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Co-operative societies - A worldwide phenomenon



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A cooperative (also known as co-operative, co-op, or coop) is “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise. Cooperatives are democratically controlled by their members, each having one vote in electing the board of directors. It is an association having Principal of Voluntary and open membership, Democratic member control, One vote one member, Economic participation by members, Autonomy and independence, Concern for community etc.



The first documented consumer cooperative in the name of Fenwick Weavers' Society was founded in 1769, in a small cottage in Fenwick-East Ayrshire of United Kingdom.

There are a plethora of records of co-operatives started out as small grassroots organisations in Western Europe, North America and Japan in the middle of the nineteenth century. Most scholars recognize the business of the Rochdale pioneers of England as the first coop where a group of 28 men (weavers and skilled workers in other trades) formed a cooperative society in 1844 and this Rochdale Pioneers generally regarded as the prototype of the modern co-operative society and the founders of the Co-operative Movement. An independently formulated co-operative model developed in Germany by Friedrich Wilhelm Raiffeisen and Franz Hermann Schultz-Delitsch. Raiffeisen and Schultz-Delitsch originally formed credit unions in 1862. Since then the model has grown into other sectors and inspired the growth of financial co-operatives across the world.



The global rise of cooperatives is partially due to the work of the International Co-operative Alliance (ICA). The International co-operative Alliance was the first international association formed (1895) by E. V. Neale of Rochdale and Edward Owen Greening, a supporter of worker cooperation. It was founded in London, England on 19 August 1895 during the 1st Cooperative Congress having delegates of cooperatives from Argentina, Australia, Belgium, England, Denmark, France, Germany, Holland, India, Italy, Switzerland, Serbia, and the US. A second organization “the International Raiffeisen Union” formed later in Germany. The purpose of ICA formation was to end the conflict between capital and labour and to organize industrial peace, based on co-partnership of the worker. Neale and Greening were of the opinion that cooperative

society had the power to combat the emergent market trends by empowering workers to own a share of the business and to govern themselves. They also realized that a worldwide organization that could support the mission of employee-owned business would help promote solidarity and their continued existence. Over the last century, the ICA has flourished, particularly in Europe, Canada, and in some parts of Africa. The ICA is recognized as a leader for cooperatives all over the world in terms of promoting the values of cooperative organization.



United Kingdom

The United Kingdom is home to a widespread and diverse co-operative movement, with over 7,000 registered co-operatives owned by 17 million individual members and which contribute £34bn a year to the British economy. The British co-operative movement is most commonly associated with The Co-operative brand (best known for its supermarket and Funeralcare brands) which has been adopted by several large consumers' co-operative societies; however, there are thousands of registered co-operative businesses operating in the UK like agricultural co-operatives, co-operative housing providers, health and social care cooperatives, cooperative schools, retail co-operatives, co-operatively run community energy projects, football supporters' trusts, credit unions, and worker-owned businesses. Co-operatives UK is the central membership organisation for co-operative enterprises throughout the UK. This is a co-operative of co-operatives: a co-operative federation. Most kinds of co-operatives are eligible to join Co-operatives UK. John Lewis Partnership, Central England Co-operative, Co-Pilot wind Project, Loaf Bakery and Cookery school, Pink Lane Jazz Co-op, Co-op News, Telford and Wrekin Council are some famous Cooperative of United Kingdom



In the UK, cooperatives find it advantageous to form political groupings to represent their interests. The British cooperative movement formed the Co-operative Party in the early 20th century to represent members of consumers' cooperatives in Parliament, which was the first of its kind. The Co-operative Party now has a permanent electoral pact with the Labour Party meaning someone cannot be a member if they support a party other than Labour.

United State of America

The co-operative model has a long history in the U.S. The mutual fire insurance company (1752), dairy co-op (1810),

Boston's Workingman's Protective Union(1845) were the first known Co-op of The United States. The co-operative movement grew during the 1890s in response to the expansion of large corporate monopolies.



The country's first credit unions were in Massachusetts while The Cooperative League of the United States of America, known today as the National Cooperative Business Association, was organized in 1916 to promote cooperatives. In the late 1960s the Co-op movement entered a new phase with Food cooperatives and Food Conspiracies as an alternative to corporate agriculture that linked organic farmers to urban consumers. In the United States, there are around 65,000 cooperative establishments, and one out of every three people is a member of a cooperative. The number of co-ops in the U.S. varies by sector and type. In the financial services sector, there were more than 5,500 federally insured credit unions in the U.S. at the start of 2018. Grocery store co-op is a popular type of cooperative in America and it impacts their local economy considerably, Locally-produced products make up about 21% of sales at grocery co-ops, compared to less than 2% of sales at supermarkets and grocery stores. Grocery co-ops are also more likely to give back to their community, particularly in the form of food donations. In 2016, co-ops donated more than 1.5 million pounds of food. CHS Inc, Dairy Farmers of America, Land O'Lakes Inc. Wakefern Food, Associated Wholesale Grocers Inc.GROWMARK Inc, Corp/ShopRite, HealthPartners Inc, A g Processing Inc, A C E Hardware Corp, California Dairies Inc are some important co-operatives of USA

Canada

The cooperative movement started in the middle of the 19th century in Canada Industrialization led to the emergence of large centralized factory systems in urban centers. These systems disrupted the existing crafts system and many Canadian craftsmen lost their power in the market very quickly. As a consequence many craftsmen became poor or lost their jobs. This made craftsmen to start to unite in small cooperative enterprises to provide themselves power to control their business and products they couldn't afford otherwise. That's how the cooperative movement began in Canada. Agricultural movements were the first successful cooperative movements in Canada. The dairy industry had a lot of opportunities because many farmers had excessive production of milk. Between 1860 and 1900 not without help of Canadian Pacific Railway there were developed over 1200 cooperative creameries and cheese factories in Ontario, Québec and Atlantic Canada.

CCA - Canadian Co-operative Association, DID - Développement international Desjardins, SOCODEVI - société de coopération pour le développement international, Arctic Co-operatives Limited (retail co-operative in the Nunavut, Northwest Territories, Northern Manitoba. Blocks Recording Club (record label),Co-operatives and Mutuals

Canada (CMC), Canadian Press (newswire), Canadian University Press (newswire for student newspapers) are some major cooperatives of Canada.

Germany

The German cooperative movement originated in the 1840s with early credit cooperatives, a model that became increasingly popular in the late 19th and early 20th centuries. The two most influential figures of the movement were Franz Hermann Schulze-Delitzsch (1808-1883) and Friedrich Wilhelm Raiffeisen (1818-1888), both played crucial roles in its early foundations. In 1847. Raffiesen created an association to aid the indebted rural poor in Weyerbusch (Westerwald), combatting usurious money lending that had taken hold under industrialization by extending small loans to farmers on favorable repayment conditions. User cooperatives, producer cooperatives, worker cooperatives and multi-stakeholder cooperatives are all present in Germany. Its member organisations are there in several sectors like Banking, Real estate, Agriculture, Wholesale and Retail Trade, Accommodation and food service activities, and Utilities.

Ireland

In 1889, Ireland's first co-operatives were established in Doneraile, Co. Cork and the first co-operative creamery was opened in Dromcollogher, Co. Limerick.

The Irish Agricultural Organisation Society Ltd later known as Irish Co-operative Organisation Society Limited - ICOS) was formed in 1894 by Sir Horace Plunkett and his friends. Farmers are the main beneficiaries of the cooperative movement in Ireland. Idea behind the movement was that the farmers should directly own their business and means of production. The co-operative structure placed ownership of these businesses directly in the hands of farmers who joined as members with each individual given an equal say in the direction of that business regardless of wealth and status.

Italy

Luigi Luzzati and second was Dr. Leone Wollemburg Pioneer in cooperative movement, during 1880, concentrated on improving the conditions of the poor people. Associazione Generale delle Cooperative Italiane (AGCI), Confederazione delle Cooperative Italiane (CONFCOOPERATIVE), Lega Nazionale delle Cooperative e Mutue (LEGACOOP), Alleanza delle Cooperative Italiane are some popular cooperative of Italy.

Sweden

During 1870, the cooperative movement started in Sweden in the industrial sector. OKQ8 The Oil Company - OK, now joint with Q8, Federation of Swedish Farmers (LRF), FOLKSAM, Union of Housing Co-operatives, Kooperativa Förbundet (KF), Co-operative Housing Union) are popular cooperatives of Sweden.

Denmark

Credit associations were started in 1850 to solve problems of the credit through a special law.

Agricultural Council of Denmark, Co-op Union of Denmark (DKF), FDB Consumer Co-operative Denmark are some popular cooperative of Denmark

Russia

The first attempts in Russia were made during 1864 through organizing co-operative stores and credit societies. Central Union of Consumer Societies (CENTROSOYUZ), International Council of Consumer Co-operatives (CONSUMINTER), Koopvneshtorg Ltd. (COOP TRADE) Moscow Regional Union of Consumer Societies are some major cooperative of Russia.

