

2.0 EXPENSE CONTROL

Plan expenditures are specific expenditures incurred under the various schemes. Activities of each scheme are predefined and some of the major expenses under the plan schemes are discussed in details.

Following are some of the important expenditures that are incurred under this head

BANK CHARGES

Bank charges are money paid to the bank for various transactions undertaken by Tea Board with the bank like money transfer, issue of statements, preparing Demand Drafts etc. This is to be recorded under the head administrative expenses.

These expenses are identifiable from the Bank Statements, which are received by Tea Board. Based on such inputs, Tea Board needs to suitably book these expenses in the appropriate accounting heads as elaborated below, so that they do not feature in the bank reconciliation statement

Journal Entries

When Expense takes place:

Bank Charges A/c Dr

To Bank A/c

This is to be transferred to books of accounts as shown below:

RECEIPTS & PAYMENT A/c

For the year ended.....

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
		Bank Charges	Xxxx

INCOME & EXPENDITURE A/c

For the year ended.....

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
Administrative Expenses	Xxxx		

Schedule: 21 ADMINISTRATIVE EXPENSES

PARTICULARS	AMOUNT (Rs.)
Bank Charges	Xxxx

TAX DEDUCTION AT SOURCE

The Tea Board deducts tax at source for any expense incurred which is on contract basis or for procurement of goods as prescribed by the Income Tax Act. This TDS is paid to the Government.

Journal Entries:

When TDS is deducted:

Expense A/c Dr. (Entire Amount)

To TDS A/c

To Bank A/c (Amount to be paid after deduction of tax)

When TDS is paid to the Government:

TDS A/c Dr.

To Bank A/c

MARKET RESEARCH(Domestic)

Market Research refers to the syndicated research activities carried out by the Board. Market Research means collection of market information by a thorough research on the markets. The expense on market research is included in the plan expenditure of the board under its promotional activities. Expenditure under this head includes fees to agencies, recruitment of surveyors, data entry operators and cost of statisticians. Market Research helps in identifying target markets and potential

Accounting Treatment

Market Research A/c Dr

To Bank A/c

DOMESTIC ADVERTISEMENTS / SPONSORSHIPS

Domestic advertisements/sponsorships refer to promoting the tea in the inland markets. The Board promotes tea through advertisements in all form of Medias such as print, electronic etc.

Accounting Treatment

Journal Entries:

Domestic Advertisement/Sponsorship A/c Dr

To Bank A/c

LEGAL AND CONSULTANCY FEES

Legal Charges means the amount of money spent on legal matters, particularly lawyers' fees.

Journal Entries:

Legal Charges A/c Dr

To Bank A/c

INTEREST

The charge for the privilege of borrowing money, typically expressed as an annual percentage rate. Banks charge interest on the loans they give to their customers. Tea Board needs to pay interest on its borrowings.

Journal Entries:

Interest A/c Dr

To Bank A/c

RESEARCH GRANT

Research grant refers to the grant given to various tea estates for carrying on research work. Tea Board gives grants to various research associations like Tea Research Association, UPASI, IIT Kharagpur.

Journal Entries:

Research Grants A/c Dr

To Bank A/c

However, certain other administrative expenditures may also take place in the Plan schemes. Similar treatment is to be done for each expenditure i.e.

Expense A/c Dr

To Cash/Bank A/c

It must be noted that a distinction between capital and revenue expenditure must clearly be made.

Revenue expenditure is a cost that is charged to expense as soon as it is incurred. By doing this, the matching principle to link the expense incurred to revenues generated in the same accounting period is done.

An expense is considered to be a capital expenditure when the asset is a newly purchased capital asset or an investment that improves the useful life of an existing capital asset. If an expense is a capital expenditure, it needs to be capitalized; this requires the company to spread the cost of the expenditure over the useful life of the asset. If, however, the expense is one that maintains the asset at its current condition, the cost is deducted fully in the year of the expense.

