



Participant Handbook

**Sector
BFSI**

**Sub-Sector
BFSI**

**Occupation
Finance and Accounts**

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Accounts Assistant

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Prime Minister of India

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Skill development of the new generation is a national need and is the foundation of Aatmnirbhar Bharat

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The preparation of this handbook would not have been possible without the banking sector's support. Industry feedback has been extremely beneficial since inception to conclusion, and it is with their guidance that we have tried to bridge the existing skill gaps in the industry. This participant handbook is dedicated to the aspiring youth, who desire to achieve special skills that will be a long-term asset for their future pursuits.

About this book

Welcome to the "Accounts Assistant" training program. This handbook is crafted to furnish participants with a comprehensive understanding of the role of a data analyst in the financial services sector, with a specific focus on managing information systems, generating insights, and ensuring data integrity and security. Throughout this training initiative, participants will delve into various facets of data analysis, including data collection, processing, interpretation, and presentation. The handbook aims to equip participants with the requisite skills to navigate through vast datasets, extract meaningful information, and provide actionable recommendations.

Participants will also be trained to stay abreast of emerging technologies, tools, and methodologies in data analysis relevant to the financial services domain. Emphasis will be placed on effective communication skills, enabling participants to convey complex data findings in a clear and concise manner to stakeholders. The handbook outlines the key competencies and proficiencies essential for successful MIS data analysts in financial services. This encompasses proficiency in data visualization, database management, statistical analysis, and adherence to regulatory compliance standards.

Performance metrics are established to motivate participants to attain the necessary skills through practical application and adherence to industry best practices.

This Participant Handbook is designed based on the Qualification Pack (QP) under the National Skill Qualification framework (NSQF) and it comprises of the following National Occupational Standards (NOS)/ topics and additional topics.

1. BSC/N8108: Prepare tax compliance related document
2. BSC/N8109: Prepare and perform payroll functions
3. BSC/N8110: Prepare receipt and payment voucher
4. BSC/N8111: Understand and book Credit purchases and sales
5. BSC/N8112: Prepare Financial Statements
6. DGT/VSQ/N0102: Employability Skills (60 Hours)

Symbols Used



Key Learning Outcomes



Unit Objectives



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	Scan the QR code below to access the ebook	
		
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1. Introduction to Accounts Assistant

Unit 1.1 - Introduction to Accounts Assistant



Bridge Module

Key Learning Outcomes



By the end of this module, the participants will be able to:

1. Explain the objectives and benefits of the Skill India Mission in relation to BFSI sector and Define the role of an Accounts Assistant within the BFSI sector.
2. Describe the primary objectives of an Accounts Assistant in an organisation.
3. Identify the key duties and responsibilities performed by an Accounts Assistant.
4. Explain the essential requirements and competencies needed for the Accounts Assistant role.

UNIT 1.1: Introduction to Accounts Assistant

Unit Objectives



By the end of this unit, the participants will be able to:

1. Define the role and scope of an Accounts Assistant in the BFSI sector.
2. Describe the objectives and purpose of the Accounts Assistant role within an organisation.
3. Identify the key duties and responsibilities performed by an Accounts Assistant.
4. Explain the essential skills, qualifications, and requirements for an Accounts Assistant role.
5. Outline the importance of the Accounts Assistant in supporting financial and accounting operations.

1.1.1 Role and Scope of an Accounts Assistant

An Accounts Assistant in the BFSI sector plays a vital role in supporting day-to-day accounting and financial operations of banks, financial institutions, insurance companies, and related organisations. The primary role of an Accounts Assistant is to assist in maintaining accurate financial records, processing financial transactions, and ensuring compliance with organisational policies and regulatory requirements applicable in India.

The scope of an Accounts Assistant's work includes recording journal entries, preparing vouchers, maintaining ledgers, and assisting in the preparation of financial statements such as the trial balance, profit and loss account, and balance sheet. In the BFSI sector, the Accounts Assistant also supports activities related to customer accounts, premium or loan-related entries, reconciliation of bank statements, and tracking receivables and payables.



Fig. 1.1.1: Accounts Assistant working on maintaining financial records and invoices

Journal Entry

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
	Profit & Loss A/c To Deferred Revenue Expenditure (Being deferred revenue expenditure recorded)	Dr.	XXXX	XXXX

Dr. Cr.

Particulars	Amount(₹)	Particulars	Amount(₹)
To Deferred Revenue Expenditure	XXXX		

Balance Sheet

Liabilities	Amount(₹)	Assets	Amount(₹)
		Deferred Revenue Expenditure	XXXX

Fig. 1.1.2: Journal Entry

Accounts Assistants work closely with senior accountants, auditors, and finance managers by providing timely and accurate financial data. They help ensure adherence to accounting standards, internal controls, and statutory requirements such as tax compliance, reporting deadlines, and documentation norms. With the increasing use of accounting software and digital banking systems, the role also involves data entry, validation, and basic analysis using computerised accounting tools.

The scope of the Accounts Assistant role in the BFSI sector extends across multiple functions, including banking operations, insurance accounting, financial reporting, and audit support. The Accounts Assistant is expected to perform routine accounting tasks independently, follow established procedures, and contribute effectively to the smooth functioning of financial operations within the organisation.

1.1.2 Objectives of the Accounts Assistant Role

The primary objective of the Accounts Assistant role in the BFSI sector is to support the organisation in maintaining accurate, complete, and timely financial records. By systematically recording financial transactions, the Accounts Assistant helps ensure the reliability of accounting information used for decision-making and regulatory reporting.

Another key objective is to assist in the smooth execution of daily accounting operations such as voucher preparation, ledger maintenance, and reconciliation of accounts. This ensures that financial activities related to banking, insurance, and financial services are appropriately tracked and controlled.

The Accounts Assistant also aims to support compliance with applicable accounting standards, internal policies, and statutory requirements in India. This includes assisting in tax-related documentation, audit preparation, and adherence to regulatory guidelines issued by authorities such as RBI, SEBI, and IRDAI, as applicable to the organisation.

An essential objective of the role is to provide timely and accurate financial data to senior accounting staff and management. By organising and verifying financial information, the Accounts Assistant contributes to efficient financial analysis, reporting, and planning.

Overall, the purpose of the Accounts Assistant role is to strengthen the organisation's financial management system by ensuring consistency, accuracy, and operational efficiency in accounting and financial processes within the BFSI sector.

1.1.3 Duties and Responsibilities of an Accounts Assistant

An Accounts Assistant in the BFSI sector is responsible for supporting core accounting and financial functions that ensure accuracy, transparency, and regulatory compliance. The role involves handling routine accounting tasks, assisting senior finance personnel, and maintaining systematic financial records across banking, financial services, and insurance operations.

One of the key duties of an Accounts Assistant is to record daily financial transactions such as receipts, payments, premiums, loan disbursements, and interest entries. These transactions are entered into accounting systems or ERP software in accordance with approved accounting procedures and internal controls.

Accounts Assistants are also responsible for preparing and verifying accounting documents such as vouchers, invoices, debit and credit notes, and supporting documents. Proper documentation ensures traceability of transactions and readiness for audits and inspections.

Another important responsibility is maintaining books of accounts, including journals, cash books, bank books, and ledgers. The Accounts Assistant ensures that entries are accurate, complete, and updated regularly to reflect the organisation's financial position.

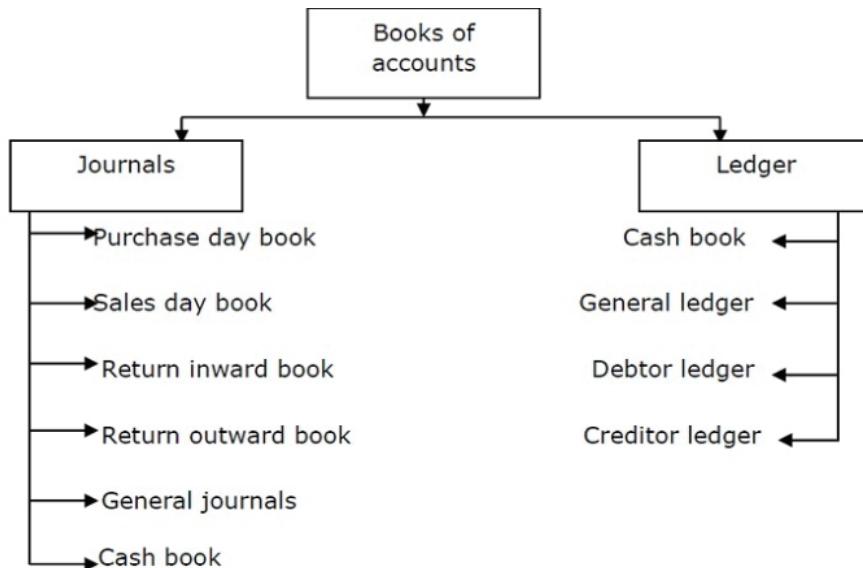


Fig. 1.1.3: Book of Accounts

In the BFSI sector, reconciliation activities form a critical part of the role. This includes bank reconciliation, customer account reconciliation, premium or loan account reconciliation, and identification of discrepancies for timely resolution.

The Accounts Assistant supports statutory and internal compliance by assisting in the preparation of tax-related records, audit schedules, and regulatory reports. This helps the organisation meet reporting deadlines and comply with applicable laws and regulatory guidelines in India.

With increasing digitisation, Accounts Assistants are expected to work with accounting software, spreadsheets, and digital record systems. They are responsible for data accuracy, secure handling of financial information, and adherence to data confidentiality norms.

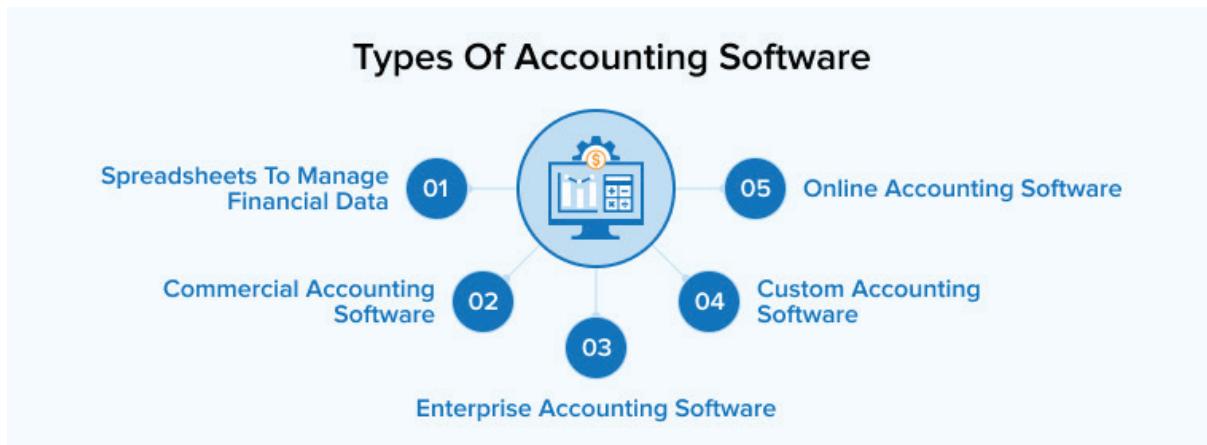


Fig. 1.1.4: Types of Accounting Software

The table below summarises the primary duties and responsibilities of an Accounts Assistant in the BFSI sector:

Area of Work	Key Duties and Responsibilities
Transaction Processing	Recording daily financial transactions accurately in accounting systems

Area of Work	Key Duties and Responsibilities
Documentation	Preparing, verifying, and maintaining vouchers, invoices, and supporting records
Bookkeeping	Maintaining journals, ledgers, cash book, and bank book
Reconciliation	Performing bank and account reconciliations and resolving discrepancies
Compliance Support	Assisting in audits, tax documentation, and regulatory reporting
Digital Accounting	Using accounting software and ensuring data accuracy and confidentiality

Table 1.1.1: Major duties and responsibilities of an Accounts Assistant

Overall, the Accounts Assistant plays a crucial role in ensuring efficient financial operations, reliable financial information, and compliance within the BFSI sector. By performing these duties diligently, the Accounts Assistant contributes to organisational stability and effective financial management.

1.1.4 Skills, Qualifications, and Job Requirements

An Accounts Assistant in the BFSI sector is expected to possess a combination of formal qualifications, technical skills, and personal competencies to perform accounting and financial tasks effectively.

Qualifications Required	Technical Skills Required	Personal Skills and Competencies Required	Job Requirements
<ul style="list-style-type: none"> A minimum of a higher secondary education (12th standard) in Commerce or equivalent is generally required. A Bachelor's degree in Commerce, Accounting, or Finance is preferred for enhanced career opportunities. 	<ul style="list-style-type: none"> Proficiency in basic accounting principles, including double-entry bookkeeping, ledger maintenance, and journal entries. Knowledge of banking operations, insurance accounting, and financial regulations relevant to the BFSI sector in India. Ability to prepare vouchers, reconcile accounts, and generate financial reports accurately. 	<ul style="list-style-type: none"> Attention to detail to ensure accurate recording and processing of financial transactions. Analytical skills to identify discrepancies and assist in problem-solving during reconciliations. Time management to meet deadlines for reporting, audits, and compliance tasks. Communication skills to interact with team members, senior accountants, and other departments effectively. 	<ul style="list-style-type: none"> Ability to work under supervision while taking responsibility for routine accounting tasks. Commitment to follow organisational policies, accounting standards, and regulatory requirements.

Qualifications Required	Technical Skills Required	Personal Skills and Competencies Required	Job Requirements
<ul style="list-style-type: none"> Certifications in accounting software, bookkeeping, or financial management (e.g., Tally, SAP, or other ERP systems) are advantageous. 	<ul style="list-style-type: none"> Familiarity with accounting software and digital tools, including spreadsheets, ERP systems, and data entry applications. 	<ul style="list-style-type: none"> Integrity and confidentiality to handle sensitive financial information responsibly. 	<ul style="list-style-type: none"> Adaptability to learn new digital tools, software updates, and changes in accounting processes.

Table 1.1.2: Skills, Qualifications, and Job Requirements

Overall, an Accounts Assistant in the BFSI sector in India must combine formal education, technical accounting skills, and personal competencies to ensure accurate, timely, and compliant financial operations within the organisation.

1.1.5 Importance of Accounts Assistant in Accounting Operations

The Accounts Assistant plays a crucial role in ensuring smooth, accurate, and efficient financial and accounting operations within banks, insurance companies, and other financial institutions in India. Their contribution supports the foundation of the organisation's financial management system.

One of the primary importance of the Accounts Assistant is accuracy in financial record-keeping. By recording daily transactions, maintaining ledgers, and preparing vouchers, they ensure that all financial data is complete, up-to-date, and reliable for decision-making.



Fig. 1.1.5: Financial Record Keeping

Accounts Assistants also support regulatory compliance by helping prepare documents for audits, tax submissions, and statutory reports. Their work ensures the organisation meets the requirements of regulatory authorities such as RBI, SEBI, and IRDAI, reducing risks of non-compliance or financial penalties.

Another key aspect is operational efficiency. By handling routine accounting tasks, reconciling accounts, and assisting senior accountants, the Accounts Assistant enables smooth workflow in financial operations. This allows senior staff to focus on analysis, strategic planning, and complex financial decision-making.

Accounts Assistants also contribute to transparency and accountability. Accurate bookkeeping and documentation facilitate internal controls, enable easy verification of transactions, and support error detection. This is especially important in the BFSI sector, where handling large volumes of transactions and sensitive financial data is common.

Furthermore, the role aids in timely reporting and decision support. By ensuring that financial information is recorded and organised systematically, Accounts Assistants provide management with the data needed for budgeting, forecasting, and operational planning.

The Accounts Assistant is vital for the accuracy, compliance, efficiency, and transparency of accounting operations in the BFSI sector in India. Their work forms the backbone of financial management, enabling organisations to operate effectively while adhering to regulatory and professional standards.

Summary



- Accounts Assistant supports accurate financial record-keeping in banks, insurance, and financial institutions.
- The role ensures the smooth execution of daily accounting operations, including vouchers, ledgers, and reconciliations.
- Key duties include transaction recording, documentation, bookkeeping, and account reconciliation.
- Compliance with statutory requirements and regulatory guidelines is maintained through proper financial support.
- Skills required include accounting knowledge, software proficiency, analytical ability, and attention to detail.
- Qualifications typically include a Commerce background and familiarity with accounting software.
- The role contributes to operational efficiency by assisting senior accountants and finance teams.
- Timely and accurate financial data enables effective reporting, budgeting, and decision-making.
- Integrity, confidentiality, and adherence to internal controls are essential for the role.
- The Accounts Assistant ensures transparency, accuracy, and reliability in financial and accounting operations.

Exercise

Multiple-choice Question:

1. What is the primary role of an Accounts Assistant in the BFSI sector?
 - a. Managing company investments
 - b. Supporting accurate financial record-keeping
 - c. Approving loans independently
 - d. Conducting market research

2. Which of the following is a key duty of an Accounts Assistant?
 - a. Preparing marketing strategies
 - b. Performing account reconciliations
 - c. Hiring new employees
 - d. Setting organisational policies

3. Which qualification is generally preferred for an Accounts Assistant role?
 - a. Engineering degree
 - b. Bachelor's degree in Commerce or Finance
 - c. Medical degree
 - d. Law degree

4. Which skill is essential for an Accounts Assistant?
 - a. Creative writing
 - b. Accounting software proficiency
 - c. Sales and negotiation
 - d. Graphic designing

5. How does an Accounts Assistant contribute to organisational compliance?
 - a. By managing customer relationships
 - b. By assisting in audit and regulatory documentation
 - c. By designing company policies
 - d. By conducting market surveys

Descriptive Questions

1. Explain the role and scope of an Accounts Assistant in the BFSI sector in India.
2. Describe the objectives and purpose of the Accounts Assistant role within an organisation.
3. List and explain the key duties and responsibilities of an Accounts Assistant.
4. Discuss the essential skills, qualifications, and job requirements for an Accounts Assistant.
5. Outline the importance of an Accounts Assistant in supporting financial and accounting operations.

Notes



Scan the QR codes or click on the link to watch the related videos



<https://www.youtube.com/watch?v=fm1GA00fWic>

Accounting assistant roles and responsibilities



<https://www.youtube.com/watch?v=MuzKpajM94Y>

Job description of Accounting Assistant - Roles, Responsibilities & Skills



2. Financial Accounting and Reporting



Unit 2.1 - Fundamentals of Accounting and Financial Statements

Unit 2.2 - Advanced Financial Reporting and Analysis



**BSC/N8110, BSC/N8111
& BSC/N8112**

Key Learning Outcomes



By the end of this module, the participants will be able to:

1. Define basic accounting concepts, terminologies, and principles used in financial reporting.
2. Explain the process and purpose of bookkeeping for accurate record maintenance.
3. Identify and describe the elements of financial statements, including assets, liabilities, income, and expenses.
4. Prepare and interpret bank reconciliation statements to ensure accuracy of cash records.
5. Construct and analyse trial balances to verify ledger accuracy.
6. Prepare trading accounts, profit and loss accounts, and income statements for financial assessment.
7. Develop balance sheets and equity statements to represent organisational financial position.
8. Prepare and analyse cash flow and fund flow statements for understanding financial movement.
9. Calculate and interpret financial ratios to assess organisational performance.
10. Utilise practical tools to prepare receipts, payments, income and expenditure accounts, and other financial statements.

UNIT 2.1: Fundamentals of Accounting and Financial Statements

Unit Objectives

By the end of this unit, the participants will be able to:

1. Define basic accounting concepts, principles, and terminologies.
2. Explain the process and purpose of bookkeeping.
3. Identify and describe the elements of financial statements.
4. Prepare and interpret bank reconciliation statements.
5. Construct and analyse trial balances.
6. Prepare trading accounts, profit and loss accounts, and income statements.

2.1.1 Basic Accounting Concepts, Principles, and Terminologies

Basic accounting concepts, principles, and terminologies form the foundation of financial accounting and reporting in the BFSI sector. These fundamentals ensure uniformity, accuracy, and reliability in recording and presenting financial information across banks, financial institutions, and insurance companies in India.

1. Basic Accounting Concepts

Accounting concepts are the basic assumptions on which the accounting process is based. They guide how financial transactions are recorded and interpreted.

Accounting Concept	Explanation
Business Entity Concept	The business is treated as separate from its owner, and only business transactions are recorded.
Money Measurement Concept	Only transactions that can be expressed in monetary terms are recorded in accounts.
Going Concern Concept	The organisation is assumed to continue its operations in the foreseeable future.
Accounting Period Concept	Financial performance is measured for a specific period, such as a month, quarter, or year.
Cost Concept	Assets are recorded at their original purchase cost, not at market value.
Dual Aspect Concept	Every transaction affects at least two accounts, maintaining the accounting balance.

Table 2.1.1: Basic Accounting Concepts

These concepts are critical in the BFSI sector due to high transaction volumes, regulatory scrutiny, and the need for standardised reporting.

2. Accounting Principles

Accounting principles are rules that ensure consistency and comparability in financial statements.

Accounting Principle	Explanation
Consistency Principle	The same accounting methods are used from period to period.
Prudence Principle	Expected losses are recorded, but expected profits are not anticipated.
Matching Principle	Expenses are matched with the revenues they help generate.
Revenue Recognition Principle	Revenue is recorded when it is earned, not when cash is received.
Full Disclosure Principle	All material financial information is disclosed in financial statements.

Table 2.1.2: Accounting Principles

In the BFSI sector, these principles help maintain transparency, investor confidence, and regulatory compliance.

3. Accounting Terminologies

Accounting terminologies are commonly used words and phrases that describe financial activities and positions.

Terminology	Meaning
Assets	Resources owned by the organisation that provide future economic benefits.
Liabilities	Obligations payable to outsiders.
Capital	Owner's interest in the business.
Income	Inflows that increase economic benefits, such as interest or premium income.
Expenses	Costs incurred to earn income.
Debit	The left side of an account usually represents an increase in assets or expenses.
Credit	The right side of an account usually represents an increase in liabilities or income.
Journal	Book of original entry where transactions are first recorded.
Ledger	A book containing classified and summarised accounts.
Voucher	Document supporting a financial transaction.

Fig 2.1.3: Accounting Terminologies

In the BFSI sector, a clear understanding of these terms is essential for handling banking transactions, insurance premiums, loan accounts, investments, and regulatory reporting.

