

# CHAPTER 12

## SALARIES & EXPENSES - CONTROLLABLE COSTS TO IMPROVE PROFITABILITY

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## **85 BOOKS OF ACCOUNTS – A QUICK RECAP**

In Chapter 3, we talked about the Books of Accounts which are normally used by a Business. The following Books of Accounts are used for the purposes of Accounting for Payroll and Expenses:

- General ledger
- Cash & Bank Book

Besides these two, there are also other Books which can also be used for recording salaries & wages i.e. Attendance and Salary Registers. However, in this Chapter, wherever Accounting entries are shown, we will use these books only for illustration purposes.

## **86 EMPLOYEES ARE IMPORTANT FOR A BUSINESS**

Every Business needs people (or employees) to run, operate and manage the Business. Money buys machines which produce inventory which, when sold, generates revenues. But, who runs the machines? It is Employees.

Employees are critical and important for every Business because machines and inventory cannot think – they need people to make them work. It is, therefore, important to have the right number and quality of employees.

Employees, after raw material cost, are the largest cost for a Business. Managing this cost is important for a Business but it can also be a problem for some Businesses: employees leaving, new hires who are not trained, salary increases, bonuses are some of the issues which a Business has to face on account of Employees.

Employee costs are a function of:

- Number of employees.
- Cost of each employee.

A motivated and “happy” workforce is what every Business needs. Employees’ loyalty, commitment and interest to work in a Business is there to the extent that he gets his salary on time, gets annual pay raise, bonus at the end of a year etc.

The important thing for a Business is to decide:

- How many employees do I need to run my Business properly?
- How much should I pay to retain good employees?

An honest assessment of these questions will normally enable a Business to have an optimal number of employees as well as to have an affordable cost base which can be justified by the nature and size of a Business’s operations.

Payroll expense is of great concern to most Businesses. It is a cost which needs to be paid irrespective of whether the Business is performing well or not. Many Businesses have resorted to hiring services on part time basis, contractual staff, or even consultants so that the salary cost can be replaced by a more variable cost base.

## **87 WHAT ARE THE DIFFERENT TYPES OF PAYROLL COSTS?**

In this section, we will briefly discuss some of the more commonly used terms when we talk about payroll costs.

### **87.1 WAGES**

Wages are paid to labor or factory staff, typically, on an hourly, daily, or weekly basis or on the work done basis. Payment of wages is normally linked to work that needs to be done – once the work is finished, wages are paid.

### **87.2 SALARIES**

Salaries are fixed amounts paid to an employee on a regular, normally, monthly basis. The amount of salaries is usually fixed, i.e. irrespective of the quantum of work, salaries are paid to employees.

### **87.3 CLASSIFICATION OF PAYROLL COSTS**

Whether payroll costs are wages or salaries, these can be further classified as follows:

#### **87.3.1 DIRECT PAYROLL COSTS**

You may recall this from Chapter 10. Direct payroll costs are those which are directly spent in the manufacture of an inventory item. These can be a combination of both wages and salaries.

#### **87.3.2 INDIRECT PAYROLL COSTS**

Indirect payroll costs are those which are not directly attributable to the manufacturing process. Additional resources, called support departments, are usually required in a Business to facilitate smooth functioning of a Business, e.g. accounting department. Again, indirect costs could be in the form of wages or salaries.

#### **87.3.3 VARIABLE PAYROLL COSTS**

Certain types of payroll costs vary with production levels, or with the size of the Business. These are called variable payroll costs – the relevance of variable costs has been discussed more fully in Chapter 10. Usually, only wages are variable payroll costs.

#### **87.3.4 FIXED PAYROLL COSTS**

These are the payroll costs which have to be incurred irrespective of the size of Business, or manufacturing activities. For example, the factory supervisor will most likely

be paid a fixed monthly salary, irrespective of whether a Business has received 10 orders or 100 orders. As in the case of variable costs, the relevance of fixed costs will be evident in Chapter 10.

The context in which some or all of these terms are used varies between Businesses. In the remaining part of this Chapter, we will use the word “Salaries” to refer to all types of payroll costs unless a specific mention has been made otherwise.

## **88 WHAT IS INCLUDED WITHIN SALARIES?**

Salaries include:

- Any and all cash payments to an employee.
- Any and all benefits that a Business has given to an employee which can have a value assigned to them.

The Income Tax Law has defined what salary is, and because tax has to be deducted from salary payments, every Business needs to be aware of what the Law says with respect to payment of salaries to an employee.

Typically, salary has the following components:

- Basic Salary.
- House Rent Allowance.
- Medical Allowance.
- Conveyance Allowance.
- Utilities Allowance.
- Leave Fare Assistance.
- Leave Encashment.
- Overtime.
- Bonus.

There are various other components which may also be included within the Salary. When a Business gives benefits to employees, normally the following are commonly offered as benefits to the employees:

- Company Car.
- Medical & Hospitalisation Coverage.
- Life Insurance.
- Petrol & Fuel Entitlement.
- Gratuity Fund.
- Provident Fund.
- Pension Scheme.

Similarly, there are various other benefits which may also be included in the list of benefits (incidentally, Income tax Regulation calls them Benefits or Perquisites, to mean

one and the same thing). The decision on what to include within Salaries & Benefits for an employee varies from one Business to another – however, the important thing to remember is that inclusion of some or more will have a direct impact on the amount of income tax which will be deducted from an employee's salary.

## 89 MAINTAINING EMPLOYEE RECORDS

At the time when salaries are paid to employees, the Business needs to know how much to pay an employee! This may happen even if salaries have been fixed because:

- How many days did the employee come to work?
- Did the employee work for complete days? (normally of 8 hours each day)
- Is he entitled to any leaves, i.e. casual, sick or annual leave?
- Did the employee work overtime?

Any of these factors could result in a lower or a higher salary to be paid to an employee. For this purpose, an Attendance Register is a useful Book to maintain. This Register enables Businesses to keep track of the actual hours worked by employees so that correct salary payments can be made.

Usually, if an employee has taken leave and is within the entitlement, i.e. the maximum number of days of leave that an employee can avail, the employee will get paid for that day of leave as well. As soon as leaves availed exceed the entitlement, no salary is paid for the days for which leave in excess of entitlement was availed.

A typical specimen of an Attendance Register is given below:

| Attendance Register |             |            |               |    |          |                         |          |                                |          |        |           |
|---------------------|-------------|------------|---------------|----|----------|-------------------------|----------|--------------------------------|----------|--------|-----------|
| Year: .....         |             | Start time | Meal interval |    | End Time | Total no. of hrs worked | OT (hrs) | Sundays/ holidays worked (hrs) | Approval | Checks | Signature |
| Month: .....        |             |            | Off           | On |          |                         |          |                                |          |        |           |
| Date                | Day of work |            |               |    |          |                         |          |                                |          |        |           |
|                     |             |            |               |    |          |                         |          |                                |          |        |           |

## 90 HOW IS SALARY COST RECORDED?

Accounting for salaries is done depending on how frequently salaries are paid to employees. A Business can choose to have multiple salary payment dates, e.g., workers get paid on a weekly basis and management employees get paid on a monthly basis.

