Compiled by CA Anil Bhusal

SUMMERY OF GUIDANCE NOTE ON ACCOUNTING TREATMENT FOR EXCISE DUTY

(i) Excise duty should be considered as a manufacturing expense and like other manufacturing expenses be considered as an element of cost for inventory valuation.

(ii) Where excise duty is paid on excisable goods and such goods are subsequently utilised in the manufacturing process, the duty paid on such goods, if the same is not recoverable from taxing authorities, becomes a manufacturing cost and must be included in the valuation of work-in-progress or finished goods arising from the subsequent processing of such goods.

(iii) Where the liability for excise duty has been incurred but its collection is deferred, provision for the unpaid liability should be made.

(iv) Excise duty cannot be treated as a period cost.

(v) If the method of accounting for excise duty is not in accordance with the principles explained in this Guidance Note, the auditor should qualify his report.

Accounting entries:

1) Accounting entry at the time of purchase of raw material:

Purchases A/c	Dr	100	
CENVAT Input credit A/c	Dr	12	
To Creditors A/c			120

2) **Provision for Unpaid Excise Duty**:
The liability for excise duty arises when the manufacture of the goods is completed, it is necessary to create a provision for liability of unpaid excise duty on stocks lying in the factory or bonded warehouse. failure to provide for the liability will result in the balance sheet not showing a true and fair view of the state of affairs of the enterprise.

a) Accounting entry for Unpaid Excise Duty on the closing stock of finished goods remaining on the date of balance sheet:

Excise duty (P&L A/c)	Dr	50	
To Provision for Unpaid ED (Current Liability)			50

Calculation of Provision for Unpaid Liabilities at the year end:

Value of closing stock **X** Excise duty rate in force on the balance sheet date

Calculation of value of closing stock
Excise duty is payable not on the point of sale but on the point of production

Accounting Standard-2: Valuation of Inventory
According to Accounting Standard-2, Stock should be valued at cost or market value, whichever is lower, as it is a prudent business practice.
Inventory cost should comprise of all cost of purchases, cost of conversion and other costs incurred in bringing the inventories to the present location and condition. **Cost of purchases should be exclusive of duties which are recoverable from the taxing authorities. (e.g. Cenvat).** Inventory should be valued at lower of cost or net realisable value.

b) For inclusion in Closing Stock as at 31st March

No separate entry. The usual closing stock entry value is increased by estimated ED of Rs 50/-

Net Result In P&L A/c

Closing Stock stand increased (by Rs 50/-), and an Excise Duty expense also stand increased (by Rs 50/-).

Net result in Balance Sheet:

Value of closing stock increased (by Rs 50/-). Current Liabilities includes Provision for unpaid ED (of Rs 50/-)

Accounting entries in next financial year:

By bringing in Opening Stock, automatically, excise is debited to your trading account.

a) Reversal Entry for Provision:

Provision for Unpaid ED A/c Dr	50		(Current Liablity)
To Excise Duty(P&L)		50	To knock of the excess expense booked in opening stock

b) Accounting entry when the finished goods is sold:

Debtors A/c	Dr	1120	
To Sales A/c			1000
To Excise Duty Payable A/c			120

c) Accounting entry for payment of Excise Duty:

Excise Duty Payable A/c	Dr	120	
To CENVAT Credit A/c			60
To PLA (Bank/cash)			60

Net Result In P&L A/c

Opening Stock stand increased (by Rs 50/-), and an Excise Duty expense stand decreased (by Rs 50/-).

Net result in Balance Sheet:

Provision for unpaid ED (of Rs 50/-) become Nil.

Auditor responsibility:

If the method of accounting for excise duty is not in accordance with the principles explained in this Guidance Note, the auditor should qualify his report.

Though there is no impact in P&L account but management/auditor can’t escape their responsibility in case of non compliance as, the financial position of the company is getting affected since results in understatement of value of inventory as well as liabilities of the company by the same amount.