Excise Duty Implementation For Manufacturer

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Our Mission is to achieve a leadership position in domestic and international markets by providing services to our clients for their business needs with the highest standards of integrity, quality and efficiency. We strive to create an environment to promote group spirit and commitment to excellence amongst our staff, thereby providing opportunity for growth of individual members.

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First let us understand the basic concepts of 'Excise':

Excise Duty or Duty on Excise is a tax on goods manufactured or produced in India and intended for domestic consumption i.e. sale in India. The Excise Duty is payable at the time of production or manufacture, however, for administrative convenience duty is paid at the time of removal of goods.

Excise Duty is an indirect tax. The **liability of payment of Excise Duty is of manufacturers or producers** (which is passed on to the ultimate consumer). The levy and collection of duty of Excise is provided under authority of the Central Excise Act, 1944 at the rates specified Central Excise Tariff Act, 1985.

Scope and Applicability:

Excise Duty means the tax to be paid by the manufacturer, on the goods manufactured in India, either at the time of manufacture or at the time of removal of the goods.

Excise Duty can be levied, only on the fulfillment of the below mentioned conditions.

- The Duty is on Goods
- The Goods must be excisable
- The goods must be manufactured or produced
- Manufacture and Production must be in India

Manufacturer:

Manufacturer is a person who actually manufactures or produces excisable goods, i.e. one that actually brings into existence new and identifiable product.

Excisable Goods:

Excisable Goods means goods specified in the schedule to the Central Excise Tariff Act, 1985 as being subject to a duty of Excise.

The Basic requirements to be satisfied are,

- Goods must be movable.
- Goods must be marketable i.e. the goods must be such that it is known in the market and is capable of being bought or sold

Types of Excise Duties:

- **Basic Excise Duty (BED)**: This is the duty charged under section 3 of the Central Excises and Salt Act, 1944 on all excisable goods other than salt which are produced or manufactured in India. Basic Excise Duty [also known as Central Value Added Tax (CENVAT)] is levied at the rates specified in Central Excise Tariff Act.
- **Special Excise Duty (SED)**: As per the Section 37 of the Finance Act, 1978 Special excise Duty was attracted on all excisable goods on which there is a levy of Basic excise Duty under the Central Excises and Salt Act,1944. Special Excise Duty is levied at the rates specified in the Second Schedule to Central Excise Tariff Act, 1985.
- **Education Cess on Excise Duty**: Section 93 of Finance (No. 2) Act, 2004 states that education Cess is 'duty of excise', to be calculated on aggregate of all duties of excise including special excise duty or any other duty of excise, but excluding education Cess on excisable goods.
- **Excise duty in case of clearances by EOU**: The EOU units are expected to export all their production. However, if they clear their final product in DTA (domestic tariff area), the rate of excise duty will be equal to customs duty on like article if imported in India.
- **National Calamity contingent Duty (NCCD)**: A 'National Calamity Contingent Duty' (NCCD) has been imposed vide section 136 of Finance Act, 2001 [clause 129 of Finance Bill, 2001, w.e.f. 1.3.2001]. This duty is imposed on pan masala, chewing tobacco and cigarettes.
- **Duties under other Acts**: Some duties and Cess are levied on manufactured products under other Acts. The administrative machinery of central excise is used to collect those taxes. Provisions of Central Excise Act and Rules have been made applicable for levy and collection of these duties / Cess.
- **Additional Duty on Goods of Special Importance (AED [GSI])**: Some goods of special importance are levied Additional Excise under Additional Duties of Excise (Goods of Special Importance) Act, 1957. The 'Additional Duty' is in addition to excise duty. This scheme was introduced based on the suggestion made by the manufacturers to Government, that multiple level taxes and duties should be avoided. Levy and collection of all taxes at one stage by single authority will be convenient for payment and administration. Hence, by agreement between Central and State Governments, it was decided to make a beginning in 1957, by selecting some items where additional duty will be collected instead of sales tax and such additional duty will be distributed among various States. Revenue from this duty is distributed among State Governments on the basis of percentages given in the second schedule to the Act.

- Some items covered are textile articles like cotton fabrics, silk and wool fabrics, man-made fibers, terry fabrics, metallised yarn, embroidery; sugar, branded tobacco, pan masala containing tobacco and cigarettes.

- **Duty on Medical and Toilet Preparations**: Excise duty is imposed on medical preparations under Medical and Toilet Preparations (Excise Duties) Act, 1955.
- **Additional Duty on Mineral Products**: Additional duty on mineral products (like motor spirit, kerosene, diesel and furnace oil) is payable under Mineral Products (Additional Duties of Excise and Customs) Act, 1958.
- **Additional Customs Duty commonly known as countervailing Duty (CVD)**: Countervailing duty (CVD) is imposed on the Imports.
- **Special Additional Duty of Customs (Special CVD)**: Special CVD is being imposed on items bound under the Information Technology Agreement (except information technology software), and also on specified inputs/raw materials for manufacture of electronics/IT goods.
- Additional Duties of Excise (Textiles and Textile Articles) [AED (TTA)]
- Additional Duty of Excise (Tea and Tea Waste) [AED (TTW)]
- Secondary and Higher Education Cess.

Valuation Methods:

Value of the excisable goods has to be necessarily determined to levy the duty on the goods. Under the Central Excise Act, 1944, the following methods of valuation of goods are considered for the assessment of Duty.

