

INTER-RELATIONSHIP OF ACCOUNTING WITH EXCISE, CUSTOMS AND SERVICE TAX

16.1 INTRODUCTION

After studying the various statutory provisions of central excise, customs and service tax laws, one must understand the inter-relationship of these tax laws with accounting, i.e., how these taxes are recorded in the books of accounts, or which accounting standards or guidance notes issued by the ICAI are applicable in respect of these taxes or what are the points of convergence and divergence between the provisions of these tax laws and accountancy principles. In order to understand the practical implications of these tax provisions, it becomes utmost necessary to know that how the tax related transactions are accounted for in the account books. In this chapter we will try to understand these issues.

16.2 ACCOUNTING STANDARDS ISSUED BY ACCOUNTING STANDARDS BOARD (ASB) OF ICAI

Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. In India, accounting standards are issued by the Accounting Standards Board of the Institute of Chartered Accountants of India. The composition of ASB is such that due representation is given to industry, associations, banks, company law authorities, taxation authorities and the C&AG. The representatives of CBDT and Central Board of Excise and Customs have been invited to join the Board.

The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in the company's economic performance. The Accounting Standards reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises. The following Accounting Standards have relevance in central excise, customs and service tax matters:

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(i) AS 1: Disclosure of Accounting Policies

The purpose of this statement is to promote better understanding of financial statements by establishing through an accounting standard the disclosure of significant accounting policies and the manner in which accounting policies are disclosed in the financial statements. Such disclosure would also facilitate a more meaningful comparison between financial statements of different enterprises.

There are three fundamental accounting assumptions namely going concern, consistency and accrual. They should be followed in preparing the financial statements.

The fundamental accounting assumption of accrual has been recognized in the case of *CCEx. v. Akay Cosmetics Pvt. Ltd. 2005 (182) E.L.T. 294 (S.C.)*. The Apex Court in this case held that in tax accounting, a matching concept is followed. The value of excisable goods under erstwhile section 4(4)(d) of the Central Excise Act, 1944 is co-related to the price at the factory gate. Therefore, costs (expenses) for factors up to the stage of "price" at the factory gate alone could be taken into account. When the "value" for the purposes of section 4 is the price at the factory gate, the costs which are includible up to that stage alone are includible. Therefore, costs beyond that stage are not includible in the assessable value.

All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. Any change in accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed.

Therefore, the accounting policies relating to treatment of CENVAT, valuation of inventories with respect to CENVAT, excise duty, customs duty etc. should be disclosed as per this accounting standard.

(ii) AS 2: Valuation of Inventories

As per this standard, while valuing the inventory of the raw materials, the amount of CENVAT availed as credit on the purchase of raw materials should not be included in the cost of such raw materials. Further, trade discounts, rebates, duty drawbacks and other similar items should be deducted in determining the cost of purchase of raw materials.

The said treatment prescribed by this Accounting Standard has found favour with the judicial rulings as well. The Supreme Court in the case of *Collector of Central Excise, Pune v. Dai Ichi Karkaria Ltd. 1999 (112) E.L.T. 353 (S.C.)* has held that excise duty paid on raw material, if modvatted should not be included in determining the cost of production of excisable product. When cost is not defined in the statute, its meaning should be interpreted in such a manner as it would be reckoned by a man of commerce. If he has paid the purchase price of Rs.100 for the input (exclusive of freight, insurance and the like) and gets back Rs.10 by way of Modvat credit allowed thereon, he would reckon the input cost as Rs.90. The Apex Court held that this, in real terms, would be the cost of the raw material (exclusive of freight, insurance and

the like). The Supreme Court pointed out that this was also borne out by the Guidance Note of the Indian Institute of Chartered Accountants.

Here, it is worthwhile to mention that AS 2 and section 145A of the Income-tax Act prescribe different treatments for inclusion/exclusion of CENVAT credit while valuing inventories. This concept has been dealt in some length in chapter 30 of Direct Tax Laws Study Material.

(iii) AS 3: Cash Flow Statements

This Standard specifies that the cash payments or refunds of taxes should be classified as operating activities while preparing the cash flow statement, unless these taxes can be identified with financing and investing activities e.g. amount deposited in PLA would be classified as operating activity while preparing the cash flow statement.

(iv) AS 7: Accounting for Construction Contracts

This standard prescribes that in respect of construction contracts the revenue and expenses of the contract should be accounted for as per the percentage completion method prescribed by this accounting standard. Under this method, contract revenue is matched with the contract cost incurred in reaching the stage of completion at the reporting date. Therefore, only the revenue, expenses and profit that can be attributed to the proportion of work completed are reported. This method provides useful information on the extent of contract activity and performance during a period.

