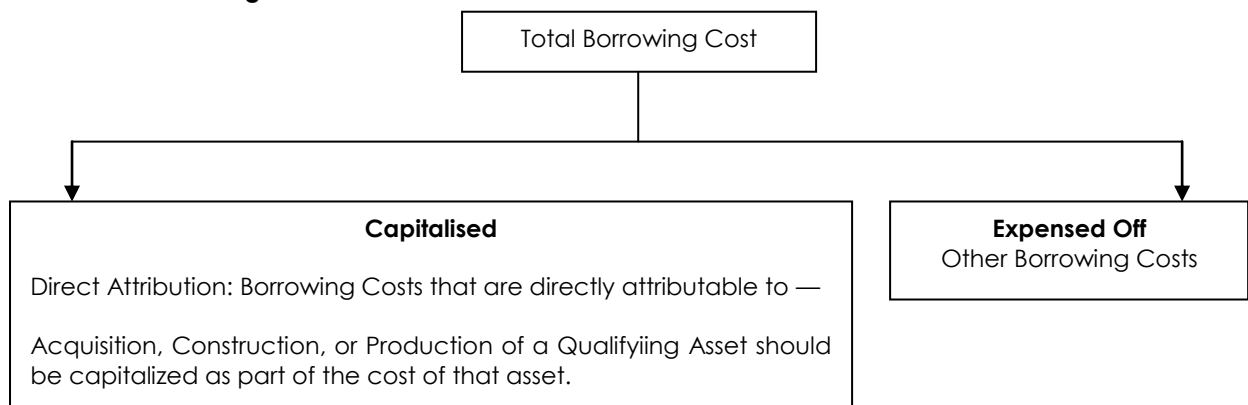
This Accounting Standard prescribes the treatment of borrowing cost (interest + other cost) in accounting, whether the cost of borrowing should be included in the cost of assets or not.

Borrowing costs are defined as interest and other costs incurred relating to borrowing of funds.

It includes the following:

- Interest and commitment charge on borrowing.
- Amortization of discounts or provision relating to borrowing.
- Amortization of ancillary costs incurred in connection with arrangement of borrower.
- Finance charges when the asset acquired under finance leases.
- Exchange difference arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Treatment of Borrowing Costs





Qualifying asset — An asset which takes substantial period of time to get ready for its intended use or sale, is called qualifying asset.

Conditions for capitalization of borrowing cost —

- Borrowing costs, which are directly attributable to the acquisition, construction or production of qualifying asset, are eligible for capitalization.
- Directly attributable costs are those costs that would have been avoided if the expenditure on the qualifying asset had not been made.
- Qualifying assets will give future economic benefit to the enterprise and the cost can be measured reliably.

Amount of borrowing costs eligible for capitalization: Specific borrowing

Amount of borrowing cost to be capitalized (Amount borrowed is specifically for the purchase of qualifying assets) = Actual borrowing cost incurred during the period **less** any income on the temporary investment of borrowed amount.

- Amount of borrowing cost to be capitalized should be determined by applying a capitalization rate to the expenditure on that asset.
- The capitalization rate should be weighted average of borrowing cost,
- Amount of borrowing cost capitalized during a period should not exceed the amount of borrowing cost incurred during that period.

Commencement of capitalization of borrowing cost —

Following three conditions must be fulfilled before the commencement of capitalization of borrowing cost:

- Activities, which are essential to prepare the asset for its intended use, should be in progress.
- Borrowing cost is incurred.
- Expenditure for acquisition, construction or production of a qualifying asset is being incurred.

Expenditure on qualifying asset includes —

- payment of cash, transfer of other asset or assumption of interest bearing liabilities.
- Progress payment received and grant received towards the cost incurred should be deducted from the expenditure.



Suspension of capitalization of borrowing cost —

- Capitalization of borrowing costs should be suspended during extended periods in which active development is interrupted.
- Capitalization of borrowing costs is not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

Cessation of capitalization —

Capitalization of borrowing cost should cease when substantially all the activities necessary to prepare the qualifying assets for its intended use or sale are completed.

It means all relevant activities, which are essential for intended use or sale of qualifying assets, should be completed.

Construction of the qualifying asset is carried in parts/phase and each part/phase can be used independently, required activities are completed for such phase and it is ready for intended use or sale, capitalization of borrowing cost for such phase/part will cease.



QUESTION

The company has obtained Institutional Term Loan of ₹ 700 lakhs for modernisation and renovation of its Plant & Machinery. Plant & Machinery acquired under the modernization scheme and installation completed on 31st March, 2015 amounted to ₹ 600 lakhs, ₹70 lakhs has been advanced to suppliers for additional assets and the balance loan of ₹30 lakhs has been utilised for working capital purpose. The Accountant is on a dilemma as to how to account for the total interest of ₹ 63.00 lakhs incurred during 2014-15 on the entire Institutional Term Loan of ₹ 700 lakhs.



SOLUTION



As per AS 16 'Borrowing Costs', borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred.

Borrowing costs should be expensed except where they are directly attributable to acquisition, construction or production of qualifying asset.

The treatment for total interest amount of ₹ 63.00 lakhs —

Purpose	Nature	Interest to be Capitalized ₹ in lakhs	Interest to be charged to Profit and Loss Account ₹ in lakhs
Modernization and renovation of plant and machinery	Qualifying asset	$63.00 \times \frac{600}{700} = 54.00$	
Advance to supplies for additional assets	Qualifying asset	$63.00 \times \frac{70}{700} = 6.30$	
Working capital	Not a qualifying asset		$63.00 \times \frac{30}{700} = 2.70$
		60.30	2.70

- A substantial period of time primarily depends on the facts and circumstances of each case.
- However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of the facts and circumstances of the case.
- It is assumed in the above solution that the modernization and renovation of plant and machinery will take substantial period of time (i.e. more than twelve months). Regarding purchase of additional assets, the nature of additional assets has also been considered as qualifying assets. Alternatively, the plant and machinery and additional assets may be assumed to be non-qualifying assets on the basis that the renovation and installation of additional assets will not take substantial period of time. In that case, the entire amount of interest, ₹63.00 lakhs will be recognized as expense in the Profit and Loss Account for year ended 31st March, 2015.

THANK YOU