1. **Ad Valorem/ Transaction Value: Transaction value means the value of goods which are sold at the time and place of removal and in addition to the amount charged as price, it includes , any amount that the buyer is liable to pay, including any amount charged for, or to make provision for, advertising or publicity, marketing and selling, organization expenses, storage, outward handling, servicing, warranty, commission or any other matter.**

Transaction value, on each removal of goods shall be determined on the fulfillment of following conditions:

- The goods should be sold at the time and place of removal
- Buyer and Assessee should not be related
- Price should be the sole consideration for the sale
- Each removal will be treated as a separate transaction and 'value' for each removal will be separately fixed.

2. **Ad Quantum: In case of Ad Quantum the duty is payable on the basis of certain unit Like Weight, Length, volume etc.**

Example: Duty on cigarette is payable on the basis of length of the cigarette, duty on Sugar is based on per Kg.

3. **Value determined on the basis of Maximum Retail Sale Price: Retail sale price means the maximum price at which the excisable goods in packaged form may be sold to the ultimate consumer and includes all taxes local or otherwise, freight, transport charges, commission payable to dealers, and all charges towards advertisement, delivery, packing, forwarding and the like, as the case may be, and the price is the sole consideration for such sale.**

   Factors needs to be considered while determining the value on the basis of maximum retail sale price are:

- Where on the packages of any excisable goods, more than one retail sale price is declared, the maximum of such retail sale price shall be deemed to be the retail sale price
- Where the retail price, declared on the package of any excisable goods at the time of its clearance from the place of manufacture, is altered to increase the retail sale price, such altered retail sale price shall be deemed to be the retail sale price.
- Where different retail sale prices declared on different packages for the sale of any excisable goods in packaged form in different areas, each such retail price shall be the retail sale price for the purposes of valuation of the excisable goods intended to be sold in the area to which the retail sale price relates.

CENVAT Credit

The MODVAT scheme has been replaced by a new set of rules called CENVAT Credit Rules 2002.

Duties eligible for CENVAT Credit

A manufacturer or producer of a final product is allowed to take CENVAT credit of duties specified in the Cenvat Credit Rules, 2002.

The duties specified under Cenvat Credit Rules, 2002 are:

- Basic Excise Duty on inputs specified in the First Schedule to Central Excise tariff Act (corresponding CVD on imported goods is allowable).
- Special Excise Duty on goods specified in the Second Schedule to the Tariff Act (corresponding CVD on imported goods is allowable).
- Additional Excise Duty paid under Additional Duties of Excise (Textile and Textile Article).
- Additional Excise Duty paid under Additional Duties of Excise (Goods of Special Importance).
- National Calamity Contingent duty (NCCD).
- Education Cess and Secondary and Higher Education Cess on Excise Duty.
- Additional custom duty chargeable under Customs Tariff Act (Spl. CVD)

- Education Cess and Secondary & Higher Education Cess on CVD
- Additional Excise Duty paid under Clause 85 of Finance Bill,2005 on Pan Masala and certain other Tobacco products.
- Service tax on input services.
- Education Cess and Secondary & Higher Education Cess paid on service tax. This credit can be utilised only for payment of education Cess on final product or output services.

Excise Registration (of Factory/Warehouse):

In accordance with Rule 9 of Central Excise Rules, 2002 and notifications issued under rules 18 and 19 of the said Rules, as the case may be, the following category of persons are required to register with jurisdictional Central Excise Officer in the Range office having jurisdiction over his place of business/factory, by making an application for registration in Form A –1 or A –2 or A –3.

- Every manufacturer of excise goods (including Central/State Government undertakings or undertakings owned or controlled by autonomous corporations) on which excise duty is chargeable.
- Persons who desire to issue CENVATABLE invoices under the provisions of the CENVAT Credit Rules, 2001.
- Persons holding private warehouses.
- Persons who obtain excise goods for availing end-use based exemption.
- Exporters manufacturing or processing export goods by using duty paid inputs and intending to claim rebate of such duty or by using inputs received without payment of duty and exporting the finished export goods.

On receipt of application for registration, registration number will be issued to the applicant. Later, the jurisdictional Excise Officer carries out the post facto verification and on fulfillment of all the requirements, issues the registration certificate with in 7 days from the date of application.

Note: Form A-2: Application form for central excise registration of power loom weavers / hand processors / Dealers of Yarns and Fabrics/ manufacturers of ready made Garments

Form A-3: Application form for central excise registration of manufacturers of hand rolled cheroots of tobacco falling under sub-heading no. 2402.00 of central excise tariff act, 1985

Separate Registration

Separate Registration is required in respect of separate premises except in cases where two or more premises are actually part of the same factory (where processes are interlinked), but are segregated by public road, canal or railway-line. The fact, that, the two premises are part of the same factory will be decided by the Commissioner of Central Excise based on factors, such as:

- Interlinked process - product manufactured/produced in one premise are substantially used in other premises for manufacture of final products.
- Large number of raw materials received or proposed to be received is common for both or all the premises
- Common electricity supplies.
- Common labour or work force
- Common administration or works management.
- Common sales tax registration and assessment
- Common Income Tax assessment
- Any other factor as may be indicative of inter-linkage of the manufacturing processes.

Separate Registration is required for each depot, godown etc. in respect of persons issuing CENVAT invoices. However, in the case liquid and gaseous products, availability of godown should not be insisted upon.

Registration Certificate may be granted to minors provided they have legal guardians' i.e. natural guardians or guardians appointed by the Court, as the case may be, to conduct business on their behalf.