A detailed note on capital revenue distinction is given in a different section of the manual

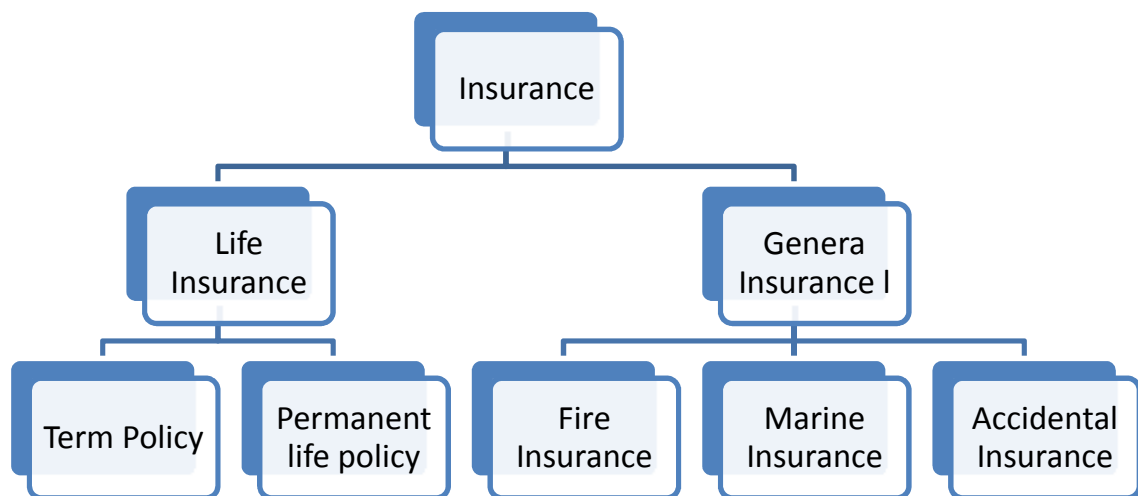
2.2.2 FOREIGN CURRENCY TRANSACTION:

- i. As per GFR Rule 70. The accounts of Government shall be maintained in Indian rupees. All foreign currency transactions and foreign aid shall be brought into account after conversion into Indian rupees.
- ii. The transaction with respect to expense or income during the year is to be converted at the conversion rate on the date the expenses had been incurred and income is to be booked.
- iii. All amount recoverable and payable as at the close of the year in foreign currency are accounted for at the current rate of exchange prevailing on 31st march.
- iv. All exchange variations arising out of current assets and current liabilities at the end of the year are taken to profit and loss Account.

- v. Exchange variations on account of fixed assets are being adjusted to respective assets.
- vi. As per GFR Rule 241. Repayment of loans: Office of Controller of Aid Accounts and Audit shall be responsible for prompt repayment of principal on the due date as per the agreements. The remittance of foreign currency is arranged through designated Public Sector Commercial Banks and Reserve Bank of India. The Rupee equivalent and the amount of foreign currency remitted shall be intimated by the Banks to Controller of Aid Accounts and Audit. The Rupee equivalent of the foreign currency remitted is credited to the respective Banks' account maintained at Reserve Bank of India, New Delhi, by debit to Controller of Aid Accounts and Audit's account as per standing arrangement. On the receipt of the advice from Reserve Bank of India, New Delhi, Controller of Aid Accounts and Audit shall debit the concerned loan account in the Consolidated Fund of India. The repayment of loans shall be classified as charged expenditure.
- vii. Approvals for disbursal of foreign currency shall be given by authorized officials.
 - Cash flows arising from transactions in a foreign currency should be recorded in enterprise's reporting currency by applying the exchange rate at the date of the cash flow.
 - Initial recognition of a foreign currency transaction shall be by applying the foreign currency exchange rate as on the date of transaction..
 - At each Balance Sheet date foreign currency monetary items such as cash, receivables, and payables shall be reported at the closing exchange rates unless there are restrictions on remittances or it is not possible to affect an exchange of currency at that rate. In the latter case it should be accounted at realizable rate in reporting currency. Non-monetary items such as fixed assets, investment in equity shares which are carried at historical cost shall be reported at the exchange rate on the date of transaction. Non-monetary items which are carried at fair value shall be reported at the exchange rate that existed when the value was determined.

2.2.3 INSURANCE

Introduction: Insurance is a contract (policy) in which an individual or entity receives financial protection / reimbursement against losses from an insurance company. The insurance is generally subdivided in two categories



The type of policies to be taken will vary from organization to organization and it also depends on the nature of activity. With the change of functionality the type of coverage will also change, but as a general prudence the policies like fire, earthquake, burglary, cash, motor etc.

