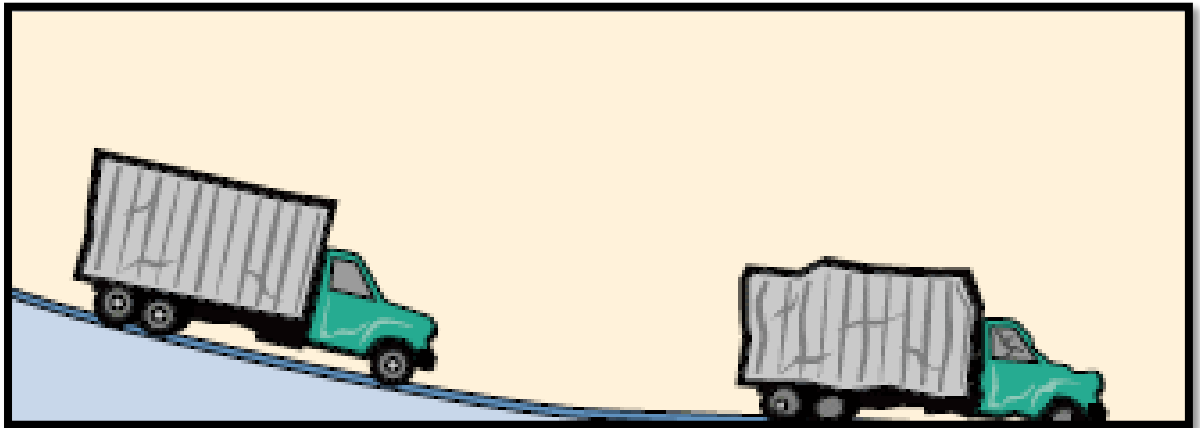


DEPRECIATION AND WAYS OF CHARGING DEPRECIATION



Depreciation is a measure of wearing out, consumption or other loss of value of a depreciable asset arising from use, efflux of time or obsolescence through technology and market changes.

- Depreciation is the gradual and permanent decrease in the value of an asset from any cause.

Depreciable Assets —

- are expected to be used for more than one accounting period;
- have a limited useful life;
- are held by an enterprise for use in production or supply of goods and services, for rental to others or for administrative purposes but not for sale in the ordinary course of business.

Example:

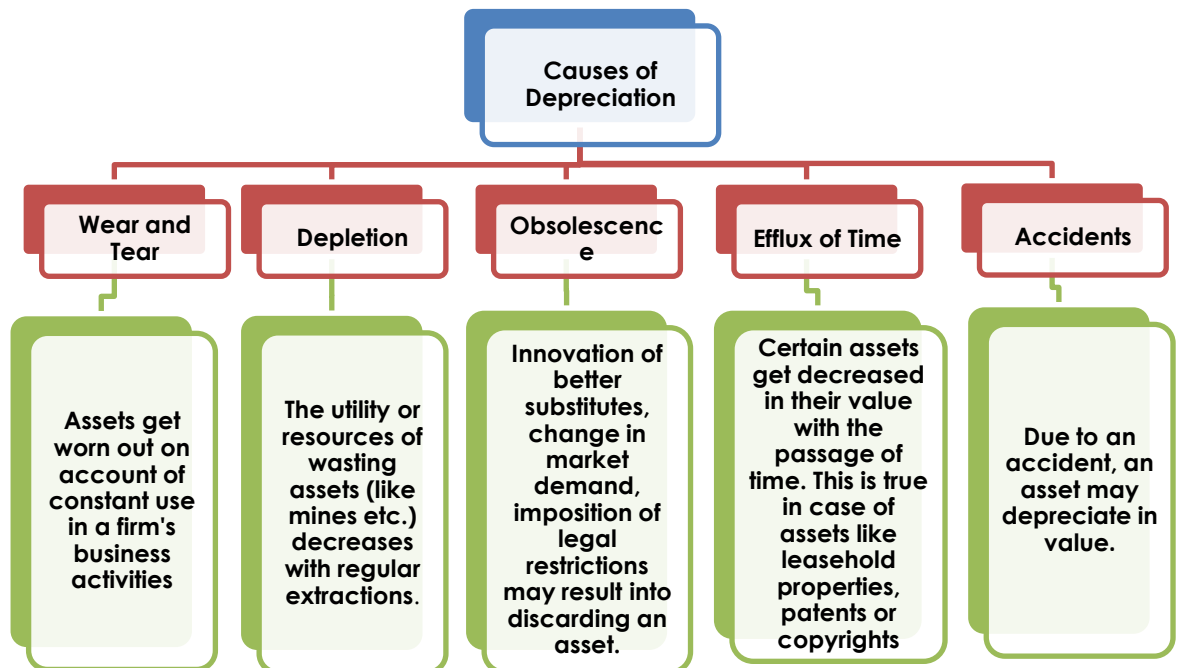
If cost of an asset is ₹600.

Its estimated scrap value after 6 year is ₹60.

Depreciable amount = ₹(600 – 60) = ₹540.

If a straight line proportion is used —

Depreciation = ₹540/6 = ₹90



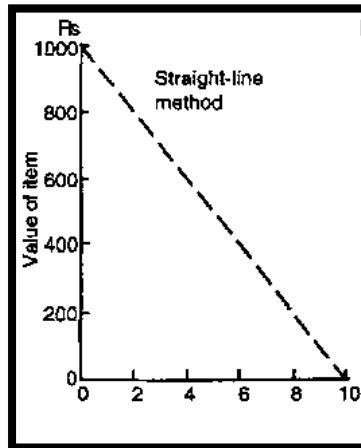
Methods of Depreciation

- Fixed Instalment Method/Straight Line Method/ Original Cost Method
- Reducing Balance Method/Diminishing Balance Method/ Written Down value Method

Other Methods —

- i. Sinking Fund Method
- ii. Annuity Method
- iii. Sum of the years' Digit Method
- iv. Insurance Policy Method
- v. Depletion Method
- vi. Mileage Method
- vii. Production Unit Method
- viii. Working Hours Method

Fixed Installment Method or Straight Line Method



$Depreciation = (V-S)/n$

Where,

V = Cost of the asset

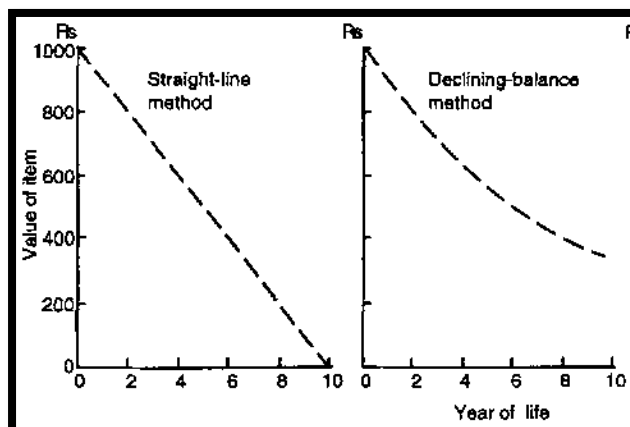
S = Residual value or the expected scrap value of the asset

n = Estimated life of the asset

Features of Straight Line Method

- i. A fixed portion of the cost of a fixed asset is allocated and charged as periodic depreciation.
- ii. Such depreciation becomes an equal amount in each period.

Reducing / Diminishing Balance Method or Written Down Value Method





Depreciation is calculated at a fixed percentage on the original cost in the first year. But in subsequent years it is calculated at the same percentage on the written down values gradually reducing during the expected working life of the asset.