Excise Control Code (ECC) Number:

The ECC number is a registration number, issued to all the Central Excise Assessees. This Number is based on the principles of 'Common Business Identifier' which shall be used for revenue accounting, validation of documents (e.g. CENVAT invoices), inter-agency coordination and for creation of data warehouse.

ECC number is a PAN based 15 digit alpha numeric numbers. The first part denotes 10 character (alpha numeric) Permanent Account number issued by Income tax authorities to the concerned person to whom the ECC Number is to be allotted and the second part comprises of a fixed 2 character alpha code which is as follows:

Category	**Code**
Central Excise Manufacturer (Including registered warehouses)	XM
Registered Dealer	XD

This is followed by 3-Character numeric code - 001, 002, 003 etc. In case, a manufacturer, regis¬tered with the Central Excise Department, has only one factory /dealer's premise/warehouse, the last three characters will be 001. If there are more than one factories/warehouses/dealer's premises of such a person having common PAN for all such factories/warehouses/dealer's premises, the last 3 character of the new ECC would be 001, 002, 003 etc.

The ECC Number has to be quoted on the GAR–7Challans covering deposit of Central Excise duties, Additional duties, Cess and other dues to the Government.

Examples:

Where the concerned person has only one factory:

ECC Number will be - PAN + XM + 001

Suppose PAN is ABCDE1234H, the ECC Number will be - ABCDE1234H XM 001

Where the concerned person has more than one factory, say 3 factories, having PAN as aforesaid, then the ECC Number will be:

ABCDE1234H XM 001

ABCDE1234H XM 002

ABCDE1234H XM 003

Where the concerned person has one factory and is also registered as a dealer, having PAN as aforesaid, then the New ECC Number will be:

ABCDE1234H XM 001 (for Factory)

ABCDE1234H XD 001 (for Dealer)

Central Excise Invoice System:

An invoice is the document under cover of which the excisable goods are to be cleared by the manufacturer. This is also the document which indicates the assessment of the goods to duty. No excisable goods can be cleared except under an invoice.

Removals only on invoice

- Rule 11 of the Central Excise (No.2) Rules, 2001 provides that no excisable goods shall be removed from a factory or a warehouse except under an invoice signed by the owner of the factory or his authorised agent.
- In case of cigarettes, which is under physical control, the Factory Officers are posted by rotation in the factory (If the factory operation is 24 hours, the officers are posted 24 hours), will check the operations as per the instructions contained in commodity manual for cigarettes. Accordingly, in the case of cigarettes, each invoice shall also be countersigned by the Inspector of Central Excise or the Superintendent of Central Excise before the cigarettes are removed from the factory.

Serially numbered invoice

- The invoice shall be serially numbered and shall contain the registration number, description, classification, time and date of removal, rate of duty, quantity and value, of goods and the duty payable thereon. The serial number shall commence from 1st April every year [beginning of a financial year].
- The serial number can be given at the time of printing or by using franking machine. But when the invoice book is authenticated in the manner specified in sub-rule (5) of rule 11, each leaf should contain serial number. Hand written serial number shall not be accepted.
- In case of computer-generated invoice, the serial number may be allowed to be generated and printed by computer at the time of preparation of invoice ONLY IF the software is such that computer automatically generates the number and same number cannot be generated more than once. For this purpose, the Central Excise Officers may check the system/software from time to time.

Number of Invoice copies

The invoice shall be prepared in triplicate:

- The original copy being marked as **Original For Buyer**
- The duplicate copy being marked as **Duplicate For Transporter**
- The triplicate copy being marked as **Triplicate For Assessee**

The above requirement is mainly for Central Excise purposes. However, the assessee may make more than three copies for his other requirements. But such copies shall be prominently marked Not for Cenvat Purposes.

Number of Invoice book

- The rule 11of the Central Excise (No.2) Rules, 2001 provides that only one invoice book shall be in use at a time, unless otherwise allowed by the Deputy/Assistant Commissioner of Central Excise in the special facts and circumstances of each case.
- The Board has decided that where assessee requires two different invoice books for the purposes of removals for home-consumption, and removals for export they may do so by intimating the jurisdictional Deputy/Assistant Commissioner of Central Excise.
- Wherever, an assessee is allowed to keep more than one invoice book, he should be asked to keep different numerical serial numbers for the different sets.
- In case of running stationary used in computers, the bound book shall not be insisted upon provided the stationary is pre-printed with distinctive names and marks of the assessee. After the invoices are prepared, the triplicate copy shall be retained in bound-book form. Where invoices are to be typed written, the leafs have to be first taken out from the book for typing. In such cases also the triplicate copy shall be retained in bound-book form.

Authentication of Invoices

The rule provides that owner or working partner or Managing Director or Company Secretary shall authenticate each foil of the invoice book, before being brought into use. However, in order to facilitate the trade it has been decided that any person duly authorised in this regard by the Company, owner or working partner may also authenticate invoices. Copy of the letter of authority should be submitted to the Range office.

Intimation of serial numbers

Before making use of the invoice book, the serial numbers of the same shall be intimated to the Superintendent of Central Excise having jurisdiction over the factory of the assessee. This can be done in writing by post/e-mail/fax/hand delivery or any other similar means.

Rounding off of duty in invoice

The amount of duty being shown in invoices issued under rule 11 of the Central Excise (No.2) Rules, 2001 be rounded off to the nearest rupee as provided for under Section 37D of the Central Excise Act, 1944 and the duty amount so rounded off should be indicated both in words as well as in figures.