We will now consider the following example to show how accounting for salaries is done:

**EXAMPLE # 12.1**

**Accounting of Salaries**

Hanif Auto Engineering has employed two mechanics, one electrician, one painter and five helpers. Their salaries for June 2006 were as follows:

| DESIGNATION | MONTHLY SALARY (Rs.) |
|-------------|----------------------|
| Mechanic    | 6,000                |
| Electrician | 7,000                |
| Painter     | 5,000                |
| Helpers     | 4,000                |
| Total       | 44,000               |

Deduction for income tax is estimated as follows:

|            |              |
|------------|--------------|
| Income Tax | 5% of salary |
|------------|--------------|

Salaries are paid on 2<sup>nd</sup> of the next month. Income tax is paid within 7 days.

To record salary expense & payable as of 30/6/06:

**GENERAL LEDGER**

| SALARY EXPENSE ACCOUNT |       |                            |              |        |       |             |              |
|------------------------|-------|----------------------------|--------------|--------|-------|-------------|--------------|
| Debit                  |       |                            |              | Credit |       |             |              |
| Date                   | Folio | Description                | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 30/6/06                | GL-61 | Salaries Payable Account   | 41,800       |        |       |             |              |
| 30/6/06                | GL-62 | Income Tax Payable Account | 2,200        |        |       |             |              |

**GENERAL LEDGER**

| SALARIES PAYABLE ACCOUNT |       |             |              |         |       |                        |              |
|--------------------------|-------|-------------|--------------|---------|-------|------------------------|--------------|
| Debit                    |       |             |              | Credit  |       |                        |              |
| Date                     | Folio | Description | Amount (Rs.) | Date    | Folio | Description            | Amount (Rs.) |
|                          |       |             |              | 30/6/06 | GL-60 | Salary Expense Account | 41,800       |

| GENERAL LEDGER             |       |             |              |         |       |                        |              |
|----------------------------|-------|-------------|--------------|---------|-------|------------------------|--------------|
| INCOME TAX PAYABLE ACCOUNT |       |             |              |         |       |                        | GL-62        |
| Debit                      |       |             |              | Credit  |       |                        |              |
| Date                       | Folio | Description | Amount (Rs.) | Date    | Folio | Description            | Amount (Rs.) |
|                            |       |             |              | 30/6/06 | GL-60 | Salary Expense Account | 2,200        |

On 2/7/06, net salaries are paid to employees:

| GENERAL LEDGER           |       |              |              |        |       |             |              |
|--------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| SALARIES PAYABLE ACCOUNT |       |              |              |        |       |             | GL-61        |
| Debit                    |       |              |              | Credit |       |             |              |
| Date                     | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 2/7/06                   | GL-25 | Bank Account | 41,800       |        |       |             |              |

| CASH & BANK BOOK |       |             |              |        |       |                          |              |
|------------------|-------|-------------|--------------|--------|-------|--------------------------|--------------|
| BANK ACCOUNT     |       |             |              |        |       |                          | GL-25        |
| Debit            |       |             |              | Credit |       |                          |              |
| Date             | Folio | Description | Amount (Rs.) | Date   | Folio | Description              | Amount (Rs.) |
|                  |       |             |              | 2/7/06 | GL-61 | Salaries Payable Account | 41,800       |

On 7/7/06, income tax deducted from employees' salary was paid:

| GENERAL LEDGER             |       |              |              |        |       |             |              |
|----------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| INCOME TAX PAYABLE ACCOUNT |       |              |              |        |       |             | GL-62        |
| Debit                      |       |              |              | Credit |       |             |              |
| Date                       | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 7/7/06                     | GL-25 | Bank Account | 2,200        |        |       |             |              |

| CASH & BANK BOOK |       |             |              |        |       |                            |              |
|------------------|-------|-------------|--------------|--------|-------|----------------------------|--------------|
| Debit            |       |             |              | Credit |       |                            |              |
| BANK ACCOUNT     |       |             |              | GL-25  |       |                            |              |
| Date             | Folio | Description | Amount (Rs.) | Date   | Folio | Description                | Amount (Rs.) |
|                  |       |             |              | 7/7/06 | GL-62 | Income Tax Payable Account | 2,200        |

**EXAMPLE # 12.2****Accounting of Salaries**

Hussain Khaddar & Looms (Pvt) Limited has employed five Karigars to operate looms. All Karigars are paid hourly wages @ Rs. 20 per hour. Overtime payment is 1½ times and all hours worked on Sundays will be counted as overtime. The following information on number of hours worked by each Karigar is extracted from the Attendance Register for June '06. For the sake of simplicity, we have only given an extract of hourly information for one Karigar which is assumed to be same for the other four Karigars also.

Deduction for income tax is estimated at 5% of the total salary. Salaries are paid on 2<sup>nd</sup> of the next month. Income tax is paid within 7 days.



The relevant extract from the Attendance Register is shown below:

| Date                      | Day       | Total hrs worked | OT | Normal Payment | OT payment | Total payment |
|---------------------------|-----------|------------------|----|----------------|------------|---------------|
| 1                         | Thursday  | 8                | -  | 160            | -          | 160           |
| 2                         | Friday    | 8                | 5  | 160            | 150        | 310           |
| 3                         | Saturday  | 8                | 2  | 160            | 60         | 220           |
| 4                         | Sunday    | -                | -  | -              | -          | -             |
| 5                         | Monday    | 8                | 1  | 160            | 30         | 190           |
| 6                         | Tuesday   | 7                | -  | 140            | -          | 140           |
| 7                         | Wednesday | 7                | -  | 140            | -          | 140           |
| 8                         | Thursday  | 8                | 1  | 160            | 30         | 190           |
| 9                         | Friday    | 8                | -  | 160            | -          | 160           |
| 10                        | Saturday  | 8                | -  | 160            | -          | 160           |
| 11                        | Sunday    | -                | -  | -              | -          | -             |
| 12                        | Monday    | 8                | -  | 160            | -          | 160           |
| 13                        | Tuesday   | 8                | -  | 160            | -          | 160           |
| 14                        | Wednesday | 8                | 3  | 160            | 90         | 250           |
| 15                        | Thursday  | 8                | -  | 160            | -          | 160           |
| 16                        | Friday    | 7                | -  | 140            | -          | 140           |
| 17                        | Saturday  | 8                | 1  | 160            | 30         | 190           |
| 18                        | Sunday    | -                | -  | -              | -          | -             |
| 19                        | Monday    | 7                | -  | 140            | -          | 140           |
| 20                        | Tuesday   | 8                | -  | 160            | -          | 160           |
| 21                        | Wednesday | 8                | 3  | 160            | 90         | 250           |
| 22                        | Thursday  | 6                | -  | 120            | -          | 120           |
| 23                        | Friday    | 8                | -  | 160            | -          | 160           |
| 24                        | Saturday  | 8                | -  | 160            | -          | 160           |
| 25                        | Sunday    | -                | 5  | -              | 150        | 150           |
| 26                        | Monday    | 8                | -  | 160            | -          | 160           |
| 27                        | Tuesday   | 8                | 1  | 160            | 30         | 190           |
| 28                        | Wednesday | 8                | -  | 160            | -          | 160           |
| 29                        | Thursday  | 8                | 6  | 160            | 180        | 340           |
| 30                        | Friday    | 8                | 4  | 160            | 120        | 280           |
| TOTAL SALARY FOR JUNE '06 |           |                  |    |                |            | 5,000         |