The rate of allocation is constant (usually a fixed percentage) but the amount allocated for every year gradually decreases.

Provision for Depreciation Account

- ❖ Instead of deducting the Depreciation from the asset value, we will show in Liability side.
- ❖ Provision for depreciation is the collected value of all depreciation.
- ❖ With maintaining of this account we are not to credit depreciation in asset account, but to transfer the depreciation to the provision for depreciation account every year.
- ❖ **Every year we adopt this procedure and at the time of selling the assets we are to transfer the 'total depreciation' on respective assets to the credit side of that asset account, for calculating correct profit or loss on fixed asset.**
- ❖ Any method of calculating depreciation can be adopted.

1st Method:

Procedure – If Depreciation charged to Asset

Either deducts the amount of depreciation from the value of the assets:

Entry:

Depreciation A/c Dr.
To Assets A/c

We can say

Particulars	₹
Cost Price	100
Less: Depreciation	25
	75

It can also be shown as,

Liabilities	₹	Assets	₹
		Cost Price	100
		Less: Depreciation	25
			75



2nd method:

Procedure – If Depreciation transferred to Provision for Depreciation

(i) Transfer this depreciation to the provision for depreciation Account

Depreciation A/c Dr.
 To, Provision for Depreciation A/c

(ii) Amount of Provision for depreciation Account is then Transferred to Profit & Loss Account

Way of Charging Depreciation through Provision for Depreciation Account

For 1st year

Balance Sheet
as at....

Liabilities	Amount (₹)	Assets	Amount (₹)
Accumulated Depreciation	25	Fixed Assets	100

For 2nd year

Balance Sheet
as at....

Liabilities	Amount (₹)	Assets	Amount (₹)
Accumulated Depreciation (25+25)	50	Fixed Assets	100



Factories Act, 1948 _ PROVISIONS RELATING TO HAZARDOUS PROCESSES

(New Chapter IV-A, Secs. 41-A to 41-H as introduced by the Amendment Act of 1987)

Site Appraisal Committees (Sec. 41 -A)

Constitution of the Committee.

The State Government may, for purposes of advising it to consider applications for grant of permission for the initial location of a factory involving a hazardous process or for the expansion of any such factory, appoint a Site Appraisal Committee. The Committee shall consist of—

- (a) the Chief Inspector of the State who shall be its Chairman ;
- (b) a representative of the Central Board for the Prevention and Control of Air Pollution referred to in Sec 3 of the Water (Prevention and Control of Pollution) Act, 1974 ;
- (c) a representative of the Central Board for the Prevention and Control of Air Pollution referred to in Sec. 3 of the Air (Prevention and Control of Pollution) Act, 1981 ;
- (d) a representative of the State Board appointed under Sec. 4 of the Water (Prevention and Control of Pollution) Act, 1974 ;
- (e) a representative of the State Board for the Prevention and Control of Air Pollution referred to in Sec. 5 of the Air (Prevention and Control of Pollution) Act, 1981 ;
- (f) a representative of the Department of Environment in the State ;
- (g) a representative of the Meteorological Department of the Government of India ;
- (h) an expert in the field of occupational health ;
- (i) a representative of the Town Planning Department of the State Government ; and
- (j) not more than 5 other members who may be co-opted by the State Government. The co-opted members shall be (i) a scientist having specialised knowledge of the hazardous process which will be involved in the factory, (ii) a representative of the local authority within whose jurisdiction the factory is to be established, and (iii) not more than 3 other persons as deemed fit by the State Government [Sec. 41-A (1)].

Where any process relates to a factory owned or controlled by the Central Government or to a corporation or a company owned or controlled by the Central Government, the State Government shall co-opt in the Site Appraisal Committee a representative nominated by the Central Government as a member of that Committee [Sec. 41-A (3)].

Functions of the Committee.

The Site Appraisal Committee shall examine an application for the establishment of a factory involving a hazardous process. It shall make its recommendation to the State Government within a period of 90 days of the receipt of such application in the prescribed form [Sec. 41-A (2)].



The Site Appraisal Committee shall have power to call for any information from the person making an application for the establishment or expansion of a factory involving a hazardous process [Sec 41-A (4)].

No further approval required. Where the State Government has granted approval to an application for the establishment or expansion of a factory involving a hazardous process, it shall not be necessary for an applicant to obtain a further approval from the Central Board or the State Board established under the Water (Prevention and Control of Pollution) Act, 1974 and the Air (Prevention and Control of Pollution) Act, 1981 [Sec. 41-A (5)].

Compulsory disclosure of information by the occupier (Sec. 41-B)

Disclosure to whom.

The occupier of every factory involving a hazardous process shall disclose all information regarding dangers, including health hazard. He shall also disclose the measures to overcome such hazards arising from the exposure to or handling of the materials or substances in the manufacture, transportation, storage and other processes. This information is required to be disclosed to (a) the workers employed in the factory, (b) the Chief Inspector, (c) the local authority within whose jurisdiction the factory is situate, and the general public in the vicinity [Sec. 41-B (1)].

The information so furnished shall include accurate information as to the quantity, specifications and other characteristics of wastes and the manner of their disposal [Sec. 41-B (3)].

Policy with regard to health and safety of workers.

The occupier shall, at the time of registering the factory involving a hazardous process, lay down a detailed policy with respect to the health and safety of the workers employed therein. He shall intimate such policy to the Chief Inspector and the local authority. Thereafter, he shall, at such intervals as may be prescribed, inform the Chief Inspector and the local authority of any change made in the said policy [Sec. 41-B (2)].

On-site emergency plan and disaster control measures.

Every occupier shall, with the approval of the Chief Inspector, draw up an on-site emergency plan and detailed disaster control measures for his factory. He shall also make known to the workers employed therein and to the general public living in the vicinity of the factory the safety measures required to be taken in the event of an accident taking place [Sec. 41-B (4)].

Information to the Chief Inspector before commencement.

If a factory proposes to engage in a hazardous process, the occupier of the factory shall, within a period of 30 days before the commencement of such process, inform the Chief Inspector of the nature and details of the process in such form and in such manner as may be prescribed [Sec. 41-B (5)]. If the occupier contravenes this provision the licence issued under Sec. 6 to such factory shall, notwithstanding any penalty to which the occupier or factory shall be subjected to under the provisions of this Act, be liable for cancellation [Sec. 41-B (6)].

Handling, usage, transportation of hazardous substances.

The occupier of a factory involving a hazardous process shall, with the previous approval of the Chief Inspector, lay down measures for the handling, usage, transportation and storage of hazardous substances inside the factory premises. He shall also lay down the measures for the disposal of such substances outside the factory



premises. He shall also publicise these measures in the manner prescribed among the workers and the general public living in the vicinity [Sec. 41-B (7)].

Specific responsibility of the occupier in relation to hazardous processes (Sec. 41-C)

Every occupier of a factory involving any hazardous process shall—

(a) maintain accurate and upto date health records or, as the case may be, medical records, of the workers in the factory who are exposed to any chemical, toxic or any other harmful substances which are manufactured, stored, handled or transported. Such records shall be accessible to the workers subject to such conditions as may be prescribed ;

(b) appoint persons who possess qualifications and experience in handling hazardous substances and are competent to supervise such handling within the factory and to provide at the working place all the necessary facilities for protecting the workers in the manner prescribed ;

Where any question arises as to the qualifications and experience of a person so appointed, the decision of the Chief Inspector shall be final.

