

General Article

Basic Accounting System & Recent Taxation Issues

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Introduction

Accounting is a science and art of creating, recording, classifying and reporting the financial transactions. It helps to generate and maintain records, calculate profit and loss, ascertain the financial position, communicate the information and determine the tax amount. Accounting cycle contains: finding the transactions, recording, classifying, summarizing and communicating to concerned stakeholders.

Each and every financial transaction should be scientifically recorded on the basis of double entry by debiting one account and crediting to other by showing two fold equal financial effect. For double entry system the types of account should be clearly understood.

Personal account Debit the receiver, credit the giver

Real Account Debit what comes in and credit what goes out

Nominal account Debit all expenses and losses and credit all incomes and gains.

Every transaction should be recorded as per this rule appropriately as journal entry. The next step is to prepare ledger account. Ledger is a set of concerned account to classify the double entered transactions. Every transaction will be posted in concerned ledger account by showing equal debit and credit effect. After preparing the ledger within a fix time duration, they will be closed by finding the balance. Now we can prepare trial balance as a summery to test the accuracy of the account. At the end of every fiscal year, we have to prepare profit and loss account, balance sheet and cash flow by utilizing the ledger account balance shown in trial balance and including the given adjustments.

Supporting

Supporting refers to the evidence of financial transactions. It is most to attach with journal vouchers/original records. It may be invoice, receipts, statements, varpai, bills, reports, letters, pragyapan patra, credit note, debit note, clearance certificate etc. Supporting must be legal and original. If it is not authorized, transaction may be doubtful and will not be recognized. For this it is necessary to take PAN, VAT, invoice as well as certified evidence from recognized party. Simple memo, loose bills, unauthorized paper etc should not accept as supporting.

Responsibility

Finance manager/accountant is a responsible and accountable person here. He/She should be fully aware about

- Accounting principles and methods
- Internal and external accounting
- Direct and indirect taxes
- Taxation provisions
- Financial plan and targets
- Assigned tasks and jobs
- Power and interrelationship
- Reporting and improvements

Don't forget following issues while keeping the accounts:

- Improve the capacity and skill through training and participation.
- Don't think that account and reporting is only a formality.
- Don't give the accounting work in contract basis.
- Be sure that if case will need to file in the court, we have sufficient proof/evidence
- Don't be over tight on professional fees.
- Try to make accountable to the accountant
- Don't forget to introduce cross checking system.
- Taxation system of government
- Software and computer system
- Regularity in accounting duty.

Control System

- Accounting performance/outcomes have to evaluate in regular intervals. The system may be different in context to industry, trade and services. Now our concern is trade here due to nature of audience. (Dap members)
- This audience have to focus own observation, review and control on mismatch data, purchase, sales, creditors, debtors, loans, liquidity, current assets, current liabilities, expenses, incomes as well as profitability.
- Inventory management system, debtors collection, and bank statement must be primarily focused. It is more risky in trade.
- Be very much careful in incentives, discounts, commission, etc. received from suppliers and its TDS.

Twenty One Accounting Bullets (Focused to Management)

Following are the key points to check the accounting process and performance.

1. Sample checking of stock randomly and detail counting as well as verification at the end of the year.
2. Formal or legal expenditure supporting in the name of firm.
3. Bank deposit voucher with bank stamp, signature and amount.
4. Approved purchase order and authorized store receipt.
5. Advance after application and timely clearance.
6. Up to date tax invoice and posting in sales and purchase book.
7. Daily bank deposit of cash balance.
8. Water, electricity, telephone payment in time.
9. Very back date supporting not to accept and approve.
10. Compare market rate and purchase rate of supplies items.
11. Travelling after travel order and objective of travel achievement.
12. Daily cash book balance and actual cash balance matching.
13. Bank statement balance and ledger balance matching.
14. Appropriateness of account head in the voucher.
15. Posting up to date maximum excuse 3 days.
16. Debtors and creditors balance verification every month.
17. Consult to Auditor in every new issue.
18. Prepare Trial Balance every month.
19. Letter and statement to sent to different concerned parties/receive from parties.

20. Regular preparation of minutes of BOD and AGM.
21. Documents to sent to company register office/concerned department/renew of firm.

