Significance of Accounting Year

What is the issue?

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For government, many businesses, investors and taxpayers in India, the year beginning from April 1 is significant.

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What is the brief history Accounting year in India?

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- The 12-month period from April 1 to March 31 is widely accepted as the accounting/fiscal/financial year in India.
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- This was adopted by the British government in 1867 to align India's financial year with that of the British Empire.
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- Most companies and businesses in India follow the April to March accounting cycle that syncs with the fiscal year of the government. But some companies follow a different cycle.
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- For instance, Nestle India follows a January to December accounting year while Gillette India's financial year ends on June 30.
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- Many corporate realigned to April-March recently after new Companies Act called for a uniform financial year.
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- The RBI too follows its own accounting year, as it likes to present an aggregate picture after all banks come out with their numbers, its accounting year begins with a three-month lag and follows a July-June cycle.
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- Considering that taxation is one of the major sources of revenue for the government, the tax year too runs from April to March.
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Why is the significance of accounting year?

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- The income earned in one accounting year (called the previous year) is subject to tax in the following accounting year (called assessment year).
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- The accounting year is the time period for which governments draw up the estimate of income and expenditure for the country/state.
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- It is the period for which the government sets out its financial and economic goals and lays down the means to raise funds for the same.
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- The action plan (Budget) for the upcoming fiscal year beginning April is usually presented by the government towards the end of the previous fiscal.
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- Most companies and other business entities too fall in line with the fiscal year of the government and tax department, as it ensures uniformity and aids easy comparison of data.
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How Accounting year impacts personal spending?

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- If one make new financial resolutions on January 1 and start investing right away, but the taxation on your investments will follow the April-March cycle.
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- Tax returns are filed for every financial year from April to March. The deadline for making tax saving investments under Section 80C, such as PPF, ELSS, etc., falls on March 31.
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- All tax-related changes announced in the Budget of any year are applicable for income earned from April 1 of the following year.
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- But when it comes to Leave Travel Allowances (LTA), the cycle shifts to the calendar year, leave entitlements at work also predominantly follow a January-December calendar.
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Source: Business Line

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