(c) provide for medical examination of every worker—

(i) before such worker is assigned to a job involving the handling of or working with a hazardous substance, and

(ii) while continuing in such job, and after he has ceased to work in such job, at intervals not exceeding 12 months in such manner as may be prescribed

Power of Central Government to appoint Inquiry Committee (Sec. 41 -D)

Appointment of an Inquiry Committee in the event of occurrence of an extraordinary situation.

The Central Government may, in the event of the occurrence of an extraordinary situation involving a factory engaged in a hazardous process, appoint an Inquiry Committee to inquire into the standards of health and safety observed in the factory. The object of appointing the Committee is to find out the causes of any failure or neglect in the adoption of any measures or standards prescribed for the health and safety of the workers employed in the factory or the general public affected or likely to be affected due to such failure or neglect and for the prevention and recurrence of such extraordinary situation in future in such factory or elsewhere [Sec. 41-D (1)].

Membership of the Committee and its tenure of office.

The Committee shall consist of a Chairman and 2 other members. The terms of reference of the Committee and the tenure of office of its members shall be such as may be determined by the Central Government according to the requirements of the situation [Sec. 41-D (2)].

Recommendations of the Committee advisory.

The recommendations of the Committee shall be advisory in nature [Sec. 41-D (3)].



Emergency standards (Sec. 41-E)

Sometimes standards of safety may not have been prescribed in respect of a hazardous process or class of hazardous processes, or the standards so prescribed may be inadequate. In such a case if the Central Government is satisfied, it may direct the Director General of Factory Advice Service and Labour Institutes or any institution specialised in matters relating to standards of safety in hazardous processes, to lay down emergency standards for enforcement of suitable standards in respect of such hazardous processes [Sec. 41-E (1)].

The emergency standards so laid down shall, until these are incorporated in the rules made under this Act, be enforceable and have the same effect as if they had been incorporated in the rules made under this Act [Sec. 41-E (2)].

Permissible limits of exposure of chemical and toxic substances (Sec. 41-F)

The maximum permissible threshold limits of exposure of chemicals and toxic substances in manufacturing processes (whether hazardous or otherwise) in any factory shall be of value indicated in the Second Schedule [Sec. 41-F (1)]. The Second Schedule, added by the Amendment Act of 1987, lays down permissible levels of certain chemical substances in work environment.

The Central Government may at any time for the purpose of giving effect to any scientific proof obtained from specialised institutions or experts in the field, by notification in the Official Gazette, make suitable changes in the said Schedule [Sec. 41-F (2)].

Workers' participation in safety management (Sec. 41 -G)

Appointment of a Safety Committee.

The occupier shall, in every factory where a hazardous process takes place, or where hazardous substances are used or handled, set up a Safety Committee. The Committee shall consist of equal number of representatives of workers and management to promote co-operation between the workers and the management in maintaining proper safety and health at work. It shall review periodically the measures taken in that behalf [Sec. 41-G (1)].

Composition of the Safety Committee.

The tenure of office of the members of the Safety Committee and their rights and duties shall be such as may be prescribed [Sec. 41-G (2)].

Exemption.

The State Government may, by order in writing and for reasons to be recorded, exempt the occupier of any factory or class of factories from setting up the Safety Committee [Proviso to Sec. 41-G (1)].



Right of workers to warn about imminent danger (Sec. 41-H)

Apprehension of danger to be brought to notice.

Sometimes the workers employed in a factory engaged in a hazardous process may have reasonable apprehension that there is a likelihood of imminent danger to their lives or health due to any accident. In such a case they may bring such danger to the notice of the occupier, agent, manager or, any other person who is in-charge of the factory or the process concerned directly or through their representatives in the Safety Committee. They may also simultaneously bring the danger to the notice of the Inspector [Sec. 41-H (1)].

Duty of occupier, etc. It shall be the duty of the occupier, agent, manager or the person incharge of the factory or process to take immediate remedial action if he is satisfied about the existence of such imminent danger and send report forthwith of the action taken to the nearest Inspector [Sec. 41-H (2)].

Reference of matter to Inspector. If the occupier, agent, manager or the person in-charge is not satisfied about the existence of any imminent danger as apprehended by the workers, he shall, nevertheless, refer the matter forthwith to the nearest Inspector. The decision of the Inspector on the question of the existence of such imminent danger shall be final [Sec. 41-H (3)].

Penalty for contravention of the provisions of Sections 41-B, 41-C and 41-H [New Sec. 96-A as introduced by the Amendment Act of 1987]

Whoever fails to comply with or contravenes any of the provisions of Secs. 41-B, 41-C or 41-H or the rules made thereunder shall, in respect of such failure or contravention be punishable with imprisonment for a term which may extend to 7 years and with fine which may extend to ₹ 2,00,000. In case the failure or contravention continues, the defaulter shall be punishable with additional fine which may extend to ₹ 5,000 for every day during which such failure or contravention continues after the conviction for the first such failure or contravention [Sec. 96-A (1)]. If this failure or contravention continues beyond a period of 1 year after the date of conviction, the offender shall be punishable with imprisonment for a term which may extend to 10 years [Sec. 96-A (2)1].



INCOME COMPUTATION AND DISCLOSURE STANDARDS

Central Government vide **Notification No. 32/2015, dated 31-3-2015** has notified the "Income Computation and Disclosure Standards" as specified below to be followed by all assessees, following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head "**Profit and Gains of Business or Profession**" or "**Income from Other Sources**". This notification shall come into force with effect from 1st day of April, 2015, and shall accordingly apply to the assessment year 2016-17 and subsequent assessment years.

List of Standards are as follows:

- (1) Income Computation and Disclosure Standard I relating to accounting policies Preamble
- (2) Income Computation and Disclosure Standard II relating to valuation of inventories
- (3) Income Computation and Disclosure Standard III relating to construction contracts
- (4) Income Computation and Disclosure Standard IV relating to revenue recognition Preamble
- (5) Income Computation and Disclosure Standard V relating to tangible fixed assets Preamble
- (6) Income Computation and Disclosure Standard VI relating to the effects of changes in foreign exchange rates
- (7) Income Computation and Disclosure Standard VII relating to government grants Preamble
- (8) Income Computation and Disclosure Standard VIII relating to securities Preamble
- (9) Income Computation and Disclosure Standard IX relating to borrowing costs Preamble
- (10) Income Computation and Disclosure Standard X relating to provisions, contingent liabilities and contingent assets

D. Income Computation and Disclosure Standard IV relating to revenue recognition Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

1. Scope

- (1) This Income Computation and Disclosure Standard deals with the bases for recognition of revenue arising in the course of the ordinary activities of a person from



- (i) the sale of goods;
- (ii) the rendering of services;
- (iii) the use by others of the person's resources yielding interest, royalties or dividends.

- (1) This Income Computation and Disclosure Standard does not deal with the aspects of revenue recognition which are dealt with by other Income Computation and Disclosure Standards.

2. Definitions

- (1) The following term is used in this Income Computation and Disclosure Standard with the meanings specified:
- (a) "Revenue" is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of a person from the sale of goods, from the rendering of services, or from the use by others of the person's resources yielding interest, royalties or dividends. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.
- (2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

3. Sale of Goods

In a transaction involving the sale of goods, the revenue shall be recognised when the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership. In a situation, where transfer of property in goods does not coincide with the transfer of significant risks and rewards of ownership, revenue in such a situation shall be recognised at the time of transfer of significant risks and rewards of ownership to the buyer.

- 4. Revenue shall be recognised when there is reasonable certainty of its ultimate collection.
- 5. Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim for escalation of price and export incentives, revenue recognition in respect of such claim shall be postponed to the extent of uncertainty involved.