To record salary expense & payable as of 30/6/06 for 5 Karigars:

| GENERAL LEDGER         |       |                            |              |        |       |             |              |
|------------------------|-------|----------------------------|--------------|--------|-------|-------------|--------------|
| SALARY EXPENSE ACCOUNT |       |                            |              | GL-60  |       |             |              |
| Debit                  |       |                            |              | Credit |       |             |              |
| Date                   | Folio | Description                | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 30/6/06                | GL-61 | Salaries Payable Account   | 23,750       |        |       |             |              |
| 30/6/06                | GL-62 | Income Tax Payable Account | 1,250        |        |       |             |              |

| GENERAL LEDGER           |       |             |              |         |       |                        |              |
|--------------------------|-------|-------------|--------------|---------|-------|------------------------|--------------|
| SALARIES PAYABLE ACCOUNT |       |             |              | GL-61   |       |                        |              |
| Debit                    |       |             |              | Credit  |       |                        |              |
| Date                     | Folio | Description | Amount (Rs.) | Date    | Folio | Description            | Amount (Rs.) |
|                          |       |             |              | 30/6/06 | GL-60 | Salary Expense Account | 23,750       |

| GENERAL LEDGER             |       |             |              |         |       |                        |              |
|----------------------------|-------|-------------|--------------|---------|-------|------------------------|--------------|
| INCOME TAX PAYABLE ACCOUNT |       |             |              | GL-62   |       |                        |              |
| Debit                      |       |             |              | Credit  |       |                        |              |
| Date                       | Folio | Description | Amount (Rs.) | Date    | Folio | Description            | Amount (Rs.) |
|                            |       |             |              | 30/6/06 | GL-60 | Salary Expense Account | 1,250        |

On 2/7/06, salaries are paid to employees:

| GENERAL LEDGER           |       |              |              |        |       |             |              |
|--------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| SALARIES PAYABLE ACCOUNT |       |              |              |        |       |             | GL-61        |
| Debit                    |       |              |              | Credit |       |             |              |
| Date                     | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 2/7/06                   | GL-20 | Bank Account | 23,750       |        |       |             |              |

| CASH & BANK BOOK |       |             |              |        |       |                          |              |
|------------------|-------|-------------|--------------|--------|-------|--------------------------|--------------|
| BANK ACCOUNT     |       |             |              |        |       |                          | GL-20        |
| Debit            |       |             |              | Credit |       |                          |              |
| Date             | Folio | Description | Amount (Rs.) | Date   | Folio | Description              | Amount (Rs.) |
|                  |       |             |              | 2/7/06 | GL-61 | Salaries Payable Account | 23,750       |

On 7/7/06, income tax was paid on employees' salary:

| GENERAL LEDGER             |       |             |              |        |       |             |              |
|----------------------------|-------|-------------|--------------|--------|-------|-------------|--------------|
| INCOME TAX PAYABLE ACCOUNT |       |             |              |        |       |             | GL-62        |
| Debit                      |       |             |              | Credit |       |             |              |
| Date                       | Folio | Description | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 7/7/06                     | GL-20 | Bank        | 1,250        |        |       |             |              |

| CASH & BANK BOOK |       |             |              |        |       |                            |              |
|------------------|-------|-------------|--------------|--------|-------|----------------------------|--------------|
| BANK ACCOUNT     |       |             |              |        |       |                            | GL-20        |
| Debit            |       |             |              | Credit |       |                            |              |
| Date             | Folio | Description | Amount (Rs.) | Date   | Folio | Description                | Amount (Rs.) |
|                  |       |             |              | 7/7/06 | GL-62 | Income Tax Payable Account | 1,250        |

## **91 WHEN & HOW IS THE TAX DEPARTMENT INFORMED?**

Because income tax is being deducted and is required to be deposited with the government, the tax department has laid down strict procedures to ensure that correct amount of tax is deducted, deposited and reported to the tax department.

Some of the more important guidelines in this regard are as follows:

### **91.1 TAX CHALLAN**

Every month, or whenever salaries are paid, income tax is deducted. This tax is then required to be deposited with the tax department within 15 days of deduction from employees' salaries.

The amount of tax is deposited through a tax challan form which is shown as a specimen at Appendix 12-01.

### **91.2 QUARTERLY STATEMENTS**

At the end of every calendar quarter i.e. 31/3, 30/6, 30/9 & 31/12, a statement is filed by every Business that pays salaries within 15 days of the end of every quarter.

A specimen of such a statement is attached as Appendix 12-02.

### **91.3 SALARY CERTIFICATES**

At the end of each financial year which ends on 30/6 annually, every Business is required to give each employee a "Salary Certificate". This certificate is a confirmation by the Business of how much salary was paid to each employee and a further confirmation on the amount of income tax that has been deducted and deposited with the tax department. Employees are required to submit this certificate along with their annual tax returns – therefore, it is very important to ensure that this certificate is handed over to employees on a timely basis which is by 31/8 annually.

A specimen of the Salary Certificate is attached as Appendix 12-03.

## **92 WHAT RESPONSIBILITIES ARE PLACED ON BUSINESSES?**

Because a Business is paying salaries, the responsibility to deduct taxes properly and accurately is on every Business. It can not be an excuse that an employee insisted on non-deduction of income tax.

This places the Businesses in a very responsible position to ensure that strict compliance with income tax regulations is ensured at all times.

### 93 WHAT ARE OVERHEADS?

Overheads are a generalized term used to refer to “Expenses”. Expenses incurred by a Business can be of different nature and type, and can also differ from one Business to another. In Chapter 5, we discussed Purchases which were taken to mean purchases of inventory items – some Businesses also include expenses or overheads as part of purchases.

In this Chapter, we have already talked about payroll costs – we will now have a brief discussion on Overheads which can include some or all of the following:

- Insurance.
- Petrol expenses.
- Building repair.
- Machinery repair.
- Travelling expenses.
- Hotel & entertainment.
- Canteen expenses.
- Utilities expenses (telephone, electricity, gas).

While expenses can take different names, expenses can be classified in two broad categories for all practical purposes:

#### OVERHEADS RELATING TO FACTORY / PRODUCTION

These expenses are incurred with respect to activities or operations in the factory / production area. In other words, these expenses can be directly attributed to production related activities.

