

KALPESH CLASSES
PROBLEMS ON FBT. PAGE NO. 1

Question 1

ABC & Associates, a firm of chartered accountants, requests you to compute its Fringe Benefit Tax liability on the basis of the following Income and Expenditure A/c

	Rs.		Rs.
To Salaries to staff	3,00,000	By Professional receipts	21,00,000
To Conference Expenses	1,20,000	By Reimbursements	2,00,000
To Conveyance Expenses	3,00,000	By Other receipts	1,00,000
To Touring and Travelling Expenses	2,00,000		
To Hotel, Boarding and Lodging	50,000		
To Telephone Expenses	1,00,000		
To Postage, Telegraph and Courier	20,000		
To Printing and Stationery	15,000		
To Celebrations and Functions	15,000		
To Scholarships	20,000		
To Food, Beverages, refreshments etc.	60,000		
To Books etc.	30,000		
To Employee Welfare Expenses	25,000		
To Office Maintenance Expenses	80,000		
To Other Expenses	10,000		
To Depreciation:			
Motor Cars	1,50,000		
Computers	60,000		
Other Fixed Assets	2,25,000		
To Interest on Loans	20,000		
To Partner's Remuneration	5,00,000		
To Net Profit	1,00,000		
	24,00,000		24,00,000

Other information:

(1) The conference expenses were incurred for the employees of the firm for attending of conferences organised by ICAI. These expenses include –

- Fees of Rs. 50,000 for attending the conferences.
- Fees of Rs. 20,000 for an International Conference held at Dubai. This fee was inclusive of travelling, hotel, boarding and other expenses.

(2) Conveyance Expenses includes -

- Expenditure on running and maintenance of motor cars used by partners Rs. 1, 50, 000;
- Running and maintenance of scooters and other vehicles Rs. 1, 00,000

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- (3) Travelling and touring expenses to the extent of Rs. 1, 50,000 were 'out of pocket' expenses and were reimbursed by the clients, which sum is included in reimbursements. The balance touring and travelling expenses of Rs. 50,000 were incurred for the employees out of which Rs. 10,000 have been recovered from them. This recovery is included in other receipts.
- (4) The hotel, board-ing and lodging expenses were fully reimbursed by the clients, which sum is included in the reimbursements.
- (5) The celebration expenses were incurred as follows - Puja on Diwali (Rs. 2,000); Diwali Gifts to employees (Rs. 5,000); Establishment Day Function (Rs. 6,000); and Independence and Republic Day Function (Rs. 2,000).
- (6) The scholarships were awarded to meritorious students of Chartered Accountancy Exams.
- (7) Food, beverages and refreshments etc. includes -
- Food and beverages provided to clients and partners at the office Rs. 25,000
 - Food and beverages to the employees at the office Rs. 20,000
 - Food and beverages ordered by employees at the office and thereafter, reimbursed to them by the firm Rs. 5,000
- (8) Books etc. include reimbursement of expenditure of Rs. 10,000 for purchase of books by employees.
- (9) Employee welfare expenses include Rs. 15,000 as contribution to non-statutory welfare fund for the benefit of employees.
- (10) The depreciation on motorcars as per Income Tax assessment is Rs. 1, 95,000.
- (11) The Depreciation on other fixed assets includes depreciation of Rs. 15,000 on a new cooling plant (worth Rs. 1, 00,000) installed in the staff section of the office. It also includes depreciation of Rs. 12,000 on scooters and other vehicles. (The firm adopts rates as per Income Tax rules for depreciating other fixed assets).
- (12) Interest on loans pertains to loans taken for purchase of motorcars.

Question 2

Compusoft Ltd. is engaged in the business of development of computer software and IT-enabled services, both in and outside India. The total number of worldwide employees is 2000 while the employees based in India are 500.

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The company presents the following P&L A/c pertaining to its operations in India (all amounts in Rs. Lakhs):

To Direct Costs of Software and Services	1000	By sales/professional receipts	8000
To Salaries	2000	By Miscellaneous receipts	100
To Entertainment and Hospitality	40		
To Conference Expenses	20		
To Sales Promotion and Advertisement	50		
To Conveyance Expenses	300		
To Touring and Travelling Expenses	200		
To Hotel, Boarding and Lodging	140		
To Telephones and Mobile phones	30		
To Postage, Telegraph and Courier	20		
To Printing and Stationery	15		
To Guest House Expenses	100		
To Training Institute Expenses	100		
To Celebrations and Functions	20		
To Club Expenses	20		
To Gifts	10		
To Education and Scholarships	10		
To Employee Welfare Expenses	500		
To Rent of parking slots for cars	2		
To Office Maintenance Expenses	98		
To Other Expenses	120		
To Depreciation:	0		
Motor Cars	200		
Guest House	100		
Training Institute	50		
Other Fixed Assets	1000		
To Audit Fees	50		
To Net Profit	1905		
Total	8100	Total	8100