6. Rendering of Services

Revenue from service transactions shall be recognised by the percentage completion method. Under this method, revenue from service transactions is matched with the service transactions costs incurred in reaching the stage of completion, resulting in the determination of revenue, expenses and profit which can be attributed to the proportion of work completed. Income Computation and Disclosure Standard on construction contract also requires the recognition of revenue on this basis. The requirements of that Standard shall mutatis mutandis apply to the recognition of revenue and the associated expenses for a service transaction.

7. The Use of Resources by Others Yielding Interest, Royalties or Dividends

Interest shall accrue on the time basis determined by the amount outstanding and the rate applicable. Discount or premium on debt securities held is treated as though it were accruing over the period to maturity.



8. Royalties shall accrue in accordance with the terms of the relevant agreement and shall be recognised on that basis unless, having regard to the substance of the transaction, it is more appropriate to recognise revenue on some other systematic and rational basis.
9. Dividends are recognised in accordance with the provisions of the Act.

10. Transitional Provisions

The transitional provisions of Income Computation and Disclosure Standard on construction contract shall mutatis mutandis apply to the recognition of revenue and the associated costs for a service transaction undertaken on or before the 31st day of March, 2015 but not completed by the said date.

11. Revenue for a transaction, other than a service transaction referred to in Para 10, undertaken on or before the 31st day of March, 2015 but not completed by the said date shall be recognised in accordance with the provisions of this standard for the previous year commencing on the 1st day of April, 2015 and subsequent previous year. The amount of revenue, if any, recognised for the said transaction for any previous year commencing on or before the 1st day of April, 2014 shall be taken into account for recognising revenue for the said transaction for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

12. Disclosure

Following disclosures shall be made in respect of revenue recognition, namely:—

- (a) in a transaction involving sale of good, total amount not recognised as revenue during the previous year due to lack of reasonably certainty of its ultimate collection along with nature of uncertainty;
- (b) the amount of revenue from service transactions recognised as revenue during the previous year;
- (c) the method used to determine the stage of completion of service transactions in progress; and
- (d) for service transactions in progress at the end of previous year:
 - (i) amount of costs incurred and recognised profits (less recognised losses) upto end of previous year;
 - (ii) the amount of advances received; and
 - (iii) the amount of retentions.

E. Income Computation and Disclosure Standard V relating to tangible fixed assets Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

1. Scope

This Income Computation and Disclosure Standard deals with the treatment of tangible fixed assets.

2. Definitions



(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) "Tangible fixed asset" is an asset being land, building, machinery, plant or furniture held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.

(b) "Fair value" of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

3. Identification of Tangible Fixed Assets

The definition in clause (a) of sub-paragraph (1) of paragraph 2 provides criteria for determining whether an item is to be classified as a tangible fixed asset.

4. Stand-by equipment and servicing equipment are to be capitalised. Machinery spares shall be charged to the revenue as and when consumed. When such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised.

5. Components of Actual Cost

The actual cost of an acquired tangible fixed asset shall comprise its purchase price, import duties and other taxes, excluding those subsequently recoverable, and any directly attributable expenditure on making the asset ready for its intended use. Any trade discounts and rebates shall be deducted in arriving at the actual cost.

6. The cost of a tangible fixed asset may undergo changes subsequent to its acquisition or construction on account of—

- (i) price adjustment, changes in duties or similar factors; or
- (ii) exchange fluctuation as specified in Income Computation and Disclosure

7. Standard on the effects of changes in foreign exchange rates.

Administration and other general overhead expenses are to be excluded from the cost of tangible fixed assets if they do not relate to a specific tangible fixed asset.

Expenses which are specifically attributable to construction of a project or to the acquisition of a tangible fixed asset or bringing it to its working condition, shall be included as a part of the cost of the project or as a part of the cost of the tangible fixed asset.

8. The expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, shall be capitalised. The expenditure incurred after the plant has begun commercial production, that is, production intended for sale or captive consumption, shall be treated as revenue expenditure.

9. Self-constructed Tangible Fixed Assets



In arriving at the actual cost of self-constructed tangible fixed assets, the same principles shall apply as those described in paragraphs 5 to 8. Cost of construction that relate directly to the specific tangible fixed asset and costs that are attributable to the construction activity in general and can be allocated to the specific tangible fixed asset shall be included in actual cost. Any internal profits shall be eliminated in arriving at such costs.

10. Non-monetary Consideration

When a tangible fixed asset is acquired in exchange for another asset, the fair value of the tangible fixed asset so acquired shall be its actual cost.

11. When a tangible fixed asset is acquired in exchange for shares or other securities, the fair value of the tangible fixed asset so acquired shall be its actual cost.

12. Improvements and Repairs

An Expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost.

13. The cost of an addition or extension to an existing tangible fixed asset which is of a capital nature and which becomes an integral part of the existing tangible fixed asset is to be added to its actual cost. Any addition or extension, which has a separate identity and is capable of being used after the existing tangible fixed asset is disposed of, shall be treated as separate asset.

14. Valuation of Tangible Fixed Assets in Special Cases

Where a person owns tangible fixed assets jointly with others, the proportion in the actual cost, accumulated depreciation and written down value is grouped together with similar fully owned tangible fixed assets. Details of such jointly owned tangible fixed assets shall be indicated separately in the tangible fixed assets register.

15. Where several assets are purchased for a consolidated price, the consideration shall be apportioned to the various assets on a fair basis.

16. Transitional Provisions

The actual cost of tangible fixed assets, acquisition or construction of which commenced on or before the 31st day of March, 2015 but not completed by the said date, shall be recognised in accordance with the provisions of this standard. The amount of actual cost, if any, recognised for the said assets for any previous year commencing on or before the 1st day of April, 2014 shall be taken into account for recognising actual cost of the said assets for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

17. Depreciation

Depreciation on a tangible fixed asset shall be computed in accordance with the provisions of the Act.

18. Transfers

Income arising on transfer of a tangible fixed asset shall be computed in accordance with the provisions of the Act.



19. Disclosures :

Following disclosure shall be made in respect of tangible fixed assets, namely:—

- (a) description of asset or block of assets;
- (b) rate of depreciation;
- (c) actual cost or written down value, as the case may be;
- (d) additions or deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of—
 - (i) Central Value Added Tax credit claimed and allowed under the CENVAT Credit Rules, 2004;
 - (ii) change in rate of exchange of currency;
 - (iii) subsidy or grant or reimbursement, by whatever name called;
- (e) depreciation Allowable; and
- (f) written down value at the end of year.

F. Income Computation and Disclosure Standard VI relating to the effects of changes in foreign exchange rates

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

1. Scope

This Income Computation and Disclosure Standard deals with:

- (a) treatment of transactions in foreign currencies;
- (b) translating the financial statements of foreign operations;
- (c) treatment of foreign currency transactions in the nature of forward exchange contracts.

2. Definitions

- (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:
 - (a) "Average rate" is the mean of the exchange rates in force during a period.
 - (b) "Closing rate" is the exchange rate at the last day of the previous year.
 - (c) "Exchange difference" is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency of a person at different exchange rates.