Overall, basic accounting concepts, principles, and terminologies provide a structured framework for financial accounting in the BFSI sector. They ensure that financial records are accurate, consistent, comparable, and compliant with professional and regulatory standards in India.

2.1.2 Bookkeeping Process and Purpose

Bookkeeping is the systematic process of identifying, recording, classifying, and summarising financial transactions of an organisation. In the BFSI sector, effective bookkeeping is essential due to the large volume of financial transactions, strict regulatory requirements, and the need for accurate financial reporting. While bookkeeping is the day-to-day recording and organising of financial transactions, accounting involves analysing, interpreting, and reporting on financial data to provide strategic business insights.

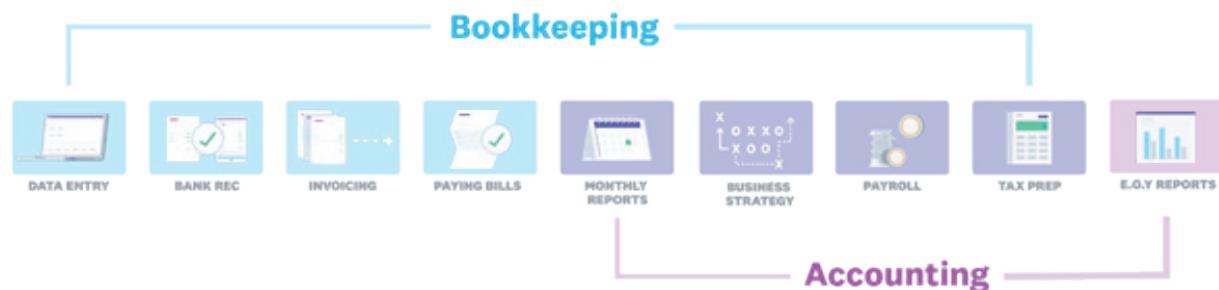


Fig. 2.1.1: Bookkeeping vs Accounting

1. Purpose of Bookkeeping

The primary purpose of bookkeeping is to maintain a complete and accurate record of all financial transactions. It provides reliable financial data that supports the preparation of financial statements, audit processes, and regulatory reporting. In the BFSI sector, bookkeeping helps track customer deposits, loan disbursements, insurance premiums, claims, investments, and operating expenses. Bookkeeping also ensures accountability and transparency by maintaining proper documentation and audit trails. It supports compliance with accounting standards, tax laws, and regulatory guidelines issued by authorities in India. Additionally, accurate bookkeeping assists management in monitoring financial performance and making informed decisions.

2. Bookkeeping Process

The bookkeeping process follows a logical sequence of steps to ensure accuracy and consistency in financial records.

Step 1: Identification of Transactions

- Recognising financial transactions related to banking, insurance, and financial services activities.

Step 2: Documentation

- Collecting and verifying source documents such as vouchers, invoices, receipts, and payment records.

Step 3: Journal Entry

- Recording transactions chronologically in the journal using the double-entry system.

Step 4: Posting to Ledger

- Transferring journal entries to individual ledger accounts for classification.

Step 5: Balancing of Accounts

- Totalling and balancing ledger accounts to determine account positions.

Step 6: Preparation of Trial Balance

- Summarising ledger balances to check arithmetical accuracy.

Fig. 2.1.2: Steps in the Bookkeeping Process

In the BFSI sector, most bookkeeping activities are performed using computerised accounting systems and core banking or insurance software. These systems improve accuracy, speed, and data security while maintaining compliance with regulatory norms.

Overall, bookkeeping serves as the foundation of financial accounting in the BFSI sector. A well-structured bookkeeping process ensures accurate financial records, supports statutory compliance, and enables efficient preparation of financial statements for banks, financial institutions, and insurance companies in India.

2.1.3 Elements of Financial Statements

Financial statements present the financial performance and financial position of an organisation in a structured manner. In the BFSI sector, financial statements are essential for regulatory compliance, performance evaluation, and informed decision-making. The main elements of financial statements represent the basic components used to measure and report financial activities.

1. Elements Related to Financial Position

These elements appear in the balance sheet and reflect the financial position of banks, financial institutions, and insurance companies.

Element	Description
Assets	Resources controlled by the organisation as a result of past events that provide future economic benefits, such as cash, loans, investments, and receivables.
Liabilities	Present obligations arising from past transactions that result in outflow of economic resources, such as customer deposits, borrowings, claims payable, and outstanding expenses.
Equity	The residual interest in the assets after deducting liabilities, representing shareholders' or owners' funds.

Table 2.1.4: Elements Related to Financial Position

In the BFSI sector, assets commonly include loans and advances, investments, cash balances, and fixed assets, while liabilities mainly consist of deposits, policy liabilities, borrowings, and payables.

2. Elements Related to Financial Performance

These elements are reflected in the income statement and measure operational performance over a period.

Element	Description
Income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets, such as interest income, premium income, and service fees.
Expenses	Decreases in economic benefits resulting from outflows or consumption of assets, such as interest expense, claim payments, employee costs, and operating expenses.

Table 2.1.5: Elements Related to Financial Performance

Income and expenses determine the profit or surplus earned by BFSI organisations during a financial period.

3. Other Important Elements

Element	Description
Gains	Increases in economic benefits arising from activities other than core operations, such as the sale of investments.
Losses	Decreases in economic benefits resulting from non-operating activities or adverse events.

Table 2.1.6: Other Important Elements

Understanding these elements enables Accounts Assistants to correctly classify transactions, prepare accurate financial statements, and support regulatory reporting. In the BFSI sector in India, proper identification and measurement of financial statement elements ensure transparency, consistency, and compliance with accounting standards and regulatory requirements.

2.1.4 Bank Reconciliation Statement

A Bank Reconciliation Statement is a statement prepared to reconcile the balance as per the cash book with the balance as per the bank statement on a particular date. In the BFSI sector, bank reconciliation is essential to ensure the accuracy of cash and bank records due to the high volume of transactions handled by banks, financial institutions, and insurance companies.

Bank Reconciliation Statement of ABC Bank as on 31st December 2021		
Particulars	Plus (₹)	Minus (₹)
Dr Balance (Favourable Balance) as per Cash Book	8,400	—
Add:		
1. Cheque issued or drawn but not yet presented for payment	4,000	—
2. Interest allowed by the bank not recorded in the Cash Book	500	—
3. Amount directly deposited by the customers in our Bank Account	2,000	—
Less:		
1. Cheque sent to the bank for collection, but not yet credited by the bank	—	6,400
2. Bank charges not entered in the Cash Book	—	200
3. Amount paid by the bank on standing instruction:		
(i) Life Insurance Premium	—	1,200
(ii) Club Fees	—	1,000
Total	14,900	8,800
Cr. Balance (Favourable Balance) as per Pass Book		6,100
Grand Total	14,900	14,900

Table 2.1.6: A sample Reconciliation Statement

1. Purpose of Bank Reconciliation Statement

The primary purpose of preparing a bank reconciliation statement is to identify and explain differences between the cash book balance and the bank statement balance. These differences usually arise due to timing differences, errors, or transactions recorded by one party but not yet by the other.

In the BFSI sector, bank reconciliation helps detect errors, prevent fraud, ensure proper cash management, and maintain reliable financial records. It also supports audit processes and strengthens internal control systems.

2. Causes of the Difference Between Cash Book and Bank Statement

Reason	Explanation
Cheques Issued but Not Presented	Cheques issued by the organisation but not yet presented for payment.
Cheques Deposited but Not Collected	Cheques deposited but not yet cleared by the bank.
Bank Charges	Charges debited by the bank but not yet recorded in the cash book.
Direct Credits by Bank	Interest, dividends, or customer payments are credited directly by the bank.
Standing Instructions	Automatic payments such as EMIs, premiums, or utility payments.
Errors	Mistakes in recording transactions in the cash book or bank statement.

Table 2.1.7: Causes of Difference Between Cash Book and Bank Statement

Preparation of Bank Reconciliation Statement

A bank reconciliation statement can be prepared starting with either the cash book balance or the bank statement balance. Adjustments are made by adding or subtracting the items causing differences to arrive at the correct balance.

Particulars	Treatment
Cheques issued but not presented.	Added or deducted depending on the starting balance
Cheques deposited but not collected.	Added or deducted depending on the starting balance
Bank charges and interest	Adjusted to reflect the actual bank balance
Direct credits and debits	Recorded and adjusted in reconciliation

Table 2.1.8: Preparation of Bank Reconciliation Statement

3. Interpretation of Bank Reconciliation Statement

Interpreting a bank reconciliation statement involves understanding the reasons for differences and confirming that the reconciled balance is accurate. A properly prepared reconciliation indicates that the organisation's cash records are reliable and free from material errors.

In the BFSI sector in India, regular preparation and interpretation of bank reconciliation statements help ensure effective cash control, timely error correction, and compliance with internal and external audit requirements.

2.1.5 Trial Balance Preparation and Analysis

A trial balance is a statement that lists all ledger account balances of an organisation at a particular point in time. In the BFSI sector, the trial balance plays a critical role in verifying the arithmetical accuracy of accounting records and forms the basis for preparing financial statements.

TRIAL BALANCE [COMPANY NAME]			
As of [DATE] – All Accounts			
Account	Account #	Debit Amount (₹)	Credit Amount (₹)
Cash	110-001	35,400	—
Accounts Receivable	130-001	10,800	—
Accounts Payable	210-001	—	12,780
Dividends Payable	270-001	—	2,500
Common Stock	310-002	—	11,000
Retained Earnings	330-001	—	8,000
Revenues	400-001	—	29,700
Cost of Goods Sold	410-001	14,080	—
Rent Expense	510-001	3,700	—
Totals		63,980	63,980

Table 2.1.9: A sample Trial Balance

1. Meaning and Purpose of Trial Balance

The primary purpose of a trial balance is to ensure that the total of debit balances equals the total of credit balances, in accordance with the double-entry system of accounting. In the BFSI sector, where large volumes of financial transactions occur daily, the trial balance helps in early detection of errors and ensures the reliability of accounting data. A trial balance also provides a summarised view of all ledger accounts, which supports the preparation of trading accounts, profit and loss accounts, balance sheets, and other financial reports.

2. Preparation of Trial Balance

The trial balance is prepared after balancing all ledger accounts. Each account's closing balance is identified and classified as either a debit or a credit balance.

Step 1: Balancing Ledger Accounts:

Totalling the debit and credit sides of each ledger account to find the balance.

Step 2: Listing Account Balances:

Recording all debit balances in the debit column and credit balances in the credit column.

Step 3: Totalling Columns:

Adding total debits and total credits separately.

Step 4: Agreement of Totals:

Ensuring that total debits equal total credits.

In the BFSI sector, trial balances are usually generated through computerised accounting systems and core banking software, which enhance accuracy and efficiency.

3. Analysis of Trial Balance

Analysis of the trial balance involves reviewing account balances to identify unusual, incorrect, or abnormal figures. This helps in detecting errors such as incorrect posting, omission of entries, or wrong balancing of accounts. However, agreement of the trial balance does not guarantee complete accuracy, as specific errors like compensating errors or errors of principle may still exist. Therefore, further checks and reconciliations are required.

In the BFSI sector in India, proper preparation and analysis of the trial balance ensure dependable financial data, support audit requirements, and enable accurate preparation of financial statements in compliance with regulatory standards.

2.1.6 Trading, Profit and Loss, and Income Statements

Trading, Profit and Loss, and Income Statements are financial statements used to measure the financial performance of an organisation over a specific accounting period. In the BFSI sector, these statements help assess operational efficiency, profitability, and financial sustainability of banks, financial institutions, and insurance companies.

1. Trading Account

A trading account is prepared to determine the gross result of core operating activities. In the BFSI sector, the trading account focuses on income generated from primary financial operations and the direct costs associated with them.

Components	Description
Direct Income	Interest earned on loans and advances, investment income, and premium income.
Direct Expenses	Interest paid on deposits, cost of funds, and direct operational costs.
Gross Result	Difference between direct income and direct expenses, showing gross profit or gross loss.

Table 2.1.10: Components of Trading Account

The trading account reflects the efficiency of core financial operations.

2. Profit and Loss Account

The profit and loss account is prepared after the trading account to determine net profit or net loss. It includes indirect income and indirect expenses related to administrative and operational activities.

Components	Description
Indirect Income	Commission income, service charges, and recovery of bad debts.
Indirect Expenses	Salaries, rent, administrative expenses, depreciation.
Net Result	Net profit or net loss after accounting for all indirect items.

Table 2.1.11: Components of Profit and Loss Account

In the BFSI sector, the profit and loss account provides insights into overall profitability and cost management.

3. Income Statement

The income statement is a comprehensive financial statement that presents the organisation's income and expenses in a structured format for a specific period. It combines elements of trading and profit and loss accounts and is commonly used in modern financial reporting.

Purpose	Description
Performance Measurement	Evaluates financial performance over the accounting period.
Decision Support	Assists management in planning, budgeting, and control.
Regulatory Reporting	Supports compliance with accounting standards and regulatory requirements.

Table 2.1.12: Components of Income Statement

In the BFSI sector in India, preparation of trading, profit and loss, and income statements ensures accurate performance evaluation, transparency, and compliance with statutory and regulatory frameworks.

UNIT 2.2: Advanced Financial Reporting and Analysis

Unit Objectives



By the end of this unit, the participants will be able to:

1. Develop balance sheets and equity statements.
2. Prepare and analyse cash flow and fund flow statements.
3. Calculate and interpret financial ratios for performance assessment.
4. Utilise online practical tools to prepare receipts, payments, income and expenditure accounts, and other financial statements.

2.2.1 Balance Sheet and Equity Statement Preparation

The balance sheet and equity statement present the financial position of an organisation at a specific point in time. In the BFSI sector, these statements are essential for assessing financial stability, solvency, and compliance with regulatory requirements.

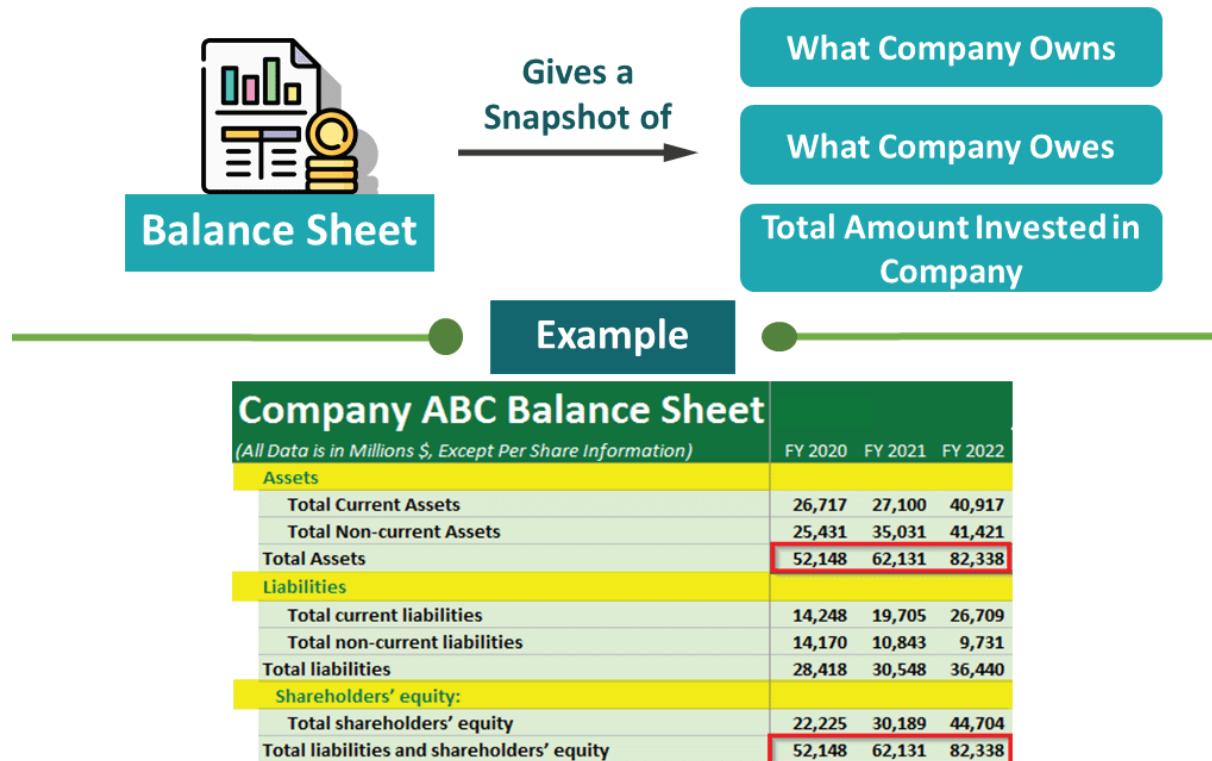


Fig. 2.2.1: Balance Sheet

1. Balance Sheet

A balance sheet shows the assets, liabilities, and equity of an organisation in a structured format based on the accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

In the BFSI sector, balance sheets are prepared in accordance with applicable accounting standards and regulatory guidelines.

- **Assets:** Cash and bank balances, loans and advances, investments, receivables, and fixed assets.
- **Liabilities:** Customer deposits, borrowings, policy liabilities, payables, and provisions.
- **Equity:** Share capital, reserves, surplus, and retained earnings.

The balance sheet helps stakeholders evaluate the liquidity, financial strength, and risk exposure of banks, financial institutions, and insurance companies.

2. Equity Statement

The equity statement explains changes in owners' or shareholders' equity during an accounting period. It reflects how profits, losses, and other adjustments affect equity.

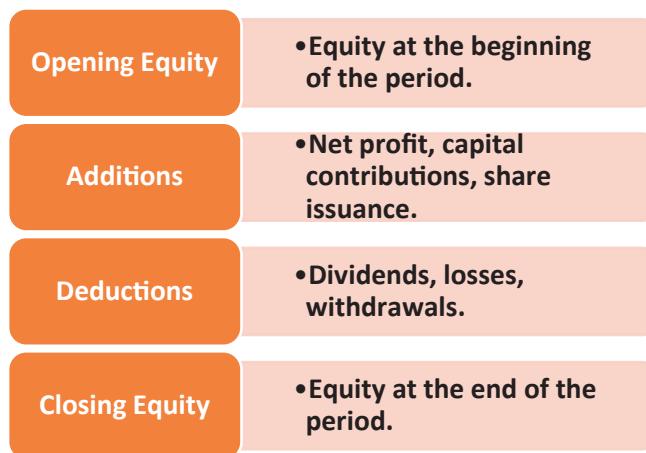


Fig. 2.2.2: Elements of Equity Statements and their Description

In the BFSI sector, equity statements are important for tracking capital adequacy, retained earnings, and investor interests.

Overall, the preparation of balance sheets and equity statements ensures accurate presentation of financial position, supports regulatory reporting, and enables informed decision-making in the BFSI sector in India.

2.2.2 Cash Flow and Fund Flow Statements

Cash flow and fund flow statements are important financial tools used to analyse the movement of cash and funds within an organisation over a specific period. In the BFSI sector, these statements help assess liquidity, financial flexibility, and overall financial management.

1. Cash Flow Statement

A cash flow statement shows the inflows and outflows of cash and cash equivalents during an accounting period. It helps understand how an organisation generates and uses cash in operating, investing, and financing activities. The major components of the cash flow statement are discussed below.

- **Operating Activities:** Cash generated from core business operations such as interest received, premium collections, and payments to employees and suppliers.

- **Investing Activities:** Cash used for or generated from the purchase and sale of investments, fixed assets, and securities.
- **Financing Activities:** Cash inflows and outflows related to borrowings, repayment of loans, issue of shares, and dividend payments.

Preparation of the cash flow statement is usually based on information derived from the income statement and balance sheet. In the BFSI sector, it supports liquidity management and compliance with regulatory requirements.

Sample Cash Flow Statement

Cash Flow Statement of the Company ABC for the Year Ended 31 March 2024	
Particulars	Amount (₹)
Cash Flow from Operating Activities	
Net Profit as per Income Statement	1,20,000
Add: Depreciation	20,000
Add: Increase in Outstanding Expenses	10,000
Less: Increase in Receivables	(15,000)
Net Cash from Operating Activities (A)	1,35,000
Cash Flow from Investing Activities	
Purchase of Fixed Assets	(50,000)
Sale of Investments	30,000
Net Cash from Investing Activities (B)	(20,000)
Cash Flow from Financing Activities	
Issue of Share Capital	40,000
Repayment of Long-term Loan	(25,000)
Dividend Paid	(10,000)
Net Cash from Financing Activities (C)	5,000
Net Increase in Cash (A + B + C)	1,20,000
Opening Cash Balance	80,000
Closing Cash Balance	2,00,000

Table 2.2.1: Sample Cash Flow Statement

2. Fund Flow Statement

A fund flow statement shows changes in the financial position of an organisation by analysing the movement of working capital between two balance sheet dates. It focuses on long-term sources and uses of funds rather than immediate cash movements. The major components of the fund flow statement are discussed below.

- Sources of Funds:** Funds generated from operations, issue of shares, long-term borrowings, and sale of fixed assets.
- Uses of Funds:** Purchase of fixed assets, repayment of long-term liabilities, payment of dividends.
- Working Capital:** The Difference between current assets and current liabilities, showing fund movement.

The fund flow statement helps in understanding how financial resources are managed and allocated over time.

Sample Fund Flow Statement

- Fund Flow Statement for the Year Ended 31 March 2024**

Particulars	Previous Year (₹)	Current Year (₹)	Increase (₹)	Decrease (₹)
Current Assets	2,50,000	3,00,000	50,000	–
Current Liabilities	1,50,000	1,80,000	–	30,000
Working Capital	1,00,000	1,20,000	20,000	–

Table 2.2.2: Schedule of Changes in Working Capital

- Fund Flow Statement**

Sources of Funds	Amount (₹)
Funds from Operations	1,10,000
Issue of Share Capital	40,000
Sale of Fixed Assets	30,000
Total Sources	1,80,000

Table 2.2.3: Sources of Funds

Uses of Funds	Amount (₹)
Purchase of Fixed Assets	70,000
Repayment of Long-term Loan	30,000
Dividend Paid	20,000
Increase in Working Capital	20,000
Total Uses	1,40,000

Table 2.2.4: Uses of Funds

3. Analysis and Importance

In the BFSI sector in India, cash flow statements ensure effective cash management and help assess the organisation's ability to meet short-term obligations. Fund flow statements provide insights into long-term financial planning and stability.