Type of Duties and Method of Calculation:

The Duties for Excise can be calculated on Assessable value and on Duty Value. According to the Excise laws, find below the list of Excise duties with the method of calculation.

Type of Duty	Duty Type	Method of calculation
Basic Excise Duty (BED)	Excise	on Assessable Value
Special Excise Duty (SED)	Excise	on Assessable Value
AED (GSI)	Excise	on Assessable Value
AED (TTA)	Excise	on BED + SED
AED (TTW)	Excise	on BED + SED
AED (PM&T)	Excise	on BED + SED
NCCD	Excise	on BED + SED + AED (GSI)
Special AED	Excise	on Quantity
AED on HSD (High Speed Diesel)	Excise	on Quantity
Educational Cess	Excise	On Total Excise Duty
SHE Cess on Excise duty	Excise	On Total Excise Duty
Countervailing Duty(CVD)	CVD	on Assessable Value + BCD
SED of CVD	CVD	on Assessable Value + BCD
AED (GSI) of CVD	CVD	on Assessable Value + BCD
AED (TTA) of CVD	CVD	on CVD + SED of CVD
AED (TTW) of CVD	CVD	on CVD + SED of CVD
AED (PM&T) of CVD	CVD	on CVD + SED of CVD
NCCD of CVD	CVD	on CVD + SED of CVD + AED (GSI) of CVD
Special AED of CVD	CVD	on Quantity
AED on High Speed Diesel of CVD	CVD	on Quantity
Educational Cess on CVD	CVD	On Total CVD
SHE Cess on CVD	CVD	On Total CVD
Basic Custom Duty	Customs	on Assessable Value
Additional Duty on Customs	Customs	on BCD
Educational Cess on Customs	Customs	on Total Customs and CVD
SHE Cess on Customs	Customs	on Total Customs and CVD
Special Custom Duty	Customs	on Current Sub Total

Time and Mode of Payment of Duty:

1. **Monthly payment of Duty**
    - i) Assessees who are Large/Regular Units and not availing concession of duty based on turnover, and
    - ii) Assessees availing small scale industries (SSI) concession of duty based on turnover

Have to pay duty on monthly basis. Duty in respect for clearances made in a month should be paid by **15th** of the following month.

2. **Excise Duty shall be paid to the government along with G.A.R. -7 Challans.**

Returns & Due Timelines

The following Returns are required to be filed under Excise for Manufacturers

Form No	Particulars	Periodicity
ER – 1	Monthly Return by Assesses who are not availing the concession of duty based on turnover (large units) (e-returns)	Monthly
	Monthly Return by Assessees who are neither Large Units nor availing concession of duty based on turnover (Regular Units)	Monthly
Monthly Return for CENVAT	Monthly Return by large and Regular units	Monthly
ER–3	Quarterly Return by Assessees availing small scale industries (SSI) concession of duty based on turnover	Quarterly

Accounting Treatment of Central Excise:

Accounting treatment of Central Excise is mainly related to accounting in respect of Cenvat.

Accounting for Cenvat needs following consideration (a) Since credit is available of excise duty paid while purchasing inputs, duty paid on inputs while purchase is not an expense but an asset. (b) Un-availed Cenvat is not available as refund (except when it is a case of exports). This may happen when duty paid on inputs is more than duty payable on final product. (c) Cenvat is available instantly on receipt of inputs and Cenvat credit may be utilised even before inputs on which Cenvat is availed are actually used in production. (d) Valuation of stock of finished goods also needs consideration.

Institute of Chartered Accountants of India has published a guidance note. It has been published in Chartered Accountant - September, 2000 issue. [earlier note was published in August 1995 issue]. and is as per legal position as of 1-4-2000, including Cenvat credit. This note replaces the earlier guidance note.

Accounting Treatment of Inputs received - When inputs are purchased, Purchase price (net of Excise) should be debited to Purchase Account and excise on inputs should be debited to 'Cenvat Credit Receivable (Inputs) account'. Total Invoice amount (i.e. net purchase price plus excise) will be credited to Supplier's Account (as the supplier has paid Excise and his Invoice is inclusive of excise paid by him on the material supplied). When duty is debited in Input Cenvat Credit Account towards payment of duty on final product, 'Excise Duty Paid on Final Products' account should be debited and 'Cenvat Credit Receivable (Input) account' should be credited. [Author's suggestion : This entry could be on monthly basis as duty is payable or once at the end of the month]. Balance in 'Cenvat Credit Receivable (Input) account' in General Ledger and credit in 'Input Cenvat Credit Account' as per excise records (that time 'RG23 A Part II') should tally, or reconciled.

If there is debit balance at the end of year in 'Cenvat' account, it means that credit is not fully utilised and should be shown under Current Assets under 'Loans and Advances'. Closing stock of inputs should be valued 'Net of Excise Duty'. However, since Cenvat on stock which has not been used is also utilised for payment of duty, purchases are understated to that extent. If balance in credit of Cenvat cannot be utilised for any reason, the same must be written off.

Write off of non-utilisable balance in Cenvat credit receivable account - Some times, Cenvat Credit Receivable Account may have balance, but it may not be possible to utilise the balance. This may happen in cases where credit on inputs is higher than duty payable on final products. Thus, though credit is available, it may be lying idle, as there is no scope for utilising the same.