- (d) "Exchange rate" is the ratio for exchange of two currencies.
- (e) "Foreign currency" is a currency other than the reporting currency of a person.
- (f) "Foreign operations of a person" is a branch, by whatever name called, of that person, the activities of which are based or conducted in a country other than India.
- (g) "Foreign currency transaction" is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when a person:—
- (i) buys or sells goods or services whose price is denominated in a foreign currency; or
 - (ii) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
 - (iii) becomes a party to an unperformed forward exchange contract; or
 - (iv) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.
- (h) "Forward exchange contract" means an agreement to exchange different currencies at a forward rate, and includes a foreign currency option contract or another financial instrument of a similar nature;
- (i) "Forward rate" is the specified exchange rate for exchange of two Currencies at a specified future date;
- (j) "Indian currency" shall have the meaning as assigned to it in section 2 of the Foreign Exchange Management Act, 1999;
- (k) "Integral foreign operation" is a foreign operation, the activities of which are an integral part of the operation of the person;
- (l) "Monetary items" are money held and assets to be received or liabilities to be paid in fixed or determinable amounts of money. Cash, receivables, and payables are examples of monetary items;
- (m) "Non-integral foreign operation" is a foreign operation that is not an integral foreign operation;
- (n) "Non-monetary items" are assets and liabilities other than monetary items. Fixed assets, inventories, and investments in equity shares are examples of non-monetary items;
- (o) "Reporting currency" means Indian currency except for foreign operations where it shall mean currency of the country where the operations are carried out.
- (2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

Foreign Currency Transactions

3. Initial Recognition

- (1) A foreign currency transaction shall be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.
- (2) An average rate for a week or a month that approximates the actual rate at the date of the transaction may be used for all transaction in each foreign currency occurring during that period. If the exchange rate fluctuates significantly, the actual rate at the date of the transaction shall be used.

4. Conversion at Last Date of Previous Year

At last day of each previous year:—

- (a) foreign currency monetary items shall be converted into reporting currency by applying the closing rate;



- (b) where the closing rate does not reflect with reasonable accuracy, the amount in reporting currency that is likely to be realised from or required to disburse, a foreign currency monetary item owing to restriction on remittances or the closing rate being unrealistic and it is not possible to effect an exchange of currencies at that rate, then the relevant monetary item shall be reported in the reporting currency at the amount which is likely to be realised from or required to disburse such item at the last date of the previous year; and
- (c) non-monetary items in a foreign currency shall be converted into reporting currency by using the exchange rate at the date of the transaction.

5. Recognition of Exchange Differences

- (i) In respect of monetary items, exchange differences arising on the settlement thereof or on conversion thereof at last day of the previous year shall be recognised as income or as expense in that previous year.
- (ii) In respect of non-monetary items, exchange differences arising on conversion thereof at the last day of the previous year shall not be recognised as income or as expense in that previous year.

6. Exceptions to Paragraphs 3,4 and 5

Notwithstanding anything contained in paragraph 3, 4 and 5; initial recognition, conversion and recognition of exchange difference shall be subject to provisions of section 43A of the Act or Rule 115 of Income-tax Rules, 1962, as the case may be.

Financial Statements of Foreign Operations

7. Classification of Foreign Operations

- (1) The method used to translate the financial statements of a foreign operation depends on the way in which it is financed and operates in relation to a person. For this purpose, foreign operations are classified as either "integral foreign operations" or "non-integral foreign operations".
- (2) The following are indications that a foreign operation is a non-integral foreign operation rather than an integral foreign operation:—
- (a) while the person may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from the activities of the person;
- (b) transactions with the person are not a high proportion of the foreign operation's activities;
- (c) the activities of the foreign operation are financed mainly from its own operations or local borrowings;
- (d) costs of labour, material and other components of the foreign operation's products or services are primarily paid or settled in the local currency;
- (e) the foreign operation's sales are mainly in currencies other than Indian currency;
- (f) cash flows of the person are insulated from the day-to-day activities of the foreign operation;
- (g) sales prices for the foreign operation's products or services are not primarily responsive on a short-term basis to changes in exchange rates but are determined more by local competition or local government regulation;
- (h) there is an active local sales market for the foreign operation's products or services, although there also might be significant amounts of exports.



8. Integral Foreign Operations

The financial statements of an integral foreign operation shall be translated using the principles and procedures in paragraphs 3 to 6 as if the transactions of the foreign operation had been those of the person himself.

9. Non-integral Foreign Operations

- (1) In translating the financial statements of a non-integral foreign operation for a previous year, the person shall apply the following, namely:—
 - (a) the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation shall be translated at the closing rate;
 - (b) income and expense items of the non-integral foreign operation shall be translated at exchange rates at the dates of the transactions; and
 - (c) all resulting exchange differences shall be recognised as income or as expenses in that previous year.
- (2) Notwithstanding anything stated in sub-paragraph 1, translation and recognition of exchange difference in cases referred to in section 43A of the Act or Rule 115 of Income-tax Rules, 1962 shall be carried out in accordance with the provisions contained in that section or that Rule, as the case may be.

10. Change in the Classification of a Foreign Operation

- (1) When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.
- (2) The consistency principle requires that foreign operation once classified as integral or non-integral is continued to be so classified. However, a change in the way in which a foreign operation is financed and operates in relation to the person may lead to a change in the classification of that foreign operation.

11. Forward Exchange Contracts

- (1) Any premium or discount arising at the inception of a forward exchange contract shall be amortised as expense or income over the life of the contract. Exchange differences on such a contract shall be recognised as income or as expense in the previous year in which the exchange rates change. Any profit or loss arising on cancellation or renewal shall be recognised as income or as expense for the previous year.
- (2) The provisions of sub-para (1) shall apply provided that the contract:
 - (a) is not intended for trading or speculation purposes; and
 - (b) is entered into to establish the amount of the reporting currency required or available at the settlement date of the transaction.
- (3) The provisions of sub-para (1) shall not apply to the contract that is entered into to hedge the foreign



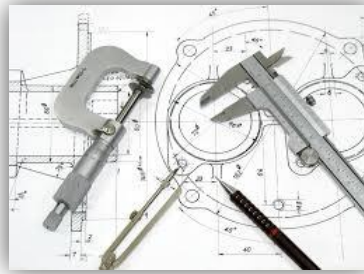
currency risk of a firm commitment or a highly probable forecast transaction. For this purpose, firm commitment, shall not include assets and liabilities existing at the end of the previous year.

- (4) The premium or discount that arises on the contract is measured by the difference between the exchange rate at the date of the inception of the contract and the forward rate specified in the contract. Exchange difference on the contract is the difference between:
 - (a) the foreign currency amount of the contract translated at the exchange rate at the last day of the previous year, or the settlement date where the transaction is settled during the previous year; and
 - (b) the same foreign currency amount translated at the date of inception of the contract or the last day of the immediately preceding previous year, whichever is later.
- (5) Premium, discount or exchange difference on contracts that are intended for trading or speculation purposes, or that are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction shall be recognised at the time of settlement.