Japan

In 1879, the cooperative movement was started in the form of consumer's cooperatives with the object of cheap the soaring prices. Central Union of Agricultural Cooperatives (JA-ZENCHU/CUAC), IE-NO-HIKARI Association, Japan Agricultural News (Nihon Nogyo Shimbun), Japanese Consumers' Co-operative Union (JCCU), Japanese Workers Co-operative Union (JIGYODAN), National Federation of Agriculture Co-operative Associations (ZEN-NOH), National Federation of Fisheries Co-operative Associations (ZENGYOREN), National Federation of Forest Owners Co-operative Associations (ZENMORI-REN) are some major cooperative of Japan.

China

Famines, floods, mutual quarrels and Japanese war are the major causes of starting cooperative movement in China. In 1912, the founder of the Chinese Republic, Dr. Sun Yet Sen, pioneered the cooperative movement. All China Federation Of Supply & Marketing Co-operatives (ACFSMC) is famous cooperative of China.

India

In India cooperation has its origin in the last quarter of 19th Century in attempts to provide relief to the farmers from the clutches of money lenders. In 1904 British govt formed a co-operative rule on the basis of a report given by Fredric Nicholson a British officer of Madras region. Kaṇaḡinahāḷa of Gadaga district of Karnataka was the first co-operative society. It was started by Siddanagaḡa Saṇṇa Rāmanagaḡa Pāṭīla.

The cooperative movement was introduced in India as a State policy and owes its inauguration to the enactment of the Cooperative Societies Act, 1904. In the pre-independence era the movement has passed through various stages of development and has seen ups and downs. The dawn of Independence in 1947 and the advent of planned economic development ushered in a new era for cooperatives. Cooperation came to be considered as an instrument of planned economic development. The National level Ministry of Co-operation was established to develop the co-operative societies in India to empower the small scale producers and entrepreneurs. Several states also have own state level Ministry of Co-operation and/or statutory boards to develop co-operatives in their respective states Aavin, Amul, Kribhko, Indian Coffee House, Karnataka Milk Federation, Horticultural Producers' Cooperative Marketing and Processing Society (HOPCOMS), Southern Green Farming

And Marketing Multi State Cooperative Society Limited (Farmfed), Indian Farmers Fertilizer Cooperative (IFFCO) are some major cooperative in India.

At present the Indian Cooperative system is one of the biggest in the whole world. It is one of the strongest pillars on which agriculture and allied sectors are flourishing. In India there are 0.85 million cooperative societies of all kinds with membership of 290 million covering almost 100% of

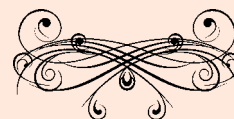


villages and 30% national population in membership. About 17 national cooperative societies, 390 state level federations, 2705 district federations and 97961 Primary Agricultural Societies (PACS) lead and guide the cooperative movement of the country.

Conclusion

As member-owned, member-run and member-serving businesses, cooperatives empower people to collectively realise their economic aspirations, while strengthening their social and human capital and developing their communities. Cooperatives are not a marginal phenomenon, At least 12% of people on earth is a cooperator of any of the 3 million cooperatives on earth. Cooperatives contribute to the sustainable economic growth and stable, quality employment, providing jobs or work opportunities to 280 million people across the globe.

Co-operative societies are a worldwide phenomenon with various definitions and diverse structures. The cooperative movement was started in England during the 19th Century mainly to protect the interest of workers who spread throughout the world. It spread from there to all parts of the world. But, the movement's objectives differ from one country to the other, depending upon the circumstances.



Accounts Maintenance in a Co-op. Housing Society

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Principles of Accounting which apply to a Business also apply to a Co.Op.Housing Society but there are certain additional records which Co.Op.Housing Societies(hereinafter referred as “CHS”) are required to maintain.Details required in Accounts books are little different.CHS receives maintenance from members periodically and spends on various items like salaries,Repairs,Printing & Stationary,Accounting Fees and Audit Fees etc.

Various aspects of Accounts and Registers to be maintained and their special features are discussed below.

1. Bill Register

CHS raises bill of maintenance on members(Monthly or Quarterly).Details of this bill are recorded in Bill Register showing various components such as contribution towards repairs & maintenance, sinking fund, interest for late payment,Non Occupancy Charges etc.

2. Members Ledger

As in case of business, Debtors ledger is maintained, in CHS Members Ledger is maintained. At any point of time, this ledger shows member’s outstanding. Bills are posted on the debit side and amounts received are posted on the credit side.

3. Cash Book\Bank Book

These books are maintained almost on same basis as applicable to any business. Only at the time of recording amounts received, reference of receipt number should be given, on the receipts side, amounts received from each member showing his name, flat number and receipt number are recorded.

4. Minutes Books

Every CHS has to conduct Managing Committee meetings, Annual General Meeting(AGM). Sometimes,Special general meetings are also called. Minutes books are separately maintained for Managing Committee Meetings and General body meetings. Minutes should be properly recorded by writing briefly agenda,discussion,resolution passed with name of proposer and seconder. Minutes should be properly closed by putting signature and seal.Attendance of members who attended meeting should be properly recorded.

5. I Register

This register contains each member’s details like

name,age,occupation,date of admission,date of payment of entrance fees,nomination,share details etc.

6. J Register

This register contains list of members with class of member indicated against his\her name.

7. Nomination Register

This register contains details of nomination made by members like Name of Nominee.

8. Investment Register

This register contains details of investments like Date of investment,Number,Amount invested, Date of maturity, Particulars of investment, Dividend or Interest Details.

9. Dead Stock Register

This register contains details of items like Tables, Chairs, Cupboard etc. Details like Date of Purchase, Qty, Amount, Depreciation, Balance, Committee Resolution number are recorded.

Finalisation of Accounts

Every CHS has to finalise its accounts after year end. It has to prepare Receipts & Payments Account, Income & Expenditure Account and Balance Sheet. Balance Sheet and Profit & Loss Account should be prepared in Form “N”.

How to maintain Accounts (Practical Tips)

In case of small CHS say up to 40 members, Accounts can be maintained manually or in Tally Software. Printed books are available in Housing Federation offices or in Book stalls. If a person records entries once in a week, it may take maximum one hour. If a person is doing in Tally software, he has to open each member’s account under Sundry Debtors, then expenses accounts are to be created.

In case of Large CHS,Various softwares are available in the market. In these softwares, we have to feed details like area of flat and other basis of charging maintenance. Bills are automatically generated. After Receipts entries are made, member’s outstanding is updated automatically, expenses are recorded and Accounts can be finalized with ease. Advanced version of softwares are also available wherein bill generated goes to the member through Whatsapp or mail. As soon as member deposits amount in bank, Ledger is updated.

[Above Accounts and Records are required to be maintained as per Maharashtra Co-op. Societies Act and Rules]

Trial Balance Review of Co-Operative Housing Society



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Introduction:

By considering this month theme of WIRE Bulletin at Co-operative Societies. We know that there is tremendous scope of practice to CMA fraternity in Co-operative sector. With this write up I will to emphasis on Co-operative Housing society Trial Balance.

Let's begin with one by one

Funds

- 1) Share Capital → share Capital is the amount collected at the time of formation of society, Rs.50 per share and per member 5 share i.e. Rs.250 from Per member so, that suppose a Housing Society having 31 member the share Capital amount would be Rs.7,750/-

Accounting Entry:-

Cash / Bank A/C ... Dr.

To share Capital

- 2) Building Fund - Building fund normally utilise for repairing / renovation of Building.
- 3) Repair Fund - Repair Fund utilise for repairing of society related work.
- 4) Sinking Fund - Sinking fund is mandatory to the society. Amount of sinking fund is mutually decided by members of respective society, example Rs.10 per sq.ft. The purpose to create sinking fund is to meet the major repairs of any Flat/shop/ Bungalow/ plot. Creation of Fixed Deposit in Bank for Sinking Fund amount is mandatory.

Accounting Entry:-

Receivable- Debtors A/ Dr. (Here, Debtors-Society members)

To Sinking Fund A/c

Received-

Cash / Bank A/C ...Dr

To Debtors A/c

- 5) Development Fund

This Fund is also like Repair fund / Building fund. But, the main purpose is to collect "Transfer fees" amount at the time of sale of flat/shop/Bungalow / plot. The Transfer fee collected from seller as well as Buyer.

Current Liability: -

- 1) One Time Maintenance/Life Time Maintenance Deposit- This amount is contribution made by the members as one time maintenance.

- 2) Members Contribution - It's cost of flat which is collected from members.