As per guidance note of ICAI, the balances in Cenvat credit receivable account should be reviewed at end of the year. If it is found that balances in Cenvat credit are not likely to be used in normal course of business with a reasonable time, the non-usable excess credit should be adjusted in financial accounts i.e. purchase price of raw materials should be increased to that extent. If it is not possible to identify the excess credit to a particular lot or lots of materials purchased, the excess credit may be apportioned over entire purchases of raw materials, components etc. entitled to Cenvat credit during the year, on pro-rata basis. Valuation of closing stock will also increase to that extent.

Adjustment of excess credit related to capital goods should be made to concerned capital goods account. Excess Cenvat credit which relates to fixed assets acquired, should be added to cost of relevant fixed asset. If value of capital goods is enhanced, depreciation on revised un-amortised depreciable amount should be provided over residual useful life of the asset.

If the asset does not exist, the relevant amount should be written off in the P&L account. In case of capital goods acquired on lease, excess Cenvat credit should be written off on a pro-rata basis along with lease rentals.

In relation to capital goods other than fixed assets (i.e. those which are 'capital goods' as per excise definition, but are not capitalised in books of account of the company), the accounting treatment is same as per accounting treatment of inputs. It is advisable the Cenvat Credit Receivable (Capital Goods) account is maintained separately for fixed assets (which are capitalised) and other capital goods.

If entry in Cenvat Credit available account is reversed, credit available in 'Cenvat Credit Account' as per excise records and balances in 'Cenvat Credit Receivable' in financial accounts will not tally. Hence, reconciliation statement will have to be prepared as this difference will continue in subsequent years also.

Reversal of Cenvat credit - In some cases, Cenvat credit on inputs is not available, e.g. when final product is fully exempt, or when inputs are rejected even before they are issued to production. In such cases, Cenvat credit will have to be reversed. In such case, appropriate adjustments in cost of inputs and value for purposes of stock will have to be made.

Accounting of Duty paid on Capital Goods purchased - It has to be remembered that if Cenvat credit on capital goods is availed, depreciation under section 32 of Income Tax is not available. Moreover, Cenvat credit on capital goods is available in two stages i.e. 50% in current year and balance 50% in subsequent year.

'Capital Goods' for Cenvat purposes include tools, spare parts etc., which are treated as consumables and normally not capitalised in financial accounts. Hence, question of claiming depreciation on these does not arise. When credit is availed of duty paid on machinery or equipment which is capitalised, it will be necessary to reduce cost of asset by the amount of duty claimed as credit.

If the assessee follows the accounting system as suggested by Guidance Note of Institute of Chartered Accountants of India, the condition gets satisfied.

Compliance Manual for Central Excise Duty:

The manual is divided into six parts. **First part** consists of details of the compliance to be completed on daily basis. **Second part** consists of the details of compliance that is to be ensured on periodical basis except the daily compliance. **Third part** consists of the details of the compliance to be done on happening of some event and export procedures. **Fourth part** consists of the details of the records to be maintained **Fifth part** contains details about specific procedural compliance. **Sixth part** mentions certain details that we need from locations to make compliance system more accurate and to the point.

Each part provides explanatory notes and guidance note to facilitate personnel handling compliance. For reporting compliance the respective compliance officer needs to fill in the details in the manner provided in guidance note.

In case of any difficulty or in case of any suggestion for the improvement of the manual, please intimate Legal Compliance Team at Head Office.

Abbreviation

CER: Central Excise Rules, 2002
CCR: Cenvat Credit Rules, 2002
RGC: Removal of Goods at Concessional Rate of Duty Rules, 2001
CEVR: Central Excise Valuation Rules, 2000
CEM: Central Excise Manual
CEA: Central Excise Act

Part one - Legal compliance to be ensured on daily basis –

Sr No.	Compliance required to be done	Provision/ Form	Time frame/ Explanatory Note	Remark of Personnel handling compliance	Verified/ Audited by
(A)	(B)	(C)	(D)	(E)	(F)
1.	Removal of manufactured goods from factory to be done under cover of Invoice	Rule 11 of CER/Invoice	At the time of removal of the goods **EN – (1.1)**		
2.	Daily Stock Accounts to be maintained	Rule 10 of CER/ No form prescribed	Daily **EN – (1.2)**		
3.	Availing CENVAT Credit of the raw material/capital goods received in the factory	Rule 3&4 of CCR/	On receipt of the raw material (100%) / Capital goods (50% same year) remaining next fin. year **EN – (1.3)**		

Explanatory Notes:

EN – (1.1)

The invoice shall be serially numbered and should contain the **registration number**, **description, classification, time and date of removal, rate of duty, quantity and value, of goods and the duty payable** thereon. The invoice shall be prepared in triplicate with original marked as ORIGINAL FOR BUYER; the duplicate copy being marked as DUPLICATE FOR TRANSPORTERS; the triplicate copy being marked as TRIPLICATE FOR ASSESSEE and

EN – (1.2)

Daily Stock Account should contained particulars regarding **description of the goods produced or manufactured, opening balance, quantity produced or manufactured, inventory of goods, quantity removed, assessable value, the amount of duty payable and particulars regarding amount of duty actually paid**. The first page and the last page of each account book shall be authenticated by authorised person.

EN – (1.3)

In case of receipt of input, CENVAT credit can be taken immediately on receipt. In case of receipt of capital goods CENVAT credit can be taken to the extent of 50% in the same financial year and remaining credit can be taken in the next financial year.