12. Transitional Provisions

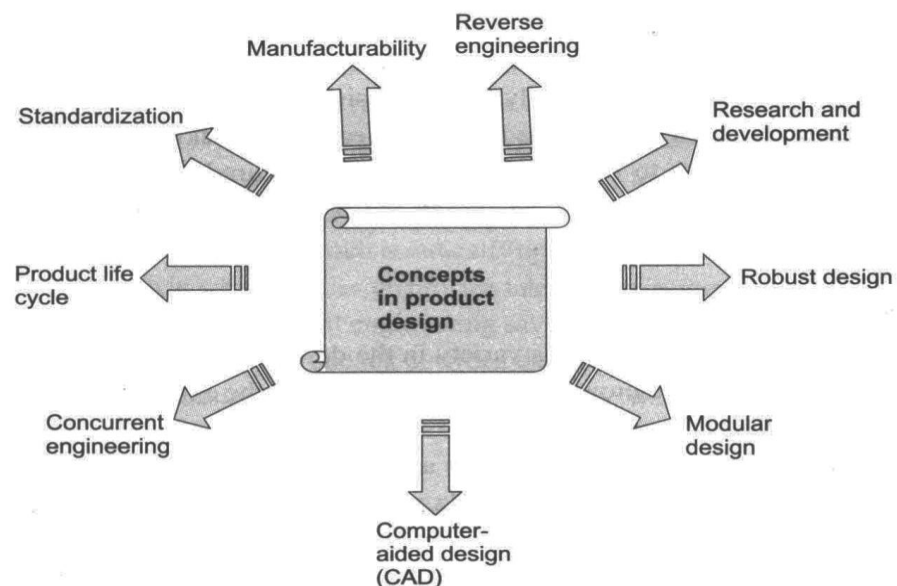
- (1) All foreign currency transactions undertaken on or after 1st day of April, 2015 shall be recognised in accordance with the provisions of this standard.
- (2) Exchange differences arising in respect of monetary items or non-monetary items, on the settlement thereof during the previous year commencing on the 1st day of April, 2015 or on conversion thereof at the last day of the previous year commencing on the 1st day of April, 2015, shall be recognised in accordance with the provisions of this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March, 2015 for an item, if any, which is carried forward from said previous year.
- (3) The financial statements of foreign operations for the previous year commencing on the 1st day of April, 2015 shall be translated using the principles and procedures specified in this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March, 2015 for an item, if any, which is carried forward from said previous year.
- (4) All forward exchange contracts existing on the 1st day of April, 2015 or entered on or after 1st day of April, 2015 shall be dealt with in accordance with the provisions of this standard after taking into account the income or expenses, if any, recognised in respect of said contracts for the previous year ending on or before the 31st March, 2015.

PRODUCT DESIGN



The most obvious reason for product design is to offer new products to remain competitive in the market. The second most important reason is to make the business grow and increase profits. Sometimes product design is actually redesign or modification of existing design instead of an entirely new design. The reasons for this include customer complaints, accidents or injuries during product use, excessive warranty claims or low demand.

The following figure shows the concepts involved in product design.



Concepts in product design

Research and Development





The design of new products is done by the Research and Development (R&D) department of organizations with the help of many other departments. In R&D, fundamental research is the advancement of the state of knowledge in a subject, though it may not be practically converted into commercial applications. For example, when Newton found the law of gravity, it was a fundamental research, which did not have immediate applications. In the course of time, many commercial applications of the law such as space rocket propulsion, high-speed elevators, etc. came into existence.

Applied research has the objective of developing commercial applications. Most of the corporate houses have a R&D department devoted for this purpose. Development is the process of converting the results of applied research into useful commercial applications.

Reverse Engineering

Reverse engineering is the process of carefully dismantling an existing product (of a competitor) step by step in order to understand the unique underlying concepts. It helps in designing new products, which are better than those of the competitors. In the field of consumer electronics, Sony Corp. is on the forefront in designing new innovative items such as the walkman, handycam, digital cameras, etc. Many other companies have to follow the reverse engineering approach in order to break Sony's monopoly of new products in the shortest possible time.



Manufacturability

Manufacturability implies designing a product in such a way that its manufacturing/ assembling can be done easily. While designing a new product, the manufacturing capabilities (such as existing machines, equipment, skills of workers, etc.) of the organization have to be kept in mind. If the required capabilities do not exist, the management can consider enhancing the production capabilities by making more investments.



Standardization

Standardization refers to less variety in the design of products, i.e., new products are designed such that there is no major variation from the existing products. For example, all computers and typewriters have the same arrangement of keys in the keyboard because it has become a standard consumers are used to. Although many other more efficient designs of keyboard keys are available, no company is willing to take the risk of deviating from this standard. Lack of standardization creates problems such as the NTSC and PAL standards in TVs and VCRs. In computers, different operating systems such as Windows, Linux, etc. have resulted in major compatibility issues. On the other hand, standardization has benefits such as lower design cost due to use of existing components/parts and easy availability of components for replacement if any defects arise.





STANDARDIZATION IS ...

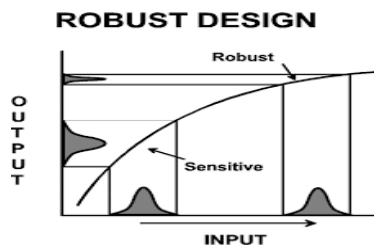
THE CONSISTENCY
OF THE WORK SEQUENCE.



Modular design is another type of standardization, which means designing a product in parts or modules. The modules are sub-assemblies of different components and parts.

For example, in personal computers there are separate modules (small boxes inside which there are various integrated components) for the motherboard, the hard disk, power supply, CD drive, floppy drive, etc. Whenever a defect occurs, an entire module can be replaced by a new one, though it may be slightly more expensive than searching for the defective component in a non-modular design and replacing it. It is easier to find the defect because the investigation is limited only to a particular module. This approach reduces a lot the effort and time required to design the product. The inventory management of modules is simple in comparison to that of a large number of different components in a non-modular design.

Robust Design



Robust design means designing a product that is operational in varying environmental conditions. For example, if you compare a car with a jeep (a four-wheel drive), the jeep is more robust in design as it can even be used efficiently on hilly areas with poor road conditions. The Japanese engineer Genichi Taguchi emphasized that it is easier to create a product with robust design rather than making changes in the environment to suit the product.

Concurrent Engineering

Concurrent Engineering

Concurrent engineering is the product design approach in which the design team includes personnel from the marketing department (to specify the customer requirements), engineering department (to look at the feasibility of the design), production department (to suggest if production capability exists for the design), materials department (to give inputs about material availability according to design specifications), and finance department (to suggest financial feasibility of the design) in addition to the design department. This approach is radically opposite to the classical sequential product design approach in which the design process takes place in stages, moving from one department to the other. Concurrent engineering saves a lot of time and effort unlike the sequential approach in which feedback between departments, at times leading to rejections of the suggested designs at later stages, results in the wastage of a lot of time and effort.

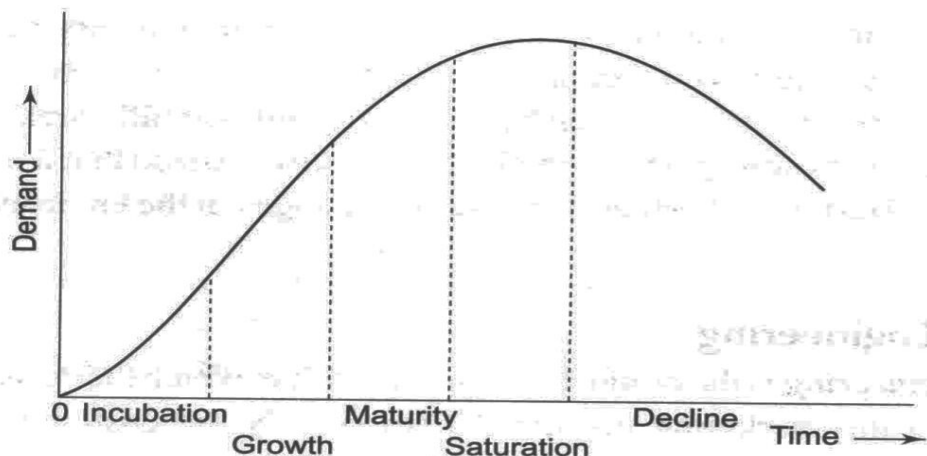
Computer-aided Design



Computer-aided design (CAD) is software which helps the designer to make the three-dimensional design of a product on the computer and visualize the design from various angles. In the earlier times, when CAD software's were not available, design engineers had to make designs from various angles (say, front, back, side, top, bottom views of the product/components) on paper charts by using rulers and other equipment, which was tedious and time consuming. The designs made on CAD can be seen at different workstations through intranets simultaneously. Also, these can be transmitted to distant locations (for comments of experts, etc.) using the Internet.