Accounting Entry:-

Assets a/c ...Dr.

To members contribution

After discussed of Funds and Current Liabilities Let's discuss Current & Fixed Assets.

Current Assets- Assets having life less than one year.

Fixed Assets- Assets having life more than one year.

Expenditure

- 1) Audit Fees- Auditors Fees are covered under this expense. (Rs.100 per member) - Metro City
- 2) Accounting Writing Charges- Keeping up to date records, accounting work charges.
- 3) Bank Charges, Electricity Bill, Meeting exp, Postage & Stationary exp, Legal charges, salary expenses, Telephone expenses we all are familiar with these exp.

Income

- 1) Maintenance Charges- Collected every month
- 2) Interest on Saving Bank. collected every month.

Conclusion

I hope with this write up the purpose to explain some concepts related to Housing Societies and accounting aspect will clear. If chance get, I will cover many others aspects also. CMA can Contribute major role in this field.

Thanking you,

Jai Hind

QUOTES

- "The man who does not read books has no advantage over the one who cannot read them." ...
- "Education is the passport to the future, for tomorrow belongs to those who prepare for it today." ...
- "Teachers can open the door, but you must enter it yourself."

Reprising GST on Cooperative Housing Society in India

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SYNOPSIS:

- 1) APPLICABILITY OF GST TO COOPERATIVE HOUSING SOCIETY,
- 2) NEW COMPLIANCES UNDER GST,
- 3) EXEMPTION,
- 4) RATE,
- 5) HSN CODE,
- 6) TYPES OF COOPERATIVE SOCIETY,
- 7) DOCTRINE OF MUTUALITY
- 8) RECENT JUDGEMENTS ON DOCTRINE OF MUTUALITY
- 9) CONCLUSION.

1) APPLICABILITY OF GST

As per section 2(84) of CGST act persons include “a cooperative society registered under any law relating to co-operative societies;”. 2. As per section 2(17) term business includes “provision by a club, association, society, or any such body (for a subscription or any other consideration) of the facilities or benefits to its members”. From the above it is clear that GST is applicable on Co operative Housing Society..

[Section 9(1) Levy and collection.— (1) Subject to the provisions of sub-section (2), there shall be levied a tax called the central goods and services tax on all intra-State supplies of goods or services or both, except on the supply of alcoholic liquor for human consumption, on the value determined under section 15 and at such rates, not exceeding twenty per cent., as may be notified by the Government on the recommendations of the Council and collected in such manner as may be prescribed and shall be paid by the taxable person.

As per Section 2(84) of CGST Act, person includes— (a) an individual; (b) a Hindu Undivided Family; (c) a company; (d) a firm; (e) a Limited Liability Partnership; (f) an association of persons or a body of individuals, whether incorporated or not, in India or outside India; (g) any corporation established by or under any Central Act, State Act or Provincial Act or a Government company as defined in clause (45) of section 2 of the Companies Act, 2013; CHAPTER I PRELIMINARY 15 (h) any body corporate incorporated by or under the laws of a country outside India; (i) a co-operative society registered under any law relating to co-operative societies; (j) a local authority; (k) Central Government

or a State Government; (l) society as defined under the Societies Registration Act, 1860; (m) trust; and (n) every artificial juridical person, not falling within any of the above:

Section 2(105) of the CGST Act defines supplier in relation to any goods or services or both, shall mean the person supplying the said goods or services or both and shall include an agent acting as such on behalf of such supplier in relation to the goods or services or both supplied;

As per section 2(24) of the IGST Act words and expressions used and not defined in this Act but defined in the Central Goods and Services Tax Act, the Union Territory Goods and Services Tax Act and the Goods and Services Tax (Compensation to States) Act shall have the same meaning as assigned to them in those Acts]

2) NEW COMPLIANCES UNDER GST

Apart from online filing of the GST returns, the GST regime has introduced several new systems along with it.

e-Way Bills: GST introduced a centralised system of waybills by the introduction of “E-way bills”. This system was launched on 1st April 2018 for inter-state movement of goods and on 15th April 2018 for intra-state movement of goods in a staggered manner. Under the e-way bill system, manufacturers, traders and transporters can generate e-way bills for the goods transported from the place of its origin to its destination on a common portal with ease. Tax authorities are also benefited as this system has reduced time at check -posts and helps reduce tax evasion.

E-invoicing : The e-invoicing system was made applicable from 1st October 2020 for businesses with an annual aggregate turnover of more than Rs.500 crore in any preceding financial years (from 2017-18). Further, from 1st January 2021, this system was extended to those with an annual aggregate turnover of more than Rs.100 crore. These businesses must obtain a unique invoice reference number for every business-to-business invoice by uploading on the GSTN’s invoice registration portal. The portal verifies the correctness and genuineness of the invoice. Thereafter, it authorises using the digital signature along with a QR code. e-Invoicing allows interoperability of invoices and helps reduce data entry errors. It is designed to pass the invoice information directly from the IRP to the GST portal and the e-way bill portal. It will, therefore, eliminate the requirement for manual data entry while filing GSTR-1 and helps in the generation of e-way bills too.

Thus, for GST to apply, two criteria must be met.

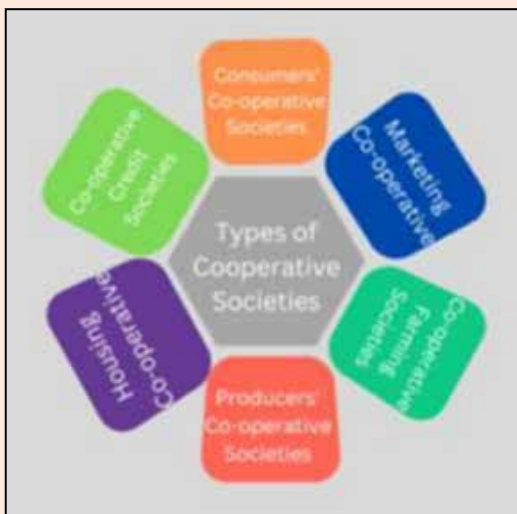
Annual turnover of a housing society	Monthly maintenance charge	GST
Rs. 20 Lakh or less	Rs. 7,500 or less	Exempt
Rs. 20 Lakh or less	More than Rs. 7,500	Exempt
More than Rs. 20 Lakh	Rs. 7,500 or less	Exempt
More than Rs. 20 Lakh	More than Rs. 7,500	Applicable

3) EXEMPTION

Exemption of Rs 5,000/- per month per member was prescribed by Notification No.12/2017- Central Tax (Rate) in entry no.77 which covers Heading 9995. The above exemption limit was increased to 7,500 per month per member by notification No.2/2018-Central Tax (Rate) in entry no. (p) which covers Heading 9995.

Exemption is provided upto Rs 7500 per month per member in case a society sources goods and services from third person for common use of its members. Eg (payments to security, cleaners, accountants etc). Thus the exemption is not applicable to receipts such as parking charges, transfer charges, non-occupancy charges and interest on delayed payments etc. which are not in nature of goods and services procured from third party for common use of members. Services provided by the Central Government, State Government, Union territory or local authority to a person other than business entity, is exempted from GST. So, Property Tax, Water Tax, if collected by the RWA/Co-operative Society on behalf of the MCGM from individual flat owners, then GST is not leviable.

- 4) **RATE** : Corresponding GST Rate for services provided by Co-op. Hsg. Society is 9% i.e. Total 18% [CGST 9% + SGST 9%) prescribed by Notification No.11/2017-Central Tax (Rate) in entry no.33 which covers Heading 9995.
- 5) **HSN CODE**: HSN Code of services provided by the Cooperative Housing Society is 9995. 6) **TYPE OF COOPERATIVE SOCIETY**:



7) DOCTRINE OF MUTUALITY:

The doctrine of mutuality has significant role in deciding tax liability of cooperative societies. A mutual concern or association is an association of persons (AOP), who agree to contribute funds for some common purpose mutually beneficial and receive back the surplus left out in the same capacity in which they have made the contributions. Concept of mutuality is based on the fact that one cannot trade with oneself and cannot make profit out of oneself. A co-operative society is a mutual association and surplus from the contributions from members is not an income chargeable to tax. Thus, surplus from the contribution after deducting the housing society's expenses are covered by the concept of mutuality. Sometimes a housing society carries on some activities which are mutual and some may not be mutual. Then, the Concept of Mutuality can be considered only for those activities which are mutual. The contribution collected from non-members are income chargeable to tax.