Together, these statements support financial analysis, internal control, and informed decision-making, enabling BFSI organisations to maintain liquidity, solvency, and sustainable growth.

2.2.3 Financial Ratio Calculation and Interpretation

Financial ratio analysis is a technique used to evaluate the financial performance, stability, and efficiency of an organisation by establishing relationships between different items in financial statements. In the BFSI sector, ratio analysis is widely used to assess liquidity, profitability, solvency, and operational efficiency of banks, financial institutions, and insurance companies.

1. Importance of Ratio Analysis

Ratio analysis helps management, investors, regulators, and analysts understand the financial health of an organisation. In the BFSI sector, it supports performance assessment, risk evaluation, regulatory compliance, and comparison across periods or institutions.



Fig. 2.2.3: Financial Ratios

2. Types of Financial Ratios

Category	Ratio	Formula	Interpretation
Liquidity Ratios	Current Ratio	Current Assets / Current Liabilities	Measures the ability to meet short-term obligations.

Category	Ratio	Formula	Interpretation
Liquidity Ratios	Quick Ratio	$(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$	Indicates immediate liquidity position.
Profitability Ratios	Net Profit Ratio	$\text{Net Profit} / \text{Revenue}$	Shows efficiency in generating profit.
Profitability Ratios	Return on Assets	$\text{Net Profit} / \text{Total Assets}$	Evaluates efficiency in using assets.
Solvency Ratios	Debt–Equity Ratio	$\text{Total Debt} / \text{Equity}$	Indicates long-term financial stability.
Efficiency Ratios	Asset Turnover Ratio	$\text{Revenue} / \text{Total Assets}$	Measures the effectiveness of asset utilisation.

Table 2.2.4: Types of Financial Ratios

3. Calculation of Financial Ratios

Financial ratios are calculated using figures from the income statement and balance sheet. Accurate calculation depends on reliable financial data prepared through proper bookkeeping and accounting procedures. In the BFSI sector, ratio calculations are often supported by accounting software and financial analysis tools to ensure accuracy and consistency.

4. Interpretation of Financial Ratios

Interpreting financial ratios involves analysing the results to assess strengths, weaknesses, and trends in performance. A single ratio does not provide complete insight; therefore, ratios are compared with previous periods, industry standards, or regulatory benchmarks. In the BFSI sector in India, ratio interpretation helps evaluate liquidity position, profitability levels, risk exposure, and overall financial performance. Proper ratio analysis supports informed decision-making, effective financial control, and sustainable growth of financial institutions.

2.2.4 Practical Tools for Receipts, Payments, and Income & Expenditure Accounts

The use of online practical tools has become an integral part of accounting and financial reporting in the BFSI sector. These tools help Accounts Assistants prepare financial statements accurately, efficiently, and in compliance with accounting standards and regulatory requirements. Online accounting tools simulate real-world accounting environments and enhance practical understanding of financial processes.

Online tools for managing receipts, payments, and income & expenditure accounts range from full-featured accounting software for businesses to dedicated personal finance and expense tracking apps. Key functionalities often include automated data entry, bank synchronisation, and real-time reporting. These tools offer comprehensive solutions that manage everything from invoicing to tax preparation.

These include:

- **QuickBooks Online:** A popular, comprehensive accounting software that tracks income and expenses, manages invoices and payroll, and facilitates tax reporting. It features a mobile app for snapping photos of receipts, which are then automatically matched to transactions.

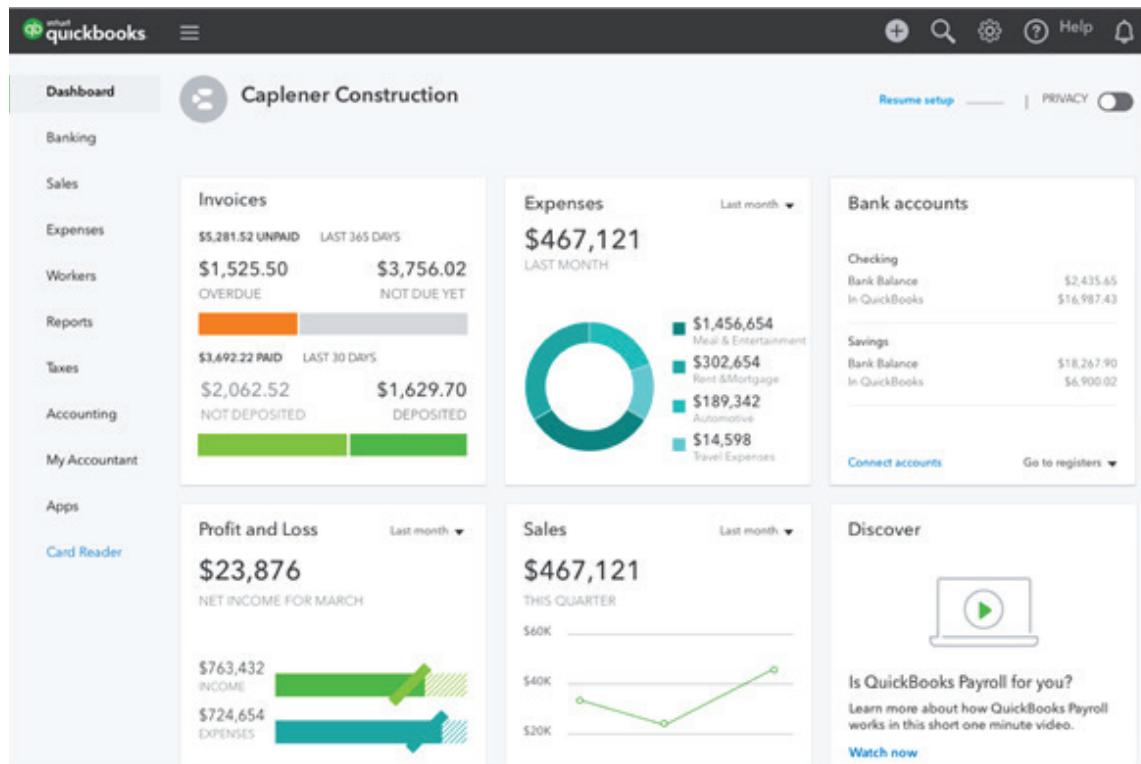
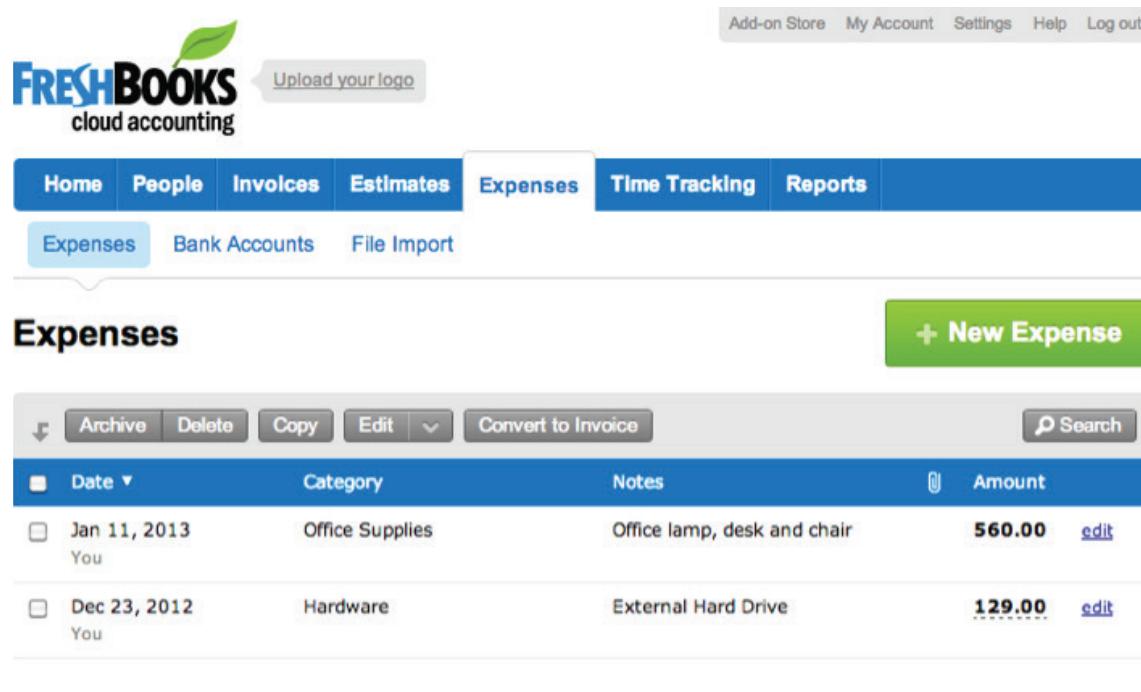


Fig. 2.2.4: Example of a QuickBooks Online Dashboard

- **FreshBooks:** Specifically designed for freelancers and service-based businesses, FreshBooks excels in invoicing, expense tracking, and time tracking. Its user-friendly interface simplifies the process of organising expenses for tax season.



<input type="checkbox"/> Nov 03, 2012	Repairs	Computer reboot	526.60	edit
You				
Credit Card				
<input type="checkbox"/> Nov 03, 2012	Repairs	Car brakes and transmission fix	1,311.61	edit

Fig. 2.2.5: Example of a FreshBooks Dashboard

- **Xero:** Offers strong features for bank reconciliation, real-time financial reporting, and multi-currency transactions. It integrates with various third-party apps, including Hubdoc and Dext for enhanced receipt management.

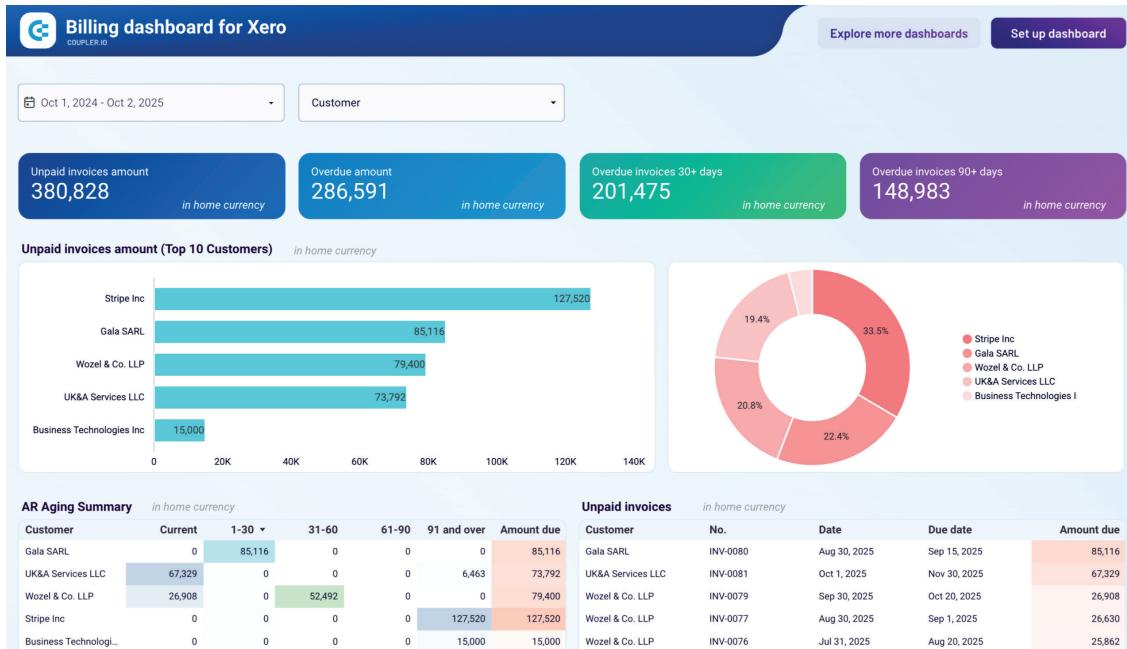


Fig. 2.2.6: Billing Dashboard for Xero

- **Zoho Books/Zoho Expense:** Zoho Books is a complete accounting platform with a free plan for eligible small businesses, while the linked Zoho Expense app is excellent for managing travel and business expenses with automated receipt scanning and approval workflows.

All Expenses	+ New	Page Tips
All		
Unbilled		
Invoiced		
Reimbursed		
Billable		
Non-Billable		
With Receipts		
Without Receipts		
From Zoho Expense		

<input type="checkbox"/> 02.02.2017	Travel Expense	Employee Reimbursements	NON-BILLABLE	\$100.00
<input type="checkbox"/> 02.07.2017	Fuel/Mileage Expenses	Employee Reimbursements	NON-BILLABLE	\$15.00
<input type="checkbox"/> 02.06.2017	Employee Reimbursement	Cash account	NON-BILLABLE	\$32.55
<input type="checkbox"/> 02.05.2017	Travel Expense	Wells Fargo Bank Bowman Furnitures	UNBILLED	\$500.00
<input type="checkbox"/> 02.04.2017	Rent Expense	HSBC Savings	NON-BILLABLE	\$7,500.00
<input type="checkbox"/> 02.02.2017	Fuel/Mileage Expenses 	Employee Reimbursements	NON-BILLABLE	\$73.92
<input type="checkbox"/> 02.01.2017	Travel Expense	Employee Reimbursements	NON-BILLABLE	\$120.00

Fig. 2.2.7: Zoho Books/Zoho Expense

- **Wave:** A robust option for microbusinesses and freelancers, offering genuinely free core accounting, invoicing, and expense tracking features. It allows users to scan receipts and import bank transactions automatically.

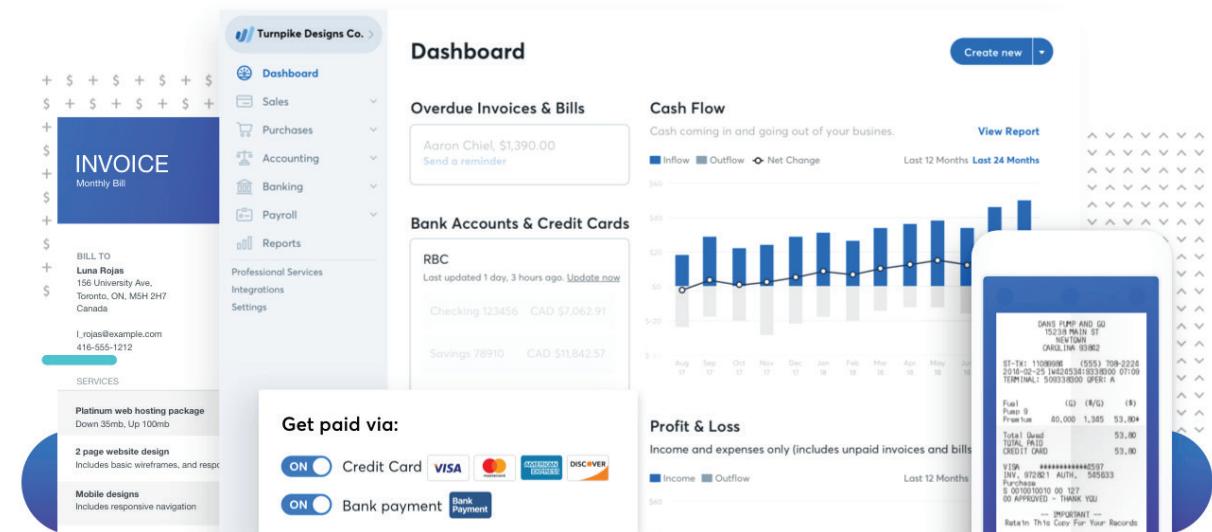


Fig. 2.2.8: Wave Dashboard

1. Use of Online Practical Tools in the BFSI Sector

Online practical tools include accounting software, cloud-based accounting platforms, ERP systems, and virtual accounting simulators. These tools enable systematic recording, processing, and reporting of financial transactions related to banking, insurance, and financial services.

Accounts Assistants use these tools to enter transactions, generate reports, validate calculations, and maintain digital financial records. This reduces manual errors, improves efficiency, and ensures data security.

2. Preparation of Receipts and Payments Accounts

Receipts and payments accounts summarise cash and bank transactions during a specific period. Using online practical tools, Accounts Assistants can:

- Record all cash receipts, such as fees, interest income, premiums, and other inflows
- Record payments such as salaries, administrative expenses, loan repayments, and operational costs
- Automatically classify transactions under receipts and payments
- Generate receipts and payments statements in standardised formats

These tools help track cash movement and support effective cash management.

3. Preparation of Income and Expenditure Statements

Income and expenditure statements show surplus or deficit for a period and are prepared on an accrual basis. Online practical tools assist in:

- Adjusting incomes and expenses for outstanding and prepaid items
- Classifying revenue and capital items correctly
- Automatically calculating surplus or deficit
- Generating structured income and expenditure statements

This supports accurate assessment of operational performance in BFSI organisations.

4. Preparation of Balance Sheet Using Online Practical Tools

Online accounting tools facilitate balance sheet preparation by:

- Automatically compiling assets, liabilities, and equity from ledger balances
- Ensuring the accounting equation is balanced
- Presenting balance sheets in compliance with applicable accounting standards
- Updating balances in real time as transactions are recorded

This helps present a clear financial position of the organisation at a specific date.

5. Preparation of Equity Statement Using Online Practical Tools

Equity statements explain changes in owners' or shareholders' equity during a period. Online tools help in:

- Tracking opening equity balances
- Recording profits, losses, capital contributions, and withdrawals
- Calculating closing equity automatically
- Presenting equity movement in a clear and structured format

This is particularly important in the BFSI sector for monitoring capital adequacy and retained earnings.

6. Advantages of Using Online Practical Tools

Aspect	Benefit
Accuracy	Reduces calculation and posting errors
Efficiency	Saves time through automation
Compliance	Supports adherence to accounting and regulatory standards
Reporting	Enables quick generation of financial statements
Learning	Enhances practical understanding for Accounts Assistants

Table 2.2.5: Advantages of Using Online Practical Tools

Overall, the use of online practical tools enables Accounts Assistants in the BFSI sector in India to prepare receipts and payments accounts, income and expenditure statements, balance sheets, and equity statements accurately and efficiently. These tools strengthen practical skills, support digital accounting practices, and align financial reporting with modern BFSI operational requirements.

Summary



- Basic accounting concepts, principles, and terminologies form the foundation of financial accounting in the BFSI sector.
- Bookkeeping ensures systematic recording and classification of financial transactions.
- Financial statements are structured using elements such as assets, liabilities, equity, income, and expenses.
- Bank reconciliation statements ensure accuracy between the cash book and bank records.
- A trial balance provides a summary of ledger balances to support financial statement preparation.
- Trading, profit and loss, and income statements measure financial performance over an accounting period.
- Balance sheets and equity statements present the financial position and ownership interest of an organisation.
- Cash flow and fund flow statements explain the movement of cash and financial resources.
- Financial ratios support performance, liquidity, and stability assessment.
- Online practical tools enable accurate preparation of financial statements and accounting reports.

Exercise

Multiple-choice Question:

1. Which accounting concept assumes that an organisation will continue its operations in the future?
 - a. Cost Concept
 - b. Dual Aspect Concept
 - c. Going Concern Concept
 - d. Money Measurement Concept

2. Which document is prepared to reconcile the difference between the cash book balance and bank statement balance?
 - a. Trial Balance
 - b. Bank Reconciliation Statement
 - c. Balance Sheet
 - d. Cash Flow Statement

3. Which financial statement shows the financial position of an organisation on a specific date?
 - a. Income Statement
 - b. Cash Flow Statement
 - c. Balance Sheet
 - d. Trading Account

4. Which ratio is used to measure the short-term liquidity position of an organisation?
 - a. Net Profit Ratio
 - b. Debt–Equity Ratio
 - c. Current Ratio
 - d. Asset Turnover Ratio

5. Which activity is included under financing activities in a cash flow statement?
 - a. Purchase of fixed assets
 - b. Payment of salaries
 - c. Issue of share capital
 - d. Interest received

Descriptive Questions

1. Explain basic accounting concepts, principles, and terminologies used in the BFSI sector.
2. Describe the process and purpose of bookkeeping.
3. Explain the preparation and importance of a bank reconciliation statement.
4. Discuss the structure and purpose of trading, profit and loss, and income statements.
5. Explain the role of financial ratio analysis in assessing organisational performance.

Notes

Scan the QR codes or click on the link to watch the related videos



<https://www.youtube.com/watch?v=2mVFIBchjmc>

Accounting Principles. Concepts & Conventions.



<https://www.youtube.com/watch?v=Y8yV12bShrl>

Accounting Concepts and Conventions



<https://www.youtube.com/watch?v=jdZSvJrnzYw>

Trial Balance, Financial accounting and analysis



<https://www.youtube.com/watch?v=pflmPkogzCw>

Balance Sheet Analysis



<https://www.youtube.com/watch?v=-UbFZRd8Eds>

Ratio Analysis | Financial Statement Analysis



<https://www.youtube.com/watch?v=3kAsxVzRJmI&t=2179s>

Financial Ratios for Easy Analysis of Companies!





3. Labour Laws and Payroll Accounting

Unit 3.1 - Labour Laws Applicable to Employment and Payroll
Unit 3.2 - Payroll Accounting and Statutory Compliance



Key Learning Outcomes



By the end of this module, the participants will be able to:

1. Explain the provisions and relevance of the Contract Act in employment relationships.
2. Describe the objectives and key provisions of the Payment of Wages Act and the Minimum Wages Act.
3. Explain the Employees' State Insurance Act and identify its applicability.
4. Explain the Provident Fund Act and identify the applicability of EPFO provisions.
5. Describe the provisions of the Payment of Bonus Act.
6. Explain the provisions and eligibility criteria under the Payment of Gratuity Act.
7. Explain the concept and process of payroll accounting.
8. Prepare employee registers using prescribed formats.
9. Compute gross salary, net salary, and statutory deductions.
10. Perform registration procedures under ESIC and EPFO.

UNIT 3.1: Labour Laws Applicable to Employment and Payroll

Unit Objectives



By the end of this unit, the participants will be able to:

1. Explain the provisions and significance of the Contract Act in employment relationships.
2. Describe the objectives and key provisions of the Payment of Wages Act and the Minimum Wages Act.
3. Explain the Employees' State Insurance Act and identify its applicability.
4. Explain the Provident Fund Act.
5. Describe the provisions of the Payment of Bonus Act.
6. Explain the provisions and eligibility conditions under the Payment of Gratuity Act.

