MANAGERIAL REMUNERATION

INTRODUCTION

- Section I/II of part II of schedule XIII of the companies act deals.
- According to section 198 of the Companies Act 1956 total remuneration to be paid to directors, manager and managing director should not exceed 11% of the net profits.
- Net profits should be calculated according to section 349,350 and 351.

Remuneration

Remuneration includes the following:

- Rent-free accommodation.
- Any other benefit or amenity free of charge or at concessional rates.
- Payment on behalf of managerial personnel.
- Life insurance , pension , annuity or gratuity provided to managerial personnel , or his spouse or child.

SITUATIONS

- Remuneration in case of adequate or sufficient profits. (section I)

- Remuneration in case of nil or inadequate profits.(section II)

IN CASE OF INADEQUATE PROFITS

- Remuneration may be paid by way of salary , dearness allowance , perquisites or any other allowances not exceeding the ceiling limit of :

i. Rs 24,00,000 per annum or 2,00,000 per month.

ii. Rs48,00,000 per annum or 4,00,000 per month.

CEILING LIMIT OF 24,00,000 P.A.

Effective capital	Maximum remuneration payable per month
i. Less than Rs .1 crore	75,000
ii. Rs. 1 crore or more but less than 5 crores	1,00,000
iii. Rs. 5 crores or more but less than 25 crores	1,25,000
iv. Rs 25 crores or more but less than 50 crores	1,50,000

iv. Rs.50 crores or more but less than 100 crores	1,75 ,000
v. Rs100 crores or more	2,00,000

Above shall be applicable if:

a. Payment is remuneration approved by a resolution passed by the Remuneration Committee;
b. The company has not made any default in repayment of any debts or debentures or interest payable thereon.

CEILING LIMIT OF 48,00,000 P.A.

Effective capital	Maximum remuneration payable per month
i. Less than Rs. 1 crore.	1,50,000
ii. Rs 1 crore or more but less than 5 crores	2,00,000
iii. Rs 5 crores or more but less than 25 crores	2,50,000
iv. Rs 25 crores or more but less than 50 crores	3,00,000

v. Rs. 50 crores or more but less than 100 crores.	3,50,000
vi. Rs. 100 crores or more	4,00,000

Above shall be applicable if:

a. Payment of remuneration is approved by a resolution passed by Remuneration Committee;
b. The company has not made any default in repayment of any of its debts or debentures or interest payable thereon;
c. A special resolution has been passed;
d. A statement along with a notice given to the shareholders.

Contents of Statement

- General information (relating to company)
- Information about the appointee
- Other information (related to losses)
- Disclosures (details of remuneration)

PERQUISITES NOT TO BE INCLUDED

- Contribution to PF or SPF;
- Gratuity not exceeding half month's salary;
- Leave encashment.
- Children's education allowance;
- Holiday passage ;
- Leave travel concession.

Calculation of Net Profit

Gross profit

Add: Bounties and subsidies received

Profits from the sale of assets

Less: All working charges

Bonus or commission paid or payable to staff

Tax on abnormal profits or for special reasons

Interest paid or payable

Expenses on repairs

Contributions to charitable and other funds

Normal depreciation

Any compensation or damages

Bad debts

- Things not to be deducted:-

i. remuneration payable to the directors ,managing director or manager
ii. income tax , super tax or other taxes on income
iii. compensations , damages or payments made voluntarily.

iv. Capital losses

REMUNERATION TO DIRECTORS

The remuneration to directors is governed by section 309 of the companies act , which is a part of managerial remuneration.

Profit and loss account should contain or give by way of a note a statement the relevant details of the calculation of commission payable to directors(including MD) as per the requirements of para 4 and 4A of part II of schedule VI.

REMUNERATION TO MANAGER

The way section 309 governs the remuneration to directors , in the same way , section 387 of the companies act governs the calculation of remuneration to manager.

if nothing is mentioned then the remuneration is to be calculated on the net profits before charging such remuneration.

OVERALL PICTURE

CATEGORIES OF PERSONNEL	MAXIMUM PERCENTAGE
Total managerial remuneration	11% and if there are no profits or inadequate profits Rs 75,000 to Rs 2,00,000 p.m. per person depending on effective capital.
All directors when there is only director	3%

All directors when there is a manager or managing director or whole-time director	1%
Whole-time director(when there is 1 such director)	5%
Managing director(when there is 1 such director)	5%

MD and WTD taken together or when number of WTD or MD is two or more than two	10%
Manager (there is no provision of having more than 1 manager)	5%

Effective Capital

Total of:

Paid -up share capital(excluding share application money or advances)

Share premium account balance

Reserves and surplus (excluding revaluation reserve)

Long-term loans and deposits repayable after 1 year(excluding working capital loans , overdrafts , interest due on loans unless funded , bank guarantee etc. and other short -term advances)

Less:

Investment(except investment by an investment company)

Accumulated losses

Preliminary expenses (not written off).

Solved Example

The Manager of M/s Slow and Steady company Ltd. is entitled to get a salary of Rs.25000 per month plus 1% commission on the net profits of the company after such salary and commission. The following is the profit and loss account of the company for the year ended 31st March, 2009:

To salaries and wages	1,92,500	By gross profit b/d	11,70,000
To general expenses	74,000	By subsidy from govt.	60,000
To depreciation	82,000	By profit on sale of assets(cost price Rs.2,50,000 and WDV Rs. 1,80,000)	1,00,000
To expenditure on scientific research	14,000		
To manager's salary	3,00,000		
To commission to manager(on account)	6,000		
To reserve for bad debts	17,500		
To provision for tax	2,40,000		
To proposed dividend	1,00,000		
To balance c/d	3,04,000		
	13,30,000		13,30,000

SOLUTION

- Calculation of net profit for the purpose of calculation of managerial remuneration:

Net profit as per profit and loss a/c	304000
Add: Items to be added back-	
proposed dividend	1,00,000
provision for taxation	2,40,000
reserve for bad debts	17,500
commission to manager (on account)	6,000
expenditure on scientific research	14,000
depreciation	1,000

Less : Items to be deducted	
profit on sale of fixed asset	30,000
Net profit for the purpose of managerial calculation	6,52,500

Manager's commission	**6,460**
Less: advance paid on account of commission	6000
Amount still payable to manager	**460**

Working Notes

- Profit on sale:

1 Book value=original cost-accumulated depreciation

1,80,000=2,50,000-accumulated depreciation

Accumulated depreciation=70,000

2 Selling price-book value=+profit/-loss

Selling price-1,80,000=1,00,000

Selling price=2,80,000

- Manager’s commission=(net profit x rate)/100+rate

  Manager’s commission =(652500 x 1)/101

  Manager’s commission =6460