Fire Risk – Assets can be covered against loss from fire. The respective location should send their recommendations for taking insurance cover, along with the sum insured required. They should also indicate any special risks that are to be covered by insurance. The scope of cover and the assets to be covered are to be done in consultation with the technical personnel of user departments.

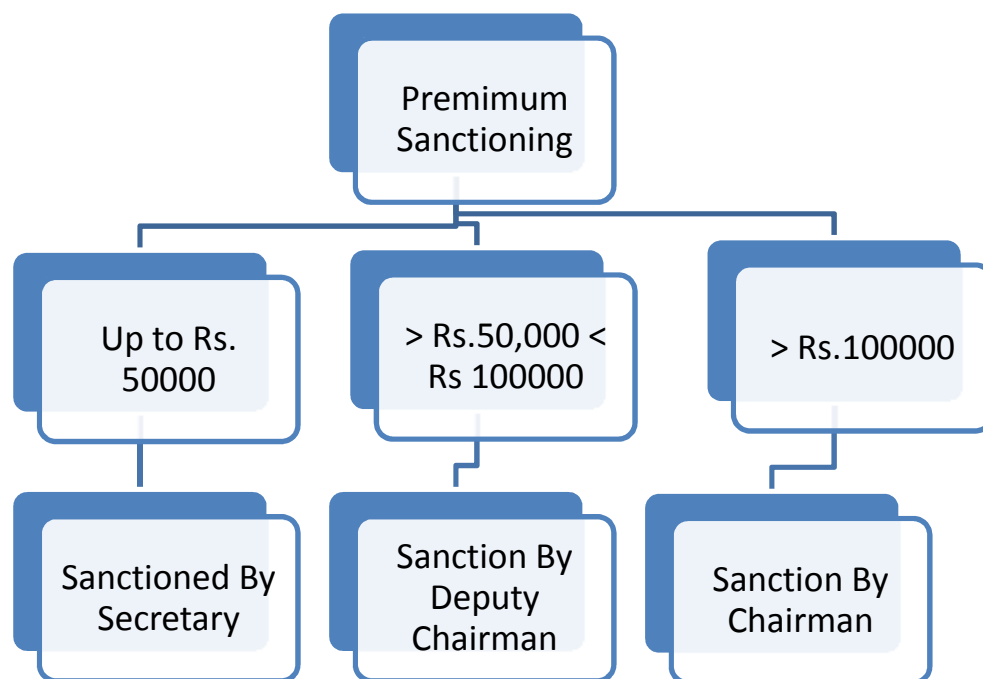
Special Declaration policies – The items covered under this policy would be those items held in Stores, Stock of consumables, Diesel, etc.

Cash insurance – All location where there is a cash section or cash is handled for disbursement purposes, insurance cover should be taken to cover cash in hand/chest and movement of cash from bank to the locations and back to bank.

Motor policies – Insurance cover is to be taken for mobile equipment's that are assets of the Company. This would include material handling equipment's in Stores etc.

Marine Insurance – Insurance cover should be taken if required to cover movement of valuable items /materials.

Initial proposals for insurance cover should be necessarily approved for the sum insured indicated therein, by the respective HODs and Directors. Every year it should be evaluated with respect to under or over insurance with respect to each policy. It must be ensured that once the asset has been discarded / or scraped /or sold the policy should be discontinued.



Sanctioning:

If the insurance premium is up to Rs. 50000 then it is sanctioned by the secretary, if it is greater than Rs. 50000 and less than Rs. 100000 then it is sanctioned by the deputy chairman and if it is greater than 100000 then it is sanctioned by the chairman.

Suggestion

The insurance policies of various assets of Tea Board such as building, cars, machinery and cash in transit are maintained by the Stores Department.

The Stores Department should maintain details regarding all the insurance policies and the amount of premium payable in a separate file. The details should include the due date of payment of insurance premium against each policy. The entire premium should be paid within the due date.

In case of failure the reasons for it should be recorded in this file. It should be then sent to the Cash Section for creation of payment vouchers. The Cash Section should make payment of insurance premium and the expense is to be posted in the cash book.