#### GENERAL OVERHEADS

These are the expenses which are incurred in non-production related departments. These can be accounts & finance, IT, purchase, marketing & sales departments, to name a few. Whenever Accounting of expenses is carried out, the procedures are very similar to those which have already been explained in Chapter 5, except that:

- There is no inventory record to be maintained.
- These expenses do not necessarily have to be recorded in Purchase Day Book (although some Businesses do record purchases as well as expenses in the Day Book).
- Rather than the control account in General Ledger, a separate General Ledger account is opened for each expense.

**EXAMPLE # 12.3****Expenses**

Hussain Khaddar & Looms (Pvt) Limited has incurred following expenses in May '06:

| Date     | Heads of expenses                          | Rs.    |
|----------|--------------------------------------------|--------|
| 1/05/06  | Insurance of factory building for one year | 12,000 |
| 5/05/06  | Electricity bill                           | 4,500  |
| 10/05/06 | Traveling expense                          | 15,000 |
| 31/05/06 | Petrol expense                             | 10,000 |
| 31/05/06 | Building repairs                           | 5,000  |

The Accounting entries to record these expenses are as follows:

**GENERAL LEDGER**

| INSURANCE EXPENSE ACCOUNT |       |              |              | GL-44  |       |             |              |
|---------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| Debit                     |       |              |              | Credit |       |             |              |
| Date                      | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 1/5/06                    | GL-20 | Bank Account | 12,000       |        |       |             |              |

**GENERAL LEDGER**

| ELECTRICITY EXPENSE ACCOUNT |       |              |              | GL-41  |       |             |              |
|-----------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| Debit                       |       |              |              | Credit |       |             |              |
| Date                        | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 5/5/06                      | GL-20 | Bank Account | 4,500        |        |       |             |              |

**GENERAL LEDGER**

| TRAVELING EXPENSE ACCOUNT |       |              |              | GL-63  |       |             |              |
|---------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| Debit                     |       |              |              | Credit |       |             |              |
| Date                      | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 10/5/06                   | GL-20 | Bank Account | 15,000       |        |       |             |              |

| GENERAL LEDGER         |       |              |              |        |       |             |              |
|------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| PETROL EXPENSE ACCOUNT |       |              |              | GL-64  |       |             |              |
| Debit                  |       |              |              | Credit |       |             |              |
| Date                   | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 31/5/06                | GL-20 | Bank Account | 10,000       |        |       |             |              |

| GENERAL LEDGER           |       |              |              |        |       |             |              |
|--------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| BUILDING REPAIRS ACCOUNT |       |              |              | GL-65  |       |             |              |
| Debit                    |       |              |              | Credit |       |             |              |
| Date                     | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 31/5/06                  | GL-20 | Bank Account | 5,000        |        |       |             |              |

| CASH & BANK BOOK |       |             |              |         |       |                             |              |
|------------------|-------|-------------|--------------|---------|-------|-----------------------------|--------------|
| BANK ACCOUNT     |       |             |              | GL-20   |       |                             |              |
| Debit            |       |             |              | Credit  |       |                             |              |
| Date             | Folio | Description | Amount (Rs.) | Date    | Folio | Description                 | Amount (Rs.) |
|                  |       |             |              | 1/5/06  | GL-44 | Insurance Premium Account   | 12,000       |
|                  |       |             |              | 5/5/06  | GL-41 | Electricity Expense Account | 4,500        |
|                  |       |             |              | 10/5/06 | GL-63 | Traveling Expense Account   | 15,000       |
|                  |       |             |              | 31/5/06 | GL-64 | Petrol Expense Account      | 10,000       |
|                  |       |             |              | 31/5/06 | GL-65 | Building Repairs Account    | 5,000        |

**EXAMPLE # 12.4****Expenses**

Hanif Auto Engineering has incurred following expenses in the month of April 2006:

| Date    | Heads of expenses     | Rs.    |
|---------|-----------------------|--------|
| 1/4/06  | Machinery repair      | 5,000  |
| 5/4/06  | Utility bills         | 30,000 |
| 10/4/06 | Postage and telegrams | 5,000  |
| 30/4/06 | Petrol expense        | 8,000  |
| 30/4/06 | Canteen expenses      | 10,000 |

In this case, the following entries will be passed:

| GENERAL LEDGER           |       |              |              |        |       |             |              |
|--------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| MACHINERY REPAIR ACCOUNT |       |              |              |        |       |             | GL-66        |
| Debit                    |       |              |              | Credit |       |             |              |
| Date                     | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 1/4/06                   | GL-25 | Bank Account | 5,000        |        |       |             |              |

| GENERAL LEDGER          |       |              |              |        |       |             |              |
|-------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| UTILITY EXPENSE ACCOUNT |       |              |              |        |       |             | GL-67        |
| Debit                   |       |              |              | Credit |       |             |              |
| Date                    | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 5/4/06                  | GL-25 | Bank Account | 30,000       |        |       |             |              |

| GENERAL LEDGER               |       |              |              |        |       |             |              |
|------------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| POSTAGE AND TELEGRAM ACCOUNT |       |              |              |        |       |             | GL-68        |
| Debit                        |       |              |              | Credit |       |             |              |
| Date                         | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 10/4/06                      | GL-25 | Bank Account | 5,000        |        |       |             |              |



| GENERAL LEDGER         |       |              |              |        |       |             |              |
|------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| PETROL EXPENSE ACCOUNT |       |              |              | GL-69  |       |             |              |
| Debit                  |       |              |              | Credit |       |             |              |
| Date                   | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 30/4/06                | GL-25 | Bank Account | 8,000        |        |       |             |              |

| GENERAL LEDGER  |       |              |              |        |       |             |              |
|-----------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| CANTEEN ACCOUNT |       |              |              | GL-70  |       |             |              |
| Debit           |       |              |              | Credit |       |             |              |
| Date            | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 30/4/06         | GL-25 | Bank Account | 10,000       |        |       |             |              |

| CASH & BANK BOOK |       |             |              |         |       |                              |              |
|------------------|-------|-------------|--------------|---------|-------|------------------------------|--------------|
| BANK ACCOUNT     |       |             |              | GL-25   |       |                              |              |
| Debit            |       |             |              | Credit  |       |                              |              |
| Date             | Folio | Description | Amount (Rs.) | Date    | Folio | Description                  | Amount (Rs.) |
|                  |       |             |              | 1/4/06  | GL-66 | Machinery Repair Account     | 5,000        |
|                  |       |             |              | 5/4/06  | GL-67 | Utility Expense Account      | 30,000       |
|                  |       |             |              | 10/4/06 | GL-68 | Postage And Telegram Account | 5,000        |
|                  |       |             |              | 30/4/06 | GL-69 | Petrol Expense Account       | 8,000        |
|                  |       |             |              | 30/4/06 | GL-70 | Canteen Account              | 10,000       |

## 94 WHY ARE EXPENSES ACCRUED?

In Chapter 2, we had discussed the Accruals concept. This concept has very close similarities to the Matching Concept which was also explained in the same Chapter.