Guidance Note:

1. For personnel handling compliance -

a. Please mention at what time during the day compliance is done/checked.
b. Please specifically mention if there is any deviation, otherwise mention that compliance done.
c. Please give your remark in column (E).

2. For legal audit personnel –
a. Please check at the time of audit, as to at what time during the day, daily compliance is done.
b. Please check whether documents are maintained properly.
c. Please also check the contents of the documents and confirm that it is maintained as per law.

Part two - Compliance to be done on periodical basis except daily compliance:

Sr No.	Compliance required to be done	Provision/Form	Time frame/ Explanatory note, if any.	Remark of Personnel handling compliance	Verified/Audited by
(A)	(B)	(C)	(D)	(E)	(F)
1.	Utilization of the CENVAT credit accumulated during the previous month	Rule 3(3) CCR	Before 5th day of the month **EN – (2.1)**		
2	Payment of excise duty in respect of clearance made during the previous month	Rule 8 of CER. TR6 Challan	On 5th day of the month **EN – (2.2)**		
3	Payment of excise in respect of clearance made **during March**	Rule 8 of CER. TR6 Challan	On 31st March.		
4	Monthly return	Rule 12 of CER/ Form ER -1	Before 10th day of month		
5	Monthly return of CENVAT credit	Rule 7(5) of CCR/ Form Annexure to CCR	Before 10th day of month		

EN – (2.1)
Before payment of excise duty for the month, the CENVAT credit accumulated upto 31st day of the month is to be availed.

EN – (2.2)
Duty on each clearance should be paid by making debit entry in the PLA.

Guidance Note for reporting compliance:

A – For personnel handling compliance –

a. Please intimate exceptions to the above, if any.

B – For legal audit personnel –

a. Please check at least two months returns and periodical forms/documents on random basis.

Part three – (1) Event based legal compliance & (2) Export Procedure:

(1)

Sl No.	Event	Provision/ Form	Treatment to be given/ Explanatory Note, if any	Remark of Personnel handling compliance	Checked by
(A)	(B)	(C)	(D)	(E)	(F)
1.	**Removal of input** as such or after being partially processed	Rule 4 of CCR	At the time of removal of goods pay amount equal to the Cenvat credit availed at the time of receiving the goods		
2.	**Removal of capital goods as such** (without any use)	Rule 4 of CCR	Take credit of remaining 50% (if returned within the same financial year of receipt) and pay duty equal to the credit taken		
3.	If final product is brought back to factory and send back without any manufacturing process	Rule 16 of the CER	Take credit of the duty paid at the time of removal and again pay same amount of duty at the time of clearance		
4.	If final product is brought back to the factory and send back after carrying out some manufacturing process	Rule 16 of the CER	Take credit of the duty paid at the time of removal and pay duty at the rate applicable at the time of the clearance of the goods		
5.	Goods cleared for exports brought back to factory	CBEC Manual	Re-entry within six months, Original documents should accompany, intimation to department in D-3 form within 24 hours.		

Guidance Note for reporting compliance:

A – For personnel handling compliance –

a. If for the above events same procedure followed please mention " Complied by following same procedure". If some different procedure is followed, please mention the procedure followed.

B – For audit personnel –

a. Please check procedure followed for different situations and study its legal basis with the help of complying authority. Report import highlights.

(2)

	Export Procedures				
5.	**Export under Bond** without payment of duty	Rule 19(1) of CER, Notification No. 10/04(NT), 42/01(NT)/ Forms CT-1 & ARE-1	For procedure see **EN – (3.2.1)**		
6	**Export on payment of duty** under rebate claim of input duty – Under this procedure after export, after export of the goods rebate of duty paid on inputs used for the manufacture of export goods can be claimed.	Rule 18 of CER, Notification no. 41/2001 (NT)/ Form ARE-2	For procedure see **EN – (3.2.2)**		

	Export on payment of duty under rebate claim of duty paid on export goods – Under this procedure, at the time of the export excise duty can be paid and then claimed as rebate.	Rule 18 of CER/Notification No. 40/2001 (NT)/Form ARE-1	For procedure see **EN – (3.2.3)**		
6.	**Receipt of inputs** without payment of duty for Export manufacturing	Rule 19 (2) of CER, Notification No. 43/2001/Provisions of RGC	For procedure see **EN – (3.2.4)**		

EN - (3.2.1)

Conditions and procedures for export of excisable goods under Bond without payment of excise duty

1. Conditions: -

A. A general bond in the Form Annexure-I or a letter of undertaking in the Form specified in Annexure-II in lieu of a bond to be filed with the Assistant Commissioner of Central Excise, and
B. goods to be exported within six months from the date of clearance from the factory. The time may be extended by the Assistant Commissioner on case to case basis, and
C. When the export is from a place other than registered factory or warehouse, the excisable goods are in original packed condition and identifiable as to their origin;

2. Procedure: -

(a) Obtain certificates in Form CT-1 specified in Annexure-III issued by the Superintendent of Central Excise
(b) debit in bond account should not exceed the credit available therein at any point of time;
(c) the goods may be removed without payment of duty after furnishing the letter.
(d) For the sealing of goods intended for export at the place of despatch present the goods with four copies of application in the Form A.R.E.-1 to the Superintendent.

EN – (3.2.2)

Following procedure is to be followed for export under claim for rebate of the duty paid on inputs:

1. A declaration to be filed with Central Excise department describing the finished goods proposed to be manufactured along with their rate of duty leviable and manufacturing/processing formula with. The

declaration shall also contain the tariff classification, rate of duty paid or payable on the materials so used.

