Basics of Excise and Service Tax entries

Very important part of audit in a manufacturing concern is Excise and Service Tax reconciliation with books of account; first of all you must be aware of following entries passed in books of account.

There are 21 accounts related to Excise and Service Tax accounting entries.

Sr. No.		Account Name	Balance Dr/Cr	Account Head	Page No.
1.	1.	**Central excise duty account**	Cr	Current Liability	2
	2.	Edu. Cess on excise duty account	Cr	--do--	
	3.	Hi. Edu. Cess on excise duty account	Cr	--do--	
2.	4.	**Cenvat credit received account**	Dr	Loans, Advances & Deposits	3
	5.	Edu. Cess on cenvat credit received account	Dr	--do--	
	6.	Hi. Edu. Cess on cenvat credit received account	Dr	--do--	
3.	7.	**Cenvat Received on capital account**	Dr	Loans, Advances & Deposits	4
	8.	Edu. Cess on cenvat Received on capital account	Dr	--do--	
	9.	Hi. Edu. Cess on cenvat Received on capital account	Dr	--do--	
4.	10.	**Cenvat Receivable on capital account**	Dr	Loans, Advances & Deposits	4 & 8
	11.	Edu. Cess on cenvat Receivable on capital account	Dr	--do--	
	12.	Hi. Edu. Cess on cenvat Receivable on capital	Dr	--do--	
5.	13.	**Service Tax credit account**	Dr	Loans, Advances & Deposits	5
	14.	Edu. Cess on Service Tax credit account	Dr	--do--	
	15.	Hi. Edu. Cess on Service Tax credit account	Dr	--do--	
6.	16.	**Service Tax on GTA account**	Dr	--do--	6
	17.	Edu. Cess Service Tax on GTA account	Dr	--do--	
	18.	Hi. Edu. Cess Service Tax on GTA account	Dr	--do--	
7.	19.	**Central excise PLA account**	Cr	Current Liability	7
	20.	Edu. Cess on excise PLA account	Cr	--do--	
	21.	Hi. Edu. Cess on excise PLA account	Cr	--do--	

Explanation of Central excise duty account

Central excise duty account is related to sales. When a mfg company sales its products, its accounting entry will be like such [Current rate of excise duty is 10%, 2% edu cess and 1% hi. Edu. Cess. Sometimes 4% additional duty is also charged.]-

For example, X co sells goods to Y for amounting to Rs. 3,00,000 on which excise and vat are levied. Here, we assume sale has been made within Gujarat and of 4% Vat.

Date	To/By	Particulars	Dr Rs.	Cr Rs.	Remarks
xx.xx.20xx	By	Y account	3,47,445		Debtor
	To	4% Sales account		3,00,000	Income
	To	Central excise duty account		30,000	Cur. Liab.
	To	Edu. Cess on excise duty account		600	--do--
	To	Hi. Edu. Cess on excise duty account		300	--do--
	To	4% Vat Output account		13,236	--do--
	To	1% addl. Vat Output account		3,309	--do--

Imp Point-

Vat is always charged on final bill value i.e. after considering excise. If any freight exp or P&F charges are charged in bill, Vat is calculated on these charges also. Unlike Edu. Cess and Hi. Edu. Cess on central excise duty, additional Vat 1% or 2.5% as the case may be, will be calculated on gross amount i.e. not on 4% or 12.5% vat amount.

Additional Point-

There are many types of sales accounts depending upon types of products or sales transactions, few are listed below those are mostly shown-

Sales account	Vat/Cst account	Additional Vat account	Effect depending upon-
4% Sales account	4% Vat Output account	1% addl. Vat Output account	Products
12.5% Sales account	12.5% Vat Output account	2.5% addl. Vat Output account	Products
15% Sales account	15% Vat Output account	N.A.	Products
Sales OGS 2%	2% Cst	N.A.	Out of Guj sales with C form
Sales OGS 5%	5% Cst	N.A.	Out of Guj sales without C form

Explanation of Cenvat credit received account

Cenvat credit received account is related to purchases. This entry will be easy as it is made from purchase bills like 'lakhelu vanchay'. Here we assume purchase has been made within Gujarat and of 4% Vat.