3.1.1 Contract Act and Employment Relationships

The Indian Contract Act, 1872, provides the legal framework governing contracts in India and plays a significant role in defining employment relationships in the BFSI sector. An employment relationship is based on a valid contract between the employer and the employee, which outlines the rights, duties, and obligations of both parties.



Fig. 3.1.1: Essential Contract Clauses in Employment Contracts

1. Meaning of Contract under the Contract Act

A contract is an agreement enforceable by law. For an employment contract to be valid, it must fulfil the essential elements prescribed under the Contract Act.

Essential Element	Explanation
Offer and Acceptance	The employer offers employment, and the employee accepts the terms.
Lawful Consideration	Salary or wages paid in return for services rendered.
Free Consent	Consent of both parties without coercion, fraud, or misrepresentation.

Essential Element	Explanation
Competent Parties	Both the employer and employee must be legally competent to contract.
Lawful Object	The purpose of employment must be legal.
Agreement Enforceable by Law	Terms must be clear and legally valid.

Table 3.1.2: Essential Elements of the Contract Act

2. Application in Employment Relationships

In the BFSI sector, employment contracts define job roles, salary structure, working hours, confidentiality obligations, and termination conditions. These contracts may be written or implied, but written employment agreements are preferred for clarity and legal compliance.

The Contract Act ensures that both employers and employees adhere to agreed terms. It provides legal remedies in case of breach of contract, such as non-payment of wages, violation of service conditions, or unlawful termination.

3. Significance of the Contract Act in the BFSI Sector

The Contract Act promotes fairness, transparency, and accountability in employment relationships. In the BFSI sector, where employees handle sensitive financial information and high-value transactions, contracts often include confidentiality clauses and non-disclosure agreements to protect organisational interests.

For Accounts Assistants, understanding the Contract Act is important for payroll processing, compliance with employment terms, and handling employee-related documentation. The Act ensures lawful employment practices and strengthens trust between employers and employees in the BFSI sector in India.

3.1.2 Payment of Wages Act and Minimum Wages Act

The Payment of Wages Act and the Minimum Wages Act are important labour laws in India that protect the rights of employees and ensure fair compensation. In the BFSI sector, these Acts help regulate wage payment practices and safeguard employees from exploitation.

1. Payment of Wages Act

The Payment of Wages Act aims to ensure the timely payment of wages to employees without unauthorised deductions. It applies to employees earning wages up to the prescribed limit as notified by the government.

2. Key Provisions of the Payment of Wages Act

Provision	Description
Timely Payment	Wages must be paid within the specified time period after the wage period ends.
Mode of Payment	Wages may be paid in cash, cheque, or credited to bank accounts.
Authorised Deductions	Only permitted deductions, such as provident fund, income tax, and fines, are allowed.
Wage Period	Wage periods must not exceed one month.

Provision	Description
Protection Against Unfair Deductions	Employers cannot make arbitrary or excessive deductions from wages.

Table 3.1.3: Key Provisions of the Payment of Wages Act

In the BFSI sector, compliance with this Act ensures transparency and accuracy in salary processing.

3. Minimum Wages Act

The Minimum Wages Act aims to secure minimum wages for employees to meet basic living standards. It applies to scheduled employments as notified by the appropriate government.



Fig. 3.1.2: Components of Minimum Wages

4. Key Provisions of the Minimum Wages Act

Provision	Description
Fixation of Minimum Wages	The government fixes minimum wages for different categories of employment.
Revision of Wages	Minimum wages are revised periodically.
Components of Wages	Includes basic wages and allowances.
Overtime Payment	Employees are entitled to overtime wages for extra working hours.
Enforcement	Authorities are appointed to ensure compliance.

Table 3.1.4: Key Provisions of the Minimum Wages Act

In the BFSI sector, the Minimum Wages Act ensures that employees, including support and operational staff, receive wages not below the prescribed minimum. Overall, the Payment of Wages Act and the Minimum Wages Act promote fair wage practices, protect employee rights, and ensure lawful payroll management in the BFSI sector in India.

3.1.3 Employees' State Insurance Act and Applicability

The Employees' State Insurance Act, 1948, is a social security legislation designed to provide medical and cash benefits to employees in case of sickness, maternity, employment injury, or death due to employment-related causes. In the BFSI sector, the Act plays an important role in ensuring employee welfare and social security.

1. Overview of the Employees' State Insurance Act

The Act provides a self-financing social security scheme administered by the Employees' State Insurance Corporation. It applies to establishments employing the prescribed minimum number of employees and covers eligible employees drawing wages within the specified limit.



Fig. 3.1.3: Objectives of the ESI Act

2. Key Benefits under the ESI Act

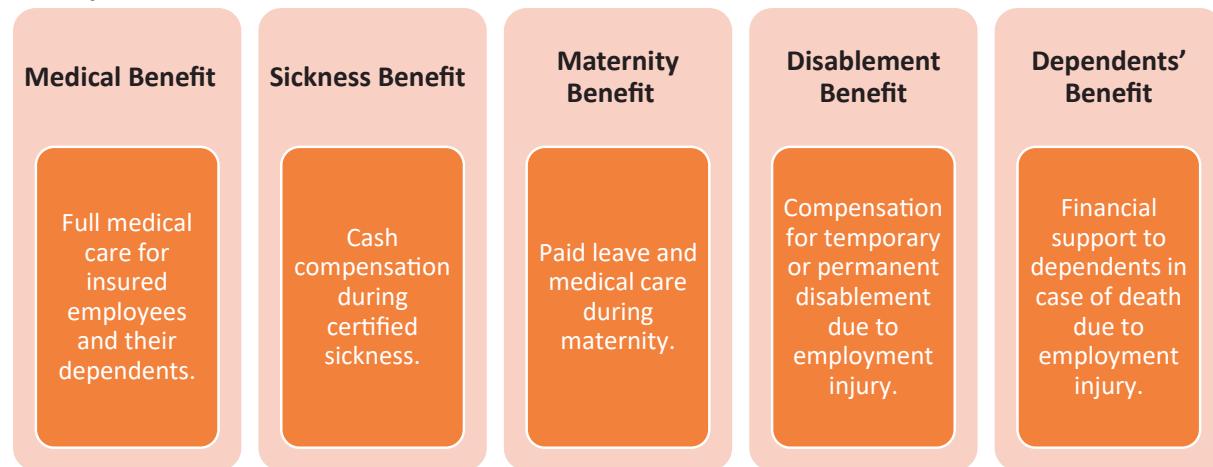


Fig. 3.1.4: Key Benefits under the ESI Act

3. Applicability of the ESI Act

The ESI Act applies to factories and notified establishments, including offices in the BFSI sector, employing 10 or more employees, subject to state-specific notifications.

Employees drawing wages up to the prescribed limit, as notified by the government, are covered under the Act. Both the employer and employee are required to contribute to the ESI scheme at the applicable rates.

4. Importance of the ESI Act in the BFSI Sector

In the BFSI sector, compliance with the ESI Act ensures social security coverage for eligible employees, especially those in operational, clerical, and support roles. For Accounts Assistants, understanding the ESI Act is essential for payroll processing, contribution calculation, registration, and statutory compliance. Overall, the Employees' State Insurance Act strengthens employee welfare, promotes workplace security, and supports lawful payroll management in the BFSI sector in India.

3.1.4 Provident Fund Act

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952, is a social security law aimed at providing financial security to employees after retirement or in cases of disability or death. In the BFSI sector, the Provident Fund Act plays a crucial role in long-term employee savings and welfare.

1. Overview of the Provident Fund Act

The Act establishes a statutory provident fund system managed by the Employees' Provident Fund Organisation. It mandates contributions from both employers and employees towards a retirement savings scheme.



Fig. 3.1.5: Benefits of Employees' Provident Fund (EPF)

2. Key Schemes under the Provident Fund Act

Scheme	Description
Employees' Provident Fund	Provides retirement savings through regular contributions.
Employees' Pension Scheme	Provides pension benefits after retirement.

Scheme	Description
Employees' Deposit Linked Insurance Scheme	Provides insurance coverage to employees.

Table 3.1.6: Key Schemes under the Provident Fund Act

3. Key Provisions of the Provident Fund Act

Provision	Description
Applicability	Applies to establishments employing 20 or more employees, subject to notifications.
Contributions	Both employer and employee contribute at prescribed rates.
Wage Ceiling	Contributions are calculated up to the notified wage limit.
Mandatory Compliance	Registration and regular deposit of contributions are compulsory.
Withdrawals	Permitted under specific conditions, such as retirement or unemployment.

Table 3.1.6: Key Provisions of the Provident Fund Act

4. Importance of the Provident Fund Act in the BFSI Sector

In the BFSI sector, the Provident Fund Act ensures disciplined savings and financial security for employees. Compliance with PF provisions is essential for payroll accuracy and statutory reporting. For Accounts Assistants, understanding the Provident Fund Act is necessary for salary computation, contribution calculation, maintenance of PF records, and coordination with EPFO. Overall, the Provident Fund Act supports employee welfare, retirement planning, and statutory compliance in the BFSI sector in India.

3.1.5 Payment of Bonus Act

The Payment of Bonus Act, 1965, is a labour law that provides for the payment of bonus to employees based on profits or productivity of an organisation. In the BFSI sector, this Act ensures that eligible employees receive a fair share of the organisation's financial performance.

1. Objective of the Payment of Bonus Act

The primary objective of the Act is to promote employee motivation and equitable distribution of profits by mandating payment of a bonus to eligible employees.

2. Applicability of the Act

The Act applies to establishments employing 20 or more persons. Employees drawing wages up to the prescribed limit and having completed the minimum required working days in an accounting year are eligible for a bonus.

3. Key Provisions of the Payment of Bonus

Provision	Description
Eligibility	Employees who have worked for at least the prescribed minimum days in a year.
Minimum Bonus	Minimum bonus payable regardless of profit, subject to conditions.

Provision	Description
Maximum Bonus	Maximum bonus payable based on allocable surplus.
Accounting Year	The bonus is calculated based on the profits of the accounting year.
Time Limit	Bonus must be paid within the specified period after the accounting year.

Table 3.1.7: Key Provisions of the Payment of Bonus

4. Importance of the Payment of Bonus in the BFSI Sector

In the BFSI sector, compliance with the Payment of Bonus Act ensures fair reward to employees for their contribution to organisational performance. It also promotes transparency and consistency in payroll practices. For Accounts Assistants, knowledge of the Payment of Bonus Act is important for calculating bonuses, maintaining records, and ensuring timely payment in accordance with statutory requirements. The Act supports equitable reward distribution and lawful compensation practices in the BFSI sector in India. Overall, the Payment of Bonus Act supports employee welfare, motivation, and lawful payroll management in the BFSI sector in India.

3.1.6 Payment of Gratuity Act

The Payment of Gratuity Act, 1972, is a statutory welfare legislation that provides for the payment of gratuity to employees as a reward for long and continuous service. In the BFSI sector, the Act ensures financial security to employees at the time of retirement, resignation, termination, or death.

1. Objective of the Payment of Gratuity Act

The objective of the Act is to provide social security to employees by mandating a lump-sum monetary benefit after completion of a specified period of service.

2. Applicability of the Act

The Act applies to establishments employing 10 or more persons. Once applicable, it continues to use even if the number of employees falls below the prescribed limit.

3. Eligibility Conditions

An employee becomes eligible for gratuity if the following conditions are satisfied:

- Completion of at least five years of continuous service with the employer
- Termination of employment due to retirement, resignation, superannuation, or death
- In cases of death or permanent disablement, the condition of five years of service is not required

4. Calculation of Gratuity

Gratuity is calculated based on the last drawn salary and years of service, subject to the maximum limit prescribed under the Act. The standard formula considers basic pay and dearness allowance.

5. Key Provisions of the Payment of Gratuity Act

Provision	Description
Continuous Service	Includes uninterrupted service and specific periods of absence as defined by law
Nomination	Employees are required to nominate a beneficiary.
Time Limit for Payment	Gratuity must be paid within the prescribed time after it becomes payable.

Provision	Description
Forfeiture	Gratuity may be partially or fully forfeited under specific misconduct conditions.
Maximum Limit	Payment is subject to the statutory ceiling.

Table 3.1.8: Key Provisions of the Payment of Gratuity Act

6. Importance of the Payment of Gratuity Act in the BFSI Sector

In the BFSI sector, gratuity forms a critical component of employee retirement benefits. Accurate calculation and timely payment are essential for legal compliance and employee satisfaction. For an Accounts Assistant, understanding the Payment of Gratuity Act is essential for maintaining employee records, computing gratuity amounts, ensuring statutory compliance, and supporting payroll and retirement processes effectively.

UNIT 3.2: Payroll Accounting and Statutory Compliance

Unit Objectives



By the end of this unit, the participants will be able to:

1. Explain the concept and process of payroll accounting.
2. Prepare employee registers using prescribed formats.
3. Compute gross salary and net salary.
4. Compute statutory deductions from salary.
5. Discuss the Applicability of ESIC and perform registration procedures under ESIC.
6. Identify the applicability of EPFO provisions and perform registration procedures under EPFO.

3.2.1 Concept and Process of Payroll Accounting

Payroll accounting refers to the systematic process of recording, calculating, and managing employee compensation in compliance with organisational policies and statutory requirements. In the BFSI sector, payroll accounting plays a critical role due to the large workforce, regulatory environment, and structured salary components.

1. Concept of Payroll Accounting

Payroll accounting involves the calculation of employee earnings, deductions, and net payable salary for a defined pay period. It ensures that employees are paid accurately and on time while meeting all legal obligations related to labour laws, taxation, and social security schemes. In the BFSI sector, payroll accounting integrates salary structures, allowances, incentives, statutory deductions, and employee benefits in a standardised manner.

2. Components of Payroll

Payroll consists of the following key components:

- Basic salary and dearness allowance
- Allowances such as the house rent allowance and the special allowance
- Incentives, bonuses, and performance-linked pay
- Statutory deductions such as provident fund, employee state insurance, professional tax, and income tax
- Net salary payable to employees

Payroll Process Workflow

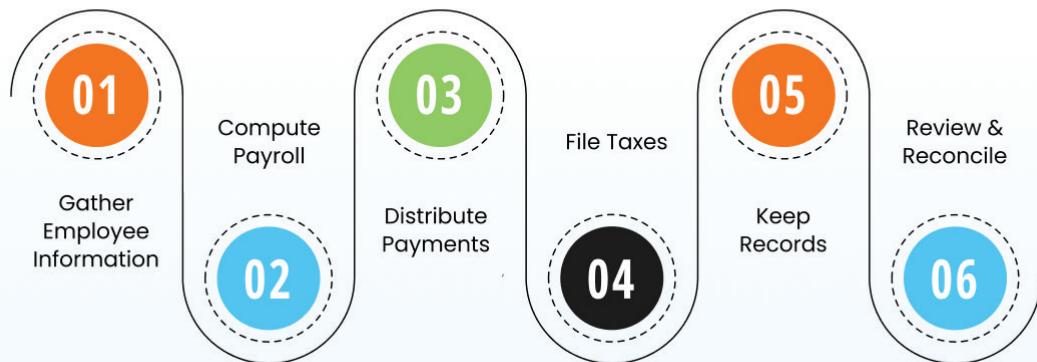


Fig. 3.2.1: Payroll Process Workflow

3. Process of Payroll Accounting

The payroll accounting process in the BFSI sector generally follows a structured sequence to ensure accuracy and compliance.

Step 1: Employee Data Collection

- Maintenance of employee master records including designation, salary structure, and statutory details

Step 2: Attendance and Leave Tracking

- Recording attendance, leave, and overtime for salary computation

Step 3: Salary Computation

- Calculation of gross salary based on pay structure and attendance

Step 4: Deduction Calculation

- Computation of statutory and voluntary deductions

Step 5: Net Pay Determination

- Derivation of net payable salary after deductions

Step 6: Salary Disbursement

- Payment of salaries through bank transfer or approved channels

Step 7: Accounting Entries

- Recording payroll expenses and liabilities in books of accounts

Fig. 3.2.2: Process of Payroll Accounting

4. Statutory Compliance in Payroll Accounting

Payroll accounting in the BFSI sector must comply with various labour and tax laws, such as the Provident Fund Act, Employees' State Insurance Act, Payment of Wages Act, Income Tax Act, and Payment of Bonus and Gratuity Acts.

However, a number of time-consuming activities connected with payroll management are automated through payroll software. This would include tasks such as calculating wages, taxes, and deductions. Errors are reduced to a minimum through automation, and payroll processing is much faster, saving much-needed time for HR and finance teams to engage in other critical tasks. Some of the benefits of automating payroll processes are:

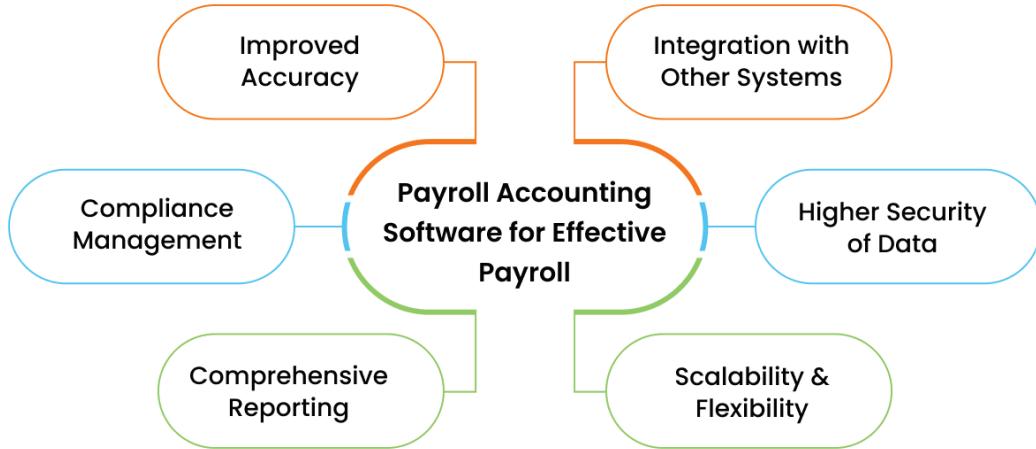


Fig. 3.2.3: Benefits of using Payroll Accounting Software for effective Payroll

5. Importance of Payroll Accounting in the BFSI Sector

Accurate payroll accounting ensures employee satisfaction, regulatory compliance, and financial transparency. It also supports budgeting, cost control, and audit requirements. For an Accounts Assistant, payroll accounting is a core responsibility that requires accuracy, confidentiality, and adherence to statutory timelines to support efficient human resource and financial operations in the BFSI sector.

3.2.2 Preparation of Employee Registers

Employee registers are statutory and operational records maintained by organisations to document employee details, employment status, and payroll-related information. In the BFSI sector, accurate maintenance of employee registers is essential for compliance with labour laws, payroll processing, audits, and internal controls.

1. Concept of Employee Registers

An employee register is a formal record containing personal, employment, and statutory details of employees working in an organisation. These registers serve as the base document for payroll accounting, statutory reporting, and employee administration.

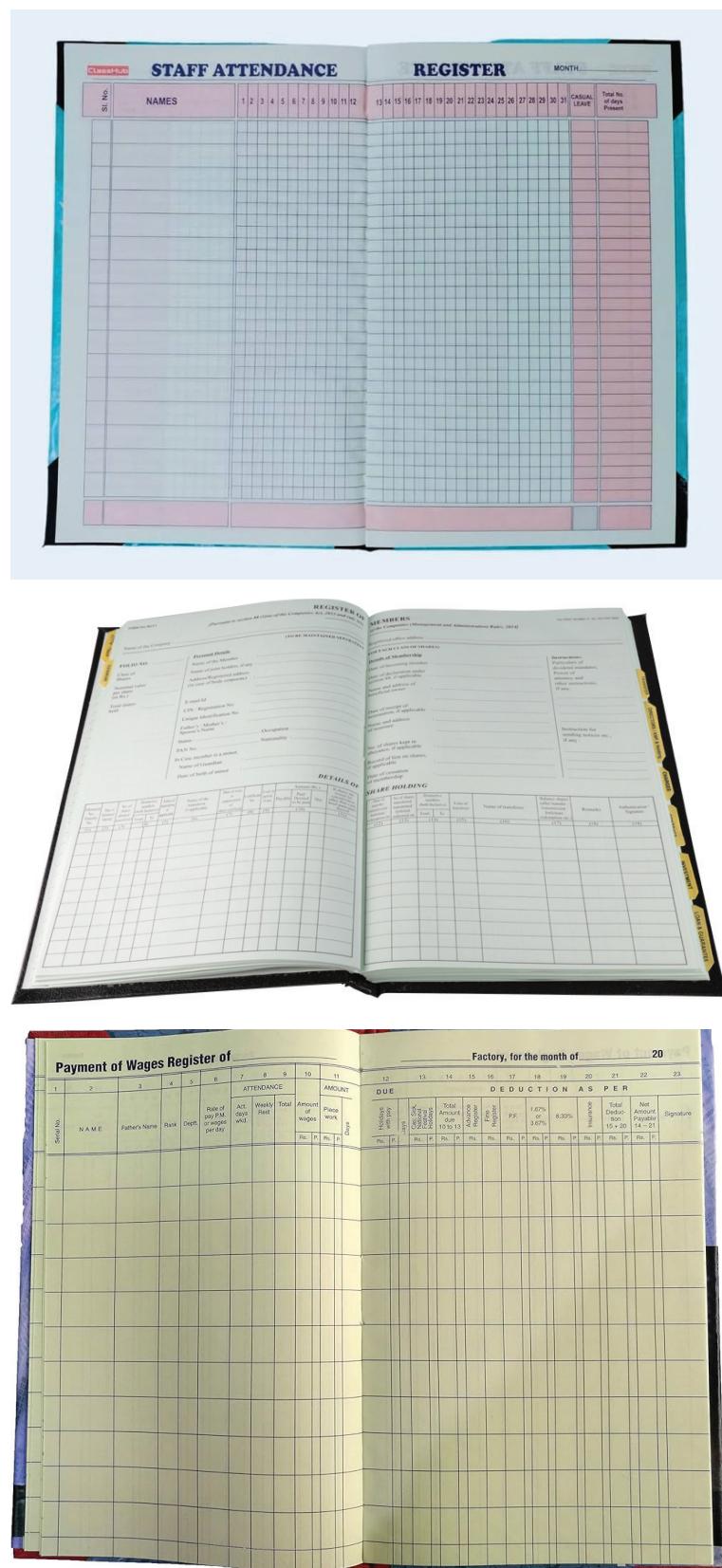


Fig. 3.2.4: Different types of Employee Register

2. Importance of Employee Registers in the BFSI Sector

Employee registers ensure transparency, legal compliance, and accuracy in payroll operations. They support verification during inspections, audits, and statutory filings under various labour laws applicable to the BFSI sector.

