

CHAPTER 7

CESS

INTRODUCTION

7.1 This chapter contains the recommended accounting system for Cess related transactions.

7.2 Cess is the tax levied along with any other tax or in lieu of tax and is considered income of the ULB.

7.3 It may be noted that the provisions covered in this chapter are not applicable to cesses collected on behalf of the State Government. For e.g. Library Cess. Accounting treatment in respect of these cess are detailed in Chapter 6 on Property (House Tax) and Other taxes

7.4 Cess is normally collected by self-declaration made in the returns filed under the relevant provisions.

7.5 The normal procedure in respect of levy and collection of Cess is briefly discussed below:

- a. Every person (individual/entity) who is liable to pay Cess gets registered with the Cess Department.
- b. The registered individual/entity voluntarily assesses their Cess liability and pays the same to the ULB at specified periodic intervals.
- c. The Cess Department undertakes an assessment of the returns filed to determine the actual Cess liability.
- d. Additional demand is raised for Cess, interest and penalties if the Cess paid voluntarily is less than the assessed Cess liability. In case the Cess paid is more than the assessed Cess liability, the excess Cess collected is refunded.

7.6 In addition to Cess, following may be collected by the Cess Department:

- a. Cess Registration Fee at the prescribed rates from the dealers applying for registration.
- b. Penalties and/or interest in the event of evasion and for delays and defaults made by the dealers.

ACCOUNTING PRINCIPLES

7.7 The following Accounting Principles shall govern the recording, accounting and treatment of transactions relating to Cess:

- a. Revenue in respect of collection of Cess Income with Returns (on filing of returns by the dealers) shall be recognised on actual receipt.
- b. Revenue in respect of Cess Income on Assessment shall be recognised in the period in which they become due, i.e., when the demand is raised.
- c. Revenue in respect of Cess Registration Fee, Interest and Penalties levied on assessment shall be recognised on actual receipt.
- d. In respect of the demand outstanding beyond two (2) years, provision shall be made to the extent of income of ULB, based on the following provisioning norms:
 - Outstanding for more than 2 years but not exceeding 3 years: 50%
 - Outstanding for more than 3 years: 100% (additional 50%)
- e. Any additional provision for demand outstanding (net on overall basis) required to be made during the year shall be recognised as expenditure and any excess provision written back during the year shall be recognised as income of the ULB.
- f. Refunds, remissions of Cess for the current year shall be adjusted against the income and if pertain to previous years then it shall be treated as prior period item.
- g. Write-offs of taxes shall be adjusted against the provisions made and to that extent recoverable gets reduced
- h. In the case of subsequent collection or recovery of 'Receivables of Cess Income' which were already written off shall be recognised as a 'Prior Period Income'.
- i. Demands raised with retrospective effect will be treated as prior period income to the extent it pertains to earlier years

ACCOUNTING RECORDS AND PROCEDURES

7.8 *This section describes the records, registers, documents, forms, accounting entries, etc., in respect of accounting for transactions related to Cess. For the purposes of accounting of Cess there are certain forms, registers, etc., which are specific to Cess, e.g., Summary Statement of Year-wise & Head-wise Collection of Cess (Form CE-2). These (Form CE-1 to CE-4) are annexed to this chapter*

CESS COLLECTION ON REGISTRATION AND FILING OF RETURNS

7.9 The following shall be the procedure for accounting of the collections made in respect of Cess:

a. **Recording of collections relating to Cess.** Based on Summary of Daily Collection (Form GEN-12) received from the various Collecting Offices / Centers, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
450-21-(a) 110-52-(a)	Bank Account* To Cess –Gross Income	Dr Cr.	9,00,000	9,00,000	Cash Book, Ledger

* Specify name of the Bank and Account number

(a) Insert Detailed Head Codes of Account as applicable

The summary of daily collections does not provide the details in respect of the year-wise head-wise collections made in respect of Cess. Hence, the total amount collected should be credited to “Gross Cess Income” Account. The Cess department updates the Head wise & year wise collection register maintained (in Form CE – 2) for collection based on the collection statement received from collection centers along with bills if any.

b. **Recording of break-up of collections:** A Summary Statement of Year-wise/ Head-wise Collection of Cess in Form CE -2 shall be prepared on a monthly basis and sent to the Accounts Department to record the details of collection. To record the head-wise break-up of the collections made and to record cess received in advance, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
110-52-(a) 140-10-(a)	Cess - Gross Income To Empanelment Registration Charges – Cess	Dr. Cr.	9,00,000	45,000	Journal Book, Ledger
110-52-(a) 350-41-(a)	To Cess - Net Income To Advance Collection of Revenues- Cess*	Cr. Cr.		8,50,000 5,000	

* Adjustment of Cess received in advance is discussed separately under section ‘Adjustment of Cess Received in Advance’ below.