Date	To/By	Particulars	Dr Rs.	Cr Rs.	Remarks
xx.xx.20xx	By	4% Purchase account	10,000		Expense
	By	4% Vat Input account	441		L, A & D
	By	1% addl. Vat Input account	110		--do--
	By	Cenvat credit received account	1,000		--do--
	By	Edu. Cess on cenvat credit received account	20		--do--
	By	Hi. Edu. Cess on cenvat credit received account	10		--do--
	To	Party's account		11,581	Creditors for goods

Additional Point-

Like sales, there are many types of purchase accounts also, depending upon types of products or purchase transactions, few are listed below those are mostly shown-

Sales account	Vat account	Additional Vat account	Effect depending upon-
4% Purchase account	4% Vat Input account	1% addl. Vat Input account	Products
12.5% Purchase account	12.5% Vat Input account	2.5% addl. Vat Input account	Products
15% Purchase account	15% Vat Input account	N.A.	Products
Purchase against C form	Here, 2% Cst is considered to be purchase cost as Cst credit is not allowable.		Purchase from out of Guj against C form
Purchase without C form	5% Cst is considered to be purchase cost as Cst credit is not allowable.		Purchase from out of Guj without C form

Explanation of Cenvat Received on capital account and Cenvat Receivable on capital account

As you know, Cenvat credit on capital goods can be availed @50%, one part of cenvat will be utilized during the year and the second will be carried forward for the next year.

For example, X co has purchased machinery; the invoice shows the following figures.

Particulars	Amount Rs.
Value of machinery	2,50,000
10% Excise Duty	25,000
2% Edu. Cess	500
1% Hi. Edu. Cess	250
4% Vat	11,030
1% Vat	2,758
Total Invoice amount	**2,89,538**

Its accounting entry will be passed as under-

Date	To/By	Particulars	Dr Rs.	Cr Rs.	Remarks
xx.xx.20xx	By	Plant and Machinery account	2,50,000		F. Asset
	By	Cenvat Received on capital account	12,500		L, A & D
	By	Edu. Cess on cenvat Received on capital account	250		--do--
	By	Hi. Edu. Cess on cenvat Received on capital account	125		--do--
	By	Cenvat Receivable on capital account	12,500		--do--
	By	Edu. Cess on cenvat Receivable on capital account	250		--do--
	By	Hi. Edu. Cess on cenvat Receivable on capital	125		--do--
	By	4% Vat account	11,030		--do--
	By	1% addl. Vat account	2,758		--do--
	To	Party's account		2,89,538	Creditors for Assets

Additional Point-

Vat credit can also be taken from the purchase of Plant and Machinery.

Explanation of Service Tax credit account

A mfg co can utilize service tax credit against excise duty.

For example, Legal & Professional exp bill shows the following figures. [Current rate of Service Tax is 10.3%]

Particulars	Amount Rs.
Legal exp	10,000
Service Tax	1,030

Its accounting entry will be passed as under-

Date	To/By	Particulars	Dr Rs.	Cr Rs.	Remarks
xx.xx.20xx	By	Legal & Professional exp	10,000		Expense
	By	Service Tax credit account	1,000		L, A & D
	By	Edu. Cess on Service Tax credit account	20		--do--
	By	Hi. Edu. Cess on Service Tax credit account	10		--do--
	To	Party's account		11,030	Creditors for expenses

Explanation of Service Tax on GTA account

Now, you should refer Service Tax on GTA, as per this rule, Service Tax, on freight which singly exceeds Rs.750 or with other goods Rs.1,250 is mandatory to deposit monthly to the credit of central government. The accounting entry would be as such-

For example, during the month of February-11, Freight exp account had been as following-