Therefore, service providers engaged in rendering taxable construction services should recognise their revenue in the account books in accordance with AS 7.

(v) AS 9: Revenue Recognition

The revenue received from rendering of services should be recognized in the books of accounts in accordance with this standard. This standard provides that revenue from rendering of services should be recognized when the service is performed, either by completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Such performance should be regarded as achieved, when no significant uncertainty exists regarding:

- (a) the amount of consideration that will be derived from rendering the service;
- (b) the collectibility of the amount when services are rendered.

Completed service contract method is a method of accounting which recognises revenue only when the rendering of services under a contract is completed or substantially completed. This method should be applied when the act to be performed is a single act and either it is performed or not performed so as to entitle the service provider to revenue. There cannot be any partial performance in such kind of services e.g. insurance commission, facsimile services, advertising services etc. In case of insurance agency commission, revenue can be recognized on the effective commencement or on the renewal date of the related policies.

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Proportionate completion method is a method of accounting which recognises revenue in the statement of profit and loss proportionately with the degree of completion of services under a contract. This method can be applied where performance is measured in terms of a series of acts performed e.g. tuition fee can be recognized proportionate to period of instruction.

(vi) AS 10: Accounting for Fixed Assets

This standard prescribes that the import duties, if any, and other non-refundable taxes paid on purchase of fixed assets should be included in the cost of the fixed assets while recording the same in the account books. Thus, amount of CENVAT (a refundable tax) should not be included in the cost of the fixed asset.

Accounting Standards are recognized by the judicial forums was proved once again when the High Court in the case of *Mangal Textile Mills Pvt. Ltd. v. Union of India 2004 (171) E.L.T. 160 (Guj.)* accepted the value of plant and machinery computed by a chartered accountant in accordance with the principles set out in AS 10 on Fixed Assets. The value of plant and machinery was computed for the purpose of compounded levy scheme.

(vii) AS 11: Accounting for the Effects of Change in Foreign Exchange rates

Accounting for the import/export of goods, services and assets should be done as per the principles prescribed by this accounting standard.

AS 11 on Accounting for Effects of Changes in Foreign Exchange Rates provides that a foreign currency transaction should be initially recognized in the reporting currency on the basis of exchange rates between the reporting currency and the foreign currency prevalent at the date of transaction (an average rate for the period may be used). However, the average rate may not be used when exchange rate fluctuates significantly. A foreign currency transaction involves buying or selling of goods, services, or assets whose price is denominated in a foreign currency.

The exchange gain/loss arising from the difference between the rate prevalent at the date of transaction and rate on the date of settlement of monetary item should be adjusted in Profit and Loss Account if settlement is in same period as initial recognition. However, if the settlement does not take place in same period as that of recognition, the balances of monetary items should be restated at the closing rate at the balance sheet date. The gain/loss resulting from such restatement should also be adjusted in the Profit and Loss Account.

It is important to note here that in the case of companies, the exchange differences relating to acquisition of a depreciable capital asset can be adjusted against the cost of the asset at the option of the enterprise. This treatment can be done in respect of accounting periods between 07.12.2006 and 31.03.2011 [Notification No. GSR 225 (E) dated 31.03.2009].

(viii) AS 12: Accounting for Government Grants

Import quotas or import licences are considered as intangible assets (refer point (xi) below). If such import quotas or import licences are given at concessional rate or free of cost in the form of Government grants, they should be accounted for as per the provisions of this accounting standard.

When these intangible assets are given at concessional rate, they should be recorded at actual (concessional) rate by debiting asset account and crediting bank account. However, if certain conditions are not fulfilled the Government grant becomes refundable. Where, the grant becomes refundable and the asset is taken back, the book value of the asset should be written off.

In case where the asset is given free of cost, the asset should be recorded at token value say Re.1 or Rs.100 by debiting the asset account and crediting profit and loss account. However, if the grant becomes refundable (on account of non-fulfillment of certain conditions), the book value of the asset should be increased to the extent of the refund by debiting the asset account.

The refund of Government grant should be treated as an extraordinary item as per AS 5 on Prior Period and Extraordinary Items and Changes in Accounting Policies. Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore are not expected to recur frequently or regularly. Such items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period in a manner that its impact on current profit or loss can be perceived.

(ix) AS 17: Segment Reporting

AS 17 establishes principles for reporting financial information about the different types of products and services an enterprise produces and the different geographical areas in which it operates.