Once the payment has been made and entry has been passed the Stores Department should be intimated and it should record the date of payment against the due date of payment.

The Accounts Section records the entries in the General Ledger. The Stores Department should keep both vouchers and receipt of payments under safe custody. The total insurance expenses are recorded in the debit side of Income & Expenditure A/C and the credit side of Receipts & Payments A/C. The total insurance premium payment is shown as insurance expenses under the Schedule 21 of the common format of accounts i.e. Other Administrative Expenses.

At the year end the insurance expenses should be allocated in mercantile system and here the concept of prepaid or outstanding concept will be relevant.

Prepaid: By prepaid it denotes the amount of premium attributable to the period falling after the account closure.

Example 1: if the premium of Rs 18000 is paid on 23.12.12 for the policy effective date 31.12.12. That means that the premium has been paid for the period 31.12.12 to 30.12.13. so the premium attributable for the year ending 31.03.13 the premium for JAN, Feb & March 13 will be current year expenses and balance from April 13 to 30.12.13 will be prepaid amount. In this case the prepaid insurance amount will be Rs $(18000/365 * 274) = 13512.33$ and premium attributable for the financial year will be Rs. $(18000 - 13512.33)$ or $(18000/365 * 91) = 4487.67$ the calculation is done day wise

At the year end the amount is reflected in the books of accounts as follows:-

INCOME & EXPENDITURE A/c as on.....

EXPENDITURE	AMOUNT(Rs)
INSURANCE	400 0

RECEIPT & PAYMENT A/c as on.....

PAYMENT	AMOUNT(Rs)
INSURANCE	6000

SCHEDULE 21: OTHER ADMINISTRATIVE OVERHEAD

PARTICULARS	AMOUNT(Rs)
INSURANCE	6000
Less: Prepaid	(2000) 4000

Data Flow Diagram Stage 1



The Register should be in following format regarding insurance policy

Serial No.	Policy no	Policy description	Insurer	Sum insured	Gross premium	Net premium	Risk date	
							Start date	End date

Regarding Premium payment record

Description of policy _____

Sum Insured _____

Insurer: _____

Insurer Contact Details: _____

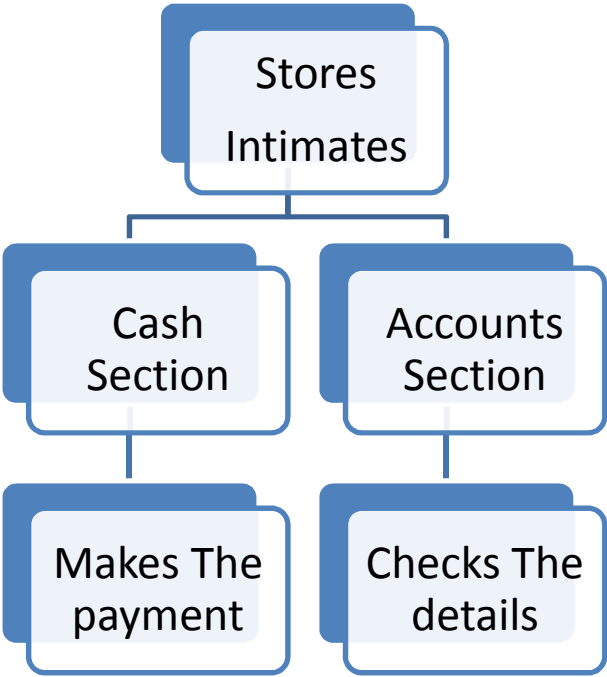
Agent details If any:

Name _____ Address _____ Phone No _____

Description of asset if any _____

Serial No	Policy Number	Date of Renewal	Next Premium Due Date	Date of payment	Cheque No	Bank Name	Amount	Receipt No	Remark	If premium not paid Reason for the same	New Policy received