Accruals concept requires that where an expense has been incurred, the Business should recognize the expense in its Books of Accounts even though payment has not

been made, or even if an invoice has not been received. The concept is that when an expense has been incurred, irrespective of whether payment is made or whether an invoice has been received, the Business has had the benefit of the same and it should be recognized in Accounts. The way to do this is to make an entry for an expense and to book a corresponding liability. By doing this, the Accounts will show a more accurate picture of the financial position and profitability of the Business.

Provision for accrued expenses is made in the accounts whenever accounts are prepared.

#### 94.1 HOW IS PROVISION FOR ACCRUED EXPENSES CALCULATED?

A Business should make a provision for accrued expenses on the basis of best estimates available. To do this, following are some of the bases which can be used:

- Based on the amounts in Purchase Order (if available).
- Based on invoice received but after the month or year has closed.
- Based on the history of expenses incurred in the past.

All of these are equally acceptable bases – the important thing to remember is that the estimate should reflect the best and an accurate estimate.

#### 94.2 HOW ARE ACCRUED EXPENSES ACCOUNTED FOR?

Accrued expenses require an expense to be booked, which is a Debit entry, followed by a Credit entry for creating a “liability”.

The following example will explain this:

##### EXAMPLE # 12.5

##### Accrued Expenses

Electricity bill of Hussain Khaddar & Looms (Pvt) Limited for June '06 was received on 10/7/06. This bill is for Jun '06 and payment was made on 19/7/06.

| Billing Month | Bill Date | Amount (Rs.) |
|---------------|-----------|--------------|
| June          | 5/7/06    | 50,000       |

Let us assume that Hussain Khaddar is preparing accounts for June '06. Since the bill is dated and received in July '06, the accounts for 30/6/06 will include an approximate amount of electricity expense for June '06. Since we know the June '06 expense (from the bill dated 5/7/06), we will make an accrual for this amount.

Accounting entry for provision against accrued electricity bill for June '06 will be:

| GENERAL LEDGER              |       |                                     |              |        |       |             |              |
|-----------------------------|-------|-------------------------------------|--------------|--------|-------|-------------|--------------|
| ELECTRICITY EXPENSE ACCOUNT |       |                                     |              |        |       |             | GL-41        |
| Debit                       |       |                                     |              | Credit |       |             |              |
| Date                        | Folio | Description                         | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 30/6/06                     | GL-42 | Accrued Electricity Expense Account | 50,000       |        |       |             |              |

| GENERAL LEDGER                      |       |             |              |         |       |                             |              |
|-------------------------------------|-------|-------------|--------------|---------|-------|-----------------------------|--------------|
| ACCRUED ELECTRICITY EXPENSE ACCOUNT |       |             |              |         |       |                             | GL-42        |
| Debit                               |       |             |              | Credit  |       |                             |              |
| Date                                | Folio | Description | Amount (Rs.) | Date    | Folio | Description                 | Amount (Rs.) |
|                                     |       |             |              | 30/6/06 | GL-41 | Electricity Expense Account | 50,000       |

### 94.3 WHAT HAPPENS IN THE NEXT MONTH?

In July '06, Hussain Khaddar will receive the electricity bill for June '06 and payment against the bill will also be made. When the bill is received, it will be entered as a payable with a corresponding entry, which in this case, will again be an expense - does that mean that an expense will be booked twice, once in June and then again in July against the same bill? No, an expense can not be booked twice!

This duplication of expenses is avoided by what we call "reversal of accruals". You will recall that accrual is only an Accounting estimate of the expense by booking a corresponding liability, but it is not booking an actual payable - liability to pay only arises when the actual bill gets recorded in the Books. When the next month starts, in this case July '06, accruals made in the previous month are reversed, actual bill gets processed and payments are made – all as per usual accounting practices.

Continuing with Example # 12.5, we can now complete the transactions till payment is made.

Accrual made as of 30/6/06 for electricity expense:

| GENERAL LEDGER              |       |                                     |              |        |       |             |              |
|-----------------------------|-------|-------------------------------------|--------------|--------|-------|-------------|--------------|
| ELECTRICITY EXPENSE ACCOUNT |       |                                     |              | GL-41  |       |             |              |
| Debit                       |       |                                     |              | Credit |       |             |              |
| Date                        | Folio | Description                         | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 30/6/06                     | GL-42 | Accrued Electricity Expense Account | 50,000       |        |       |             |              |

| GENERAL LEDGER                      |       |             |              |         |       |                             |              |
|-------------------------------------|-------|-------------|--------------|---------|-------|-----------------------------|--------------|
| ACCRUED ELECTRICITY EXPENSE ACCOUNT |       |             |              | GL-42   |       |                             |              |
| Debit                               |       |             |              | Credit  |       |                             |              |
| Date                                | Folio | Description | Amount (Rs.) | Date    | Folio | Description                 | Amount (Rs.) |
|                                     |       |             |              | 30/6/06 | GL-41 | Electricity Expense Account | 50,000       |

The new month has now started – accruals need to be reversed:

| GENERAL LEDGER              |       |             |              |        |       |                                     |              |
|-----------------------------|-------|-------------|--------------|--------|-------|-------------------------------------|--------------|
| ELECTRICITY EXPENSE ACCOUNT |       |             |              | GL-41  |       |                                     |              |
| Debit                       |       |             |              | Credit |       |                                     |              |
| Date                        | Folio | Description | Amount (Rs.) | Date   | Folio | Description                         | Amount (Rs.) |
|                             |       |             |              | 1/7/06 | GL-42 | Accrued Electricity Expense Account | 50,000       |

| GENERAL LEDGER                      |       |                             |              |        |       |             |              |
|-------------------------------------|-------|-----------------------------|--------------|--------|-------|-------------|--------------|
| ACCRUED ELECTRICITY EXPENSE ACCOUNT |       |                             |              |        |       |             | GL-42        |
| Debit                               |       |                             |              | Credit |       |             |              |
| Date                                | Folio | Description                 | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 1/7/06                              | GL-41 | Electricity Expense Account | 50,000       |        |       |             |              |

On 5/7/06, electricity bill is received from WAPDA:

| GENERAL LEDGER              |       |             |              |        |       |             |              |
|-----------------------------|-------|-------------|--------------|--------|-------|-------------|--------------|
| ELECTRICITY EXPENSE ACCOUNT |       |             |              |        |       |             | GL-41        |
| Debit                       |       |             |              | Credit |       |             |              |
| Date                        | Folio | Description | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 5/7/06                      | PL-29 | WAPDA       | 50,000       |        |       |             |              |

| GENERAL LEDGER            |       |             |              |        |       |                             |              |
|---------------------------|-------|-------------|--------------|--------|-------|-----------------------------|--------------|
| SUPPLIERS CONTROL ACCOUNT |       |             |              |        |       |                             | GL-3         |
| Debit                     |       |             |              | Credit |       |                             |              |
| Date                      | Folio | Description | Amount (Rs.) | Date   | Folio | Description                 | Amount (Rs.) |
|                           |       |             |              | 5/7/06 | GL-41 | Electricity Expense Account | 50,000       |

And, the memorandum Purchase Ledger is also updated.

| PURCHASE LEDGER |     |                               |              |        |               |  |
|-----------------|-----|-------------------------------|--------------|--------|---------------|--|
| WAPDA           |     |                               |              | PL-29  |               |  |
| Date            | Ref | Description                   | Amount (Rs.) |        | Balance (Rs.) |  |
|                 |     |                               | Debit        | Credit |               |  |
| 5/7/06          | 55  | Electricity bill for June '06 |              | 50,000 | 50,000        |  |

It is possible to book non-inventory purchase transaction through the Purchase Ledger. It depends on each Business whether they want to book only inventory related purchases through the Purchase Ledger and Purchase Day Book, or all purchases which

includes expenses as well.