8) RECENT JUDGEMNT ABOUT MUTUALITY IN CO-OPERATIVE HOUSING SOCIETY:

In the latest judgement dated 12th March 2018 in INCOME TAX OFFICER VERSUS VENKATESH PREMISES COOPERATIVE SOCIETY LTD the Supreme Court has considered whether certain receipts by co-operative societies, from its members i.e. non-occupancy charges, transfer charges, common amenity fund charges and certain other charges, are exempt from income tax based on the doctrine of mutuality. Recently, the Apex Court in the case of Yum Restaurants (Marketing) Pvt. Ltd. v. CIT bearing Civil Appeal no. 2847 of 2010 (SC), order dated 24th April, 2020 held that the doctrine of mutuality bestows a special status to qualify for exemption from tax liability and exemptions are to be put to strict interpretation. The apex court has reiterated certain tests which have to be strictly applied before it can be said that the assessee is operating on the principle of mutuality.

9) CONCLUSION: A Cooperative Housing Society is obliged to pay the GST if its income criteria falls beyond the stated threshold i.e. more than 20 Lakhs and collection from each member exceeds Rs. 7,500/ Rs. Per month . Again doctrine of mutuality plays vital role in deciding this tax liability.

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Applicability of GST for Co-operative sector



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Co-operative society is the society which has been registered under the Co-Operative Societies act, 1912 or any other law which is in force in any state for the registration of co-operative societies during the time of such registration. There are various types of cooperatives society like Consumer co-operatives society like Super Bazar and Apna Bazar, Marketing Co-operatives society like Milk Co-operatives in Gujarat, Maha Grape, Cotton Marketing Co-ops, Producer co-operative society like Indian Farmers Fertilizer Cooperative Limited (IFFCO) Horticultural Producers’ Cooperative Marketing and Processing Society (HOPCOMS) Indian Coffee House, Amul. Worker co-operative society like India coffee house, Kerla Dinesh Beedi, Shri Mahila Griha udyog, Ijjat Papad, Uralungal Labour Contract cooperative society, Purchasing cooperative society like National Association of Educational Procurement, Retailer Owned Food Distributors and Associates, OMNIA Partners, Housing cooperative society like Kanungo Cooperative Group Housing Society Ltd, Patpar Ganj, Delhi, Sainik Cooperative House Building Society Ltd, Bardez, Goa, Sainik Cooperative House Building Society Ltd, Bardez, Goa. etc.

The charging provisions of Section 9 of the CGST Act provide that GST shall be levied on intra-state supplies of goods and services subject to the provisions there under and in the manner as prescribed. Such tax shall be paid by the ‘taxable person who is liable to be registered or who is registered under GST law.

The definition of the term person as per section 2(17) of CGST Act includes an Association of Persons (AOP) or Body of Individuals (BOI), whether incorporated or not, in India or outside India, a Co-operative Society registered under any Co-operative Society Law or Society as defined under the Societies Registration Act, 1860. Thus a society whether engaged in any business of manufacturing or trading of goods, rendering services are the persons covered under the GST law.

The term ‘supply’ is not specifically defined under the GST law. However, the ‘scope of supply’ is provided u/s 7 of the CGST Act .Scope of Supply includes:

Supply	
Includes :	Excludes:
a) All forms of supply of goods or services or both such	e) The activities specified in Schedule III
b) as sale, transfer, barter, exchange, licence, rental, lease or disposal	f) Notified goods and services

<ul style="list-style-type: none"> • for a consideration • by a person • in the course or furtherance of business • Import of services for a consideration whether or not in the course or furtherance of business 	
c) The activities specified in Schedule I, made or agreed to be made without a consideration	
d) The activities to be treated as supply of goods or supply of services as referred to in Schedule II	

The term ‘business as per section 2(17) includes provision of the facilities or benefits, by a club, association, society, or any such body, to its members for a subscription or any other consideration. Thus, provision of any facility to members by the society is treated as business when any such supply is for a consideration/subscription.

Business includes:
(a) any trade, commerce, manufacture, profession, vocation, adventure, wager or any other similar activity, whether or not it is for a pecuniary benefit;
(b)
(c)
(d)
(e) provision by a club, association, society, or any such body (for a subscription or any other consideration) of the facilities or benefits to its members;
(f) admission, for a consideration, of persons to any premises;
(g).....
(h).....
(i).....

General Provision to Co-operative Societies

In GST act, 2017, It is not relevant whether an organization makes profit or not, GST applicable on all types of co-operative societies like other forms of taxable Person as defined in Section 2(17) of CGST Act and doing business as defined as per Section 2(17) of CGST Act. Like other forms of taxable person, general provisions are applicable in cases of all types of Co-operative society including Housing co-operative society.

Exemption to Housing Societies

Co-operative society including Housing co-operative society has to comply general provision of GST law but in case of Housing society, specific exemptions are provided which makes Housing society different from other cooperative society as far as GST is concerned.

Exemptions are provided to housing society in respect of contribution made by the members of RWA vide Notification 12/17- CT dated 28.06.2017. As per this notification, Exemption was provided where such contribution did not exceed Rs. 5,000 per month per member. However, vide Notification No.2/18 dated 25.01.2018, the said limit of Rs. 5,000 was raised to Rs. 7,500 and further clarification was issued vide Circular No. 109/28/2019- GST dated 22.07.2019 .

Sr.No.77 of Notification No.12/2017 dated 28.06.2017 provides for the following exemption to housing societies:

Table S.No.	Chapter, Section, Heading, Group or Service Code (Tariff)	Description of Services	Rate (per cent.)	Condition
(1)	(2)	(3)	(4)	(5)
1	Chapter 99	Services by an entity registered under section 12AA of the Income-tax Act, 1961 (43 of 1961) by way of charitable activities.		
77	Heading 9995	Service by an unincorporated body or a non-profit entity registered under any law for the time being in force, to its own members by way of reimbursement of charges or share of contribution – (a) as a trade union; (b) for the provision of carrying out any activity which is exempt from the levy of Goods and service Tax; or (c) up to an amount of five thousand rupees per month per member for sourcing of goods or services from a third person for the common use of its members in a housing society or a residential complex.	Nil	Nil

As per clause (c) above if the housing society is collecting up to Rs. 7,500 per member per month then no GST is to be levied. The condition is that the amount is for the purpose of sourcing goods and services from a third person for the common use of its members in a housing society. Therefore, if a society charges per day rent from a member for using its community hall then it is liable to GST as it doesn't amount to procuring of goods or services and also not for common use but specific to a member.

Also, clause (b) above states that any amount which is exempted from GST is not be considered. Therefore, property tax, electricity charges etc which is exempt from GST is not considered in the Rs. 7500 limit.

As per this notifications exemption was available in respect of contributions made to RWA up to Rs. 7,500/- per month per member. But In many cases, RWA received contributions of more than Rs. 7,500. In such situation, question arose that in case RWA contribution made by member exceeds Rs. 7,500 per month, will the RWA get the advantage of exemption, or entire contribution received would be taxable under GST ?

One petitioners "TVH Lumbini Square Owners Association" approached the Authority of advance ruling (TN/25/AAR/2019 DATED 21.06.2019) seeking clarification on this matter, Hon'ble Tamil Nadu AAR held adverse and stated that exemption is available if contribution is received up to

INR 7,500. If contribution amount exceeds INR 7,500 then entitlement of exemption would stand defeated and GST will be levied on full amount of member contribution.

Inspired by such ruling, CBIC issued a clarification vide Circular No.109/28/2019-GST dated 22nd July, 2019 stating that exemption of contribution will be available only if amount is received up to INR 7,500. If an excess amount is received then the entire contribution would be liable to GST.