Data Flow Diagram Stage 2



The following entry is passed by cash Department

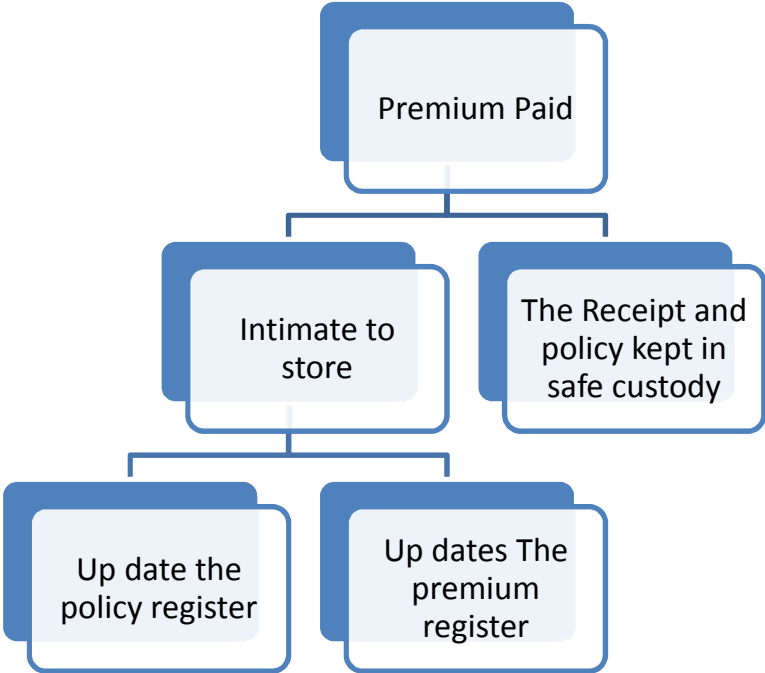
Insurance A/C Dr.

Prepaid Insurance A/cDr.

To Cash/Bank A/C

(Being Insurance premium paid for policy No..... against)

Stage 3



2.2.4 Lease obligation

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Lease payments should be appropriated between finance charge and the reduction of outstanding liability so as to produce a constant periodic rate of interest on the balance of the liability.

Depreciation policy for leased asset should be consistent with that for other owned depreciable assets and to be calculated as per AS 6.

Disclosure should be made of assets acquired under finance lease, net carrying amount at the balance sheet date, total minimum lease payments at the balance sheet date and their present values for specified periods, reconciliation between total minimum lease payments at balance sheet date and their present value, contingent rent recognized as income, total of future minimum sub lease payments expected to be received and general description of significant leasing arrangements.

- Treatment in case of finance lease in the books of lessor:

The lessor should recognize the asset as a receivable equal to net investment in lease.

Finance income should be based on pattern reflecting a constant periodic return on net investment in lease.

Manufacturer/dealer lessor should recognize sales as outright sales. If artificially low interest rates quoted, profit should be calculated as if commercial rates of interest were charged. Initial direct costs should be expensed.

Disclosure should be made of total gross investment in lease and the present value of the minimum lease payments at specified periods, reconciliation between total gross investment in lease and the present value of minimum lease payments, unearned finance income, unguaranteed residual value accruing to the lessor, accumulated provision for uncollectible minimum lease payments receivable, contingent rent recognized, accounting policy adopted in respect of initial direct costs, general description of significant leasing arrangements.

- Treatment in case of operating lease in the books of the lessee :

Lease payments should be recognized as an expense on straight line basis or other systematic basis, if appropriate.

Disclosure should be made of total future minimum lease payments for the specified periods, total future minimum sub lease payments expected to be received, lease payments recognized in the P & L statement with separate amount of minimum lease payments and contingent rents, sub lease payments recognized in the P & L statement, general description of significant leasing arrangements.

- Treatment in case of operating lease in the books of the lessor:

Lessors should present an asset given on lease under fixed assets and lease income should be recognized on a straight-line basis or other systematic basis, if appropriate.

Costs including depreciation should be recognized as an expense.

Initial direct costs are either deferred over lease term or recognized as expenses.

Disclosure should be made of carrying amount of the leased assets, accumulated depreciation and accumulated impairment loss, depreciation and impairment loss recognized or reversed for the period, future minimum lease payments in aggregate and for the specified periods, general description of the leasing arrangement and policy for initial costs.

- **Sale and leaseback transactions**

If the transaction of sale and lease back results in a finance lease, any excess or deficiency of sale proceeds over the carrying amount should be amortized over the lease term in proportion to depreciation of the leased assets.