2. The Department shall verify the correctness of the ratio of input and output mentioned in the declaration If, after verification, the Department is satisfied that there is no likelihood of evasion of duty, he may grant permission to the applicant for manufacture or processing and export of finished goods.
3. The goods shall be exported on the application in Form A.R.E. 2.
4. The claim for rebate of duty paid on materials used in the manufacture or processing of goods shall be lodged only with the Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise having jurisdiction of the place approved for manufacture or processing of such export goods.

EN – (3.2.3)

Conditions & Procedure:

i. The excisable goods shall be exported after payment of duty.
ii. The excisable goods shall be exported within six months from the date of clearance.
iii. the market price of the goods shall not be less than the amount of rebate of duty claimed or Rs. 500 whichever is lower.

Procedure –

(a) For the sealing of goods four copies of application in the Form ARE-I are to be presented to the Superintendent or Inspector of Central Excise. He shall seal each package or the container and endorse each copy of the application.
(b) The Superintendent shall return the original and duplicate copies of application to the exporter.
(c) The triplicate copy of application shall be sent either to the officer with whom rebate claim is to be filed or to the Excise Rebate Audit Section.
(d) The exporter may prepare quintuplicate copy of application for claiming any other export incentive.
(e) The claim of the rebate of duty shall be lodged along with original copy of the application.

EN – (3.2.4)

Procedure for obtaining inputs without payment of duty for export processing:

1. Make an application in the Form (Annexure I). Separate application required for each supplier.
2. A bond is to be executed as directed by the excise department.
3. The application to be countersigned by the Assistant Commissioner.
4. One copy of the application received from the department to be forwarded to the manufacturer/supplier of inputs.
5. Procedure to be followed by the supplier –
    a. On the basis of the application countersigned by the excise department, the supplier shall avail the benefit of the exemption notification.
    b. Declare ratio of input and output and rate of duty payable on excisable goods to be procured without payment of duty
    c. The supplier shall record on the application the removal details, such as No. and date of invoice, description, quantity and value of subject goods and amount of excise duty paid at concessional rate.

d. Proper account to be maintained indicating the quantity and value of subject goods, the quantity of subject goods consumed for the intended purpose, and the quantity remaining in stock, invoice wise.
e. a monthly return in Return in the format Annexure II to be filed by the tenth day of the following month.
f. Any waste arising during the manufacturing process shall be removed on payment of appropriate duty.
g. The goods shall be exported on the application in Form A.R.E. 2.

Guidance Note for reporting compliance:

1. For personnel reporting compliance - If the procedure followed is the same as mentioned earlier, please indicate in column no. (F) that same procedure followed. If a different procedure is followed, please mention that.

2. For legal audit personnel –

Please study with the help of complying authority the procedure followed and highlight the important details

Part four - Records to be maintained :

Sl No.	Register/ record to be maintained	Provision/ Form	Manner & time of making entry/ maintaining the record/ Explanatory note, if any	Remark of the personnel handling compliance
	Daily stock Account	Rule 10 of CER/ No form prescribed (**Old RG – 1**)	Description of goods manufactured, opening balance, quantity produced or manufactured, inventory of goods, quantity removed, assessable value, the amount of duty payable and particulars regarding amount of duty actually	
	Cenvat Credit Account	Part V para 1.5 of CEM/ Rule 7(4) of CCR. (**Old RG 23A**)	Record of receipt, disposal, consumption and inventory of inputs and capital goods with information about value, duty paid, person from whom purchased.	
	Cenvat credit	Rule 7 (1) of CCR	Any of the following	

	documents		documents in original to be maintained – a. an invoice issued by (I) a manufacturer, (II) and importer, (III) a first stage dealer or a second stage dealer.	
	Personal Ledger Account	Part V para 2.2 CEM/ Form Ann. 8 CEM	**EN –(4.1)**	

EN - (4.1)
Each credit and debit entry in PLA is to be made on separate lines and assigned a running serial number for the financial year. PLA must be prepared in triplicate. Credit in the PLA can be made by making cash payment into the Treasury/or Authorised Bank.
Guidance Note for reporting compliance:

1. For personnel reporting compliance -

Please certify that the records are maintained as per the statutory requirement and entries are passed within the statutory period.

2. For legal audit personnel –

Please study with the help of complying authority complete system of day to day maintenance of the records. Highlight the important details.

Part five – Specific procedural compliance:

A. Cenvat Credit:

Sl No.	Description	Comments, if any, of the personnel handling compliance/ Explanatory Note No. (If any)
CENVAT Credit		
1	CENVAT credit (Credit of duty paid on inputs) is available to the manufacturer of final product. The final product means excisable goods manufactured or produced from inputs. The Scheme allows CENVAT Credit to be taken of duties such as Excise Duty, SED, ADE, CVD and educational cess paid on inputs and capital goods received in a factory (Rule 3 of CENVAT	