Large manufacturing companies producing multiple products or having multi-locational manufacturing operations or big service providers operating from multi-locations (viz. banks) should follow this accounting standard for reporting *inter alia* segment wise revenue and expenses. While income tax expenses are not recorded as segment expenses, excise duty, customs duty and service tax, being operating expenses, have to be recorded as segment expenses.

(x) AS 18: Related Party Disclosures

This accounting standard requires the disclosure of all related parties (as per the definition of the standard) and the transactions effected with them in the financial statements. Therefore, excisable goods and imported goods involving related parties must be valued correctly so as to avoid unnecessary litigations.

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(xi) AS 26: Intangible assets

Import licences or import quotas should be treated as intangible assets and recognized as such subject to the fulfillment of recognition criteria laid down by this standard. As per AS 26, an intangible asset should be recognized if and only if:

- (a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and
- (b) the cost of the asset can be measured reliably.

If given free of cost or at concessional prices by the Government, accounting should be done as per AS 12 – Accounting for Government Grants (discussed in point (viii) above).

(xii) AS 29: Provisions, Contingent Liabilities and Contingent Assets

The liability for excise duty arises as soon as the goods are manufactured. This accounting standard provides that a provision should be recognized when there is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation. A disclosure is also required for such provision. Therefore, a provision for unpaid excise duty in case of finished goods lying in the factory or warehouse is created at the year end.

Further, AS 29 prescribes that effect of new legislation should be considered in estimation of provision when there is sufficient objective evidence that the legislation is virtually certain to be enacted e.g. a provision may be made in respect of a retrospective amendment made by the Finance Bill which affects the duty liability of the assessee when at the Balance Sheet date the Bill has been passed by the Parliament and is awaiting President's assent. In this case, it is virtually certain that the Bill will be enacted by obtaining the assent of the President.

However, the variety of circumstances that arise in practice usually make it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required for both, i.e. what the legislation will demand and whether it is virtually certain to be enacted and implemented in due course. In many cases sufficient objective evidence will not exist until the new legislation is enacted.

In the case of *Motor Industries Company Ltd. v. Commissioner of Cus., Chennai 2005 (188) E.L.T. 315 (Tri. - Bang.)* the CESTAT conformed to the principle set out in AS 4 (now AS 29) that contingent gains should not be recognized in the financial statements until the realization of the gain is virtually certain. In this case, the assessee had deposited extra duty in the year 1995 at the instance of customs authorities pending investigation. In the year 2001 the dispute was settled in favour of the assessee. Thus, he filed a refund claim in 2001. The assessee had not recognized the refund as an asset until the customs authorities informed him to file a refund claim as only then, the refund became a reality. Therefore, immediately thereafter the extra duty deposit paid by the assessee was indicated and recognized in the financial statement for the year 2000-01 as receivables. The lower authority rejected the

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refund claim on the ground of unjust enrichment inasmuch as the refund was not recognized in 1995 but only in 2001. However, this stand of the lower authority was dismissed by the CESTAT on the ground that this was done in accordance with AS – 4 (now AS 29).

16.3 COST ACCOUNTING STANDARDS ISSUED BY ICWAI

Cost Accounting Standards (CAS) are issued by the Cost Accounting Standard Board (CASB) of the Institute of Cost and Works Accountants of India (ICWAI). Standards issued by CASB are recommendatory in nature.

CAS – 4: Cost of Production for Captive Consumption

CAS-4 has been issued by the Institute of Cost and Works Accountants of India. This standard deals with determination of cost of production for captive consumption of excisable goods. CBE&C, vide *Circular No. 692/8/2003 dated 13-2-2003*, has clarified that for the purpose of valuation of excisable goods in case of captive consumption as per rule 8 of Central Excise Valuation Rules, 2000, calculation of cost of production should be done as per CAS-4 issued by the Institute of Cost and Works Accountants of India. It may be reiterated that in case of captive consumption, value of excisable goods is 110% of cost of production of such goods. The provisions of CAS-4 are given below:

Cost of production will include various cost components as defined in Cost Accounting Standard-1 ('Classification of Cost' – CAS-1). The various cost components are:

Direct Material Cost	Prime Cost	Cost of Production	Cost of Sales
+	+	+	+
Direct Labour Cost	Production Overheads	Selling Cost	Profit
+	+	+	=
Direct Expenses	Administration Overheads	Distribution Cost	Selling Price
=	+	=	
PRIME COST	Research & Development Expenses (Apportioned)	COST OF SALES	
	=		
	Cost of Production		

Cost of Production: Cost of production shall consist of Material Consumed, Direct Wages and Salaries, Direct Expenses, Works Overheads, Quality Control cost, Research and Development Cost, Packing cost, and Administrative Overheads relating to production.