If the transaction results in an operating lease and is at fair value, profit or loss should be recognized immediately. But if the sale price is below the fair value any profit or loss should be recognized immediately, however, the loss which is compensated by future lease payments should be amortized in proportion to the lease payments over the period for which asset is expected to be used. If the sales price is above the fair value the excess over the fair value should be amortized.

In a transaction resulting in an operating lease, if the fair value is less than the carrying amount of the asset, the difference (loss) should be recognized immediately

- **Leasehold land** - leasehold land should be amortized over the period of lease unless the lease is in perpetuity.
- **On leasehold land- buildings/premises:-** shall be those which are intended to be wholly/partly used for the purpose of the activities of the entity and would not be investment properties.
- **Ownership flats/premises-** superstructures on leasehold lands should be depreciated to co-terminus with the amortization of land, unless the superstructures have a shorter life.

As per GFR

The sanctioning authority, while laying down the pattern of assistance, may decide whether the ownership of buildings constructed with grants-in-aid may vest with Government or the grantee Institution or Organization. Where the ownership is vested in the Government, the grantee Institution or Organization may be allowed to occupy the building as assessee. In such cases suitable record of details of location, cost, name of lessee and terms and conditions of lease must be maintained in the records of the granting Ministry or Department. In all cases of buildings constructed with grants-in-aid, responsibility of maintenance of such buildings should be laid on the grantee

Institution or Organization.

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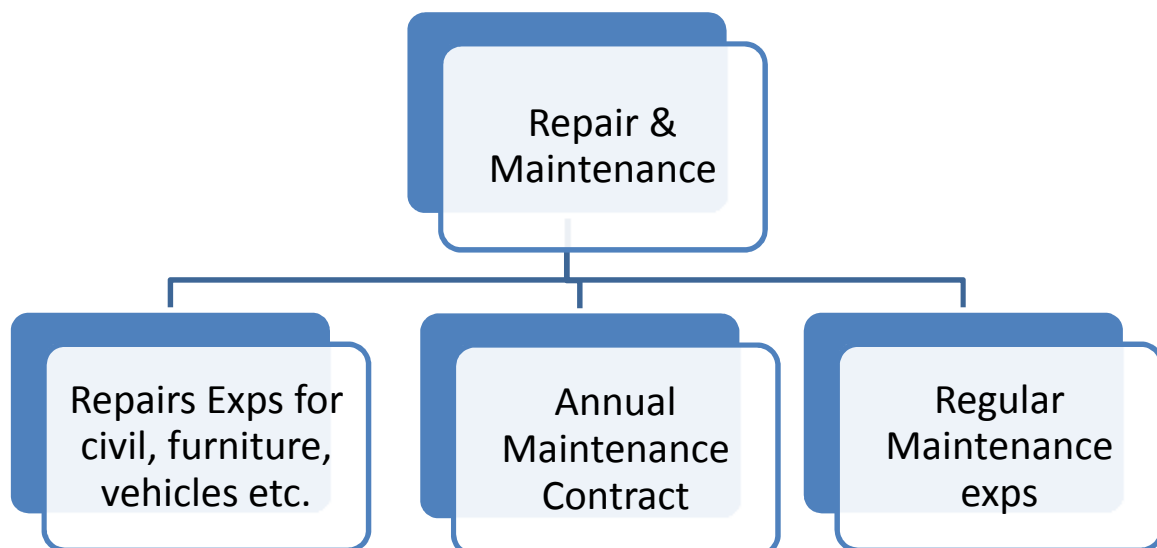
2.2.6 REPAIRS AND MAINTENANCE

INTRODUCTION

The costs incurred to bring an asset back to an earlier condition or to keep the asset operating at its present condition (as opposed to improving the asset) can be classified as 'Repairs and Maintenance'. This expense is of revenue nature.

Repairs and maintenance classifications can vary greatly depending on the activity type, policies, and procedures. The important question that arises is, should a particular expenditure be treated as revenue or capital expenses? For example, if in an organization there is a building and repairs to its structures (like walls doors etc.) are done then it will be revenue But if a new Lift has been added (and previously there was no lift) then the expenses on lift will be capitalized. What will happen if the old lift is replaced by a new one? It is imperative that these types of accounts be reviewed for an accurate and current determination.