Recent Taxation Issues (076/077)

Taxation Rights

- **Federal Gvt. :** Custom duty, excise duty, value added tax, corporate income tax, individual income tax, remuneration tax, tourism tax etc.
- **State Gvt. :** Land and house registration charge, vehicle tax, entertainment tax, advertisement tax, tourism tax, agriculture income tax, etc.
- **Local Gvt. :** Property tax, rent tax, registration charge, vehicle tax, service tax, tourism tax, advertisement tax, business tax, land tax, entertainment tax etc.

Types of Tax

- **Direct Tax :** Income tax, property tax, rent tax, TDS etc.
- **Indirect Tax :** Custom duty, excise duty, value added tax, export duty , telecom tax etc.

Recent Issues on Direct Tax

In General:

- Basic exemption limit for remuneration income tax for individual Rs. 4,00,000 and couple Rs. 4,50,000. But 1% social security tax have to pay.
- Husband & wife having separate income source are given choice to adopt either to get assessed separately or jointly as married family.
- Implementation of one man one pan policy.
- Payment of salary and wages to employees and workers without PAN and through bank account cannot be booked as expenses.
- Social security fund is operating as it is and no regulation is not finalized and used.
- Tax in share transaction decreased from 7.5% to 5% to encourage in share investment.
- Cooperatives who operates financial transaction, the tax rate is 5% and 10% in municipality and metro and sub-metropolitan area respectively. No tax is in Gaupalika. Other cooperatives tax rate is 20%.
- Income tax facility and exemption continued on merger of bank and financial institution who will submit letter of intent up to 2077 Ashadh end.
- Any error on tax return submitted can be rectified / revised within 30 days of submission.
- Expenses more than Rs. 1,000 most be in PAN bill.

- Income tax facility provided to infrastructure activity, electricity, vehicle, special manufacturing industries etc. specified in different rates.
- If estimated tax return will not be submitted in time minimum penalty is Rs. 5000 or 0.01 percent of total sales whichever is high will be charged.
- Tax rate to natural person : individual Rs. 4 lakh and for couple Rs. 4.5 lakh is not taxable then next 1 lakh, 10%, 2 lakh 20%, upto 20 lakh 30% and more than this 36%.
- Bank, financial institution, insurance company etc., tax rate is 30%.
- Pvt. Ltd. company/Partnership tax rate is 25%.
- Financial cooperatives-5% and 10% in nagarpalika and mahanagarpalika respectively. No tax in Gaupalika to financial and agro-based cooperatives. 20% in others.
- Minimum tax upto 20 lakh sales or Rs. 2 lakh income is Rs. 7,500, 4000 and 2500 in Metropolitan and Sub-Metropolitan, Municipality, and Gaupalika.
- If more than 20 lakh will be the sales of cigarettes and gas, the tax rate will be 0.25% on sales. Others tax rate is 0.75% on sales. Similarly service tax will be 2% on sales. But Rs. 7500 or this percent which ever will be high.
- Expenses claim by person is insurance premium limit is Rs. 25,000 or actual payment whichever is less.
- Husband and wife having separate income source have to take the individual tax exemption.

Tax Deduction at Source (TDS)

- 2.5% on transportation or freight charge.
- 5% on dividend, interest on deposit in bank and cooperatives.
- 15% on service fee or charge (1.5% if registered in VAT)
- 10% on rent, hire charge, royalty, aircraft lease.
- 15% on meeting allowances, commission, bonus
- 25% on prize and other sudden gains.
- 5% on retirement fund.
- 15% on advertisement (VAT bill 1.5%)
- 15% on any extra payment to employees
- 15% on donation etc. (Other as per the needs)
- 1.5% if issued VAT invoice in every case.
- 5% on retirement payment.
- 15% on part time teaching.

- 1.5% on payment under contract exceeding Rs. 50,000.
- 1.5% on insurance premium.
- 5% on gain on sale of share of listed company.
- 10% on gain on sale of share of unlisted company.
- 25% on others besides specified.