Sl. No.	Issue	Clarification															
1.	Are the maintenance charges paid by residents to the Resident Welfare Association (RWA) in a housing society exempt from GST and if yes, is there an upper limit on the amount of such charges for the exemption to be available?	Supply of service by RWA (unincorporated body or a non-profit entity registered under any law) to its own members by way of reimbursement of charges or share of contribution up to an amount of Rs. 7500 per month per member for providing services and goods for the common use of its members in a housing society or a residential complex are exempt from GST. Prior to 25th January 2018, the exemption was available if the charges or share of contribution did not exceed Rs 5000/- per month per member. The limit was increased to Rs. 7500/- per month per member with effect from 25th January 2018. [Refer clause (c) of Sl. No. 77 to the notification No. 12/2017- Central Tax (Rate) dated 28.06.2017 as amended vide notification No. 2/2018- Central Tax (Rate), dated 25.01.2018]															
2	A RWA has aggregate turnover of Rs.20 lakh or less in a financial year. Is it required to take registration and pay GST on maintenance charges if the amount of such charges is more than Rs. 7,500/- per month per member?	No. If aggregate turnover of an RWA does not exceed Rs.20 Lakh in a financial year, it shall not be required to take registration and pay GST even if the amount of maintenance charges exceeds Rs. 7500/- per month per member. RWA shall be required to pay GST on monthly subscription/ contribution charged from its members, only if such subscription is more than Rs. 7500/- per month per member and the annual aggregate turnover of RWA by way of supplying of services and goods is also Rs. 20 lakhs or more. <table border="1"> <thead> <tr> <th>Annual turnover of RWA</th> <th>Monthly maintenance charge</th> <th>Whether exempt?</th> </tr> </thead> <tbody> <tr> <td>More than Rs. 20 lakhs</td> <td>More than Rs. 7500/-</td> <td>No</td> </tr> <tr> <td></td> <td>Rs. 7500/- or less</td> <td>Yes</td> </tr> <tr> <td>Rs. 20 lakhs or less</td> <td>More than Rs. 7500/-</td> <td>Yes</td> </tr> <tr> <td></td> <td>Rs. 7500/- or less</td> <td>Yes</td> </tr> </tbody> </table>	Annual turnover of RWA	Monthly maintenance charge	Whether exempt?	More than Rs. 20 lakhs	More than Rs. 7500/-	No		Rs. 7500/- or less	Yes	Rs. 20 lakhs or less	More than Rs. 7500/-	Yes		Rs. 7500/- or less	Yes
Annual turnover of RWA	Monthly maintenance charge	Whether exempt?															
More than Rs. 20 lakhs	More than Rs. 7500/-	No															
	Rs. 7500/- or less	Yes															
Rs. 20 lakhs or less	More than Rs. 7500/-	Yes															
	Rs. 7500/- or less	Yes															
3	Is the RWA entitled to take input tax credit of GST paid on input and services used by it for making supplies to its members and use such ITC for discharge of GST liability on such supplies where the amount charged for such supplies is more than Rs. 7,500/- per month per member?	RWAs are entitled to take ITC of GST paid by them on capital goods (generators, water pumps, lawn furniture etc.), goods (taps, pipes, other sanitary/hardware fillings etc.) and input services such as repair and maintenance services.															
4	Where a person owns two or more flats in the housing society or residential complex, whether the ceiling of Rs. 7500/- per month per member on the maintenance for the exemption to be available shall be applied per residential apartment or per person?	As per general business sense, a person who owns two or more residential apartments in a housing society or a residential complex shall normally be a member of the RWA for each residential apartment owned by him separately. The ceiling of Rs. 7500/- per month per member shall be applied separately for each residential apartment owned by him. For example, if a person owns two residential apartments in a residential complex and pays Rs. 15000/- per month as maintenance charges towards maintenance of each apartment to the RWA (Rs. 7500/- per month in respect of each residential apartment), the exemption from GST shall be available to each apartment.															
5	How should the RWA calculate GST payable where the maintenance charges exceed Rs. 7500/- per month per member? Is the GST payable only on the amount exceeding Rs. 7500/- or on the entire amount of maintenance charges?	The exemption from GST on maintenance charges charged by a RWA from residents is available only if such charges do not exceed Rs. 7500/- per month per member. In case the charges exceed Rs. 7500/- per month per member, the entire amount is taxable. For example, if the maintenance charges are Rs. 9000/- per month per member, GST @18% shall be payable on the entire amount of Rs. 9000/- and not on [Rs. 9000 - Rs. 7500] = Rs. 1500/- .															

Aggrieved with the circular of CBIC and ruling of AAR, a petitioner filed a petition (W.P.No.27100 of 2019) before the Hon'ble Madras high court and challenged the order of Tamil Nadu AAR & Circular No 109/28/2019 dated 22nd

July 2019 issued by CBIC in which it was stated that “in case of contribution by member to RWA is above Rs.7,500/- per month, then the entire amount would be taxable”.

while passing the judgment In the matter of ‘Greenwood Owners Association & others Vs Union of India Hon’ble High Court made following observations:

- In the case of Dilip Kumar, the Supreme Court reiterates the settled proposition that an Exemption Notification must be interpreted strictly.
- The plain words employed in Entry 77 being, upto an amount of 7,500/- can thus only be interpreted to state that any contribution in excess of the same would be liable to tax.
- The term ‘upto’ hardly needs to be defined and connotes an upper limit. It is interchangeable with the term ‘till’ and means that any amount till the ceiling of Rs.7,500/- would be exempt for the purposes of GST.
- HC ruled that the AAR as well as the Circular to the effect that any contribution above Rs.7,500/- would disentitle the RWA to exemption, is contrary to the express language of the Entry in question and both stand quashed. HC finally clarified that it is only contributions to RWA in excess of Rs. 7,500/- that would be taxable under GST Law.

It means that the amount up to Rs. 7,500/- would be exempt from the application of GST.

Conclusion

A Co-operative Housing Society or Residential Welfare

Association who’s Turnover (collection money) crosses Rs. 20 Lacs per annum would become liable for Registration under GST and should charge GST (CGST + SGST) from its members. Registration Requirements in GST for Housing Societies and RWA

Sr. No	Aggregate Turnover	Monthly Maintenance Fees per Member	Exemption from Registration
1	Less than 20 Lacs	Rs 7500 or less	Exempt
2	Less than 20 Lacs	Few Members- Rs 7500 or more & Few Member -7500 or less	Exempt
3	More than 20 Lacs	Rs 7500 or less	Exempt
4	More than 20 Lacs	Few Members Rs 7500 or more & Few Member 7500 or less	Not Exempt

Once the Society becomes liable to pay GST, Society should mention the GSTIN No on its invoices and collect tax on the invoice issued . it would maintain books of accounts as required under GST and file periodic GST returns as well. it is allowed to take Input Tax Credit under Sec 16 (1) of CGST Act subject to conditions for taking input tax credit.

Housing Society is entitled to ITC in respect of taxes paid by them on capital goods (generators, water pumps, lawn furniture etc.), goods (taps, pipes, other sanitary/ hardware fillings etc.) and input services such as repair and maintenance services – Lift AMC, Housekeeping, Security, Fire AMC, Repairs & Maintenance, Contract staff, Accounting & Auditing Services and other such services.

Reverse Charge as defined under Sec 2(98) of CGST Act also applicable to such society. Housing Society is not eligible for the Composition Scheme. ■

OBITUARY



CMA P. S. Nadkarni, Past President of the Institute (1985-86) passed away on 13th May 2023.

His contribution for the development of the Institute and CMA Profession shall always remembered. May the departed soul rest in eternal peace.



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Ref.No.: G/128 /05/2023

26th May 2023

NOTIFICATION

Subject: Mandatory communication to the previous cost Auditor

In the view of the decision taken in the 343rd Meeting of Council of the Institute held on 30th March, 2023, in furtherance to the Notification No. G/128/10/2022(3) dated 25th October, 2022, the Council reiterated that the communication is mandatory on the part of every cost accountant, in case he accepts a position as a Cost Accountant previously held by another Cost Accountant in Practice as per the following prescribed format.

In case of any violation thereof will be considered as a violation under Clause (8) Part I Schedule I of the Cost and Works Accountants Act,1959.

Format of Communication to the Previous Cost Auditor

Date

To,

Dear Sir,

I/We have been approached by M/S (name of the Company) to conduct the cost audit relating to its product(s) covered under Cost Audit of the Company/unit(s) located at ----- for the year ending on ----- I/We understand that you were the cost auditor of the Company immediately prior to this offer. Accordingly, I/We hereby communicate to you before I/We accept the said appointment. May I/We request you to provide your feedback on this matter. This communication is being addressed to you in view of the provisions of clause (8) of Part I of the First Schedule to The Cost and Works Accountants Act,1959.

I/We also hereby confirm that, based on the information provided by the Company, the audit fees that will be received by me/us for this assignment will not be lower than the fees received by you for the conduct of cost audit.

Thanking You,

Yours faithfully,

For M/s

Cost Accountant

M.NO.

CMA Kaushik Banerjee

Note: The communication must be addressed by Registered/ Speed Post.
Secretary

SAP T-Code : F-44 & FBRA



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F-44: This t-code used to clear vendor's GL i.e. clearing open items of vendor.

Used in SAP FICO- You would be aware that a vendor invoice can be automatically cleared when you execute a vendor payment via t-code F-53 in SAP. User can also use t-code F-44 in SAP to clear the vendor open items. But why do you need to execute this t-code? Sometimes what happens is that you make on-account payment to a vendor. An on-account payment is a payment that is not made against any open invoice. So, once an on-account payment is made, it is not adjusted /cleared against any particular invoice. Rather, it is posted to a vendor account as an open-item payment document. To clear such payments, user needs to use F-44 in SAP.

Another example would be the vendor debit memos. User generates debit memos for vendors to process some adjustments. These adjustments could be related to discounts, faulty material, return materials etc. User creates these debit memos as an open item adjustment to a vendor account. Here, again user should use the t-code F-44 in SAP to clear the vendor open items by knocking it off against an open invoice.

This article will be demonstrating how you can use F-44 to clear the vendor open items.