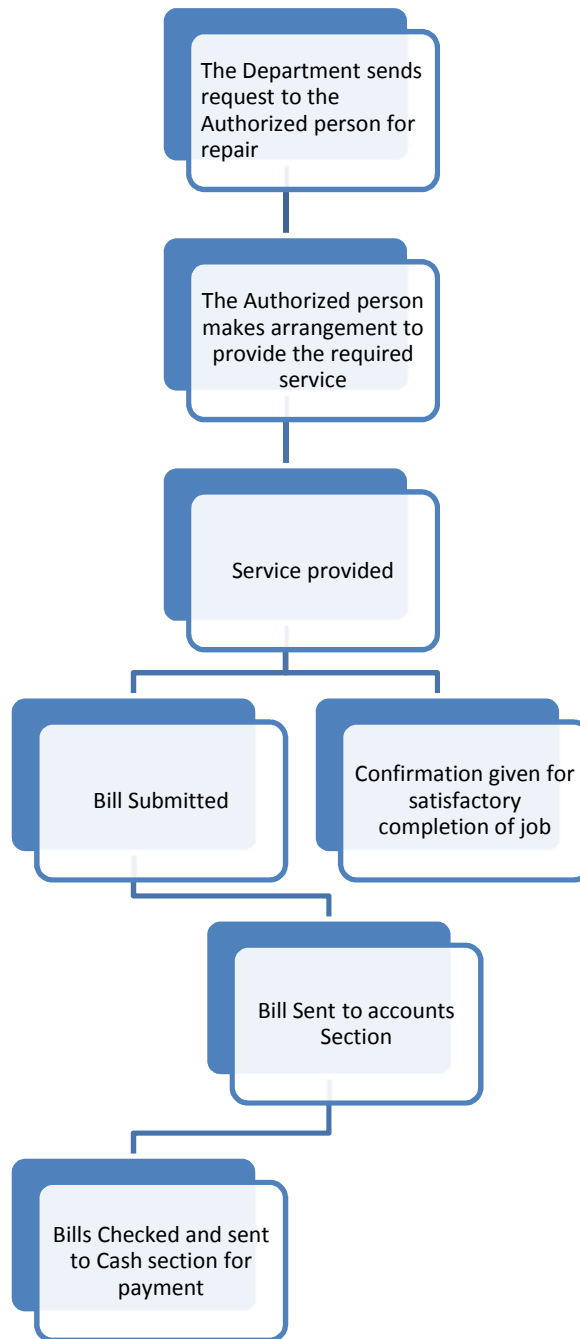
To maintain certain Equipments/Items such as Air Conditioner/Coolers, Water Filter etc, Annual Maintenance Contract is awarded to Contractor and Payment is released as per Terms and Rates of Contract against Departmental in charge Certification. The claim from the Contractor is debited to the repairs and maintenance A/c. Same is the case with Office Maintenance and other maintenance head.



ANNUAL MAINTAINANCE CONTRACT

- Processing of payments against work orders, repair orders, vehicle repair bills.

- Separate register should be maintained for work orders and repairs orders including AMC.
- On receipt of the bill, the particular Measurement Book(MB) wherein the details of schedule of work is entered, is verified for the physical quantities and is checked with reference to job and work order. The contents of MB should be signed by the HOD and also by the contractor.
- The running bill should be enclosed with Quantity Verification and Progress Report (QVPR) and check list, duly signed by the HOD & the contractor.
- The final bill should have QVPR, check list, no claim, no demand and work completion certificates duly signed by the HOD and the contractor respectively.
- On scrutiny of the above details the rates claimed in the bill is checked with the work order referred.
- Payment is released in accordance with the terms of payment specified in the work order after effecting the Statutory recoveries, SD & LD as per the terms of work order . The SD is released after the successful completion of the maintenance period, on receipt of maintenance certificate signed by the engineer/ officer in-charge.
- All the bills are entered in the respective registers maintained separately for work orders, repair orders including AMC.