Life Cycle of a Product

The product life cycle has five stages spread throughout the life of a product. These are incubation, growth, maturity, saturation, and decline. The duration of the life of a product depends upon the type of product. The incubation stage witnesses a low demand of the product owing to the customer not being aware of the new product. As the awareness increases and new features are added to the product over a period of time, the demand starts growing and this phase is called the growth phase of the life cycle. Next follows the maturity stage, when the demand tends to become stable and even new features do not appeal much to the masses, leading to the saturation phase and eventually the decline phase.





EXEMPTION TO SMALL SERVICE PROVIDER

Exemption for aggregate value upto ₹ 10 lakhs [Notification No. 33/2012-ST, dated 20-6-2012]:

- (1) **Meaning of small service provider** : Small service provider means a service provider, the "aggregate value" of taxable services rendered by whom, from one or more premises, does not exceed ₹ 10 lakhs in the preceding financial year.

Aggregate value: "Aggregate Value" means,-

- (a) the sum total of value of taxable services charged in the first consecutive invoices issued or required to be issued, as the case may be, during a financial year,
- (b) but does not include value charged in invoices issued towards such services which are exempt from whole of service tax leviable thereon under section 66B of the Act.

For example, if Mr X has provided taxable services during financial year 2015-16 from its Jaipur Branch of ₹6.5 lakhs and of ₹ 3.5 lakh from his Ajmer Branch, then, since total aggregate value = ₹10 lakhs, hence, he is eligible for this exemption for the year 2016-17.

Conversely, if the value of services provided from Jaipur branch were ₹ 6.6 lakhs, then, since the total aggregate value would be ₹ 10.10 lakhs (exceeding ₹ 10 lakhs), hence, he would not be eligible to avail this exemption in the financial year 2016-17.

- (2) **Quantum of exemption** : Small service provider is entitled 100% exemption from service tax of aggregate value of taxable services upto ₹ 10 lakhs provided during the financial year.

If the "aggregate value" in any financial year exceeds ₹ 10 lakhs, **then such excess over ₹ 10 lakhs shall be chargeable to service tax.**

Example 1 : Mr. X provided services of ₹ 10 lakhs in 2015-16 and provides services of ₹ 18 lakhs in 2016-17 (out of which services of ₹ 9 lakhs are wholly exempt under mega exemption notification), then, -

- (a) he would be eligible for this exemption in 2016-17 (as aggregate value of services in 2015-16 were upto ₹ 10 lakhs); and
- (b) he can claim exemption for aggregate value of ₹ 9 lakhs (₹ 18 lakh - ₹ 9 lakhs already exempt under mega exemption notification); and
- (c) therefore, he would not be liable to pay any service tax in 2016-17.

Example 2 : If, however, in example 1, value of services exempted is only ₹ 6 lakh out of ₹ 18 lakh, then, aggregate value = ₹ 18 - 6 = ₹ 12 lakh, out of which first consecutive invoices of ₹ 10 lakh shall be exempt and he will be liable to pay service tax on invoices issued after ₹ 10 lakhs value i.e. invoices having value of ₹ 2 lakh.

Example 3 : Mr. X is eligible for this exemption in 2016-17 and has provided services of value of ₹9,75,000 upto January, 2016 and claimed exemption under this notification. He raises a bill of value ₹ 50,000 in February, 2016. Out of this bill of ₹ 50,000, value of ₹ 25,000 shall be exempt (to make exemption to ₹ 10



lakhs) and balance ₹5,000 shall be chargeable to tax. Amount to be charged in invoice = ₹ 50,000 + Service Tax @ 14% of ₹ 25,000 = ₹ 53,500.

- (3) Determination of value in case of Goods Transport Agency (GTA) :** In relation to taxable service provided by a goods transport agency, the payment received towards the gross amount charged by such goods transport agency for which the person liable for paying service tax is a person other than the goods transport agency, shall not be taken into account.

Example 4: A GTA service provider provided services valuing ₹ 20 lakh in 2015-16 and services valuing ₹ 25 lakhs in 2016-17. Out of the said sums, 50% relates to cases where the person liable to pay service tax was other than GTA. Whether GTA is eligible for this exemption in 2016-17.

Ans: Yes. Value of services provided in 2015-16 = ₹ 20 lakhs - 50% towards sum received where person liable to pay services tax was other than GTA = ₹ 10 lakh.

Hence, GTA is eligible for exemption in year 2016-17.

Aggregate value of services in 2016-17 = ₹ 25 lakhs - 50% = ₹ 12.5 lakhs. Out of this ₹ 10 lakhs will be exempt and balance ₹ 2.5 lakhs will be liable to service tax in hands of GTA.

Note: This benefit is not available to other service providers.

- (4) Other Considerations in determining the aggregate value :**

- (a) Aggregate value of taxable service not to include value of goods or value of material supplied by recipient of service :** If goods are sold along with services, value of such goods is not includible while computing the aggregate value of ₹ 10 lakhs. Similarly, value of materials supplied by recipient of service is not required to be included while calculating the exemption limit.
- (b) Activities not amounting to service - Value not includible :** The aggregate value is computed for the 'taxable services'. Thus, any sum received for an activity carried out, which doesn't amount to service cannot form part of the aggregate value, as the same is not for any service.
- (c) Only service portion includible in case of declared services :** In case of service providers providing declared services, only portion of service declared under section 66E will be considered. For example, in case of service portion in execution of works contract, only the value of service portion as determined under Rule 2A of Valuation Rules, 2006 will be included in determining the value of taxable services.
- (d) Services specified in negative list - Value not to be included in aggregate value :** In case of service providers providing services specified in the negative list, the value of such services shall not form part of aggregate value of taxable services under Notification No. 33/2012-ST, as the said services are not 'taxable services'.
- (e) Services wholly exempt from tax - Value not to be included in aggregate value :** The definition of aggregate value itself excludes the value of services wholly exempted under any other notification. Hence, value of wholly exempt service cannot form part of 'aggregate value' under this notification.
- (f) Abatements from service tax - Exempt amount not includible:** If any service is eligible for abatement, then, the amount after abatement would be considered for computing aggregate value. **For example,** renting of guest house is eligible for abatement of 40% under Notification No. 26/2012-ST. In this case, if rent charged is ₹ 100 and the value after abatement is ₹ 60, the aggregate value under Notification No. 33/2012-ST will be computed by including ₹ 60 only.