(a) Insert Detailed Head Codes of Account as applicable

RAISING OF DEMAND FOR ADDITIONAL CESS, INTEREST AND PENALTIES ON ASSESSMENT

7.10 Recording of demand raised: On completion of assessment of the dealers, the Cess Department shall prepare a Summary Statement of Demand Raised on Assessment in Form CE-1 on a monthly basis and send it to the Accounts Department within 7 days from the beginning of the month. The demand raised could be on account of additional cess, interest, penalties and/or fines charged as per the applicable provisions. Income in respect of demand raised for interest, penalties and/or fines charged shall be recognised as income on actual collection. To record the demand raised in respect of additional cess, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
431-20-(a) 110-52-(a) 280-10-(a)	Receivables for Cess (Year...) To Cess – Net Income To Prior Period Income Taxes – Cess	Dr Cr Cr.	50,000	44,000 6,000	Journal Book, Ledger

Specify name of the Bank and account number

(a) Insert detailed Head Codes of Account as applicable

7.11 **Recording of collections in respect of demand raised.** On the basis of the Summary of Daily Collection (Form GEN – 12) received from the various Collection Offices and Collection Centres, the Accounts Department shall pass the following entry to record collections in respect of demand raised:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
450-21-(a) 431-80-(a)	Bank Account* To Receivables Control Account - Cess	Dr. Cr.	100000	100000	Cash Book, Ledger

(a) Insert Detailed Head Codes of Account as applicable.

7.12 **Recording of break-up of collections.** On the basis of monthly Summary Statement of Year-Wise Collection of Cess (Form CE-2) received from the Cess Department, the Accounts Departments Shall pass the following entry to record the break-up of the collections made:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
431-80-(a)	Receivables Control Account – Cess To Receivables for Cess (Year...) To Receivables for Cess (Year...) To Other Interest –Interest Receivable for Cess To Penalties and Fines - Cess	Dr	1,25,000	70,000	Journal Book, Ledger
431-20-(a)		Cr			
431-20-(a)		Cr			
171-80-(a)		Cr			
140-20-(a)		Cr			
		Cr			

(a) Insert detailed Head Codes of Account as applicable

REFUNDS/REMISSIONS

7.13 **The Cess Department shall duly grant refunds/remissions on account of change in rules applicable for Cess of any other reasons as applicable.** The details of the same shall be communicated to the Accounts Department.

7.14 **Recording of refunds/Remissions payable** A Summary Statement of Refunds and Remissions in Form CE-3 shall be prepared on a monthly basis and sent to the Accounts Department, based on which the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
280-50-(a)	Prior Period Expenses Refund of Taxes- Cess To Refunds Payable –Cess*	Dr.	1,000	1,000	Journal Book, Ledger
350-40-(a)		Cr.			

* Refunds/Remissions arising on account of change in the applicable rules shall be either passed for 'Payment' (refund payable) or credited to the account 'Advance Collection of Revenues' (under the account code 350-41-(a)) in accordance with the accounting principles of the ULB.

(a) Insert Detailed Head Codes of Account as applicable.

7.15 **Recording of payment for refund.** The Accounts Department shall prepare a Payment Order (in Form GEN- 14) in respect of the refunds and communicate the details of refunds made to the Cess Department for updating their records. To record refunds

made, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
350-40-(a)	Refunds Payable –Cess To Bank Account*	Dr. Cr.	500	500	Journal Book, Ledger

* Specify name of the Bank and account number.

Insert Detailed Head Codes of Account as applicable

PROVISION FOR UNREALISED CESS RECEIVABLES

7.16 Recording of provision for unrealised Cess Income. The demand outstanding beyond two (2) years shall be provided for as per provisioning norms given below:

- a. Outstanding for more than 2 years but not exceeding 3 years: 50%
- b. Outstanding for more than 3 years: 100% (additional 50%).

7.17 For example, provision for the Period ended March 31, 2004 is as under:

- a. 50% of outstanding Receivables of Cess Income for the year ended March 31,2002
- b. 100% of outstanding Receivables of Cess Income for the year ended March 31,2001 and before.