3. Common Types of Employee Registers

Organisations in the BFSI sector maintain multiple employee-related registers based on statutory and operational requirements.

Type of Register	Purpose
Employee Master Register	Records basic employee details such as name, designation, department, and date of joining
Attendance Register	Tracks daily attendance, leave, and working hours
Salary or Wage Register	Records salary components, deductions, and net pay
Leave Register	Maintains records of leave entitlement, availed leave, and balance
Statutory Registers	Maintained for compliance under PF, ESIC, and other labour laws

Table 3.2.1: Common Types of Employee Registers

4. Prescribed Format and Key Details

Employee registers are maintained in prescribed formats as required under applicable labour laws or organisational policy. Key information generally included in an employee register comprises

- Employee identification number
- Name, address, and date of birth
- Designation and department
- Date of joining and employment status
- Salary structure and wage rate
- Statutory identification numbers for PF and ESIC

5. Process of Preparing Employee Registers

The preparation of employee registers in the BFSI sector follows a systematic process:

- Collection of employee personal and employment details
- Verification of supporting documents
- Entry of accurate information in the prescribed format
- Regular updating of changes such as promotions, transfers, or exits
- Secure storage and controlled access to registers

6. Role of Accounts Assistant

An Accounts Assistant is responsible for maintaining updated employee registers, ensuring accuracy of entries, coordinating with the human resources department, and supporting payroll and statutory compliance activities. Proper preparation and maintenance of employee registers form the foundation of effective payroll accounting and legal compliance in the BFSI sector within India.

3.2.3 Gross and Net Salary Computation

Gross and net salary computation is a core payroll function that ensures accurate employee compensation and statutory compliance in the BFSI sector. It involves calculating total earnings, applying applicable deductions, and determining the final payable amount to employees.

1. Concept of Gross Salary

Gross salary represents the total earnings of an employee before any deductions. It includes all fixed and variable components as per the employment agreement and organisational payroll policy.

Common components of gross salary in the BFSI sector include:

- Basic salary
- Dearness allowance, where applicable
- House rent allowance
- Special allowance
- Conveyance or transport allowance
- Performance incentives and bonuses, where applicable

2. Concept of Net Salary

Net salary is the amount payable to the employee after deducting statutory and authorised deductions from the gross salary. It reflects the actual take-home pay credited to the employee's bank account.

3. Process of Salary Computation

Salary computation follows a structured sequence to ensure accuracy and consistency.

Step 1: Determine Salary Structure	Identification of salary components as per appointment letter
Step 2: Calculate Gross Salary	Summation of all earning components
Step 3: Identify Deductions	Determination of statutory and voluntary deductions
Step 4: Compute Total Deductions	Aggregation of all applicable deductions
Step 5: Calculate Net Salary	Gross salary minus total deductions

Fig. 3.2.5: Steps of salary computation

4. Common Deductions in the BFSI Sector

Typical deductions applied while computing net salary include:

- Employee contribution to the provident fund
- Employee state insurance contribution, where applicable
- Professional tax as per state laws
- Income tax deducted at source
- Other authorised deductions, such as loan recovery

Illustrative Example of Salary Computation

Particulars	Amount
Basic Salary	18000
House Rent Allowance	9000
Special Allowance	3000
Gross Salary	30000
Provident Fund	2160
Professional Tax	200
Income Tax	1000
Total Deductions	3360
Net Salary	26640

Table 3.2.2: Illustrative Example of Salary Computation

5. Importance of Salary Computation in the BFSI Sector

Accurate computation of gross and net salary ensures employee trust, statutory compliance, and efficient payroll operations. It also supports financial reporting and audit requirements. For an Accounts Assistant, the ability to compute gross and net salary accurately is essential for maintaining payroll accuracy, compliance with labour laws, and timely salary disbursement in the BFSI sector within India.

3.2.4 Statutory Deductions from Salary

Statutory deductions are mandatory deductions made from an employee's salary as per Indian labour and tax laws. In the BFSI sector, accurate computation and timely deposit of these deductions are essential for legal compliance and transparent payroll management.

1. Concept of Statutory Deductions

Statutory deductions are amounts that employers are legally required to deduct from employees' gross salaries and remit to the respective government or statutory authorities. These deductions are fixed by law and vary based on salary structure, location, and employee eligibility.

2. Major Statutory Deductions Applicable in the BFSI Sector

Type of Deduction	Description
Provident Fund	Employee contribution calculated as a percentage of basic salary and dearness allowance.
Employees' State Insurance	Employee contribution applicable to employees earning within the prescribed wage limit.
Professional Tax	State-level tax is deducted based on salary slabs.
Income Tax	Tax is deducted at source based on applicable income tax slabs.
Labour Welfare Fund	Contribution applicable in certain states as notified

Table 3.2.3: Major Statutory Deductions Applicable in the BFSI Sector

3. Provident Fund Deduction

Provident fund deduction represents the employee's contribution towards long-term savings and retirement benefits. It is calculated as a prescribed percentage of basic salary and dearness allowance and deducted every month.

4. Employees' State Insurance Deduction

ESI deduction provides social security benefits such as medical care and cash benefits. It is applicable to eligible employees and calculated at the prescribed rate on gross wages.

5. Professional Tax Deduction

Professional tax is deducted as per state government regulations and varies from state to state. It is usually deducted monthly or annually based on salary slabs.

6. Income Tax Deduction

Income tax is deducted at source based on the employee's taxable income, exemptions, and deductions under the Income Tax Act. Employers are responsible for accurate computation and timely deduction.

An Accounts Assistant computes statutory deductions accurately, ensures compliance with current laws, maintains deduction records, and coordinates timely deposits with relevant authorities. Proper computation of statutory deductions supports lawful payroll processing, protects employee interests, and ensures compliance within the BFSI sector in India.

3.2.5 ESIC Applicability and Registration Process

The Employees' State Insurance Scheme is a social security scheme designed to provide medical and cash benefits to employees in case of sickness, maternity, disability, or employment injury. In the BFSI sector, understanding ESIC applicability and the registration process is essential for statutory compliance and employee welfare.



Fig. 3.2.6: Benefits of the ESIC

1. Applicability of ESIC

ESIC applies to establishments employing 10 or more persons, depending on state regulations. In the BFSI sector, offices of banks, financial institutions, and insurance companies fall under the scope of the Act when they meet the prescribed employee and wage criteria. ESIC applies to employees whose gross wages are within the notified wage ceiling. Employees earning above the prescribed limit are excluded from coverage.

2. Coverage under ESIC

Employees covered under ESIC are entitled to:

- Medical benefits for self and dependents
- Sickness benefits in case of certified illness
- Maternity benefits for eligible women employees
- Disablement benefits due to employment injury
- Dependents' benefits in case of death due to employment injury

3. ESIC Contribution Structure

Both employer and employee contribute to the ESIC scheme at prescribed rates on the employee's gross wages. The employer is responsible for deducting the employee's contribution and depositing the total contribution with the ESIC authority.

4. ESIC Registration Process

Registration under ESIC is mandatory for eligible establishments and is completed through an online process.

Step 1: Employer Registration

- Registration of the establishment on the ESIC portal

Step 2: Submission of Details

- Uploading establishment and employee details

Step 3: Generation of Code Number

- Allotment of unique ESIC employer code

Step 4: Employee Registration

- Registration of eligible employees and generation of insurance numbers

Step 5: Contribution Payment

- Monthly payment of ESIC contributions within the prescribed timeline

Fig. 3.2.7: Step-by-Step Registration Process of ESIC

An Accounts Assistant identifies ESIC applicability, computes contributions, maintains employee records, supports online registration, and ensures timely payment and filing of returns. Proper implementation of ESIC ensures statutory compliance, safeguards employee welfare, and strengthens payroll management practices in the BFSI sector within India.

3.2.6 EPFO Applicability and Registration Process

The Employees' Provident Fund Organisation administers the statutory provident fund scheme that provides retirement, pension, and insurance benefits to employees. In the BFSI sector, compliance with EPFO provisions is a critical payroll and statutory responsibility.



Fig. 3.2.8: The organisation that administers the statutory provident fund scheme

1. Applicability of EPFO

EPFO provisions apply to establishments employing 20 or more persons. In the BFSI sector, banks, financial service providers, and insurance offices are covered once the employee strength meets the prescribed threshold. Employees earning wages up to the prescribed limit are mandatorily covered under EPFO. Employees earning above the limit may also be covered voluntarily with the mutual consent of the employer and employee.

2. Coverage under EPFO

EPFO provides long-term social security benefits, including:

- Provident fund savings for retirement
- Pension benefits under the Employees' Pension Scheme
- Insurance benefits under the Employees' Deposit Linked Insurance scheme

3. Contribution Structure under EPFO

Both the employer and employee contribute a prescribed percentage of wages towards the provident fund and pension schemes. The employer is responsible for deducting the employee's share and remitting the total contribution to EPFO

4. EPFO Registration Process

Registration under EPFO is mandatory for eligible establishments and is completed through an online system.

Step 1: Employer Registration

- Registration of the establishment on the EPFO portal

Step 2: Submission of Details

- Upload of establishment and ownership details

Step 3: Allotment of Establishment ID

- Generation of unique EPFO establishment code

Step 4: Employee Enrollment

- Registration of employees and generation of universal account numbers

Step 5: Monthly Compliance

- Filing of returns and remittance of contributions

Fig. 3.2.8: Step-by-Step Registration Process of EPFO

An Accounts Assistant identifies EPFO applicability, assists in registration, computes provident fund contributions, maintains employee provident fund records, and ensures timely deposit and reporting. Effective implementation of EPFO provisions ensures statutory compliance, supports employee retirement planning, and strengthens payroll accounting systems in the BFSI sector within India.

Summary



- Labour laws in India govern employment relationships, wages, social security, and employee welfare in the BFSI sector.
- The Contract Act establishes the legal framework for valid employment agreements and obligations between employers and employees.
- The Payment of Wages Act and Minimum Wages Act ensure timely payment and fair wage levels for employees.
- The Employees' State Insurance Act provides medical and social security benefits to eligible employees and their dependents.
- Provident fund provisions support long-term savings, pension, and insurance benefits for employees.
- Bonus payments link employee rewards to organisational performance under statutory guidelines.
- Gratuity serves as a retirement and long-service benefit for employees in the BFSI sector.
- Payroll accounting ensures accurate computation, recording, and disbursement of employee compensation.
- Employee registers form the foundation of payroll processing and statutory compliance.
- Statutory deductions and registrations under ESIC and EPFO ensure lawful and transparent payroll operations.

Exercise

Multiple-choice Question:

1. Which Act governs the formation and validity of employment contracts in India?
 - a. Payment of Wages Act
 - b. Contract Act
 - c. Provident Fund Act
 - d. Payment of Bonus Act

2. The Minimum Wages Act primarily aims to ensure:
 - a. Timely payment of salary
 - b. Retirement benefits for employees
 - c. Fair minimum wage levels for employees
 - d. Medical benefits to employees

3. ESIC applies to employees whose wages are:
 - a. Above the prescribed wage limit
 - b. Within the prescribed wage limit
 - c. Paid only on a contractual basis
 - d. Paid annually

4. Which statutory body administers the provident fund, pension, and insurance schemes?
 - a. ESIC
 - b. Income Tax Department
 - c. EPFO
 - d. Ministry of Labour Court

5. Net salary is calculated by deducting which of the following from gross salary?
 - a. Allowances only
 - b. Incentives only
 - c. Statutory and authorised deductions
 - d. Basic salary

Descriptive Questions

1. Explain the key provisions and importance of the Contract Act in employment relationships in the BFSI sector.
2. Describe the objectives and significant provisions of the Payment of Wages Act and the Minimum Wages Act.
3. Explain the concept of payroll accounting and outline the payroll process followed in the BFSI sector.
4. Describe the applicability and registration process under the Employees' State Insurance Scheme.
5. Explain the applicability, contribution structure, and registration procedure under EPFO.

Notes



Scan the QR codes or click on the link to watch the related videos



<https://www.youtube.com/watch?v=t96A1DrsZTw>

Indian Contract Act



https://www.youtube.com/watch?v=7k4_fTxThMQ

Payroll Accounting



<https://www.youtube.com/watch?v=YBnII8MB12g>

Deductions from Salary

4. Heads of Income under Income Tax Act 1961



Unit 4.1 - Income Tax Computation and Compliance under the
Income Tax Act, 1961



Key Learning Outcomes



By the end of this module, the participants will be able to:

1. Explain the concept, scope, and importance of income tax under the Income Tax Act, 1961.
2. Identify and sequence the steps involved in computing the total income of an assessee.
3. Describe applicable tax rates and tax slabs for different categories of taxpayers.
4. Explain residential status and its impact on the taxability of income in India.
5. Classify income under the different heads of income as per the Income Tax Act.
6. Explain the provisions relating to clubbing of income.
7. Describe the rules for set off and carry forward of losses.
8. Explain the concepts and applicability of TDS, TCS, and advance tax.
9. Compute the total income based on the given income details.
10. Calculate tax liability using applicable tax rates and provisions.

UNIT 4.1: Income Tax Computation and Compliance under the Income Tax Act, 1961

Unit Objectives



By the end of this unit, the participants will be able to:

1. Explain the concept, scope, and importance of income tax under the Income Tax Act, 1961.
2. Identify the steps involved in computing total income.
3. Describe applicable tax rates and tax slabs for different categories of taxpayers.
4. Describe residential status and its impact on the taxability of income.
5. Classify income under the different heads of income.
6. Explain the provisions relating to clubbing of income.
7. Describe the rules for set off and carry forward of losses.
8. Explain the concepts and applicability of TDS, TCS, and advance tax.
9. Calculate tax liability using applicable tax rates and provisions.

4.1.1 Overview and Scope of Income Tax

Income tax is a direct tax levied by the Government of India on the income earned by individuals, businesses, and other entities as per the provisions of the Income Tax Act, 1961. It is one of the primary sources of revenue for the government and plays a vital role in the economic development of the country.

1. Concept of Income Tax

Income tax is charged on the total income of an assessee for a financial year. The tax is computed based on prescribed rates and rules defined under the Income Tax Act, 1961. Income includes earnings from various sources such as salary, business or profession, capital gains, house property, and other sources. In the BFSI sector, income tax applies to employees, professionals, and organisations, and compliance is an essential part of financial and accounting operations.

2. Scope of Income Tax

The scope of income tax in India is determined by the residential status of the assessee and the nature of income earned. Income may be taxable if it is received, deemed to be received, accrued, or deemed to accrue in India. The Act provides detailed provisions to determine which incomes are chargeable to tax. For BFSI institutions, income tax covers taxable income arising from core operations, investments, interest income, fees, commissions, and other financial activities.

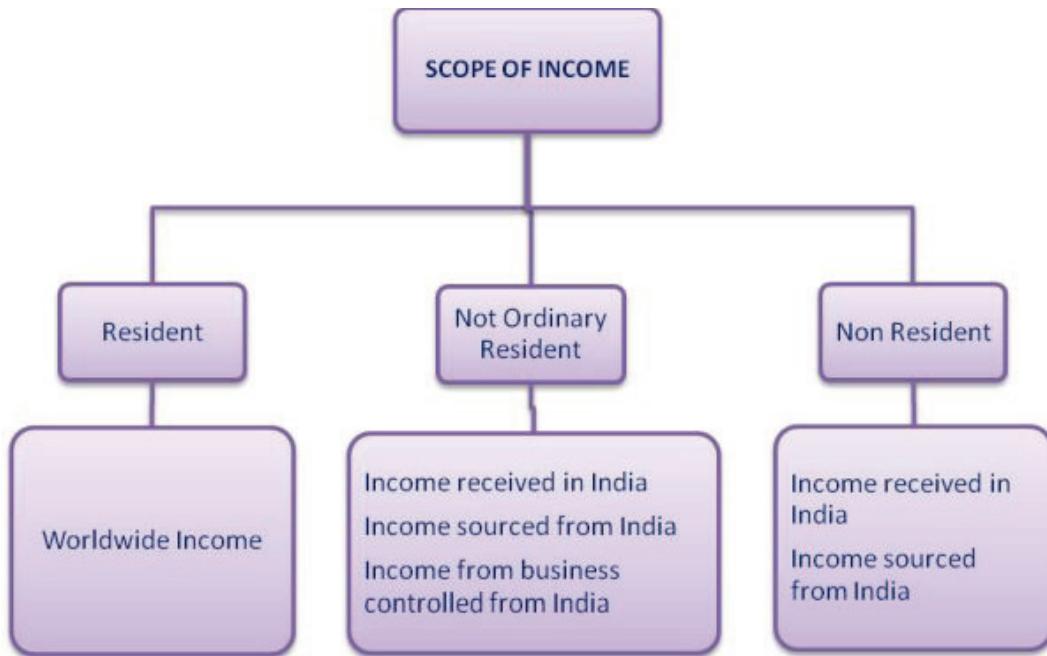


Fig. 4.1.1: Scope of Income

3. Importance of Income Tax

Income tax supports public expenditure on infrastructure, social welfare, and economic development. It also acts as a tool for income redistribution and economic regulation. In the BFSI sector, income tax compliance ensures transparency, accountability, and adherence to regulatory standards. It also influences financial planning, payroll management, and reporting practices.

An Accounts Assistant in the BFSI sector supports income tax compliance by maintaining accurate records, assisting in the computation of taxable income, supporting tax deductions at source, and ensuring timely reporting.

A clear understanding of the overview and scope of income tax is essential for effective financial operations and statutory compliance within the BFSI sector in India.

4.1.2 Steps in Computing Total Income

Computation of total income is a systematic process defined under the Income Tax Act, 1961. It involves identifying taxable income from various sources, applying statutory provisions, and arriving at the final taxable amount. In the BFSI sector, accurate computation of total income is essential for tax compliance and financial reporting.

1. Meaning of Total Income

Total income refers to the aggregate income computed under the provisions of the Income Tax Act after considering exemptions, deductions, set off, and carry forward of losses. Tax liability is calculated on the basis of total income.

2. Steps in Computing Total Income

The computation of total income follows a structured sequence to ensure accuracy and compliance.

Step	Description
Determination of Residential Status	Identify whether the assessee is resident or non-resident for the relevant financial year.
Classification of Income	Segregate income under the five heads of income.
Computation under Each Head	Calculate income separately under each head as per applicable provisions.
Adjustment for Clubbing	Include income required to be clubbed as per statutory rules.
Set Off of Losses	Adjust eligible losses against corresponding income.
Carry Forward of Losses	Carry forward unadjusted losses to future years as permitted.
Aggregation of Income	Add income under all heads after adjustments.
Deductions	Reduce eligible deductions as per applicable sections.
Computation of Total Income	Arrive at the total income after all deductions.

Table 4.1.1: Steps in Computing Total Income

Employees and organisations in the BFSI sector often have income from multiple sources such as salary, interest, commissions, and investments. Following the prescribed steps ensures accurate computation and compliance with tax laws. An Accounts Assistant assists in identifying income sources, maintaining supporting records, applying relevant provisions, and providing precise calculations of total income. A clear understanding of the steps in computing total income supports effective tax planning and compliance in the BFSI sector within India.

4.1.3 Tax Rates and Slab Structure

Tax rates and slab structures determine the amount of income tax payable by different categories of taxpayers under the Income Tax Act, 1961. Understanding applicable tax rates is essential for accurate tax computation, payroll processing, and statutory compliance in the BFSI sector.

1. Concept of Tax Rates and Slabs

Income tax in India is levied on the basis of slab rates, where different portions of income are taxed at different rates. The applicable tax rate depends on the total income and the category of the taxpayer. This progressive structure ensures higher tax liability for higher income levels.

2. Categories of Taxpayers

Tax rates vary based on the classification of taxpayers, which includes:

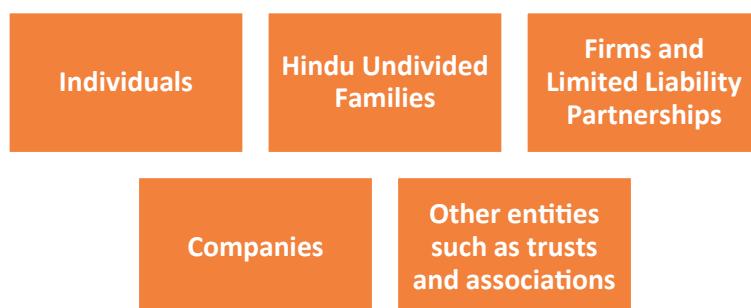


Fig. 4.1.2: Different Taxpayers

In the BFSI sector, individual employees and corporate entities are the primary taxpayers.

3. Individual Tax Slab Structure

For individual taxpayers, slab rates are prescribed by the government and may differ based on age categories, such as:

- Individuals below a specified age
- Senior citizens
- Very senior citizens

Income within the basic exemption limit is not taxable, while income exceeding the limit is taxed at progressively higher rates as per the slab structure.

4. Tax Rates for Firms and Companies

Firms and companies are taxed at flat rates prescribed under the Act, subject to applicable surcharges and cess. BFSI institutions, such as banks and insurance companies, compute tax liability based on these specified rates.

5. Surcharge and Health and Education Cess

In addition to basic tax rates, a surcharge may be applicable if income exceeds specified limits. Health and education cess is levied as a percentage of the income tax and surcharge to support social sector spending.

6. Importance in the BFSI Sector

Knowledge of tax rates and slab structures is essential for payroll tax deductions, tax planning, and compliance. Accurate application of rates ensures correct tax deduction at source and avoids penalties.

An Accounts Assistant applies applicable tax slabs while computing income tax, assists in payroll tax deductions, and supports compliance with current tax provisions. A clear understanding of tax rates and slab structures enables effective tax computation and compliance within the BFSI sector in India.