- (g) **Service provided outside Taxable territory - Not includible:** Services provided outside India are not chargeable to service tax under section 66B and are, therefore, not taxable service. Such services will not form part of aggregate value under this Notification.
- (5) **Exemption shall not apply in following cases:** This exemption shall not apply to,-
- (a) **Branded services :** Taxable services provided by a person under a brand name or trade name, whether registered or not, of another person; or
- (b) **Where Service provider is not person liable to pay service tax :** Such value of taxable services in respect of which service tax shall be paid by such person and in such manner as specified under section 68(2) of the said Finance Act read with Service Tax Rules,1994.
Meaning of Brand name or Trade name : "Brand name" or "trade name" means brand name or trade name, whether registered or not i.e. to say, a name or a mark, such as symbol, monogram, logo, label, signature, or an invented word or writing which is used in relation to such specified services for the purpose of indicating or so as to indicate a connection in the course of trade between such specified services and some person using such name or mark with or without any indication of the identity of that person.
- (6) **Conditions to be fulfilled :** This exemption shall apply subject to the following conditions,-
- (a) **Exemption is optional :** The provider of taxable service has the option not to avail the exemption contained in this notification and pay service tax on the taxable services provided by him and such option, once exercised in a financial year, shall not be withdrawn during the remaining part of such financial year.
- (b) **No CENVAT credit on input services :** The provider of taxable service shall not avail the CENVAT credit of service tax paid on any input services, under the CENVAT Credit Rules, 2004, used for providing the said taxable service, for which exemption from payment of service tax is availed of.
- (c) **No CENVAT credit on capital goods :** The provider of taxable service shall not avail the CENVAT credit under rule 3 of the said rules, on capital goods received, during the period in which the service provider avails exemption from payment of service tax under this notification.
- (d) **CENVAT credit on inputs and input services only when service provider starts paying service tax :** The provider of taxable service shall avail the CENVAT credit only on such inputs or input services received, on or after the date on which the service provider starts paying service tax, and used for the provision of taxable services for which service tax is payable.
- (e) **Payment of CENVAT credit on inputs in stock on date of opting for exemption and lapsing of balance credit:** The provider of taxable service who starts availing this exemption shall, -
- (i) be required to pay an amount equivalent to the CENVAT credit taken by him, if any, in respect of such inputs lying in stock or in process on the date on which the provider of taxable service starts availing this exemption; and
- (ii) the balance of CENVAT credit lying unutilised in the account of the taxable service provider after deducting the amount referred to in (i) above, if any, shall not be utilised and shall lapse on the day such service provider starts availing this exemption.
- (f) **Exemption to apply service-provider wise, not for each taxable service or each premise :** Where a taxable service provider provides one or more taxable services from one or more premises, this exemption shall apply to the "aggregate value" of all such taxable services and from all such premises and not separately for each premises or each services.



Example 5: Mr. A provides Service X (₹ 7 lakhs) and Service Y (₹ 2 lakh) from Jaipur and Service P (₹ 1 lakh) and Service Q (₹ 1 lakh) from Surat during 2015-16. Since the aggregate value of all services from all premises = ₹ 11 lakhs (exceeds ₹ 10 lakh), hence, he is not eligible for this exemption in the financial year 2016-17.

(7) Small scale exemption and multiple service providers using same premises - Value of services not clubbable: One of the conditions for availing small scale service provider exemption under Notification No. 33/2012-ST, dated 20-6-2012, is that the exemption is applicable to a service provider rendering one or more services from one or more premises. Therefore, such exemption is person-specific and will be admissible even when more than one service provider uses the same premises.

Example 6: Mr. A provides services of ₹ 9 lakh from a rented premises at Jaipur, Mr. B also provides services of ₹ 8.5 lakh from same premises. Both of them are eligible for exemption, as clubbing applies "to a service provider" for all services and all premises; there is no clubbing premises-wise. Two or more service providers may provide services from same premises.

For example 7: Mr. X provided services of ₹ 16 lakhs (exclusive of tax) during the financial year 2015-16. Such value included value of wholly exempted service amounting to ₹ 5 Lakhs and partially exempted services of ₹ 7 lakhs (such gross amount of partially exempted service is included in ₹ 16 lakhs). Partial exemption provided in respect of this service was of 40%. Whether the assessee would be eligible for small service provider exemption for the Financial Year 2016-17?

Solution:

Computation of Aggregate Value of taxable services :

S. No.	Particulars	₹
A.	Total value of services	16,00,000
B.	Value of wholly exempted service (shall not form part of "aggregate value")	5,00,000
C.	Amount of partially exempted portion of service (shall not form part of "aggregate value")	2,80,000
Aggregate Value of taxable services (A-B-C)		8,20,000

Assessee would be eligible for small service provider exemption for the Financial Year 2016-17 as the aggregate value of taxable services does not exceed ₹ 10 Lakhs in the preceding financial year.

Illustration 1 - Small service provider exemption : ABC Ltd. commenced its business on 1st July, 2015, in Jaipur. It has provided the following services upto 31st March, 2016, determine its service tax liability for Financial Year 2015-16:

- (1) Service provided under its own brand name ₹ 22,00,000 (out of which services of ₹ 6,80,000 has been



wholly exempt under Notification No. 25/2012, dated 20-06-2012).

- (2) Service provided with brand name of PQR Ltd. ₹ 2,00,000, It also availed services of goods transport agency and paid freight of ₹ 2,50,000.

Solution:

Since ABC Ltd. has commenced its operations w.e.f. 1st July, 2015, it is eligible for small service providers exemption, 100% exemption from service tax is provided upto value of services of ₹ 10,00,000. Besides this, services which are wholly exempt under other notification are not included for determining eligibility limit of ₹10,00,000.

Such exemption shall not be applicable in the following cases :

- (1) Services provided under brand name or trade name of another person.
(2) Service received from goods transport agency.

Hence, the service tax liability shall be determined as under :

(amount in ₹)

Service provided under own brand name	22,00,000
Less: Value of services which are exempt under other notification	6,80,000
	15,20,000
	10,00,000
Less: Small service provider exemption	5,20,000
Taxable value of services	2,00,000
Services provided under brand name of another person	7,20,000
Service tax @ 14%	1,00,800
Service tax in respect of services received from GTA - ₹ 2,50,000 * 30% * 14% [WN]	10,500
Total Service Tax	1,11,300

Working Note: Abatement of 70% of the amount charged by the goods transport agency is admissible. Further, entire service tax is payable by service receiver since the person liable to pay freight is a company and small service providers' exemption is not available in respect of such services.

Illustration 2 - Small service provider exemption : Mr. Rajat has provided the following services during the year 2015-16. Determine whether he is eligible for small service provider exemption during the year 2016-17:

- (a) Service exported outside India 5,00,000
(b) Renting of residential dwelling for residence 5,00,000
(c) Service fully exempt under mega exemption notification 8,00,000
(d) Declared services (Value as per Section 67 read with the valuation rules is 60% of the total amount charged) 4,00,000
(e) Total amount of Services in which 50% abatement has been provided; and 4,00,000
(f) Other services provided (including ₹ 50,000 towards services where whole of the service tax was payable by the service recipient) 5,60,000



Solution:

Mr. Rajat would be eligible for small service providers exemption under Notification No. 33/2012-ST, if the "aggregate value" of taxable services provided during the year 2015-16 is upto ₹ 10,00,000. The relevant computations are shown below **(amount in ₹) -**

(a)	Service exported outside India - Not taxable service, as not liable to service tax u/s 66B - Not includible.	Nil
(b)	Renting of residential dwelling for residence is falling under negative list - Not taxable services - Not includible.	Nil
(c)	Services fully exempt under other mega exemption notifications - Specifically excluded in determination of aggregate value of taxable services.	Nil
(d)	Declared services - Value as determined as per section 67 read with Valuation Rules is to be taken.	2,40,000
(e)	Services eligible for abatement - Abatement is a form of partial exemption. Value after exemption viz. ₹ 2,00,000 shall be taken.	2,00,000
	Aggregate Value under Notification No. 33/2012-ST for F.Y. 2015-16	10,00,000
Since the aggregate value is X 10,00,000 (i.e., not exceeding ₹ 10,00,000) during F.Y. 2015-16, Mr. Rajat is eligible for small service provider exemption during the financial year 2016-17.		Eligible for exemption