F-44: First screen/Selection screen/Header data -

If user enters F-44 t-code in command tab then above screen will appear. In this selection screen, various criteria of selection have provided to user for ease of clearing open items.

Selection Process-

User should have entered vendor account number in account tab, clearing date; Period of posting, Special GL

indicator and then user has to select additional selection for easy finding of documents to be cleared.

Account: Vendor account number for which open documents to be cleared

Clearing date- date on which clearing entry will effect on account's book.

Period- Posting period means month in which entry will post in financial year. Normally April is first period.

Special GL Indicator- When user clearing open items of special GL of vendor like as retention/advance then user has to select special G/L indicator to display such items for clearing. Otherwise normal items will be appeared on screen for clearing.

Normal OI- Normal open items will be shown.

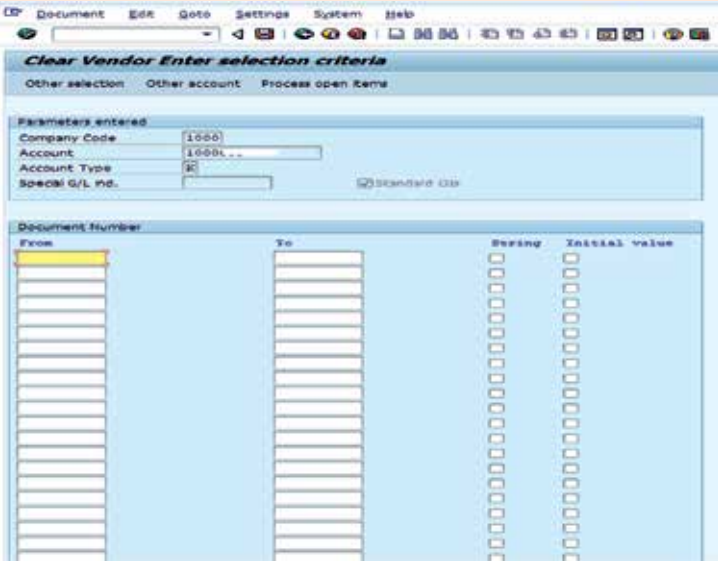
Additional Selection Tab-

Different types of selection options are available to user for specific documents extraction for clearing like selection by documents numbers, processors, Amount, Profit centre, posting date, Assignment etc.

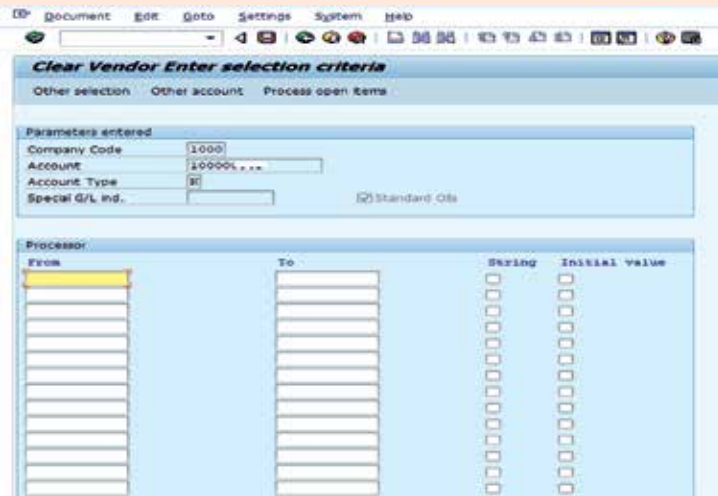
None - If user selects this option then all open items will be displayed for clearing.

Selection by Document Number -

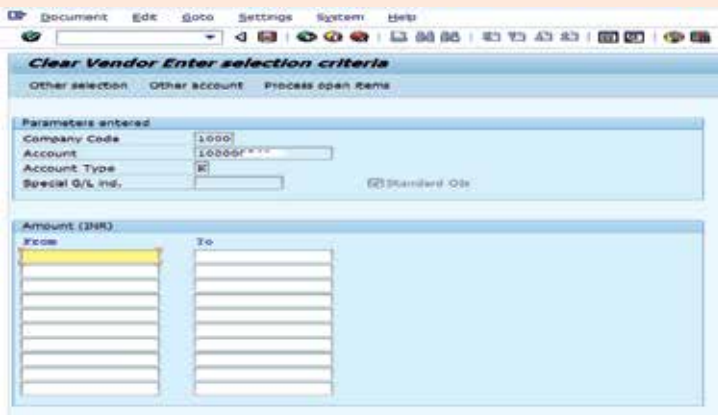
When user having document number then he/she can select option of document number. Following window will be shown for clearing process. Here user can process numbers of document at the same time, but please ensure financial year of clearing documents because same document number might be posted in different FY against same vendor.



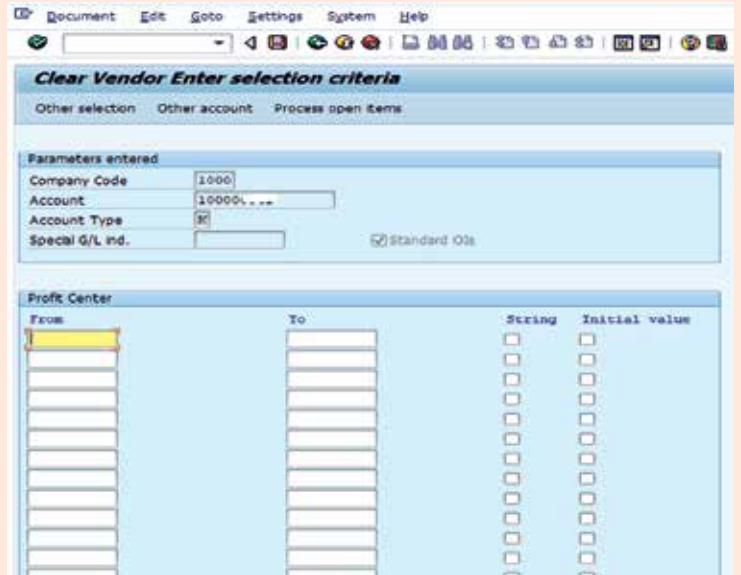
Selection by Processor - Instead of document numbers, clearing can be done by using processor's SAP id.



Selection by Amount - Like as above, instead of document numbers and processor, user can put amount in tab for clearing purpose.

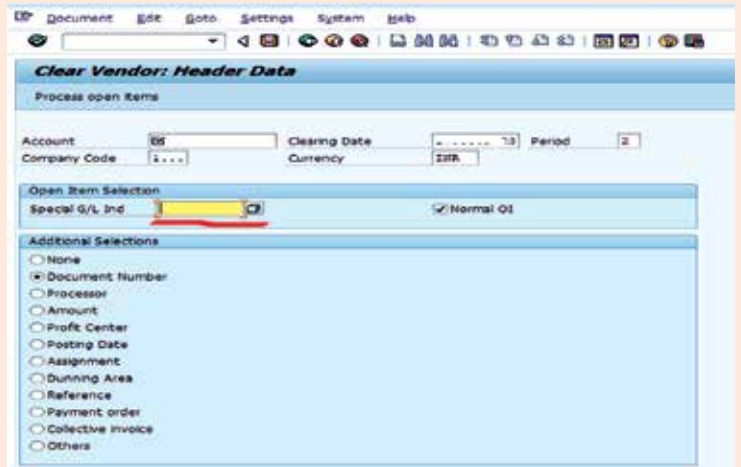


Profit Centre - Open documents of particular profit centre will be presented for clearing.



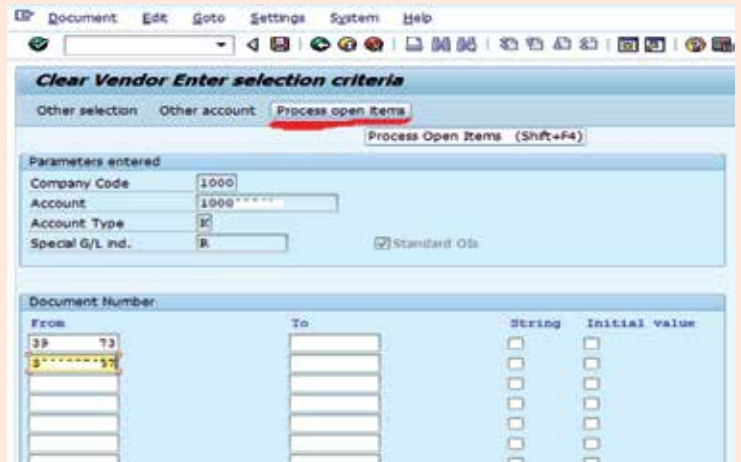
How to clear special G/L open items -

For clearing of special G/L open items, user has to select special G/L indicator, then documents having special G/L items will be shown for clearing.