4.1.4 Residential Status and Taxability

Residential status is a key factor in determining the scope of income taxable in India under the Income Tax Act, 1961. It defines the extent to which an individual or entity is liable to pay tax on income earned in India and outside India. In the BFSI sector, understanding residential status is important for accurate tax computation of employees, professionals, and institutions.

1. Concept of Residential Status

Residential status refers to the classification of an assessee based on physical presence in India during a financial year. It is determined separately for each assessment year and is independent of nationality or citizenship.

2. Categories of Residential Status

For individuals, residential status is broadly classified into:

- Resident
- Resident but Not Ordinarily Resident
- Non-Resident

Entities such as companies and firms are classified as resident or non-resident based on control, management, and incorporation criteria.

3. Determination of Residential Status

Residential status is determined by applying prescribed conditions related to the number of days an individual stays in India during the relevant and preceding financial years.

4. Impact on Taxability of Income

Residential status directly affects the scope of income that is taxable in India.

Residential Status	Scope of Taxable Income
Resident	Global income, including income earned in India and abroad
Resident but Not Ordinarily Resident	Income received or accrued in India and certain foreign income.
Non-Resident	Income received or accrued in India only.

Table 4.1.2: Residential status and scope of taxable income

Employees and professionals in the BFSI sector may have overseas assignments, foreign investments, or international income. Correct determination of residential status ensures accurate tax treatment of such income. An Accounts Assistant assists in identifying residential status, maintaining relevant records, and applying correct tax provisions while computing taxable income. A clear understanding of residential status and its impact on taxability supports accurate tax compliance and reporting in the BFSI sector within India.

4.1.5 Classification of Heads of Income

The Income Tax Act, 1961, classifies taxable income into specific heads to ensure systematic computation and uniform application of tax provisions. Proper classification of income is essential for accurate tax calculation and compliance, particularly in the BFSI sector, where income may arise from multiple sources.

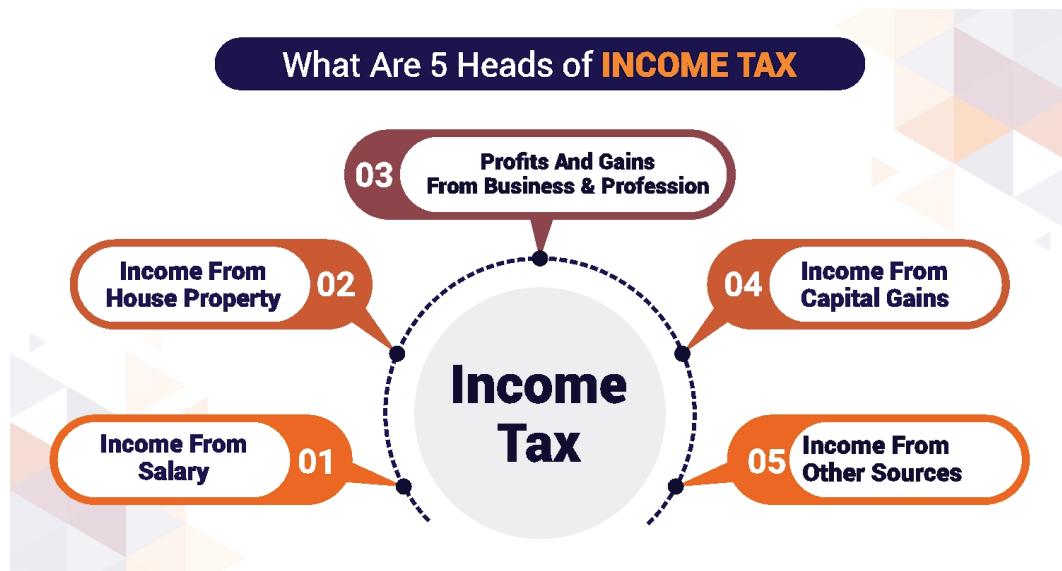


Fig. 4.1.3: 5 Heads of Income Tax

1. Concept of Heads of Income

Heads of income refer to categories under which different types of income are grouped for tax purposes. Each head has its own rules for computation, deductions, and exemptions.

2. Five Heads of Income

The Income Tax Act recognises the following five heads of income:

Head of Income	Description
Income from Salary	Earnings received by an employee from an employer, including wages, allowances, bonuses, and perquisites
Income from House Property	Income earned from the ownership of residential or commercial property
Profits and Gains of Business or Profession	Income generated from business activities or professional services
Capital Gains	Income arising from the transfer of capital assets such as property, shares, or securities
Income from Other Sources	Residual income, such as interest, dividends, and casual income

Table 4.1.3: Five Heads of Income

In the BFSI sector, employees commonly earn salary income, while institutions earn income from business or profession. Interest income from deposits, investments, and securities is classified under income from other sources unless linked to business activities. Capital gains may arise from the sale of investments, and income from house property may arise from owned or leased properties.

Correct classification ensures accurate computation of taxable income, correct application of deductions, and avoidance of errors or penalties. An Accounts Assistant identifies the nature of income, classifies it under the appropriate head, and applies relevant provisions while computing total income. A clear understanding of the classification of heads of income supports accurate tax computation and compliance in the BFSI sector within India.

4.1.6 Clubbing of Income Provisions

Clubbing of income refers to the inclusion of the income of another person in the total income of the assessee under specific circumstances prescribed by the Income Tax Act, 1961. These provisions are intended to prevent tax evasion through the transfer of income or assets to relatives or related persons.

1. Concept of Clubbing of Income

Clubbing of income applies when income is legally earned by one person but is required to be added to the income of another person for tax purposes. The Act specifies situations where such income must be included in the income of the transferor or related individual.

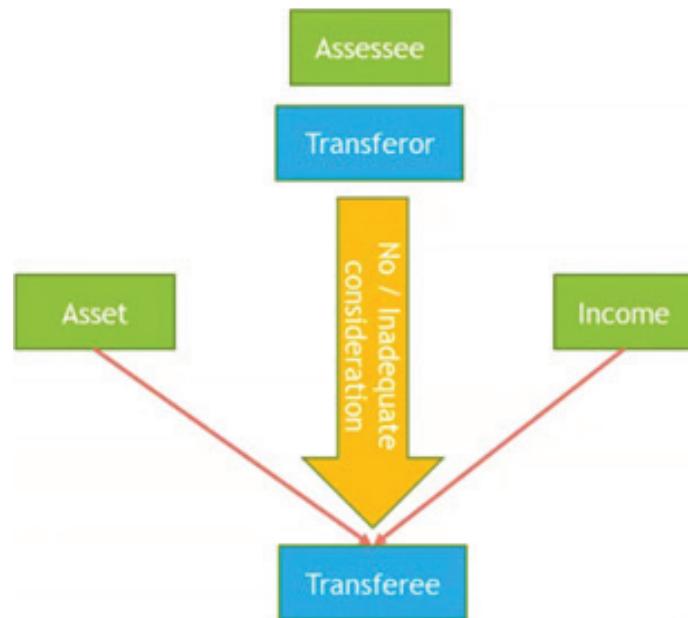


Fig. 4.1.4: How does clubbing of income work?

2. Key Provisions of Clubbing of Income

The significant provisions relating to clubbing of income include:

Provision	Description
Income of Spouse	Income arising to a spouse from assets transferred without adequate consideration is clubbed.
Remuneration to Spouse	Salary or commission paid to a spouse without a technical or professional qualification is clubbed.
Income of Minor Child	The income of a minor child is clubbed with the income of the parent with the higher income, subject to an exemption.
Transfer to Son's Wife	Income from assets transferred to the son's wife without consideration is clubbed.
Revocable Transfer	Income from assets transferred under a revocable arrangement is clubbed with the transferor.

Table 4.1.4: Key Provisions of Clubbing of Income

3. Relevance in the BFSI Sector

Employees and professionals in the BFSI sector may hold investments or assets in the names of family members. Clubbing provisions ensure that such income is taxed in the hands of the appropriate assessee.

4. Importance of Compliance

Correct application of clubbing provisions prevents misreporting of income and ensures lawful tax computation.

An Accounts Assistant identifies income subject to clubbing, verifies asset transfers, and ensures inclusion of such income while computing total income. A proper understanding of clubbing of income provisions supports accurate tax compliance and ethical financial practices in the BFSI sector within India.

4.1.7 Set Off and Carry Forward of Losses

Set off and carry forward of losses are important provisions under the Income Tax Act, 1961, that allow taxpayers to adjust losses against income, thereby reducing taxable income. These provisions support fair taxation by ensuring that tax is levied on net income rather than gross income. When a person or a business faces financial losses, they can use these losses to reduce the amount of taxes they have to pay. This is called “setting off and carrying forward losses”. Essentially, it’s like making the best out of a bad situation. This strategy can be a smart move to deal with tough financial conditions and is an important aspect of calculating income taxes.

1. Concept of Set Off of Losses

Set off of losses refers to the adjustment of losses against income earned during the same financial year. It enables the reduction of taxable income by offsetting eligible losses from one source or head against income from another source or head, as permitted by law. Set off can be classified into:

- Intra-head set off, where a loss from one source is adjusted against income from another source under the same head. For example, if there is a loss from a self-occupied property and a profit from another rented house property, one can adjust the losses against the income.
- Inter-head set off, where a loss under one head is adjusted against income under another head, subject to restrictions. For example, set off of loss from self-occupied house property against income from salary. Before making the inter-head set-off, the taxpayer has to first make the intra-head set-off.

2. Concept of Carry Forward of Losses

Carry forward of losses allows unadjusted losses to be carried forward to subsequent assessment years for adjustment against future income. The Act prescribes specific time limits and conditions for carry forward.

Rules Governing Set Off and Carry Forward

Type of Loss	Set Off Allowed	Carry Forward Period
Business Loss	Against business income	Up to the prescribed number of years
Capital Loss	As per the category of capital gain	Up to the prescribed number of years
House Property Loss	Subject to specified limits	Up to the prescribed number of years
Speculative Loss	Only against speculative income	As prescribed
Loss from Other Sources	As permitted under the Act	As prescribed

Table 4.1.5: Rules Governing Set Off and Carry Forward

3. Conditions for Carry Forward

Carry forward of losses is allowed only if the return of income is filed within the prescribed due date and other statutory conditions are satisfied. For example, loss from self-occupied house property remaining after intra-head and inter-head set off, the taxpayer can carry forward for 8 years and adjust against future income from house property.

Nature of Loss	No. of Years	Set off in Future Against
House Property Loss	8 Years	House Property Income
Speculative Business Loss	4 Years	Speculative Business Income
Non-Speculative Business Loss	8 Years	Non-Speculative Business Income or Speculative Business Income
LTCL (Long-Term Capital Loss)	8 Years	LTCG (Long-Term Capital Gains)
STCL (Short-Term Capital Loss)	8 Years	STCG / LTCG
Horse Race Loss	4 Years	Race Horse Income
Specified Business Loss u/s 35AD	Indefinite Period	Specified Business Income u/s 35AD
Other Sources Loss	Cannot be carried forward	Not Applicable

Table 4.1.6: Rules to Set Off and Carry Forward Losses

Organisations and individuals in the BFSI sector may incur losses from business operations, investments, or capital transactions. Proper application of set off and carry forward provisions ensures accurate tax computation and compliance.

An Accounts Assistant identifies eligible losses, applies correct set-off rules, maintains loss records, and ensures compliance with statutory conditions. Understanding set off and carry forward of losses supports effective tax computation and lawful tax planning in the BFSI sector within India.

4.1.8 TDS, TCS, and Advance Tax

TDS, TCS, and advance tax are key mechanisms under the Income Tax Act, 1961, designed to ensure the timely collection of tax and reduce the burden of lump-sum payment at the end of the financial year. These provisions are widely applicable in the BFSI sector due to frequent financial transactions, salary payments, interest income, and service payments.

1. Tax Deducted at Source

Tax Deducted at Source is a system where tax is deducted by the payer at the time of making specified payments, such as salary, interest, commission, professional fees, and contract payments. The deducted tax is deposited with the government on behalf of the payee. In the BFSI sector, TDS commonly applies to:

- Salary paid to employees
- Interest on fixed deposits and securities
- Commission and brokerage payments
- Professional and technical service fees

The deductor is responsible for deducting tax at prescribed rates, depositing it within due dates, and issuing TDS certificates to the deductee.

2. Tax Collected at Source

Tax Collected at Source requires the seller to collect tax from the buyer at the time of sale of specified goods or services and deposit it with the government. TCS applies to transactions such as the sale of certain goods and specified services as notified under the Act. In the BFSI sector, TCS applicability may arise in specific notified transactions, and institutions must ensure correct collection and reporting.

3. Advance Tax

Advance tax refers to the payment of income tax in instalments during the financial year instead of paying the entire tax amount at the end. It is applicable when the tax liability exceeds the prescribed threshold. Advance tax is payable by individuals, professionals, and companies, including BFSI institutions. The tax is paid in instalments based on specified percentages during the financial year.

4. Comparison of TDS, TCS, and Advance Tax

Particulars	TDS	TCS	Advance Tax
Nature	Deduction of tax	Collection of taxes	Prepayment of tax
Responsibility	Payer	Seller	Taxpayer
Timing	At the time of payment	At the time of sale	During the financial year
Applicability	Specified payments	Specified transactions	Estimated tax liability

Table 4.1.7: Comparison of TDS, TCS, and Advance Tax

These mechanisms ensure steady revenue for the government and promote tax compliance. They also help in tracking income and reducing tax evasion. An Accounts Assistant applies correct TDS and TCS provisions, ensures timely deduction or collection, supports advance tax computation, maintains records, and assists in filing returns. A clear understanding of TDS, TCS, and advance tax is essential for effective tax compliance and financial management in the BFSI sector within India.

4.1.9 Calculation of Tax Liability

Calculation of tax liability is the final stage of income tax computation under the Income Tax Act, 1961. It involves applying applicable tax rates to the total income and determining the amount of tax payable or refundable. In the BFSI sector, accurate calculation of tax liability is essential for payroll processing, financial planning, and statutory compliance.

Calculating Tax Liability

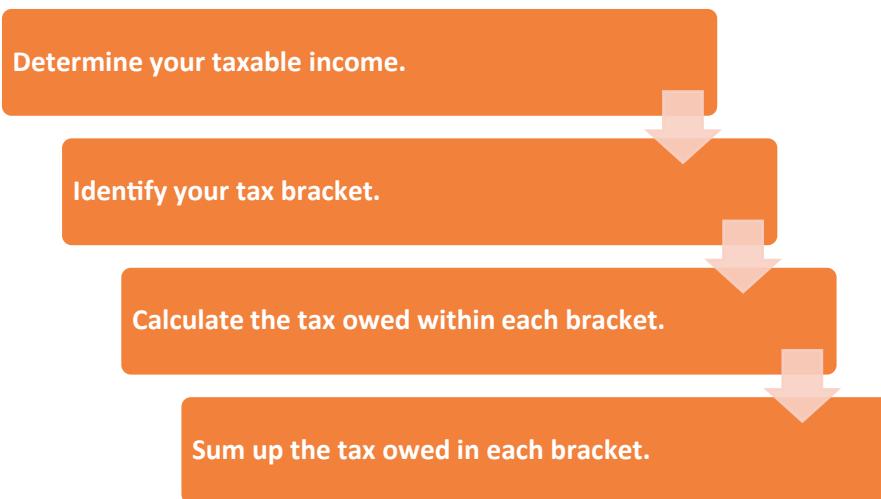


Fig. 4.1.5: Calculating Tax Liability

1. Meaning of Tax Liability

Tax liability refers to the total amount of income tax payable by an assessee for a financial year after considering applicable tax rates, surcharge, cess, rebates, and reliefs. A deferred tax liability, or "DTL", is created when the income tax expense recorded on a company's income statement prepared under GAAP accounting standards is different from the actual amount paid to the Internal Revenue Service (IRS).

$$\text{Deferred Tax Liability (DTL)} = \frac{\text{Income Tax Payable}}{\text{Reported Income Tax}}$$

Fig. 4.1.6: Deferred Tax Liability Calculation

2. Steps in the Calculation of Tax Liability

The tax liability is calculated through a structured process:

Step	Description
Determination of Total Income	Compute total income after deductions and adjustments.
Application of Tax Slabs	Apply applicable slab rates or flat rates.
Calculation of Basic Tax	Compute tax on total income.
Addition of Surcharge	Add a surcharge where income exceeds specified limits.
Addition of Cess	Add health and education cess.
Adjustment of Rebates	Reduce eligible tax rebates.
Adjustment of Tax Credits	Adjust TDS, TCS, and advance tax.
Final Tax Liability	Determine tax payable or refundable.

Table 4.1.8: Steps in Calculation of Tax Liability

3. Components Considered in Tax Liability

Tax liability computation takes into account:

- Applicable tax rates and slab structure
- Surcharge based on income level
- Health and education cess
- Rebates and reliefs, where applicable
- Taxes already paid through TDS, TCS, or advance tax

4. Illustrative Overview of Tax Liability Calculation

Particulars	Amount
Total Income	600000
Tax as per Slabs	Calculated as applicable
Surcharge	As applicable
Health and Education Cess	Added to tax
Total Tax Liability	Final amount payable

Table 4.1.8: Tax Liability Calculation

Accurate calculation of tax liability ensures compliance with income tax laws, prevents penalties, and supports transparent financial reporting. An Accounts Assistant assists in computing tax liability, verifying tax deductions, adjusting tax credits, and supporting timely payment or refund processes. A clear understanding of tax liability calculation enables effective tax compliance and financial management in the BFSI sector within India.

Summary



- Income tax under the Income Tax Act, 1961, serves as a significant source of government revenue and applies to individuals and organisations in the BFSI sector.
- The scope of income tax depends on the residential status of the assessee and the place where income is earned or received.
- Total income is computed through a structured process involving classification, aggregation, and allowable deductions.
- Tax rates and slab structures determine the amount of tax payable by different categories of taxpayers.
- Residential status directly influences the extent of income taxable in India.
- Income is classified under five distinct heads for systematic tax computation.
- Clubbing of income provisions prevents tax avoidance through the transfer of income or assets to related persons.
- Set off and carry forward rules allow adjustment of eligible losses against income across assessment years.
- TDS, TCS, and advance tax ensure the timely collection and payment of income tax.
- Tax liability is determined after applying applicable rates, cess, rebates, and adjusting prepaid taxes.

Exercise

Multiple-choice Question:

1. Income tax in India is governed by which legislation?
 - a. Companies Act, 2013
 - b. Income Tax Act, 1961
 - c. Contract Act, 1872
 - d. GST Act, 2017

2. Which factor primarily determines the scope of taxable income in India?
 - a. Age of the assessee
 - b. Residential status
 - c. Type of bank account
 - d. Nature of employment

3. Income earned from fixed deposit interest is classified under which head of income?
 - a. Income from Salary
 - b. Income from House Property
 - c. Profits and Gains of Business or Profession
 - d. Income from Other Sources

4. Clubbing of income provisions is mainly intended to:
 - a. Increase tax rates
 - b. Prevent tax evasion
 - c. Promote savings
 - d. Encourage investments

5. Advance tax is required to be paid when the estimated tax liability exceeds the prescribed limit and is paid:
 - a. After the end of the financial year
 - b. Only at the time of filing the return
 - c. In instalments during the financial year
 - d. Through TDS only

Descriptive Questions

1. Explain the concept, scope, and importance of income tax under the Income Tax Act, 1961.
2. Describe the steps involved in computing the total income of an assessee.
3. Explain residential status and its impact on the taxability of income in India.
4. Describe the different heads of income under the Income Tax Act, 1961.
5. Explain the concepts and applicability of TDS, TCS, and advance tax.

Notes

Scan the QR codes or click on the link to watch the related videos



<https://www.youtube.com/watch?v=BEvXoGEJH4g>

Income Tax Lecture



<https://www.youtube.com/watch?v=-w8RcXtxzMI>

Clubbing of Income Provisions under Income Tax Act 1961



<https://www.youtube.com/watch?v=embl7P7FFk8>

Clubbing of Income, Financial Planning and Tax Management





5. Deductions under Chapter VI A

Unit 5.1 - Deductions under Chapter VI A



Key Learning Outcomes



By the end of this module, the participants will be able to:

1. Explain the scope and provisions of deductions available under Chapter VI A of the Income Tax Act, including sections 80C to 80U.
2. Apply the provisions of Chapter VI A to calculate and compute eligible deductions for determining taxable income.

UNIT 5.1: Deductions under Chapter VI A

Unit Objectives



By the end of this unit, the participants will be able to:

1. Explain the scope and provisions of deductions available under Chapter VI A of the Income Tax Act, including sections 80C to 80U.
2. Identify eligible deductions under different sections of Chapter VI A applicable to individual taxpayers.
3. Apply the provisions of Chapter VI A to compute allowable deductions for income tax purposes.
4. Calculate the total deduction amount to determine taxable income after Chapter VI A deductions.

5.1.1 Overview and Scope of Chapter VI A Deductions

Chapter VI A of the Income Tax Act, 1961, provides a structured framework of deductions that allow taxpayers to reduce their gross total income by claiming specified amounts, thereby lowering their overall tax liability. These deductions are particularly relevant for employees and professionals working in the Banking, Financial Services and Insurance sector, as they encourage systematic savings, insurance coverage, retirement planning, and social security contributions.

The scope of Chapter VI A extends from Section 80C to Section 80U and covers a wide range of eligible investments, expenditures, and contributions. Section 80C forms the core of this chapter. It allows deductions for investments such as Life Insurance Premiums, Provident Fund contributions, Public Provident Fund, National Savings Certificates, Equity Linked Savings Schemes, repayment of housing loan principal, and certain pension schemes. BFSI employees commonly utilise these options as part of structured financial planning.