On 19/7/06, when payment is made to WAPDA, WAPDA's account in Purchase Ledger will be debited along with the Suppliers Control Account. We have not repeated this transaction here since payments through Bank Accounts have already been covered before.

In this example, please note the net balance on the Electricity Expense Account. In July '06, the Electricity Expense Account will show the following transactions:

| GENERAL LEDGER              |       |               |              |        |       |                                     |              |
|-----------------------------|-------|---------------|--------------|--------|-------|-------------------------------------|--------------|
| ELECTRICITY EXPENSE ACCOUNT |       |               |              |        |       |                                     | GL-41        |
| Debit                       |       |               |              | Credit |       |                                     |              |
| Date                        | Folio | Description   | Amount (Rs.) | Date   | Folio | Description                         | Amount (Rs.) |
| 5/7/06                      | PL-29 | WAPDA Account | 50,000       | 1/7/06 | GL-42 | Accrued Electricity Expense Account | 50,000       |

You will note that the reversal of account has resulted in a Credit entry of Rs. 50,000 in the account and when WAPDA's bill was posted, it was entered as a Debit entry with the same amount. Hence, the net impact was "nil" in July '06. What this shows is that the expense was booked in June '06, and in July '06 through reversal of accruals, the expense was not booked again.

## 95 WHAT ARE PREPAID EXPENSES?

Prepaid expenses are the exact opposite of accrued expenses. These are expenses which have been incurred or paid for in advance, i.e., they relate to "future" accounting periods. E.g., next 12-months rent paid in advance.

### 95.1 HOW ARE PREPAID EXPENSES ACCOUNTED FOR?

Accounting for expenses has already been explained. When accounts are prepared, the expense accounts are analyzed to see whether expenses relate to the current accounting period or whether they relate to a "future" accounting period – in such a case, accounting entry for prepaid expenses is passed.

Prepaid expenses are an asset because it represents benefit which will be received by the Business in future – in the case of office rent paid in advance for 12 months the asset represents availability of office space for the next 12 months without making further rent payments.

The following example will further explain this:

**EXAMPLE # 12.6****Prepaid Expenses**

Hussain Khaddar & Looms (Pvt) Limited insured its building with a local insurance company on 1/5/06 and paid insurance premium of Rs. 12,000 for one year renewal. Accounts for the month of May '06 are being prepared.

On 1/5/06, insurance premium was paid in full to the insurance company:

| GENERAL LEDGER            |       |              |              |        |       |             |              |
|---------------------------|-------|--------------|--------------|--------|-------|-------------|--------------|
| INSURANCE EXPENSE ACCOUNT |       |              |              | GL-43  |       |             |              |
| Debit                     |       |              |              | Credit |       |             |              |
| Date                      | Folio | Description  | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 1/5/06                    | GL-20 | Bank Account | 12,000       |        |       |             |              |

| CASH & BANK BOOK |       |             |             |        |       |                           |              |
|------------------|-------|-------------|-------------|--------|-------|---------------------------|--------------|
| BANK ACCOUNT     |       |             |             | GL-20  |       |                           |              |
| Debit            |       |             |             | Credit |       |                           |              |
| Date             | Folio | Description | Amount(Rs.) | Date   | Folio | Description               | Amount (Rs.) |
|                  |       |             |             | 1/5/06 | GL-43 | Insurance Expense Account | 12,000       |

On 31/5/06, when accounts for May '06 are prepared, the balance on Insurance Account will show Rs. 12,000 which is 12-months insurance premium with effect from 1/5/06. As of 31/5/06, since the insurance policy is still valid for 11 months more and the premium has already been paid, a prepaid insurance (asset) will be recognized which will represent 11 months insurance premium paid in advance. This will be done by crediting the Insurance Expense Account by Rs. 11,000.

The entry will be:

| GENERAL LEDGER            |       |             |             |         |       |                           |              |
|---------------------------|-------|-------------|-------------|---------|-------|---------------------------|--------------|
| INSURANCE EXPENSE ACCOUNT |       |             |             |         |       | GL-43                     |              |
| Debit                     |       |             |             | Credit  |       |                           |              |
| Date                      | Folio | Description | Amount(Rs.) | Date    | Folio | Description               | Amount (Rs.) |
|                           |       |             |             | 31/5/06 | GL-44 | Prepaid Insurance Account | 11,000       |

| GENERAL LEDGER            |       |                           |              |        |       |             |              |
|---------------------------|-------|---------------------------|--------------|--------|-------|-------------|--------------|
| PREPAID INSURANCE ACCOUNT |       |                           |              | GL-44  |       |             |              |
| Debit                     |       |                           |              | Credit |       |             |              |
| Date                      | Folio | Description               | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 31/5/06                   | GL-43 | Insurance Expense Account | 11,000       |        |       |             |              |

## 95.2 WHAT HAPPENS IN THE NEXT MONTH?

Again, like in the case of accrued expenses, prepaid expenses are also an accounting estimate to reflect a more accurate picture of a Business's financial information & profitability. When a new month or year starts, provision for prepaid expenses are "reversed" and when accounts for the next month or year are closed, an assessment is made on whether provision for prepaid expense is required to be made.

We will explain this in more detail by continuing with Example # 12.6.

On 31/5/06, when accounts for May '06 were prepared (as was shown in Example # 12.6 above) these entries are reproduced below for convenience.



The following accounting entries were passed to make a provision for prepaid insurance expense:

| GENERAL LEDGER            |       |             |              |         |       |                           |              |
|---------------------------|-------|-------------|--------------|---------|-------|---------------------------|--------------|
| INSURANCE EXPENSE ACCOUNT |       |             |              |         |       | GL-43                     |              |
| Debit                     |       |             |              | Credit  |       |                           |              |
| Date                      | Folio | Description | Amount (Rs.) | Date    | Folio | Description               | Amount (Rs.) |
|                           |       |             |              | 31/5/06 | GL-44 | Prepaid Insurance Account | 11,000       |

| GENERAL LEDGER            |       |                           |              |        |       |             |              |
|---------------------------|-------|---------------------------|--------------|--------|-------|-------------|--------------|
| PREPAID INSURANCE ACCOUNT |       |                           |              | GL-44  |       |             |              |
| Debit                     |       |                           |              | Credit |       |             |              |
| Date                      | Folio | Description               | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 31/5/06                   | GL-43 | Insurance Expense Account | 11,000       |        |       |             |              |

