Concept of Cash Short in Books of Accounts

(AN EFFECTIVE TOOL FOR TAX PLANNING)

It's Very Funny to Call it a Concept. In Reality, you will not find any concept of cash shortage in accounts or finance books. But still, I am sure that you may have listened, sometimes in your office or somewhere else that this party (client) has a cash short of Rs ………… blaw … blaw …. blaw …. or you may have listened your seniors to talk with client "*Arey Sir mar Jayenge, books main cash Short Pad raha hai, cash withdrawal karo"*. *So what is* Cash Short?.

Cash Short is a tool used for tax planning or it would be appropriate to call it as a tool to manage profits of a firm or a company or any association. It can be used in any kind of organizations. We can use this technique to manage our Profits or to avoid hefty amount of tax payable on profits.

It is an exercise done by every consultant on regular interval <u>before closing of financial year</u>, to manage his client's profit. To understand this concept, let's take an example:-

M/s Akku Bakku Chakku (popularly known as ABC) is a sole proprietorship concern which deals in a <u>wholesale trading</u> of provisional store items like sugar, jaggery (gur), pulses, Ghee etc. This concern is maintaining an average Gross profit Ratio of 5% and Net Profit Ratio of 1.09%. Now in Dec'12 (F.Y. 2012-13), its profit & loss account is showing a GP of 5% and NP of 3% on a turnover of Rs. 100 Lacs. There is no Problem in GP Ratio, but NP Ratio is too high and M/s ABC do not want to pay more taxes. So what will his consultant do?

His consultant can show cash expenditures like Salary, Telephone Expenses, Staff welfare Expenses, Repair & Maint. Expenses, Printing & Stationery Expenses, Uniform expenses, Festival Expenses etc. and in this way he can reduce his clients profit to a desirable level. But the problem is M/s Abc received all payments (from debtors) in cheques and there is no cash in hand as it does not have to spent more on operating expenses. So what his consultant do is a calculation of desired profit. In our case it would be 1.09% of 100 lacs i.e., Rs. 1.09 Lacs. However the actual profit in books of account is Rs. 3.00 lac, therefore he has to show an additional expenditure of Rs. 1.91 lac.

Now, he will check the availability of cash in books of accounts, Let's say it is Rs.80 lacs only.
That's it! He will make a call to his client & will say " Arey Sir, Books main 1.11 (1.91-.80) lac ka cash Short Pad Raha hai, Cash withdrawal Karo" . and his client will start withdrawing cash in 3-4 installment so that it books of account has sufficient cash to pay cash expenditure. (Not in reality, only in books of accounts). In this way, he evades a huge tax.

<u>Disclaimer:-</u> I do not prefer any one of you to follow this kind of practices. Tax Payments are necessary to build our nation strong.

For any suggestions you may write to me at

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