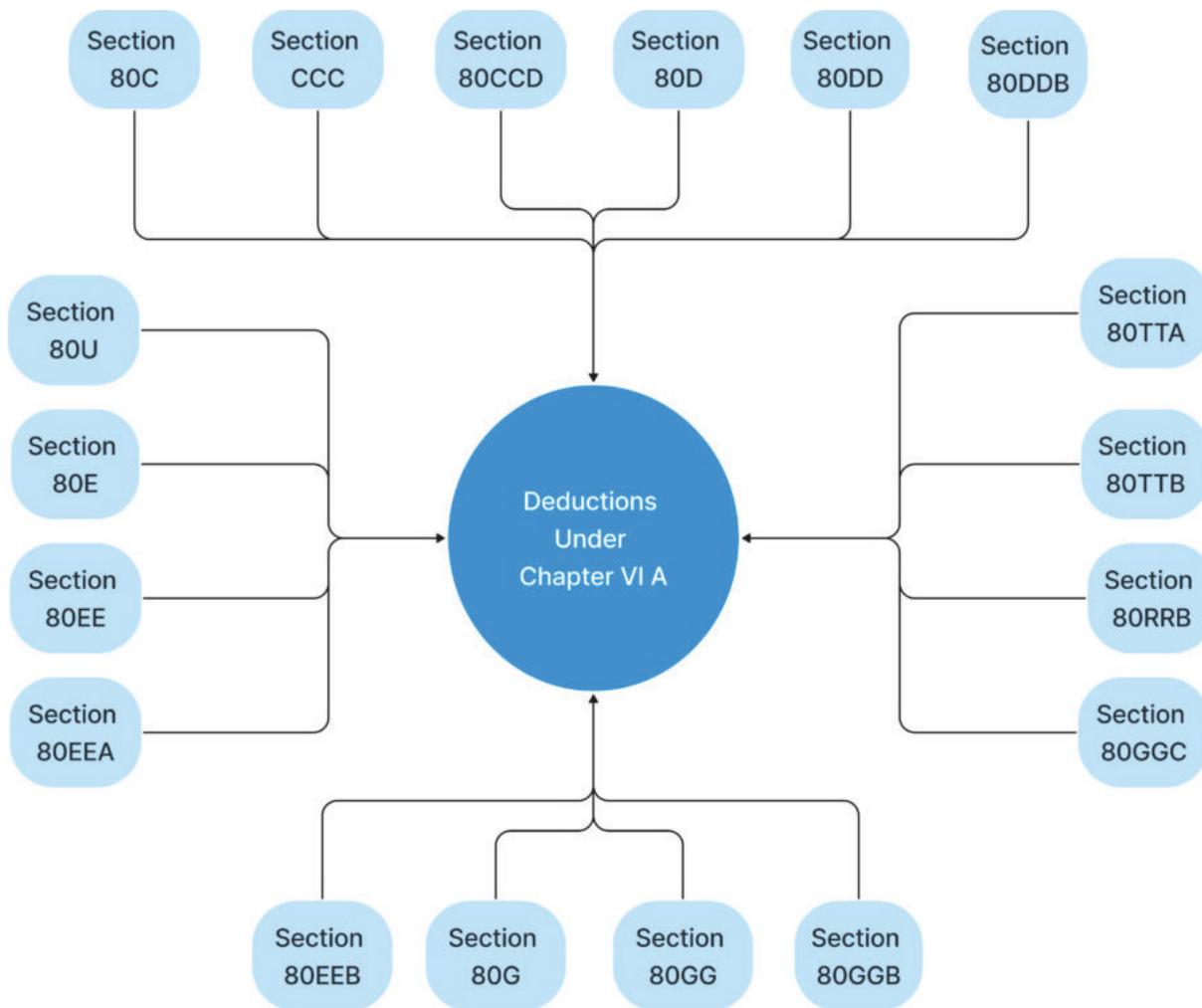


Fig. 5.1.1: Deductions under Chapter VI A

Beyond Section 80C, Chapter VI A includes deductions for health insurance premiums under Section 80D, interest on education loans under Section 80E, interest on housing loans for affordable housing under Section 80EE and 80EEA, and donations to approved charitable institutions under Section 80G. These provisions promote financial security, education, housing, and social welfare.

The chapter also covers deductions linked to income sources, such as Section 80TTA and 80TTB for interest on savings accounts, which are relevant for individuals maintaining bank deposits. Sections like 80CCD address contributions to the National Pension System, which is increasingly adopted in organised sectors, including BFSI, for retirement planning.

Special provisions under Chapter VI A support social inclusion by granting deductions for persons with disabilities and for those incurring expenses on medical treatment of dependents with disabilities under Sections 80U and 80DD. These provisions reflect the broader objective of equitable tax relief.

Overall, Chapter VI A plays a significant role in the Indian tax structure by incentivising savings, investments, insurance, and welfare-oriented spending. For the BFSI sector, understanding the scope and applicability of deductions under Sections 80C to 80U is essential for accurate tax computation, effective payroll processing, and informed financial advisory services.

5.1.2 Classification of Deductions under Sections 80C to 80U

Chapter VI A of the Income Tax Act, 1961, classifies deductions into multiple sections ranging from 80C to 80U, each addressing specific types of savings, investments, expenditures, and social welfare objectives. These deductions are primarily applicable to individual taxpayers, including employees and professionals working in the BFSI sector, and play a crucial role in reducing taxable income while encouraging disciplined financial behaviour.

The deductions under Chapter VI A can be broadly classified based on their nature and purpose, such as investment-linked deductions, expenditure-based deductions, income-linked deductions, retirement-oriented deductions, and socially supportive deductions.

1. Investment and Savings-Linked Deductions

These deductions promote long-term savings and capital formation.

Section	Nature of Deduction	Eligible Investments / Payments
80C	Investments and savings	Life insurance premium, EPF, PPF, NSC, ELSS, tuition fees, principal repayment of housing loan
80CCC	Pension contributions	Contribution to approved pension funds
80CCD(1)	NPS contribution	Employee contribution to the National Pension System
80CCD(1B)	Additional NPS benefit	Additional contribution to NPS (over and above 80C limit)
80CCD(2)	Employer NPS contribution	Employer's contribution to NPS

Table 5.1.1: Investment and Savings-Linked Deductions

These sections are widely utilised by BFSI employees as part of salary structuring and retirement planning.

2. Health and Insurance-Related Deductions

These deductions encourage health security and medical preparedness.

Section	Nature of Deduction	Coverage
80D	Health insurance premium	Premium paid for self, family, and parents
80DD	Maintenance of a disabled dependent	Medical treatment, rehabilitation, and insurance for a dependent with disability
80DDB	Medical treatment of specified diseases	Expenses for notified critical illnesses

Table 5.1.2: Health and Insurance-Related Deductions

Such deductions are relevant for employees seeking tax-efficient healthcare planning.

3. Education and Housing-Related Deductions

These provisions support education and home ownership.

Section	Nature of Deduction	Eligible Claim
80E	Education loan interest	Interest paid on a loan for higher education

Section	Nature of Deduction	Eligible Claim
80EE / 80EEA	Housing loan interest	Interest on loans for first-time or affordable housing

Table 5.1.3: Education and Housing-Related Deductions

These deductions are significant for young professionals in the BFSI sector.

4. Donations and Social Contribution Deductions

These deductions promote charitable and social responsibility.

Section	Nature of Deduction	Eligible Donations
80G	Donations	Contributions to approved charitable institutions and relief funds
80GGA	Scientific research donations	Donations for scientific research and rural development

Table 5.1.4: Donations and Social Contribution Deductions

These provisions align with corporate social responsibility values commonly promoted in the BFSI sector.

5. Income-Based Deductions

These deductions are linked to specific income sources.

Section	Nature of Deduction	Income Covered
80TTA	Savings account interest	Interest earned on savings accounts
80TTB	Senior citizen benefits	Interest on deposits for senior citizens

Table 5.1.5: Income-Based Deductions

Such deductions are frequently applied while computing individual tax liability.

6. Disability and Special Category Deductions

These provisions support inclusivity and financial relief.

Section	Nature of Deduction	Eligibility
80U	Disability of the taxpayer	Individual taxpayer with certified disability

Table 5.1.6: Disability and Special Category Deductions

These deductions provide fixed tax relief irrespective of actual expenditure.

Overall, the classification of deductions under Sections 80C to 80U provides a comprehensive tax planning framework for individual taxpayers. In the BFSI sector, accurate identification and application of these deductions are essential for payroll processing, tax computation, financial advisory services, and compliance with income tax regulations.

5.1.3 Eligibility and Conditions for Claiming Chapter VI A Deductions

Eligibility and conditions for claiming deductions under Chapter VI A of the Income Tax Act, 1961, are clearly defined to ensure uniform application and compliance. For individuals working in the BFSI sector, understanding these provisions is essential for accurate tax computation, payroll processing, and lawful tax planning.

1. Eligible Taxpayers

Deductions under Chapter VI A are available primarily to:

- Individual taxpayers, including salaried employees and professionals in the BFSI sector
- Hindu Undivided Families, where applicable under specific sections

Certain deductions are exclusive to individuals, while some are available only to senior citizens or resident taxpayers.

2. Income-Based Eligibility

Chapter VI A deductions can be claimed only against:

- Gross Total Income computed under the Income Tax Act
- Income that is taxable under the applicable heads of income

No deduction is allowed from incomes that are exempt from tax. Additionally, deductions cannot exceed the Gross Total Income.

3. Residential Status Conditions

Some deductions are restricted based on residential status:

- Deductions such as 80C, 80D, 80E, and 80G are generally available to both residents and non-residents
- Certain benefits, such as interest deductions on savings accounts under 80TTA, are primarily relevant for resident individuals.

Residential status directly affects eligibility for specific deductions.

4. Section-Specific Conditions

Each section under Chapter VI A prescribes its own eligibility requirements:

- Investments or payments must be made in approved instruments or to approved entities
- Contributions must be made during the relevant financial year
- Expenses must be supported by valid documents such as receipts, certificates, or policy statements

For example, deductions under 80C require investment in notified schemes, while deductions under 80D require payment of health insurance premiums through permitted modes.

5. Monetary Limits and Caps

Most deductions are subject to maximum limits:

- Aggregate limits apply to grouped sections such as 80C, 80CCC, and 80CCD(1)

- Separate limits apply to sections like 80D, 80E, and 80U

Claims beyond prescribed limits are not permitted while computing taxable income.

6. Mode of Payment Requirements

Many deductions are allowed only if payments are made through specified modes:

- Banking channels such as cheque, demand draft, or electronic transfer
- Cash payments are either restricted or fully disallowed under most sections

This ensures traceability and regulatory compliance.

7. Documentation and Verification

Taxpayers must maintain proper records to support deduction claims:

- Investment proofs, insurance premium receipts, loan certificates, and donation receipts
- Disability certificates issued by authorised medical authorities, where applicable

In the BFSI sector, these documents are commonly verified during payroll processing and tax audits.

8. Claim Procedure

Deductions under Chapter VI A are claimed:

- While computing total income in the income tax return
- Through employer declarations and proof submission for salaried employees

Incorrect or unsupported claims may result in disallowance and additional tax liability.

Overall, eligibility and conditions under Chapter VI A ensure that deductions are claimed lawfully and accurately. Proper application of these provisions enables BFSI professionals to compute allowable deductions effectively while maintaining compliance with income tax regulations.

5.1.4 Computation of Total Deductions under Chapter VI A

Computation of total deductions under Chapter VI A is a structured process that directly impacts the determination of taxable income. In the BFSI sector, Accounts Assistants and payroll professionals must apply these provisions accurately to ensure correct tax liability calculation and statutory compliance.

1. Basis of Computation

Deductions under Chapter VI A are calculated after determining the Gross Total Income. Gross Total Income represents the aggregate of income computed under all applicable heads of income, excluding exempt income. Key principles governing computation include:

- Deductions are allowed only from Gross Total Income
- Total deductions cannot exceed Gross Total Income
- Section-wise limits must be strictly observed

2. Step-by-Step Computation Process

Step 1: Compute Gross Total Income

- Income is aggregated under relevant heads such as salary, house property, business or profession, capital gains, and income from other sources.

Step 2: Identify Eligible Deductions

- Applicable deductions under Chapter VI A are identified based on taxpayer eligibility, nature of income, and qualifying investments or expenses.

Step 3: Apply Section-wise Limits

- Each deduction is restricted to prescribed maximum limits, even if actual investment or expenditure is higher.

Step 4: Aggregate Allowable Deductions

- All eligible deductions are totaled to arrive at the overall deduction amount under Chapter VI A.

Step 5: Determine Taxable Income

- Taxable income is calculated by subtracting total Chapter VI A deductions from Gross Total Income.

Fig. 4.1.2: Step-by-Step Computation Process

3. Common Chapter VI A Deductions Used in BFSI Sector

Section	Nature of Deduction	Maximum Allowable Limit
80C, 80CCC, 80CCD(1)	Savings, investments, pension contributions	1,50,000 (combined)
80CCD(1B)	Additional NPS contribution	50,000
80D	Health insurance premium	As per age and category
80E	Interest on the education loan	No monetary limit
80G	Donations to approved institutions	Subject to qualifying limits
80TTA	Savings account interest	10,000
80TTB	Interest income for senior citizens	50,000
80U	Disability of an individual taxpayer	Fixed deduction based on disability

Table 5.1.7: Common Chapter VI A Deductions Used in BFSI Sector

4. Computation of Total Deductions

Particulars	Amount
Gross Total Income	7,50,000
Deduction under 80C	1,50,000
Deduction under 80CCD(1B)	50,000

Particulars	Amount
Deduction under 80D	25,000
Deduction under 80TTA	8,000
Total Chapter VI A Deductions	2,33,000
Taxable Income	5,17,000

Table 5.1.8: Computation of Total Deductions

5. Practical Considerations in BFSI Environment

- Payroll systems compute deductions based on employee declarations and verified proofs
- Any excess claim beyond the limits is automatically restricted
- Accurate classification of deductions ensures correct tax deduction at source
- Regular updates are required to reflect changes in statutory limits and provisions

6. Importance of Accurate Computation

Correct computation of Chapter VI A deductions:

- Reduces taxable income legally
- Prevents excess tax deduction and subsequent refunds
- Ensures compliance with Income Tax Act provisions
- Supports accurate financial reporting and employee tax planning

Overall, systematic computation of total deductions under Chapter VI A enables BFSI professionals to determine taxable income accurately while maintaining transparency, efficiency, and statutory compliance in income tax calculations.

Summary



- Chapter VI A of the Income Tax Act provides statutory deductions to reduce taxable income for individual taxpayers.
- Deductions under sections 80C to 80U cover investments, savings, insurance, donations, interest payments, and specified personal conditions.
- Eligibility for deductions depends on the nature of income, taxpayer category, and fulfilment of prescribed conditions and limits.
- Combined and section-wise monetary ceilings determine the maximum allowable deduction amounts.
- Total deductions are calculated after determining Gross Total Income and are restricted to the amount of such income.
- Accurate computation of Chapter VI A deductions supports correct taxable income determination and income tax compliance.

Exercise

Multiple-choice Question:

1. Which section of the Income Tax Act provides deductions for life insurance premiums, provident fund, and specified investments?
 - a. Section 80D
 - b. Section 80C
 - c. Section 80G
 - d. Section 80U

2. What is the maximum combined deduction limit under sections 80C, 80CCC, and 80CCD(1)?
 - a. 1,00,000
 - b. 1,25,000
 - c. 1,50,000
 - d. 2,00,000

3. Which deduction is allowed explicitly for additional contributions to the National Pension System?
 - a. Section 80C
 - b. Section 80CCD(1)
 - c. Section 80CCD(1B)
 - d. Section 80D

4. Deduction under which section is deduction allowed for the medical insurance premium paid by an individual?
 - a. Section 80E
 - b. Section 80D
 - c. Section 80G
 - d. Section 80TTA

5. From which income amount are Chapter VI A deductions allowed to be claimed?
 - a. Total Income
 - b. Net Income
 - c. Gross Total Income
 - d. Exempt Income

Descriptive Questions

1. Explain the scope and significance of deductions available under Chapter VI A of the Income Tax Act.
2. Classify the deductions available under sections 80C to 80U with suitable examples.
3. Describe the eligibility conditions required for claiming deductions under Chapter VI A.
4. Explain the step-by-step process for computing total deductions under Chapter VI A.
5. Illustrate the computation of taxable income after allowing deductions under Chapter VI A with an example.

Notes



Scan the QR codes or click on the link to watch the related videos



<https://www.youtube.com/watch?v=WjwI5kXBdAA>

Revise Important Deductions under Chapter VI-A



https://www.youtube.com/watch?v=mDLHipBEoA&list=PLGb_llcnrkRqpfEHw30Frnlb4ZkubcPU

80C To 80U Deductions | Section 80C to 80U Deductions Explained





6. Filing of Income Tax Return

Unit 6.1 - Income Tax Return Filing and Compliance Procedures



Key Learning Outcomes



By the end of this module, the participants will be able to:

1. Describe the purpose, structure, and importance of PAN in income tax compliance.
2. Explain the step-by-step process of income tax return filing and online PAN registration.
3. Identify different types of Income Tax Return forms and their applicability.
4. Explain the concept and applicability of presumptive taxation.
5. Describe the income tax assessment procedure along with applicable interest and penalties.
6. Outline the process for claiming and receiving income tax refunds.

UNIT 6.1: Income Tax Return Filing and Compliance Procedures

Unit Objectives



By the end of this unit, the participants will be able to:

1. Describe the structure, purpose, and role of PAN in income tax administration.
2. Explain the steps involved in online PAN application and PAN registration for ITR filing.
3. Identify the different Income Tax Return forms and their applicability to various categories of taxpayers.
4. Explain the procedure for filing income tax returns through the online portal.
5. Describe the concept and applicability of presumptive taxation under the Income Tax Act.
6. Explain the assessment process, interest, penalties, and income tax refund procedures.

6.1.1 Permanent Account Number and Its Role in Tax Compliance

Permanent Account Number is a unique alphanumeric identifier issued by the Income Tax Department of India to individuals and entities for the purpose of tax administration and financial tracking. PAN plays a central role in the Indian taxation system and is a mandatory requirement for most financial and tax-related transactions in the BFSI sector.

1. Structure of PAN

PAN consists of ten alphanumeric characters in the format AAAAA9999A. The first three characters are alphabetic and randomly generated. The fourth character indicates the status of the PAN holder, such as individual, company, firm, or trust. The fifth character represents the first letter of the surname or name of the PAN holder. The following four characters are numeric digits. The last character is an alphabetic check digit used for verification purposes.



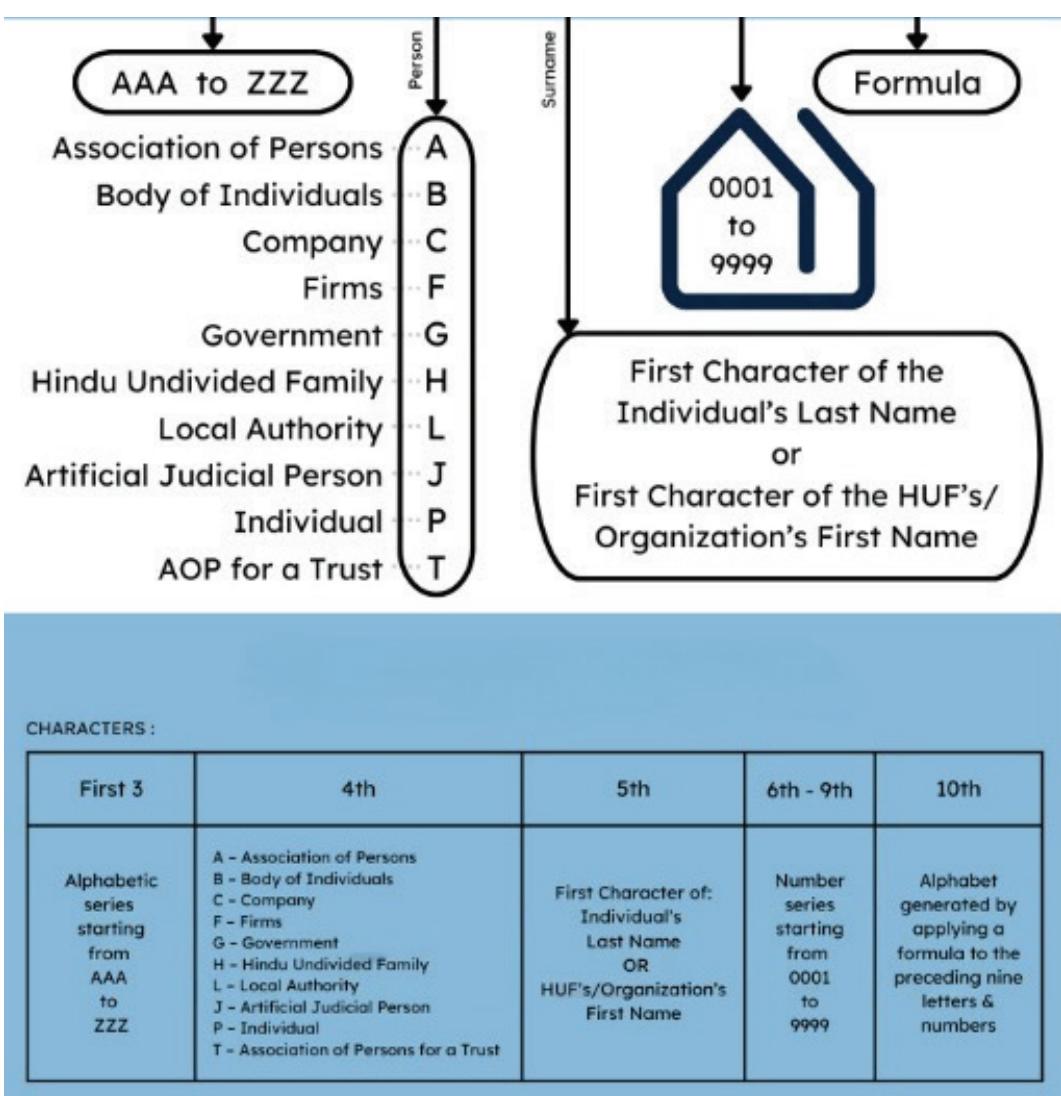


Fig. 6.1.1: Structure of PAN

2. Purpose of PAN

PAN serves as a universal identification key for tracking financial transactions and linking them to a specific taxpayer. It enables the Income Tax Department to maintain a consolidated record of income, taxes paid, and returns filed by a taxpayer. PAN prevents duplication and ensures accuracy in tax records across multiple financial institutions.

3. Role of PAN in Income Tax Administration

PAN is compulsory for filing income tax returns and for all correspondence with the Income Tax Department. It is used for deduction and collection of tax at source, ensuring that tax credits are correctly reflected in the taxpayer's account. PAN helps in monitoring high-value transactions such as banking deposits, investments, and loan activities.