On 1/6/06, when June '06 starts, provision for prepaid insurance expense is reversed:

| GENERAL LEDGER            |       |                           |              |        |       |             |              |
|---------------------------|-------|---------------------------|--------------|--------|-------|-------------|--------------|
| INSURANCE EXPENSE ACCOUNT |       |                           |              |        |       |             | GL-43        |
| Debit                     |       |                           |              | Credit |       |             |              |
| Date                      | Folio | Description               | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 1/6/06                    | GL-44 | Prepaid Insurance Account | 11,000       |        |       |             |              |

| GENERAL LEDGER            |       |             |              |        |       |                           |              |
|---------------------------|-------|-------------|--------------|--------|-------|---------------------------|--------------|
| PREPAID INSURANCE ACCOUNT |       |             |              | GL-44  |       |                           |              |
| Debit                     |       |             |              | Credit |       |                           |              |
| Date                      | Folio | Description | Amount (Rs.) | Date   | Folio | Description               | Amount (Rs.) |
|                           |       |             |              | 1/6/06 | GL-43 | Insurance Expense Account | 11,000       |

When accounts are prepared for June '06, a fresh assessment of prepaid expenses will be made. In our Example, since insurance premium was paid on 1/5/06 and for 12 months, 10 months of insurance still remain prepaid. This means that a provision for prepaid expenses will be made again on 30/6/06. The accounting entries will be as follows.

| GENERAL LEDGER            |       |             |              |         |       |                           |              |
|---------------------------|-------|-------------|--------------|---------|-------|---------------------------|--------------|
| INSURANCE EXPENSE ACCOUNT |       |             |              | GL-43   |       |                           |              |
| Debit                     |       |             |              | Credit  |       |                           |              |
| Date                      | Folio | Description | Amount (Rs.) | Date    | Folio | Description               | Amount (Rs.) |
|                           |       |             |              | 30/6/06 | GL-44 | Prepaid Insurance Account | 10,000       |

| GENERAL LEDGER            |       |                           |              |        |       |             |              |
|---------------------------|-------|---------------------------|--------------|--------|-------|-------------|--------------|
| PREPAID INSURANCE ACCOUNT |       |                           |              | GL-44  |       |             |              |
| Debit                     |       |                           |              | Credit |       |             |              |
| Date                      | Folio | Description               | Amount (Rs.) | Date   | Folio | Description | Amount (Rs.) |
| 30/6/06                   | GL-43 | Insurance Expense Account | 10,000       |        |       |             |              |

As of 30/6/06, the Insurance Expense Account will show the following transactions:

| GENERAL LEDGER            |       |                           |              |         |       |                           |              |
|---------------------------|-------|---------------------------|--------------|---------|-------|---------------------------|--------------|
| INSURANCE EXPENSE ACCOUNT |       |                           |              | GL-43   |       |                           |              |
| Debit                     |       |                           |              | Credit  |       |                           |              |
| Date                      | Folio | Description               | Amount (Rs.) | Date    | Folio | Description               | Amount (Rs.) |
| 30/6/06                   | GL-44 | Prepaid Insurance Account | 11,000       | 30/6/06 | GL-44 | Prepaid Insurance Account | 10,000       |

In June '06, this account will show a Debit balance of Rs. 1,000 which equals monthly expense for a 12 month insurance policy @ Rs. 12,000.

## CHAPTER HIGHLIGHTS

### What have we covered?

1. Payroll is an expense for a Business.
2. Payroll can be in the form of wages or salaries.
3. Salaries can be variable or fixed in nature depending on the employee.
4. Attendance Register is a useful book to keep a record of employees' attendance.
5. The amount of tax deducted by the employer is deposited through a tax challan form.
6. At the end of every quarter, a quarterly statement is required to be filed by every Business that pays salaries.
7. Every Business is required to give each employee a "Salary Certificate" showing salary and deductions.
8. Income tax should always be deducted from salaries & wages.
9. Accrual is provision for expenses, which is also shown as a liability.
10. Accruals should be reversed the next month in order to avoid duplication of expenses.
11. Prepaid expenses are assets and represent expenses paid in advance.
12. Prepaid expenses should be reversed the next month.

## APPENDIX

## APPENDIX 12-01 TAX CHALLAN

**CBR**  
PAKISTAN

Central Board of Revenue  
Government of Pakistan

**INCOME TAX DEPARTMENT**  
**TAX PAYMENT RECEIPT**

**IT-31 (Rev-II)**  
**ORIGINAL for Department**

Notes 1) Tax payments should be rounded to Rupees 2) Payment Sections and codes are printed overleaf

\_\_\_\_\_  
Name of LTU/ MTU/ RTO

\_\_\_\_\_  
LTU/MTU/RTO Code

\_\_\_\_\_  
Tax Year

**Nature of Tax** ☐ Current Demand ☐ Arrear Demand ☐ With Return **Salary Month** \_\_\_\_\_  
**Payment** ☐ Deduction at Source ☐ Advance Payment ☐ Misc./ Others (only for payment u/s 149)

**Payment Section** \_\_\_\_\_ **Payment Section Code** \_\_\_\_\_  
 (Section) (Description of Payment Section) Account Head (NAM) \_\_\_\_\_

**Taxpayer's Particulars** (To be filled for payments other than Withholding Taxes) (To be filled in by the bank)

NTN \_\_\_\_\_ CNIC / Reg./ Inc. No. \_\_\_\_\_

Taxpayer's Name \_\_\_\_\_ Status (\*) \_\_\_\_\_

Business Name \_\_\_\_\_

Address \_\_\_\_\_

**FOR WITHHOLDING TAXES ONLY**

NTN/ FTN of Withholding agent \_\_\_\_\_ CNIC/ Reg./ Inc. No. \_\_\_\_\_  
 (where applicable)

Name of withholding agent \_\_\_\_\_

Details of taxpayers provided in electronic form : ☐ Yes ☐ No  
 (Enter maximum of 10-taxpayers in one challan, no limit if provided electronically)

| Sr.          | NTN/ CNIC | Status (*) | Taxpayer's/Business Name & Address | Withheld | Tax Amount |
|--------------|-----------|------------|------------------------------------|----------|------------|
| 1.           |           |            |                                    |          |            |
| 2.           |           |            |                                    |          |            |
| 3.           |           |            |                                    |          |            |
| 4.           |           |            |                                    |          |            |
| 5.           |           |            |                                    |          |            |
| 6.           |           |            |                                    |          |            |
| 7.           |           |            |                                    |          |            |
| 8.           |           |            |                                    |          |            |
| 9.           |           |            |                                    |          |            |
| 10.          |           |            |                                    |          |            |
| <b>TOTAL</b> |           |            |                                    |          |            |

**Amount of tax in words :** \_\_\_\_\_ Rs. \_\_\_\_\_

**Mode of payment** ☐ Cash ☐ Refund Adjustment (by Department only)  
☐ Cheque/ Pay Order/ etc. No. \_\_\_\_\_ Date : \_\_\_\_\_  
 Bank \_\_\_\_\_ Branch \_\_\_\_\_ **Signature of Depositor** \_\_\_\_\_