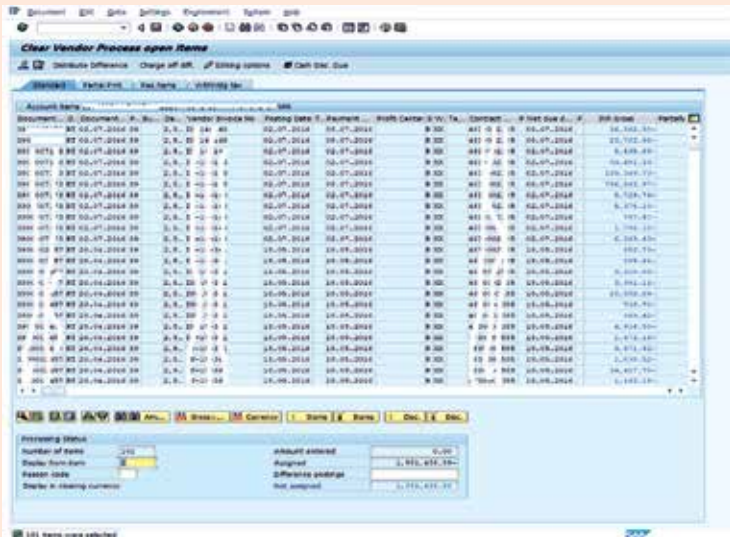
Processing for clearing -

User can process for clearing by clicking “Process open items” tab shown in below window-



Final Processing/Clearing -

Debit documents and credit documents will be knock off in F-44, if debit document's amount is more than credit document's amount, then all open documents will be cleared and new debit document will post in vendor account and vice versa.



F-44 : SAP Shortcut Keys

Process open items- Shift+F4

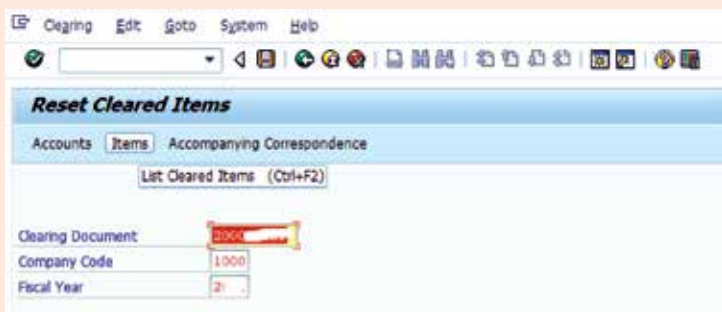
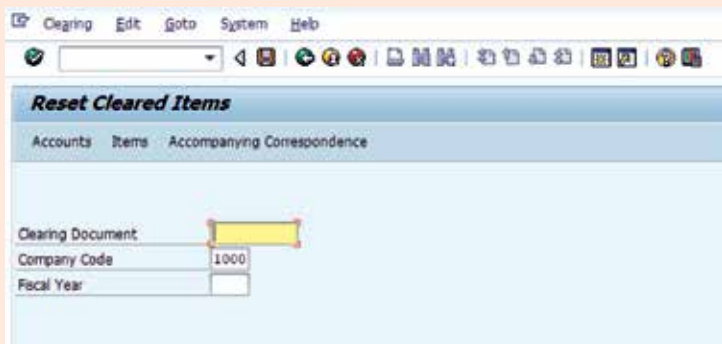
Other Selection- F6

Other Account- F7

FBRA - This t-code is used to reversal of already cleared document. User can see that which documents are cleared in F-44.

FBRA First Screen -

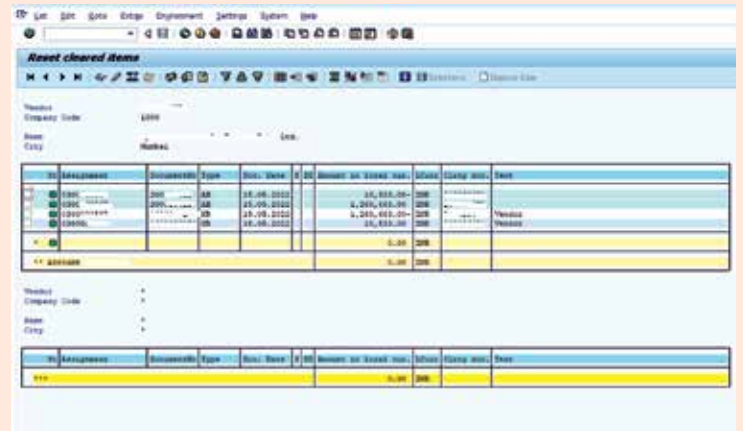
User has to enter clearing document number and fiscal year for unclear/reset clearing document.



How to show document/items cleared in clearing documents -

After entering clearing document and fiscal year, user should click on "Items" tab to display documents clearing in F-44. It will ensure that user is resetting/unclearing proper document.

Also if user wants to know which documents have cleared in clearing document in such case this option will be helpful. Following window will appear after clicking on Items tab-



FBRA: SAP Shortcut Keys

List Accounts Involved: Ctrl+F1

List cleared items- Ctrl+F2

Display relevance correspondence- Ctrl+F3

So, this article is explaining both T-codes, F-44 & FBRA having their functions. This is baseline information about the t-codes in very simple and understandable mode with picture presentation.

QUOTES

- “ All of the top achievers I know are life-long learners.
- “Don’t let what you cannot do interfere with what you can do.”
- “Education is not preparation for life; education is life itself.”
- “The roots of education are bitter, but the fruit is sweet.”
- “Only the educated are free.”

Perspectives on Costing for Non – Profit Organizations



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The Perspective

In recent years non-governmental organisations (NGOs) have become increasingly important in addressing humanitarian issues relating to welfare and developmental aid. NGOs face increasing pressure to demonstrate service delivery in cost efficient ways. The social sector in recent years has focused on effectiveness to ensure that programs and services are working as intended and achieving the highest possible impact for beneficiaries. Increasingly, non -profits, NGOs, and their funders are looking to build not just programs that work, but programs that work and scale. For leaders eager to move in this direction, focusing on redesigns for lower cost per outcome may hold the key to unlocking these scaling opportunities, cost be looked at not as something done to an organization but rather as a lever within the control of a provider. Cost can be designed and managed through decisions about the target problem and expected outcome, target scale, service design, and delivery method. It means significant adjustments to the service design that fundamentally make it less expensive to deliver, and therefore enable expansion in a sustainable way.

Need for costing for NGOs

Without consistent and clear understanding of costs the process of determining the effectiveness and efficiency of organisations – whether for internal management or external accountability – cannot even begin. Without the basic understanding and articulation of costs it is impossible for donors to support realistic cost recovery. NGOs need to better understand and articulate their costs.

- Once this has happened NGOs can make informed decisions when seeking donor funding.
- Address programme support costs organisations must standardise how they account for different types of expenditure
- Enhance open and honest conversations about true costs within organisations
- To inform and educate donors supporters and other stakeholders on the need for and benefits of improved cost recovery.

Costing for NGOs

A not-for-profit generally lacks the financial flexibility of a commercial enterprise because it depends on resource providers that are not engaging in an exchange transaction. The resources provided are directed towards providing

goods or services to a client other than the actual resource provider. Thus the not-for-profit must demonstrate its stewardship of donated resources money donated for a specific purpose must be used for that purpose. That purpose is either specified by the donor or implied in the not for-profit's stated mission.

Before selecting a costing methodology, it is important to organise the NGO's financial report into logical sub-categories according to the purpose for which they are incurred (programme and support services); and then allocate the sub-categories into cost categories. In this sense, the main cost categories are direct and indirect. Direct costs are those costs which can be identified specifically with a project and therefore must be charged to that project; Direct project costs shall be identified during the project initiation phase. All anticipated programmatic and operational inputs, including development effectiveness activities and implementation support arrangements, need to be identified, estimated, and fully costed during the preparation of the project budget and annual work plan. DPC costs are to be calculated based on the actual costs required to provide implementation project support.

Indirect and shared costs are those incurred for common or joint purposes, which means that they cannot be specifically and easily allocated to a specific project or activity, yet they are fundamental to the general operation of the organisation. There is not an exact list of costs that must be considered as indirect costs. In order to allocate indirect costs, the direct allocation method is suggested: these costs must be prorated individually as direct costs to each category and to each award using a calculated base that is known as an indirect cost rate. Other types of allocation are simple method and multiple allocation base method.