4. Importance of PAN in the BFSI Sector

Banks and financial institutions require PAN for opening accounts, processing loans, and managing investments. Insurance companies use PAN for policy issuance, premium payments, and claim settlements above prescribed limits. PAN enables seamless integration of financial data across banks, insurers, and tax authorities, supporting transparency and regulatory compliance.

5. PAN as a Compliance and Control Tool

PAN reduces tax evasion by linking all financial transactions of a taxpayer under a single identification number. It supports accurate reporting, assessment, and refund processing by the tax authorities. For Accounts Assistants in the BFSI sector, proper verification and use of PAN ensure statutory compliance, efficient record-keeping, and smooth execution of income tax-related processes.

6.1.2 Online PAN Application and Registration for ITR Filing

Online PAN application and PAN registration for Income Tax Return filing are essential digital processes that enable taxpayers to comply with income tax requirements efficiently. In the BFSI sector, accurate handling of these processes ensures seamless onboarding of customers, employees, and entities into the tax system.

1. Online PAN Application Process

An online PAN application allows individuals and entities to obtain a Permanent Account Number through authorised portals approved by the Income Tax Department.

The key steps involved are:

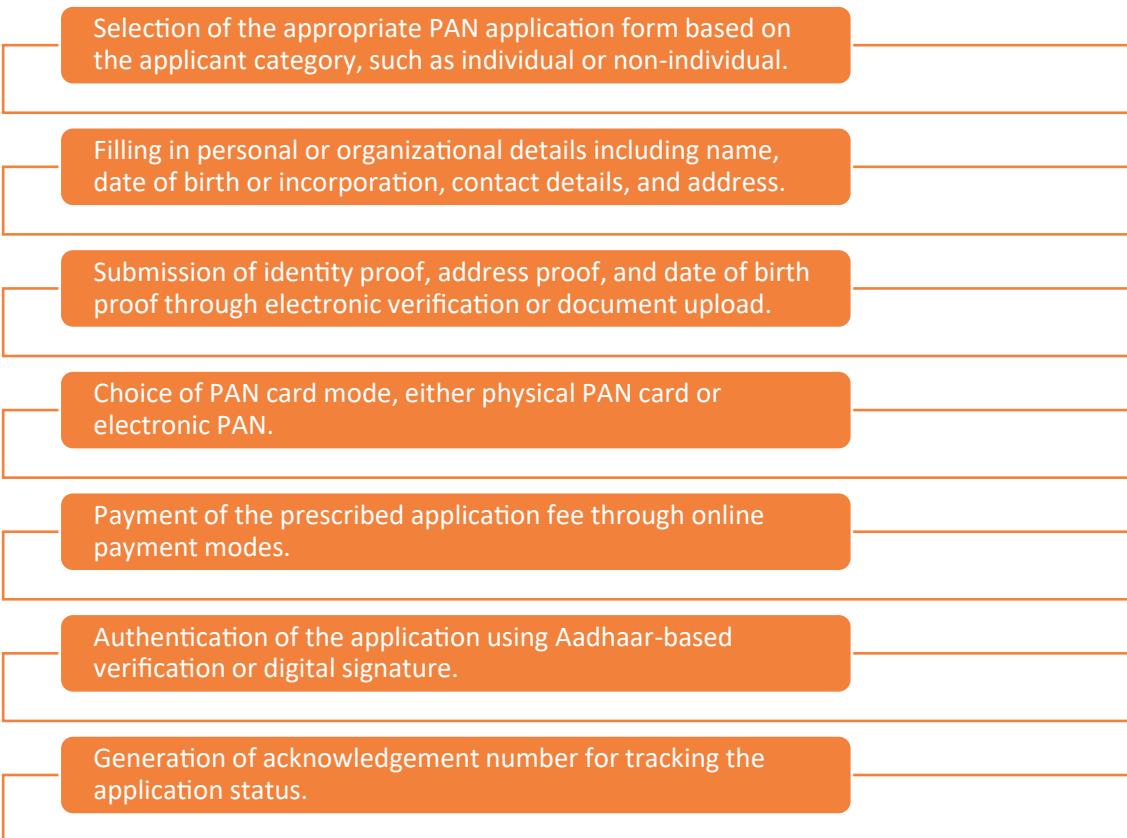


Fig. 6.1.2: Online PAN Application Process

After successful verification, the PAN is allotted and communicated to the applicant electronically, followed by the dispatch of the PAN card if the physical mode is selected.

2. PAN Registration for ITR Filing

PAN registration on the income tax e-filing portal is mandatory before filing an income tax return.

The registration process includes:

- Accessing the official income tax e-filing portal and selecting the registration option.
- Entering PAN as the user ID along with basic details such as name and date of birth.
- Verification of PAN details with the Income Tax Department database.
- Linking PAN with Aadhaar to enable e-verification and compliance.
- Creation of login credentials by setting a password and security questions.
- Activation of the user account through one-time password verification.

Fig. 6.1.3: PAN Registration for ITR Filing

3. Role of PAN Registration in ITR Filing

PAN registration enables access to pre-filled tax data such as Form 26AS and Annual Information Statement. It allows taxpayers to file returns, respond to notices, and track refund status online. Registered PAN ensures the correct credit of taxes deducted or collected at source.

Banks and financial institutions rely on PAN registration for employee payroll taxation and customer compliance. Accounts Assistants use registered PAN details to support tax deduction at source, return filing assistance, and statutory reporting. Proper PAN application and registration reduce errors, delays, and non-compliance in income tax return filing processes.

6.1.3 Types of Income Tax Return Forms and Applicability

Income Tax Return forms are prescribed formats used by different categories of taxpayers to report income, deductions, taxes paid, and other financial details to the Income Tax Department. Selection of the correct ITR form is essential for accurate compliance, especially in the BFSI sector, where varied income sources and taxpayer categories exist.

1. Overview of ITR Forms

Each ITR form is designed based on the nature of income, residential status, and the type of taxpayer. Using an incorrect form may result in defective return notices or rejection of the return.

2. Commonly Used ITR Forms and Applicability

ITR Form	Applicable To	Key Features
ITR 1	Resident individuals having income from salary, one house property, and other sources	Simplified return for individuals with total income within prescribed limits
ITR 2	Individuals and Hindu Undivided Families not having income from business or profession.	Suitable for income from capital gains and multiple house properties
ITR 3	Individuals and Hindu Undivided Families having income from business or profession.	Used by professionals, consultants, and business owners
ITR 4	Resident individuals, Hindu Undivided Families, and firms opting for presumptive taxation	Applicable under sections 44AD, 44ADA, and 44AE
ITR 5	Firms, Limited Liability Partnerships, and other non-individual entities	Excludes companies and charitable trusts
ITR 6	Companies other than those claiming exemption under section 11	Used by private and public limited companies
ITR 7	Persons, including trusts, political parties, and institutions	Applicable for entities required to file returns under special provisions

Table 6.1.1: Commonly Used ITR Forms and Applicability

Employees of banks and financial institutions generally use ITR 1 or ITR 2 based on income composition. Self-employed professionals and consultants associated with BFSI activities use ITR 3 or ITR 4, depending on the taxation method. Partnership firms, LLPs, and service providers in the BFSI ecosystem commonly use ITR 5. Banking companies, insurance companies, and financial corporations file returns using ITR 6.

3. Importance of Correct Form Selection

Correct ITR form selection ensures accurate reporting of income and deductions. It prevents notices related to defective returns and delays in processing. For Accounts Assistants, identifying the appropriate ITR form supports smooth return filing, regulatory compliance, and efficient tax administration within the BFSI sector.

6.1.4 Online Process of Filing Income Tax Returns

The online filing of Income Tax Returns is a digital process introduced to ensure accuracy, transparency, and efficiency in tax compliance. In the BFSI sector, this process is widely used for employee taxation, customer assistance, and institutional compliance.

1. Pre-Requisites for Online ITR Filing

Permanent Account Number registered on the income tax e-filing portal. PAN linked with Aadhaar for authentication and e-verification. An active bank account linked with PAN for refund processing. Relevant financial documents such as Form 16, Form 26AS, Annual Information Statement, and investment proofs.

2. Step-by-Step Online Filing Procedure**Step 1: Login to the E-Filing Portal**

- Access the income tax e-filing portal and log in using PAN as the user ID and the registered password.

Step 2: Select the Appropriate ITR Form

- Choose the applicable ITR form based on taxpayer category, residential status, and sources of income.

Step 3: Pre-Filled Data Review

- Review pre-filled information such as personal details, salary income, tax deducted at source, and bank details.

Step 4: Enter and Verify Income Details

- Enter details of income under relevant heads and verify deductions, exemptions, and Chapter VI A claims.

Step 5: Compute Tax Liability

- Allow the system to automatically compute tax payable or refund based on entered information.

Step 6: Pay Tax if Applicable

- Make payment of self-assessment tax or advance tax through online banking if any tax is payable.

Step 7: Submit the Return

- Submit the completed return after verifying all details for accuracy.

Step 8: Verify the Return

- Complete verification through Aadhaar OTP, net banking, digital signature, or electronic verification code.

Fig. 6.1.4: Step-by-Step Online Filing Procedure

3. Post-Filing Activities

Acknowledgement receipt is generated upon successful submission. Return processing status can be tracked online. Refund, if any, is credited directly to the registered bank account after processing.

Banks and financial institutions facilitate online ITR filing for employees and customers. Accounts Assistants support data verification, tax computation, and timely submission of returns. Online filing reduces errors, speeds up processing, and ensures compliance with statutory timelines.

6.1.5 Presumptive Taxation Scheme

Presumptive taxation is a simplified method of computing taxable income under the Income Tax Act, 1961, designed to reduce the compliance burden for small taxpayers. Under this scheme, income is presumed at a fixed percentage of turnover or gross receipts, eliminating the need for detailed books of accounts.

1. Concept of Presumptive Taxation

The scheme assumes a standard level of profit for eligible taxpayers instead of requiring actual profit calculation. Taxpayers opting for presumptive taxation declare income at prescribed rates

and pay tax accordingly. Maintenance of detailed accounting records and audit requirements is largely relaxed under this scheme.

WHO CAN OPT FOR PRESUMPTIVE TAXATION SCHEME



Fig. 6.1.5: Who can opt for the presumptive taxation scheme

2. Sections Covered under Presumptive Taxation

Section	Applicable To	Basis of Presumption
44AD	Resident individuals, HUFs, and firms engaged in eligible business	Presumed income at the prescribed percentage of turnover
44ADA	Resident professionals such as doctors, accountants, and consultants	Presumed income at the prescribed percentage of gross receipts
44AE	Persons engaged in the business of plying, hiring, or leasing goods carriages	Presumed income per vehicle per month

Table 6.1.2: Sections Covered under Presumptive Taxation

3. Applicability Conditions

The taxpayer must be a resident individual, Hindu Undivided Family, or partnership firm other than LLP in specified cases. Total turnover or gross receipts must be within the prescribed threshold limits. The scheme does not apply to certain businesses, such as commission agents and agency businesses. Once opted, the scheme may require continuity for a specified period, depending on the section.

4. Tax Computation under Presumptive Taxation

Income is calculated by applying the prescribed percentage to total turnover or gross receipts. No separate deduction for business expenses is allowed, as they are deemed to have been considered. Depreciation is deemed to have been allowed, though written-down value adjustments continue.

5. Advance Tax Provisions

Taxpayers under presumptive taxation are required to pay advance tax in a simplified manner. Generally, the entire advance tax is payable in a single instalment within the prescribed due date.

Self-employed professionals providing services to banks and financial institutions commonly opt for presumptive taxation. Small advisory firms and consultants benefit from reduced compliance and simplified tax calculations. Accounts Assistants assist in determining eligibility, computing presumptive income, and ensuring correct return filing.

6. Advantages of Presumptive Taxation

- Reduced compliance and record-keeping requirements.
- Simplified tax computation and faster return filing.
- Lower administrative burden for both taxpayers and tax authorities.

Presumptive taxation plays an important role in supporting ease of doing business while ensuring tax compliance within the BFSI ecosystem.

6.1.6 Assessment, Interest, Penalties, and Income Tax Refund Process

After filing an income tax return, the Income Tax Department follows a structured post-filing mechanism to verify returns, levy statutory charges where applicable, and issue refunds. In the BFSI sector, understanding these processes is essential for ensuring timely compliance and accurate financial reporting.

1. Income Tax Assessment Process

Assessment refers to the examination of a return filed by a taxpayer to confirm the correctness of the income declared and taxes paid.

Types of assessment include:

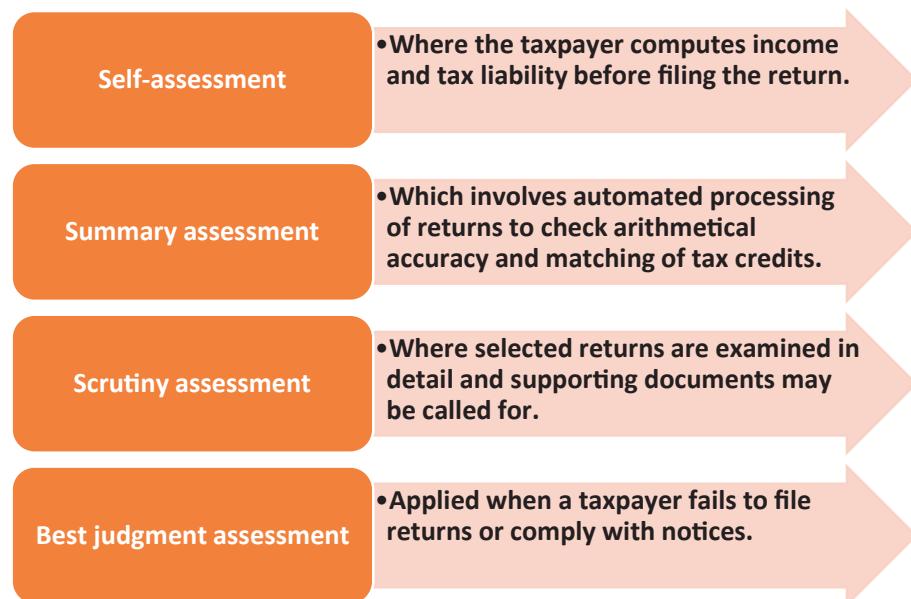


Fig. 6.1.6: Types of assessment

Assessment outcomes may result in acceptance of the return, additional tax demand, or refund.

2. Interest under the Income Tax Act

Interest is charged for delays or defaults in tax payment and return filing. It is compensatory in nature and mandatory.

Section	Nature of Default	Interest Applicability
234A	Delay in filing the return	Interest on tax payable for the period of delay
234B	Short payment of the advance tax	Interest on the unpaid advance tax amount
234C	Deferment of advance tax instalments	Interest for each instalment default

Table 6.1.3: Interest under the Income Tax Act

Interest is calculated automatically by the system and added to the tax liability.

3. Penalties for Non-Compliance

Penalties are imposed for non-compliance with provisions of the Income Tax Act.

Common penalty situations include:

- Failure to file income tax return within prescribed timelines.
- Under-reporting or misreporting of income.
- Non-maintenance of required records or incorrect disclosures.
- Penalties act as a deterrent and are imposed in addition to interest where applicable.

4. Income Tax Refund Process

Refund arises when excess tax has been paid through TDS, advance tax, or self-assessment tax.

Key stages in the refund process include:

- Processing of the return and determination of excess tax paid.
- Generation of a refund order by the Income Tax Department.
- Credit of refund directly to the registered and validated bank account.
- Intimation of refund status through electronic communication.

Delays in refunds may occur due to incorrect bank details, a mismatch in tax credits, or pending verification.

Banks facilitate direct credit of income tax refunds to taxpayer accounts. Accounts Assistants assist in the reconciliation of tax credits, responding to assessment notices, and monitoring refund status. Proper understanding of assessment, interest, and penalty provisions ensures accurate tax compliance and minimises financial risk. Overall, effective management of assessment procedures, timely payment of taxes, avoidance of penalties, and tracking of refunds support efficient income tax administration within the BFSI sector.

Summary



- Permanent Account Number serves as a unique identifier for tracking income and tax-related transactions.
- Online PAN application and registration enable digital access to income tax services and return filing.
- Different Income Tax Return forms are prescribed based on the taxpayer category, income sources, and taxation method.
- The online income tax return filing process integrates pre-filled data, tax computation, and electronic verification.
- Presumptive taxation offers a simplified method of income computation for eligible small businesses and professionals.
- Income tax assessment procedures verify returns and determine acceptance, demand, or refund.
- Interest and penalties apply for delays, defaults, or non-compliance under the Income Tax Act.
- Income tax refunds arise from excess tax payments and are credited directly to validated bank accounts.

Exercise

Multiple-choice Question:

1. What is the primary purpose of a Permanent Account Number in India?
 - a. Identity proof for travel
 - b. Tracking financial and tax-related transactions
 - c. Proof of residence
 - d. Employee identification

2. What is mandatory for filing an income tax return online in India?
 - a. Voter ID
 - b. Passport
 - c. PAN
 - d. Driving licence

3. Which Income Tax Return form applies to resident individuals opting for presumptive taxation?
 - a. ITR 1
 - b. ITR 2
 - c. ITR 3
 - d. ITR 4

4. Under presumptive taxation, income is calculated based on:
 - a. Actual profit after expenses
 - b. Fixed percentage of turnover or receipts
 - c. Gross salary income
 - d. Net worth of the taxpayer

5. Which section applies to the interest for the delay in filing the income tax return?
 - a. Section 234A
 - b. Section 234B
 - c. Section 234C
 - d. Section 80C

Descriptive Questions

1. Explain the structure, purpose, and role of PAN in income tax administration.
2. Describe the online procedure for filing income tax returns in India.
3. Explain the concept and applicability of the presumptive taxation scheme.
4. Describe the assessment process followed by the Income Tax Department after return filing.
5. Explain the process of income tax refund and the reasons for the delay in refund processing.

Notes



Scan the QR codes or click on the link to watch the related videos



<https://www.youtube.com/watch?v=W9QDOpb1DOA>



https://www.youtube.com/watch?v=fFRWMfr_dFA

Indian Taxation Law : Permanent Account Number (PAN Card)

Latest ITR Forms 1 to 7 Explained | ITR form 1 2 3 4 5
6 7



7. Employability Skills



Employability Skills is available at the following location



<https://www.skillindiadigital.gov.in/content/list>

Employability Skills



8. Annexure



Module No.	Unit No.	Topic Name	Page No.	URL	QR Code (s)
Module 1: Introduction to Accounts Assistant	Unit 1.1: Introduction to Accounts Assistant	1.1.3 Duties and Responsibilities of an Accounts Assistant	11	https://www.youtube.com/-watch?v=fm1GA00fWic	
		1.1.4 Skills, Qualifications, and Job Requirements	11	https://www.youtube.com/-watch?v=MuzKpajM94Y	
Module 2: Financial Accounting and Reporting	Unit 2.1: Fundamentals of Accounting and Financial Statements	2.1.1 Basic Accounting Concepts, Principles, and Terminologies	37	https://www.youtube.com/-watch?v=2mVFIBchjmc	
			37	https://www.youtube.com/-watch?v=Y8yV12bShrl	
		2.1.5 Trial Balance Preparation and Analysis	37	https://www.youtube.com/-watch?v=jdZS-vJrnzYw	

Module No.	Unit No.	Topic Name	Page No.	URL	QR Code (s)
	Unit 2.2: Advanced Financial Re- porting and Analysis	2.2.1 Balance Sheet and Eq- uity Statement Preparation 2.2.3 Financial Ratio Calcula- tion and Inter- pretation	37	https://www.youtube.com/-watch?v=pflmPkogzCw	 Balance Sheet Analysis
			37	https://www.youtube.com/-watch?v=-UbF-ZRd8Eds	 Ratio Analysis Financial Statement Analysis
			37	https://www.youtube.com/-watch?v=3kAsxVzR-Jml&t=2179s	 Financial Ratios for Easy Analysis of Companies!
Module 3: Labour Laws and Payroll Accounting	Unit 3.1: Labour Laws Applicable to Employment and Payroll	3.1.1 Con- tract Act and Employment Relationships	62	https://www.youtube.com/-watch?v=t96A1DrsZTw	 Indian Contract Act
	Unit 3.2: Payroll Ac- counting and Statutory Compliance	3.2.1 Concept and Process of Payroll Ac- counting	62	https://www.youtube.com/-watch?v=7k4_fTxThMQ	 Payroll Accounting

Module No.	Unit No.	Topic Name	Page No.	URL	QR Code (s)
		3.2.4 Statutory Deductions from Salary	62	https://www.youtube.com/-watch?v=YBnll8MB12g	 Deductions from Salary
		4.1.2 Steps in Computing Total Income	79	https://www.youtube.com/-watch?v=BEvXoGEJH4g	 Income Tax Lecture
Module 4: Heads of Income under Income Tax Act 1961	Unit 4.1: Income Tax Computation and Compliance under the Income Tax Act, 1961	4.1.6 Clubbing of Income Provisions	79	https://www.youtube.com/-watch?v=-w8RcXtxzMI	 Clubbing of Income Provisions under Income Tax Act 1961
			79	https://www.youtube.com/-watch?v=embl7P7FFk8	 Clubbing of Income, Financial Planning and Tax Management
Module 5: Deductions under Chapter VI A	Unit 5.1: Deductions under Chapter VI A	5.1.1 Overview and Scope of Chapter VI A Deductions	93	https://www.youtube.com/-watch?v=WjwI5kBdAA	 Revise Important Deductions under Chapter VI-A

Module No.	Unit No.	Topic Name	Page No.	URL	QR Code (s)
Module 6: Filing of Income Tax Return	Unit 6.1: Income Tax Return Filing and Compli- ance Proce- dures	5.1.2 Clas- sification of Deductions under Sections 80C to 80U	93	https://www.youtube.com/-watch?v=mDLIHi-pBEoA&list=PLGb_llcnrkRpqfE-Hw30F-rnlb4ZkubcPU	 80C To 80U Deductions Section 80C to 80U Deductions Explained
		6.1.1 Perma- nent Account Number and Its Role in Tax Compliance	108	https://www.youtube.com/-watch?v=W9QD-Opb1DOA	 Indian Taxation Law : Permanent Account Number (PAN Card)
	6.1.3 Types of Income Tax Return Forms and Applica- bility	108		https://www.youtube.com/-watch?v=fFR-WMfr_dFA	 Latest ITR Forms 1 to 7 Explained ITR form 1 2 3 4 5 6 7







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