Advance Income Tax

- Up to Poush end 40% of estimated tax
- Up to Chaitra end 70% of estimated tax
- Up to Ashadh end 100% of estimated tax

(Note: Differences more or less than 10% have to be revised accordingly. If not, penalty will be 15% on the basis of month)

- If tax amount is less than Rs. 7500, no need to pay the advance installment.
- If estimated tax return is not submitted in every Poush end Rs. 5000 or 0.01% of the sales (total income) whichever is higher must be paid as penalty.

Recent Issues on Indirect Tax

- Compulsory registration in VAT added on this year are liquors, wine, health club, disco, massage, therapy, motor parts, electric software, custom agent, toys, scrap business, education and legal consultancy, account and auditing service.
- Tax more than Rs. 10 lakh should be paid through cheque/draft or electronic mode.
- VAT refund can be claimed if in case of continuous VAT credit or receivable upto 4 months.
- Person who paid through electronic media, 10% of VAT will be returned and deposited to their bank account.
- Penalty increased for non-issuing VAT invoice from Rs. 5,000 to 10,000. Penalty Rs. 1,000 for not being obtaining VAT invoice introduced now.
- Penalty increase from Rs. 5000 to Rs. 10,000 for not carrying tax invoice along with goods worth more than Rs. 10,000.
- 2.5% tax will be imposed in custom point in agriculture products import.
- No VAT claim in diesel and gas.
- Custom rate in raw material import is reduced.
- Custom reduced on import of Ambulance, vehicle by agro based cooperatives, mill machinery also.

- Vehicle and consignment trekking system is introduced from producer/importer to wholesaler.
- Innovative idea, skills, technology related unregistered business are exempted in tax, fines, penalties etc. if they will be registered in VAT and income tax up to 2076 Poush end.
- Excise duty increased in beverages, tobacco/cigarettes, alcohol, beer, cement, microphone, amplifier, speaker etc.
- If any changes in details given while registering in VAT, it should be informed within 15 days, nor Rs. 10,000 penalty.
- If VAT ledger of sales and purchase will not be found updated while visiting by tax officer, the penalty will be Rs. 10,000 at once. (in case of opposed to show Rs. 20,000).

Attention about Pvt. Ltd. Company

- After 3 months of its incorporation the office should be open and inform to company registrar.
- Shareholders details including their share number and capital should be prepared and approved from company registrar office.
- BOD have to form and inform to company registrar.
- Preliminary AGM have to call within the year of establishment and other regular AGM have to call within 6 month of fiscal year completed.
- Statement about AGM have to prepare and sent with audit report to company registrar office within one month.
- Auditor appointment, yearly policy and program approval, discussion on audit and BOD report have to be approved by AGM.
- Special resolution has to pass for changes on Memorandum and Articles of Association.

Taxation Bullets (Focused to management while checking the tax report)

Following are the main points to be considered while preparing report to submit to tax.

1. Assets pool A, B, C, D and E grouping as per the specification as building, office assets, automobiles, machine equipments/ other and intangible assets.
2. Depreciation rate in order as per the income tax act, 5, 25, 20, 15, percent and lastly cost divided by estimated life. Depreciation on addition on the basis of time 100% Poush, 67% Chaitra and 33% Ashadh.
3. Repair expenses 7% of opening value of assets and remaining balance to be capitalized.

4. TDS deduction and VAT payment of last month up to 25th of this month. (Better to do e-TDS).
5. Banking transactions in and out as per the legal requirements.
6. Advance tax payment in time nor 15% penalty.
7. Mismatch data regarding the sales, purchase, debtors and creditors.
8. Cash payment limit upto Rs. 50,000
9. VAT advance status better to be payable at the end of Ashadh.
10. Staff salary payment system and their appointment with citizenship certificate in personal file.
11. Last year GP and NP ratio/percentage have to consider quarterly.
12. Tax account vouchers, ledgers, and other documents safety up to six years.
13. Know that which tax have to pay where.
14. Try to submit your financial report upto Aswin if not apply for additional time for it. (Last Poush)
15. Timely find and analyze your expenses and profit status.
16. See the liquidity position of the firm or company. Over liquidity is problem.
17. Know your bank loan and its appropriate used.
18. Renew the license, purchase/sales book, excise duty, firm, company etc. in time.
19. Calculation of remuneration tax to deduct from salary.
20. Follow up the full audit in time.
21. Better to take tax clearance certificate every year.

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