Methodology for Costing

The methodology for costing most HRP's is Project based costing. This costing methodology relies primarily on summing funding requirements for projects submitted by different agencies. Project budgets are either based on standard UN/NGO cost categories or are based on activities, outputs or outcomes developed by clusters. Sectors/clusters ensure costs are appropriate and are aligned with activities and outcomes. An alternative methodology - Unit based costing - relies on identifying a unit cost 'driver'. This could be an activity, an outcome or a standard service being delivered at a certain cost. The unit cost 'driver' in the HRP budget is the unit cost which best explains the activity, service or outcome. The overall cost would then be

established as unit cost ‘driver’ multiplied by the number of units provided, set against the cost per unit across the HRP response. A combination of both methodologies - the hybrid method - establishes financial requirements using Unit based costing and follows with detailed project planning at a later stage to provide more detail to the initial calculations or to give visibility to participating organisations. The main steps to follow in costing are: Step 1: Describe the cost driver Step 2: Define your units of measurement Step 3: Provide a cost range Step 4: Indicate average unit costs Step 5: Calculate overall costs per activity.

When referring to cost allocation, it is critical to consider cost drivers. A cost driver is the direct cause of a cost and its effect is on the total cost incurred. They can be assigned to each cost based on their relation to salary basis, programme hours, square footage, and administrative allocation. Examples of direct costs for non-profit organisations include activities and expenses which are fully related and linked to the project or programme, such as staff salaries, materials, or other programme-exclusive expenses. Indirect costs are generally related to administrative and general expenses, such as accounting and auditing, human resources (administrative staff), insurances, executive costs, utilities, office supplies, and overheads (which, in turn, include facilities costs, membership and licensing fees, and equipment costs).

Cost recovery – what donors expect

Most donors expect a fair share of costs (direct and indirect) incurred to deliver their project. They also expect you to be able to evidence its eligibility and justify your rationale. They are actually looking for a cost transparency model that has and is:

- o Simplicity
- o Transparency
- o Fairness
- o Scalable
- o Predictable
- o Value for money
- o Substantive

The first step to reducing cost in a way that increases your organization’s ability to achieve its mission is to get very clear answers to three questions: What is the specific outcome your service or product exists to deliver? To whom? And how do you know when you have been successful?

Fit Cost per Outcome to Target Scale : Given the urgency of scalable solutions in every corner of the social sector, it seems reasonable to start the process of developing a program or service by establishing a target outcome and a target cost per unit of outcome. But then comes the challenge of developing an intervention that balances cost with successful outcomes

Test, Refine, and Persevere : After identifying and executing adjustments to lower cost, it is a good idea to closely monitor early implementation to ensure that the assumptions you have made about impact and cost hold true. Are the elements you prioritized in fact producing the

expected results (or at least leading indicators of results)? Does implementation confirm the assumptions you’ve made about cost? And, importantly, is the full model, when accounting for overhead and other costs, on track to hit the total cost target that your expected funding model will cover? You may find that the decisions you have made at one or more of the above stages either are not achieving the expected results or are still too expensive to scale. If so, continue to explore alternatives until you have reached a model that is delivering valuable results and also is scalable from a cost perspective.

Tenets of an effective cost management system for NGOs

- **Quality of cost information** : Cost systems must seek to produce cost information that will be useful, valid, reliable, and cost-effective.
- **Development of cost systems** : Cost systems must be developed gradually, taking into account current capacity and possible future expansion.
- **Identification of cost objects** : Cost objects selected must have a close relationship to the desired outputs of social activity.
- **Criterion for recognition** : The recognition criterion used in cost systems must be linked as directly as possible to the expense unless intermediate criteria, such as outlays are accepted as a transition stage.
- **Full costs, direct costs, and indirect costs**: Full costs must be compiled through a technique known as absorption costing, in order to comprehensively understand the implications of the resources employed in creating a public service.
- **Controllability of costs** : Cost systems, based on departmentalization, must organize costs in light of their controllability, provided that cost control is part of performance assessment management.
- **Determination of real costs**: direct tracing of a cost system must be able to enable the accumulation and attribution of costs to services. Direct tracing of costs, based on a reliable measurement of resource consumption, is the preferred method to accumulate costs and must be used whenever possible.
- **Determination of real costs - cost assignment** : Before a cost assignment decision is taken, the costs and benefits must be compared. Costs should be allocated in accordance with criteria that reflect the relationship of cause and effect between the costs and the cost objects.
- **Standard costs and cost behaviour pattern** : Program budgeting must be used as the basis for implementing a standard cost system to assess real costs. Budgeted values must be restated as standard costs to analyse cost variances. The cost behaviour pattern should also be analysed in terms of its variability to facilitate forecasting and control.
- **Cost reports** : A cost system must extend from the accumulation and analysis of costs through to the production of cost reports. The scope of the cost reports,

their level of detail, and their frequency must be based on the responsibility and functions of their intended audience.

Conclusion

True cost innovation is about achieving impact at a cost low enough to expand in a sustainable way. Increasingly, non - profits, NGOs, and their funders are looking to build not just programs that work, but programs that work and scale. Focusing on redesigns for lower cost per outcome may hold the key to unlocking these scaling opportunities. An improved costing approach would contribute to an overall objective of better responding to the needs of affected populations, through increasing transparency, credibility and cost-effectiveness.

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OBITUARY



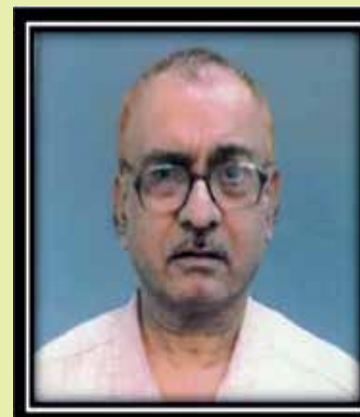
CMA S. K. Marathe, M/5008 passed away on 13th April 2023.



CMA Balkrishna Shetty, M/10939 passed away on 27th March 2023.



CMA Uday Chapaji Kirtikar, M/2657 passed away on 1st October 2022.



CMA Than Mal Rathi, M/3964 passed away on 20th April, 2023.

“May the departed soul rest in eternal peace.”

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Capacity Utilisation and Its Cost Implications

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Importance of Capacity Utilisation is due to its following Cost Implications :

- 1) Raw Materials – Unit Consumption is same irrespective of Capacity Utilisation
- 2) Utilities Consumption – Per Unit Consumption will decrease marginally with increase in Capacity Utilisation
- 3) Packing Material - Unit Consumption is same

irrespective of Capacity Utilisation

- 4) Fixed Cost – Cost Component wise Total Value is independent of Volume of Production. So per Unit Cost will decrease with increase in Capacity Utilisation.
- 5) It indicates utilization of available resources

What is stated above is illustrated in Annexure 1 below showing Cost Implications at 50 % capacity & at 100 % capacity.

ANNEXURE 1 – PROFITABILITY ANALYSIS FOR PRODUCT AT 50 % CAPACITY & AT 100 % CAPACITY

Sr No	PARTICULARS Production :	AT 50 % CAPACITY			AT 100 % CAPACITY		
		Rs Lacs	Rs / MT	%	Rs Lacs	Rs / MT	%
(A)	SALES VALUE						
(B)	VARIABLE COST						
1	Raw Material Consumption						
2	Electricity Charges						
3	Water						
4	Fuel						
5	Natural Gas						
6	Packing Material Consumption						
7	Total Variable Cost						
(C)	Contribution (A – B)						
(D)	Fixed Cost						
1	Stores Expenses						
2	Repairs Expenses						
3	Employee Cost						
4	Interest						
5	Depreciation						
6	Other Overheads						
7	Total Fixed Cost						
(E)	Total Cost (B+D)						
(F)	Less : By Product Sales (If any)						
(G)	Total Net Cost (B + D – F)						
(H)	MARGIN (A – G)						

It will be clear from the above illustration that Variable Cost Per Unit will remain & Fixed Cost in totality will remain same.

Following are some practical tips to prepare Annexure 1.

- 1) Raw Material Consumption is linear
- 2) Utility Component – It is not linear but will decrease marginally with improved capacity utilization.

If historical consumption is available for various capacity levels, then use these historical Figures or else assume that it is linear.

In that case, it will end up showing little higher cost than what it should be.

- 3) Fixed Cost- consider same values for all capacity levels.

Utilities of this MIS Report :

- 1) Indication of Utilisation of available resources
- 2) Pricing Strategy with respect to trade off between cost advantage due to higher capacity utilization and discount to be offered to push additional quantity in the market.

(NOTE: VIEWS EXPRESSED ARE THE PERSONAL VIEWS OF THE AUTHORS)

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Printed & Published by Chaitanya Mohrir on behalf of the Western India Regional Council of the Institute of Cost Accountants of India, Printed at M/s. Surekha Press, A 20 Shalimar Industrial Estate, Matunga, Mumbai 400 019. Published at Western India Regional Council of the Institute of Cost Accountants of India, Rohit Chambers, 4th Floor, Janmabhoomi Marg, Mumbai 400 001. Editor: Chaitanya Mohrir.

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