The Accounting process

- Schedule-21- Other Administrative Expenses Includes expenses incurred on repairs and maintenance
- The following entry should be passed once the bills are passed
Repairs & Maintenance A/cDr
To Vendor account A/c
(Being repairs & maintenance expenditure incurred)

- In case the payment is not made within the year end the liability for bills payable will be transferred to current Liability for the value of the credit balance in the Vendor account.
- The expense of Repairs & Maintenance A/c is to be transferred to Receipts & Payment A/C and Income & Expenditure A/c

Income & Expenditure A/cDr
To Repairs & Maintenance A/c

The Department should send request to Authorized person for repair or maintenance of its fixed asset. The Authorized person should make arrangement for service provider to provide the required service. After service is provided the bill is to be audited by the audit section and sent to cash section for payment. The Cash section after making the payment should pass an entry in the Cash Book and Accounts Officer should record it in General Ledger under the head Repairs & Maintenance A/C. The yearend balance of this A/C is to be transferred to Receipts & Payment A/C and Income & Expenditure A/C under Schedule-21 i.e. Other Administrative Expenses.

ANS:-The journal entry has to be passed in the General Ledger Book and Cash Book as follows

To Cash/Bank A/c 4000 At the year end the amount is reflected in the books of accounts as follows:-

EXPENDITURE	AMOUNT(Rs)
REPAIRS & MAINTENANCE	4000

PAYMENT	AMOUNT(Rs)
REPAIRS & MAINTENANCE	4000

SCHEDULE 21: OTHER ADMINISTRATIVE OVERHEAD

PARTICULARS	AMOUNT(Rs)
REPAIRS & MAINTENANCES	4000

2.2.7 VEHICLE RUNNING EXPENSES

INTRODUCTION

- Vehicle running expense refers to expenditure incurred for servicing of office vehicles in the form of cleaning; repairing of car parts, car fuel which ensures proper running of vehicles used by officials and delegates .Vehicle running expenses has to be incurred to ensure overall maintenance of vehicles. Examples of such expenses are as follows:-car seat cover, head light, teflon coating, fuelling of brake wire, car polish, floor carpet washing etc.

ACCOUNTING PROCESS

• HEAD OFFICE

All the relevant vehicle running bills/invoices obtained from service centres should be systematically maintained in a separate file-“Vehicle Running Expenses” by the Security Officer of Tea Board of India for each vehicle respectively. The bills/invoices should be signed by the Security Officer and the expense is to be recorded in the Expense Control Register. The bills should be sent to the Finance Branch which is signed by the Accounts Officer, In-charge of Audit and In-charge of Cash. Thereafter the payment should be made by the Cash Section and cheque is sent to the Security Department which should make the payment to the respective parties. Once the payment is made the Cash Section should make the relevant payment entry in the Cash Book. The expenditure incurred on vehicle running should be posted to the relevant ledger head. The consolidated payment is to be posted to the Receipt & Payment Account and in the Income & Expenditure Account. If there are any outstanding payments it is to be reflected in the Balance Sheet.

• REGIONAL OFFICE

All the Regional Offices should send in their monthly statement of accounts along with vouchers to the Head Office for consolidation purpose. The individual offices should specify the amount incurred for vehicle running purpose in their Receipt & Payment Account which should be verified and scrutinized by the Head Office and then recorded in the Regional Offices Accounts. Monthly Expenses of the Regional Offices should be reflected in the Consolidated Accounts. Eventually the entire amount should be posted in the Income &

Expenditure Account and Receipt & Payment Account under the head “Tea Promotion in India”.

ACCOUNTING TREATMENT (ENTRIES)

The entry in the cash book and the ledger will be as follows:-

- Vehicle Running and Maintenance Expenses A/c Dr
To Cash A/c
(If the payment is made on cash basis)
- Vehicle Running and Maintenance Expenses A/c Dr
To Party A/c
(If it is a credit transaction)

General

The nature of expense determines the head in which entry is to be made. Therefore when an expense is incurred by the Board proper head should be identified although the effect of the entry will be same, i.e

Expense A/c Dr

To Bank/Party A/c

(In case of Cash & Credit expenses respectively)

Needless to say that the accuracy of identifying the correct head of accounts enables accounts to be prepared in a better manner and gives a clearer understanding to the users of the financial statements.