Date	Particulars	Amount Rs.
02.02.2011	By Cash a/c	1,400
08.02.2011	By Cash a/c	700
13.02.2011	By Cash a/c	300
19.02.2011	By Party a/c	900
22.02.2011	By Party a/c	1,000
27.02.2011	By Bank a/c	1,300

Service Tax will be payable for the month of February 2011 as following-

Date	Amount	25%	Service Tax			Total Service Tax
			10%	2%	1%	
02.02.2011	1,400	350	35	0.70	0.35	36
19.02.2011	900	225	23	0.46	0.23	24
22.02.2011	1,000	250	25	0.50	0.25	26
27.02.2011	1,300	325	33	0.66	0.33	34
Total payable by challan			**116**	**2.32**	**1.16**	**120**

Accounting entry will be passed when this challan will actually be paid.

Date	To/By	Particulars	Dr Rs.	Cr Rs.	Remarks
xx.03.2011	By	Service Tax on GTA account	116		L, A & D
	By	Edu. Cess Service Tax on GTA account	2.32		--do--
	By	Hi. Edu. Cess Service Tax on GTA account	1.16		--do--
	To	Bank account		120	Cur. Assets

Explanation of Central excise PLA account

Now, we turn on adjustment part, most important and please refer it carefully.

You observe that Central excise duty account shows the credit balance, and is payable to the central government after utilizing Cenvat credit received account, Cenvat Received on capital account, Service Tax credit account, Service Tax on GTA account. There are **two** accounting entries will be passed as under that will be made **per month**.

1. Utilizing all credits(the figures are taken from above examples)-

Date	To/By	Particulars	Dr Rs.	Cr Rs.	Remark
30.xx.20xx	By	Central excise duty account	30,000		Actual figures
	By	Edu. Cess on excise duty account	600		
	By	Hi. Edu. Cess on excise duty account	300		
	To	Cenvat credit received account		1,000	
	To	Edu. Cess on cenvat credit received account		20	
	To	Hi. Edu. Cess on cenvat credit received account		10	
	To	Cenvat Received on capital account		12,500	
	To	Edu. Cess on cenvat Received on capital account		250	
	To	Hi. Edu. Cess on cenvat Received on capital account		125	
	To	Service Tax credit account		1,000	
	To	Edu. Cess on Service Tax credit account		20	
	To	Hi. Edu. Cess on Service Tax credit account		10	
	To	Service Tax on GTA account		116	
	To	Edu. Cess Service Tax on GTA account		2.32	
	To	Hi. Edu. Cess Service Tax on GTA account		1.16	
	To	Central excise PLA account		15,384	Balancing figures
	To	Edu. Cess on excise PLA account		307.68	
	To	Hi. Edu. Cess on excise PLA account		153.84	

2. Paying off excise duty by challan-

Date	To/By	Particulars	Dr Rs.	Cr Rs.
30.xx.20xx	By	Central excise PLA account	15,384	
	By	Edu. Cess on excise PLA account	307.68	
	By	Hi. Edu. Cess on excise PLA account	153.84	
	To	Bank account		15,845.52

Very Important points-

There is no need for utilization of full credits, if you think, we have full money today and in near future there is a time of crisis, you may utilize less credits right now and will gather the unutilized credits and shall utilize when you will have no enough money. Due to this, there is a possibility of opening and closing balances that must be tallied with Excise Return that is in short called as ER-1 and Personal Ledger Account that is in short called as PLA register with accounting closing balances.

You observe that **Cenvat Receivable on capital account**, Edu. Cess on cenvat Receivable on capital account and Hi. Edu. Cess on cenvat Receivable on capital account would still have been stood in accounts till the year end. As you know, 50% Cenvat credit receivable on purchase of capital goods, can only be utilized in the next year. In the beginning of next year, this balance of Cenvat Receivable on capital account, Edu. Cess on cenvat Receivable on capital account and Hi. Edu. Cess on cenvat Receivable on capital account will be transferred to Cenvat Received on capital account, Edu. Cess on cenvat Received on capital account and Hi. Edu. Cess on cenvat Receivied on capital account respectively.