7.18 The amount required being provided as per provisioning norms stated above, shall be compared with the balance lying in the Provision for outstanding Cess. If the amount to be provided is more than the balance, then additional provision shall be made for the difference amount. If the amount to be provided is less than the balance, it reflects the amounts provided for has been collected, and the provision made towards that can be written back. This process has to be carried over at every period/yearend.

7.19 Additional provision or reversal of excess provision for the current period shall be calculated similar to computations explained in Tables 6.1 & 6.2 in Chapter 6 on Property & Other Taxes.

7.20 For making the provision, the following entry shall be passed by the Accounts Department:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
270-10-(a) 432-20-(a)	Provision for Doubtful Receivables – Cess To Provision for Outstanding Cess	Dr. Cr	1,500	1,500	Journal Book, Ledger

(a) Insert Detailed Head Codes of Account as applicable

7.21 The effect of the above entry will be as follows:

- a. Provision for Doubtful Receivables- Cess shall be shown as an expense under the schedule Provision & write offs.
- b. Provision for Outstanding Cess will be shown as a deduction from Receivables for Cess in the Balance Sheet.

7.22 To record the write back of the provision made earlier, the following entry shall be passed:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
432-20-(a) 180-60-(a)	Provision for Outstanding Cess To Excess Provision written back – Cess	Dr. Cr	500	500	Journal Book, Ledger

(a) Insert Detailed Head Codes of Account as applicable

WRITE-OFFS

7.23 **Recording of Write-offs.** If for any reason, it is decided by the ULB to write-off any Cess Income dues, the details of the write off has to be entered in the ‘Statement of Write off’ by the respective departments in Form CE – 4. This form has to be prepared on a monthly basis and forwarded to the Accounts Department and based on which , the write off shall be adjusted against the provision made and the following entry will be passed:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
432-20-(a) 431-20-(a)	Provision for Outstanding Cess To Receivables for Cess (Year..)	Dr. Cr	500	500	Journal Book, Ledger

(a) Insert Detailed Head Codes of Account as applicable

7.24 Recording of subsequent collection/ recovery of ‘Receivables of Cess Income’ written off :

In case of a ‘Receivables of Cess Income’ written off already were recovered/ collected during the year, the accounts department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
431-80-(a) 280-30-(a)	Receivables Control Account - Cess To Prior period Income Recovery of Revenues Written off - Cess	Dr. Cr	1000	1000	Journal Book, Ledger

(a) Insert Detailed Head Codes of Account as applicable

TRANSFER OF AMOUNT OUTSTANDING IN RESPECT OF ARREARS FROM SPECIFIC YEAR-WISE ACCOUNT TO GENERAL ACCOUNT

7.25 The arrears of Cess shall be carried forward year-wise, i.e., in “Receivables of Cess Income (Year..)” Account up to three years. On completion of the third year, the amount outstanding in the specific year-wise receivable account shall be transferred to a general arrears account, i.e., “Receivables of Cess Income (Others)” Account. For example, the cess receivable in respect of the demand raised during the accounting year 2000-01 shall be carried forward in “Receivables of Cess Income (2001)” Account up to the year ending March 31,2004. On March 31, 2004, the balance outstanding in this account shall be transferred to “Receivables of Cess Income (Others)” Account.

7.26 Recording of transfer of arrears to general account To record this transfer, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
431-20-(a) 431-20-(a)	Receivables for Cess (others) To Receivables for (Year.....)	Dr. Cr	2000	2000	Journal Book, Ledger

(a) Insert Detailed Head Codes of Account as applicable

ADJUSTMENT OF CESS RECEIVED IN ADVANCE

7.27 The Cess Department shall intimate the Accounts Department of the advance adjusted against the subsequent demand raised by the Cess Department through the Summary Statement of Demand Raised on Assessment CE-2.

- a. **Recording of subsequent demand raised** To record the demand raised for cess on assessment, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
431-20-(a) 110-52-(a)	Receivables for Cess (Years) To Cess Income	Dr. Cr	50000	50000	Journal Book, Ledger

(a) Insert Detailed Head Codes of Account as applicable

- b. **Recording of adjustment of advance:** To record the adjustment of Cess received in advance, the Accounts Department shall pass the following entry:

Code of Account	Accounting Entry	Dr./ Cr.	Debit Amount (Rs.) Illustrative figures	Credit Amount (Rs.) Illustrative figures	Books to be entered into
350-41-(a) 431-20-(a)	Advance Collection of Revenues – Cess To Receivables of Cess (Year...)	Dr. Cr	5000	5000	Journal Book, Ledger

(a) Insert Detailed Head Codes of Account as applicable

RECOVERY OF CESS THROUGH LEGAL PROCEEDINGS

7.28 The transactions in respect of recovery of Property(House Tax) and Other Taxes have been described in Chapter 6 – Property(House Tax) & Other Taxes (paras. 6.34 to 6.40) reference to which is invited. The transactions relating to recovery of Cess shall be accounted in similar manner.