\_\_\_\_\_  
Treasury Challan No. & Date Bank Stamp & Branch Code

For use of Computer Section of Dept. To be endorsed by the Treasury Officer of Authorized Bank

(\*) Status **PUB** => Public Company, **PVT** => Pvt. Ltd. Company, **SCGY** => Small Company, **AOP** => AOP, **IND** => Individual

## APPENDIX 12-02 QUARTERLY STATEMENTS

**Quarterly Statement of Collection or Deduction of Income Tax**  
**[ See rule 44(2) ]**

Particulars of withholding agent/payer/collector:

Name \_\_\_\_\_ Quarter ending \_\_\_\_\_ (dd/mm/yyyy)

Address \_\_\_\_\_

NTN \_\_\_\_\_

**Part - I**  
**Summary**

| S. No. | Particulars.                                                                                                                                                                      | No tax collected or deducted | Tax collected or deducted at standard rates                |                                    |                          | Tax collected or deducted at reduced rates                 |                                    |
|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------------------------------------|------------------------------------|--------------------------|------------------------------------------------------------|------------------------------------|
|        |                                                                                                                                                                                   | Amount / Value (Rupees)      | Amount / Value on which tax collected or deducted (Rupees) | Tax collected or deducted (Rupees) | Rate of tax (Percentage) | Amount / Value on which tax collected or deducted (Rupees) | Tax collected or deducted (Rupees) |
| (1)    | (2)                                                                                                                                                                               | (3)                          | (4)                                                        | (5)                                | (6)                      | (7)                                                        | (8)                                |
| 1.     | Import of goods                                                                                                                                                                   |                              |                                                            |                                    |                          |                                                            |                                    |
| 2.     | Salaries paid (State gross salary in column 3 & 4)                                                                                                                                |                              |                                                            |                                    |                          |                                                            |                                    |
| 3.     | Dividend paid to:                                                                                                                                                                 |                              |                                                            |                                    |                          |                                                            |                                    |
|        | a. Public companies/insurance companies                                                                                                                                           |                              |                                                            |                                    |                          |                                                            |                                    |
|        | b. Non-resident company by a company engaged exclusively in mining operations (other than petroleum)                                                                              |                              |                                                            |                                    |                          |                                                            |                                    |
|        | c. Share holders by a company setup for power generation or by a company that purchased a power project privatized by WAPDA                                                       |                              |                                                            |                                    |                          |                                                            |                                    |
|        | d. Others                                                                                                                                                                         |                              |                                                            |                                    |                          |                                                            |                                    |
| 4.     | Profit on debt paid or credited to resident persons                                                                                                                               |                              |                                                            |                                    |                          |                                                            |                                    |
|        | a. On National Savings Scheme or Post Office Savings Account                                                                                                                      |                              |                                                            |                                    |                          |                                                            |                                    |
|        | b. On an account or deposit with a banking company or financial institution                                                                                                       |                              |                                                            |                                    |                          |                                                            |                                    |
|        | c. On securities of the Federal/ Provincial Government or local authority                                                                                                         |                              |                                                            |                                    |                          |                                                            |                                    |
|        | d. On any bond, certificate, debenture, security or instrument of any kind issued by banking company, financial institution, finance society, any other company or body corporate |                              |                                                            |                                    |                          |                                                            |                                    |
| 5.     | Payment to resident persons or permanent establishment of non-resident persons on account of:                                                                                     |                              |                                                            |                                    |                          |                                                            |                                    |
|        | a. Sale of rice, cottonseed or edible oils                                                                                                                                        |                              |                                                            |                                    |                          |                                                            |                                    |
|        | b. Sale of raw hides, skins, raw wool, cotton lint, etc.                                                                                                                          |                              |                                                            |                                    |                          |                                                            |                                    |
|        | c. Morabaha transactions                                                                                                                                                          |                              |                                                            |                                    |                          |                                                            |                                    |
|        | d. Sale of other goods                                                                                                                                                            |                              |                                                            |                                    |                          |                                                            |                                    |
|        | e. Transport services rendered or provided                                                                                                                                        |                              |                                                            |                                    |                          |                                                            |                                    |

## APPENDIX 12-03 SALARY CERTIFICATE

**Certificate of Collection or Deduction of Income Tax (including salary)  
(under rule 42)**

|                                              |      |                    |                                                                                                                                                         |                                                           |
|----------------------------------------------|------|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| S.No.                                        |      | Original/Duplicate | Date of issue.                                                                                                                                          |                                                           |
| Certified that the sum of Rupees             |      |                    | (Amount of tax collected/deducted in figures)                                                                                                           |                                                           |
|                                              |      |                    | (amount in words)                                                                                                                                       |                                                           |
| on account of income tax has been            |      |                    |                                                                                                                                                         |                                                           |
| deducted/collected from (Name and Address of |      |                    |                                                                                                                                                         |                                                           |
| the person from whom tax collected/deducted) |      |                    |                                                                                                                                                         |                                                           |
|                                              |      |                    | in case of an individual, his/her name in full and in case of an association of persons / company, name and style of the association of persons/company |                                                           |
| having National Tax Number                   |      |                    | (if any) and                                                                                                                                            |                                                           |
| holder of CNIC No.                           |      |                    | (In case of an individual)                                                                                                                              |                                                           |
| on                                           |      |                    | (Date of collection/ deduction)                                                                                                                         |                                                           |
| Or during the period                         | From |                    | To                                                                                                                                                      | (Period of collection/deduction)                          |
| under section                                |      |                    |                                                                                                                                                         | (specify the Section of Income Tax Ordinance,2001)        |
| On account of                                |      |                    |                                                                                                                                                         | (specify nature)                                          |
| vide                                         |      |                    |                                                                                                                                                         | (particulars of LC, Contract etc.)                        |
| on the value/amount of Rupee                 |      |                    |                                                                                                                                                         | (Gross amount on which tax deducted/collected in figures) |

This is to further certify that the tax collected/deducted has been deposited in the Federal Government Account as per the following details:

| Date of deposit. | SBP/NBP/ | Treasury. | Branch/City. | Account | (Rupees) | Challan    | /Treasury |
|------------------|----------|-----------|--------------|---------|----------|------------|-----------|
|                  |          |           |              |         |          | No/CPR No. |           |
|                  |          |           |              |         |          |            |           |
|                  |          |           |              |         |          |            |           |
|                  |          |           |              |         |          |            |           |
|                  |          |           |              |         |          |            |           |
|                  |          |           |              |         |          |            |           |
|                  |          |           |              |         |          |            |           |
|                  |          |           |              |         |          |            |           |
|                  |          |           |              |         |          |            |           |

Company / office etc. collecting/deducting the tax:

|              |  |             |  |
|--------------|--|-------------|--|
| Name.        |  | Signature   |  |
|              |  | Name        |  |
| Address.     |  | Designation |  |
|              |  | Seal        |  |
| NTN (if any) |  |             |  |
| Date.        |  |             |  |