	credit Rules, 2002. The CENVAT credit can be utilized to pay Excise duty on any final product, inputs cleared as such or after partially processed and capital goods removed as such. All raw materials or inputs are covered except Light Diesel oil, High Speed Diesel and Motor Spirit. Similarly, capital goods including pollution control equipment, components, spares, accessories, moulds and dies and paints, packaging material and greases/coolants are eligible goods on which credit can be availed	
	CENVAT credit can be taken on the basis of following documents (Rule 7) – 1. An invoice of the manufacturer, importer or a first stage dealer or second stage dealer. 2. A supplementary invoice 3. Bill of entry	
	Refund of CENVAT credit accumulated due to export	
	Refund of CENVAT credit accumulated due to export – (Rule 5 of CCR, Notification 11/2002) – Refund applicable on fulfilment of following conditions – 4. The goods are exported in accordance with the Central Excise Rules, 2002. 5. The claims for refund submitted not more than once in any quarter in a calendar year. If average export clearances of dutiable goods in value terms is seventy per cent or more in the preceding three months, the claims may be on monthly basis. 6. An application in Form A to be filed with Assistant Commissioner of Central Excise along with the Bill of Lading or Shipping Bill. 7. The refund is allowed only where a manufacturer is not in a position to utilize the credit of the duty on inputs allowed against goods exported during the quarter or month. 8. Apart from this there is no provision for the refund of accumulated CENVAT credit.	
Job work		
	Job work is allowed in accordance with the Notification No. 214/1986 – The notification prescribes following conditions and procedure:	

	1. Manufacturer to file an undertaking that the goods shall be used in relation to manufacture of a dutiable final product or a final product for export. 2. Manufacturer maintains proper records to show that the goods sent for job work are used for the manufacture of dutiable goods or export goods etc. 3. After filing the undertaking manufacturer can send raw material or semi finished raw material for processing to the job worker 4. After receipt of the goods back from job worker, the manufacturer can use the goods for the manufacture of the final product and then clear the same on payment of duty or for exports etc. 5. Sub Rule 5 of Rule 4 of CCR envisages that manufacturer can avail CENVAT credit even on the inputs and capital goods that are sent to the job worker provided the inputs or capital goods are received back within a period of 180 days from job worker's place. 6. In case goods are not received back within a period of 180 days, the manufacturer has to reverse the duty but again can take credit once goods are received back.	
Valuation		
	The objective of the provisions of Section 4 of the Central Excise Act and the Valuation Rules is to arrive at the true and correct transaction value or if it is not possible then to arrive at the nearest ascertainable value thereof: Section 4 of CEA envisages that on fulfilment of the following conditions the transaction value of the goods will be taken as excisable value: a. Goods are sold by the assessee b. For delivery at the time and place of removal, c. The assessee and the buyer of the goods are not related, d. Price is the sole consideration for the sale. For details about transaction value please see **EN-(5.1)**	
	Warehousing	
	In respect of certain goods, provision has been made to store the goods in warehouses without payment of duty. For the details of procedure about warehousing, please see **EN – (5.2)**	

EN – (5.1)

'transaction value' means the price actually paid or payable for the goods, when sold, and includes in addition to the amount charged as price, any amount that the buyer is liable to pay to, or on behalf of, the assessee, by reason of, or in connection with the sale, whether payable at the time of sale or at any other time, including, but not limited to, any amount charged for, or to make provision for, advertising or publicity, marketing and selling organization expenses, storage, outward handling, servicing, warranty, commission or any other matter; but does not include the amount of duty of excise, sales tax and other taxes, if any, actually paid or actually payable on such goods.

Following are the main inclusion in Transaction value:

1. Packing Charges also packing supplied by the buyer to the supplier.
2. Design and engineering charges
3. Consultancy charges relating to the manufacturing
4. Compulsory after sale service/warranty services
5. Loading and handling charges
6. Any additional consideration flowing from the buyer to the seller is to be included.

Exclusion from Transaction Value:

7. Taxes are to be excluded from the transaction value
8. Trade discount and cash discount can be excluded
9. Outward handling, freight and insurance

EN – (5.2)

Warehousing procedure to be followed –

a. Warehouse to be registered by Excise Commissioner.
b. Consignor to send goods with application [Earlier AR-3] with invoice to consignee.
c. On arrival at destination, rewarehousing certificate will be sent duly countersigned by Range superintendent to his counterpart at the end of consignee.
d. If rewarehousing certificate is not received within 90 days, consignor shall pay the duty.
9. Proper accounts shall be maintained at the warehouse. He will be responsible for payment of duty, penalty etc.

Guidance Note for reporting compliance:

1. For personnel reporting compliance -

This part contains important details of statutory provisions. If the same is followed, please inform the same. In case of any different observation or different practice, please intimate the same.

2. For legal audit personnel –

Please study with the help of complying authority complete system of excise treatment in case of different situation. Highlight the necessary details.

Part six

Details needed from complying authority:

Name of the Company			
Factory location			
Central Excise Registration Number			
Functional Head			
Complying authority's name			
Details of the final products (As per excise registration certificate)			
Sl No.	Technical name of product	Chapter and Heading No	Current excise duty rate
1			
2			
3			
4			
5			
6			
Details of Inputs			
Sl No.	Technical name of product	Chapter and Heading No	Current excise duty rate
1			
2			
3			
4			
5			
6			
7			

List of Registeres to be Maintained:

List of Registers to be maintained under Central Excise is as under:

1. RG23A Part I - Account of inputs.
2. RG23A Part II - Duty register for Cenvat Credit in relation to Inputs
3. RG23C Part I - Account of capital goods
4. RG23C Part II - Duty register for Cenvat Credit (Capital goods & Components)
5. Account of raw materials (Form IV)
6. Personal Ledger Account (PLA)
7. Duty Register (details of Cenvat payable and debit entries)

Format of the Main Registers are being attached in the mail.

Thank You
CA. Peeyush Sharma
FCA, DISA(ICA)

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