INTERNAL CONTROLS

7.29 The following internal controls shall be exercised by the ULB in respect of Cess related transactions:

- a. The Accounts Department and the Cess Department shall reconcile the balance at the beginning of the accounting year in respect of the year- wise Cess Receivable (as appearing in the Balance Sheet of the previous year) with the year-wise total of the arrears recorded by the Cess Department.
- b. A quarterly reconciliation shall be carried out by the Accounts Department and the Cess Department in respect of the amount collected and the year-wise amount outstanding between the balances standing in the relevant Ledger Accounts maintained at the Accounts Department and the records/registers maintained at the Cess Department.
- c. The officers designated by the ULB for operating the Designated Cess Bank Account shall co-ordinate with the banks on a daily basis and ascertain the status of the cheques/drafts deposited by them.
- d. The Cess Department shall annually co-ordinate with the department handling the Shop and Establishment registrations and ascertain that the dealers who have been granted new registrations and are liable to Cess have registered with the Cess Department.
- e. The Cess Department shall ensure that the Receipt / Summary of Daily Collection prepared, provides reference to the Cess Collection Register.
- f. The Commissioner/E.O./Secretary of the ULB shall specify such appropriate calendar of returns /reports for monitoring.

7.30 All Reconciliation Statements shall be certified by the E.O./Secretary and in case of Municipal Corporation the Head of the Accounts Department.

PRESENTATION IN THE FINANCIAL STATEMENTS

7.31 The various heads of account used for the accounting of Cess related transactions shall be reflected in the Financial Statements or in the Schedules attached to the Financial Statements of the ULB. All such Financial Statements and schedules should be affixed with signature and seal of the Commissioner or authority designated by him for this purpose and for other ULBs the E.O./Secretary.

7.32 The provision against the outstanding Cess Income receivable is to be disclosed under the major head Accumulated Provisions as a separate line item in the Balance Sheet below 'Sundry Debtors'.

7.33 The Schedule of the Income and Expenditure Statement in respect of Cess is presented below.

Schedule I-1: Schedule of Tax Revenues

Code of Account	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
110-52-(a)	Cess - Net Income		
	Sub-total		
	Less		
110-90-(a)	Tax Remission and Refunds – Cess		
	Sub-total		
Total Income of Cess to be shown as a part of Tax revenue Schedule			

(a) Insert Detailed Head Codes of Account as applicable

Schedule I-1 (a): Schedule of Refund and Remission

Code of Account	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
110-90-(a)	Cess Income		
Total Income of Cess to be shown as a part of Refund and Remissions of Taxes Schedule			

Schedule I-4: Schedule of Income from Fees & User Charges

Code of Account	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
140-10-(a)	Empanelment & Registration Charges – Cess		
140-20-(a)	Penalties & Fines – Cess		
Total			

(a) Specify the Detailed Head Code of Accounts depending on the Department to which the revenue relates

Schedule I – 9: Schedule of Other Incomes

Code of Account	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
180-60-(a)	Excess provision written-back – Cess		
Total Income of Cess to be shown as a part of Other Income Schedule			

(a) Insert Detailed Head Codes of Account as applicable

Schedule I-11: Administrative Expenses

Code of Account	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
220-51-(a)	Legal Expenses - Cost of recoveries of Cess (net of amount received from State government for the cost of recovery)		
Total Expense of Cess to be shown as a part of Administrative Expense Schedule			

(a) Insert Detailed Head Codes of Account as applicable

Schedule I – _16: Schedule of Provisions and Write off

Code of Account	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
270-10-(a)	Provision for Doubtful Receivables – Cess		
Total Expense of Cess to be shown as a part of Provision and Write off Schedule			

(a) Insert Detailed Head Codes of Account as applicable

Schedule I-18: Prior Period Items

Code of Account	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
	Income (a)		
280-10-(a)	Taxes		
280-30-(a)	Recovery of Revenues written off		
	Expense (b)		
280-50-(a)	Refund of Taxes		
Total [a-b] of Cess to be shown as a part of Prior Period Items Schedule			