Other information:

(1) All the allowances paid to the employees have been booked as 'salaries'. The salaries are equally attributable to the business of computer software and that of IT-enabled services. Further, salaries include salaries of Rs. 20 lakhs to the drivers of the motorcars.

(2) Entertainment and Hospitality includes -

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- Rs. 2 lakh on Amusement party only for the customers of the company
 - Rs. 6 lakh for star-night party and youth festival
 - Rs. 3 lakh for a gratification party on retirement of some of the employees
- (3) Conference Expenses includes -
- Rs. 5 lakhs for free training programmers organised by Software Developers Association
 - Rs. 15 lakhs as fee for attending various other conferences
- (4) Sales Promotion and advertisement includes -
- Rs. 2 lakhs for Banners, paintings, hoardings and the like
 - Rs. 10 lakhs for software marketing research paid to a marketing research firm
 - Rs. 8 lakhs for post-sales activities in relation to software products
 - Rs. 10 lakhs for preparation of an ad-film
 - Rs. 10 lakhs for gifts distributed to various customers
- (5) Conveyance expenses include Rs. 10 lakhs reimbursed to the auditors for their local conveyance and Rs. 200 lakhs for motorcars.
- (6) Touring and Travelling expenses includes –
- Rs. 20 lakhs reimbursed to the auditors
 - Rs. 20 lakh worth of Leave Travel Assistance extended to the employees as per section 10(5).
 - Rs. 3 lakhs worth of Free Air tickets provided to private journeys of the family members of managers of the company
- (7) Hotel, Boarding and Lodging Expenses includes Rs. 40 lakhs reimbursed to the auditors
- (8) Telephone and mobile phones expenses include Rs. 18 lakhs for expenditure on leased telephone lines.
- (9) Guest House expenses include Rs. 30 lakhs worth of expenses on provision for food etc. and Rs. 55 lakhs worth of contract charges for guesthouse staff.
- (10) The Training institute is owned by the company and is run for the purposes of in-house training of the employees. The Training institute expenses includes -
- Rs. 8 lakhs for food and beverages provided at the training institute
 - Rs. 80 lakhs for delegation of foreign specialists during in house-training
 - Rs. 12 lakhs for maintenance expenses
- (11) Celebrations and Functions includes -

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- Rs. 6 lakhs for a prize awarding ceremony for honoring the achievements of the employees. The sum of Rs. 6 lakhs includes Rs. 5 lakhs worth of various prizes and awards.
- Annual Day Celebration expenses Rs. 5 lakh
- New year celebration expenses Rs. 4 lakh
- Other expenses are attributable to celebration of 'Diwali', 'Id', 'Christmas Day' etc.

(12) Club Expenses includes -

- An membership fees of Rs. 4 lakhs paid in advance to a health club for the benefit of employees
- Membership fees of Rs. 10 lakhs to an international club, which is open for all the employees of the company (whether based in India or abroad). While separate accounts were maintained for Indian operations, this expenditure was not bifurcated as it was paid by the Office in India.

(13) Education and Scholarships includes -

- Rs. 2 lakh as a subsidy provided to a school in the locality not exclusively for the benefits of the children of the employees of the company.
- Rs. 3 lakh for education of peons etc. iii an educational institution
- Rest expenses as scholarships awarded to various meritorious students.

(14) Employee Welfare Expenses includes-

- Contributions to approved gratuity fund Rs, 50 lakh, contribution to recognised provident fund Rs. 100 lakh, and contribution to approved superannuation fund Rs 40 lakh (includes Rs. 10 lakhs for employees where contribution per employee exceeds Rs 1,00,000).
- Rs. 10 lakhs as premium for group personal accident policy and Rs. 20 lakhs as premium for group health and medical insurance. Both the expenses arise from contractual obligation of the company.
- Rs. 5 lakh for first-aid treatment of employees in a private hospital nearby and Rs. 20 lakhs for other diseases of the employees.
- Rs. 5 lakhs worth of gifts on marriage of employees and their households.