(a) Insert Detailed Head Codes of Account as applicable

7.34 The Balance Sheet Abstract in respect of Cess is presented below.

Schedule B-9: Schedule of Other Liabilities (Sundry Creditors)

Code of Account	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
350-40-(a)	Refunds Payable Taxes – Cess		
350-41-(a)	Advance Collection of Revenues		
Total			

(a) Insert Detailed Head Codes of Account as applicable

Schedule B-15: Schedule of Sundry Debtors (Receivables)

Code of Account	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
431-20-(a)	Receivables for Cess Less than 3 years * More than 3 years*		
Total Receivables of Cess			

* Break up for provision for outstanding revenues are given in Column 4

(a) Insert Detailed Head Codes of Account as applicable

Schedule B-17: Schedule of Cash and Bank Balances

Code of Account	Particulars	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
450-10-(a)	Cash		
450-21-(a)	Bank Account		
Total			

(a) Insert Detailed Head Codes of Account as applicable

_____ *Name of the ULB*

SUMMARY STATEMENT OF DEMAND RAISED ON ASSESSMENT FOR THE PERIOD

_____ *in respect of Cess*

Sr. No. _____

Particulars	Year (Others)	Year (-2)	Year (-1)	Current Year
Cess				
Others, Specify				
Total				
Amount in Words : Rupees _____				
Advance Adjusted				
Against demand raised on Assessment *				
Against Voluntary Returns filed by the dealers				
Prepared By** : _____ Checked By** : _____ Dated: _____	Examined and entered Accountant/Authorised Officer			

* Provide year-wise details in respect of advance adjusted against demands raised.

**Record the name, designation, and signature of the person.

Name of the ULB

SUMMARY STATEMENT OF YEAR-WISE HEAD-WISE COLLECTION OF CESS FOR THE PERIOD

Sr. No _____

Collection Center

Deposited with

Particulars	Year Others (Rs.)	Year (-2) (Rs.)	Year (-1) (Rs.)	Current Year (Rs.)	Advance Received (Rs.)	Total (Rs.)
Collection in respect of incomes accounted on accrual basis						
Cess demand raised on Assessment						
Others, Specify						
Sub-Total						
Collection in respect of incomes accounted on actual receipt basis						
Cess received along with Voluntary Returns						
Cess Registration Fees						
Interest						
Penalties						
Fines						
Others, Specify						
Sub-Total						
Receipt of Cost of Recovery						
Cess received in Advance						
Others, Specify						
Total Collection						
Amount in Words : Rupees						
Prepared By** : _____ By** : _____ Dated:	Examined and entered Checked Accountant/Authorised Officer Dated:					

* Record the name, designation and signature of the person.

Note: This statement should be prepared separately for each Collection Office/Collection Centre and then consolidated.

_____ NAME OF THE ULB

SUMMARY STATEMENT OF REFUNDS /REMISSIONS FOR THE PERIOD _____
In respect of Cess Income

Sr. No. _____

Particulars	Refunds/Remissions			Total Rs
	Advances # Rs.	Receivables # Rs.	Refunds Payable # Rs.	
Arrears				
Year (Others)				
Year (-5)				
Year (-4)				
Year (-3)				
Year (-2)				
Year (-1)				
Current Year (20XX)				
Total				
Amount in Words : Rupees _____				
Prepared By :** _____ Checked By :** _____ Dated: _____		Examined and entered Accountant/Authorised Officer Dated: _____		

* Include total amount of all income heads of account in respect of Property and Other Taxes.

** Record the name, designation, and signature of the person.

The details of whether refunds/remissions are treated as 'refund payable' or adjustment of receivables or 'Revenues received in advance' shall be entered in this form in order to account for the refunds/remissions Accordingly.

_____ NAME OF THE ULB

SUMMARY STATEMENT OF WRITE OFF FOR THE PERIOD

In respect of Cess _____
 Sr. No. _____

Particulars	Amount (Rs.)
Arrears	
Year (Others)	
Year (-5)	
Year (-4)	
Year (-3)	
Year (-2)	
Year (-1)	
Current Year (20XX)	
Total	
Amount in Words : Rupees _____ Prepared By :** _____ Checked By :** _____ Dated:	Examined and entered Accountant/Authorised Officer Dated:
<p>* Include total amount of all income heads of account in respect of Property and Other Taxes. ** Record the name, designation, and signature of the person</p>	