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To arrive at cost of production of goods dispatched for captive consumption, adjustment for Stock of work-in-Process, finished goods, recoveries for sales of scrap, wastage etc shall be made.

Material Consumed shall include materials directly identified for production of goods such as indigenous materials, imported materials, bought out items, self manufactured items, process materials and other items

Cost of material consumed shall consist of cost of material, duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement. Trade discount, rebates and other similar items will be deducted for determining the cost of materials. Cenvat credit, credit for countervailing customs duty, Sales Tax set off, VAT, duty draw back and other similar duties subsequently recovered/ recoverable by the enterprise shall also be deducted.

Direct wages and salaries shall include house rent allowance, overtime and incentive payments made to employees directly engaged in the manufacturing activities.

Direct wages and salaries include fringe benefits such as contribution to provident fund and ESIS, bonus/*ex-gratia* payment to employees, provision for retirement benefits such as gratuity and superannuation, medical benefits, subsidised food, leave with pay and holiday payment, leave encashment and other allowances such as children's education allowance, conveyance allowance which are payable to employees in the normal course of business etc.

Direct expenses are the expenses other than direct material cost and direct employees costs which can be identified with the product.

Direct expenses include cost of utilities such as fuel, power, water, steam etc, royalty based on production, technical assistance/know-how fees, amortized cost of moulds, patterns, patents etc, job charges, hire charges for tools and equipment, and charges for a particular product designing etc.

Works overheads are the indirect costs incurred in the production process. Works overheads include consumable stores and spares, depreciation of and machinery, factory building etc, lease rent of production assets, repair and maintenance of plant and machinery, factory building etc, indirect employees cost connected with production activities, drawing and designing department cost., insurance of plant and machinery, factory building, stock of raw material & WIP etc., amortized cost of jigs, fixtures, tooling etc and service department cost such as tool room, engineering & maintenance, pollution control etc.

Quality control cost is the expenses incurred relating to quality control activities for adhering to quality standard. These expenses shall include salaries & wages relating to employees engaged in quality control activity and other related expenses.

Research and development cost incurred for development and improvement of the process or the existing product shall be included in the cost of production.

Administrative overheads in relation to production activities shall be included in the cost of production. Administrative overheads in relation to activities other than manufacturing activities e.g. marketing, projects management, corporate office expenses etc. shall be excluded from the cost of production.

Packing cost includes both cost of primary and secondary packing required for transfer/dispatch of the goods used for captive consumption. If product is transferred/dispached duly packed for captive consumption, cost of such packing shall be included.

Overheads shall be analysed into variable overheads and fixed overheads. The variable production overheads shall be absorbed in production cost based on actual capacity utilisation. The fixed production overheads and other similar item of fixed costs such as quality control cost, research and development costs, administrative overheads relating to manufacturing shall be absorbed in the production cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher. **Normal Capacity** is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance (CAS-2).

Stock of work-in-progress shall be valued at cost on the basis of stages of completion as per the cost accounting principles. Similarly, stock of finished goods shall be valued at cost. Opening and closing stock of work-in-progress shall be adjusted for calculation of cost of goods produced and similarly opening and closing stock of finished goods shall be adjusted for calculation of goods despatched. In case the cost of a shorter period is to be determined, where the figures of opening and closing stock are not readily available, the adjustment of figures of opening and closing stock may be ignored.

In case **joint products** are produced, joint costs are allocated between the products on a rational and consistent basis. In case **by-products** are produced, the net realisable value of by-products is credited to the cost of production of the main product.

For allocation of joint cost to joint products, the sales values of products at the split off point i.e. when the products become separately identifiable may become the basis. Some other basis may also be adopted. For example, in case of petroleum products, each product is assigned certain value based on its certain properties, may be calorific value and these values become the basis of apportionment of joint cost among petroleum products.

The production process may generate **scrap or waste**. Realized or realizable value of scrap or waste shall be credited to the cost of production. In case, scrap or waste does not have ready market and it is used for reprocessing, the scrap or waste value is taken at a rate of input cost depending upon the stage at which such scrap or waste is recycled. The expenses incurred for making the scrap suitable for reprocessing shall be deducted from value of scrap or waste.

Miscellaneous income relating to production shall be adjusted in the calculation of cost of production, for example, income from sale of empty containers used for despatch of the

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captively consumed goods produced under reference.

Inputs received free of cost

In case any input material, whether of direct or indirect nature, including packing material is supplied free of cost by the user of the captive product, the landed cost of such material shall be included in the cost of production.

The amortization cost of **moulds, tools, dies & patterns etc** received free of cost shall be included in the cost of production.

Interest and financial charges being a financial charge shall not be considered to be a part of cost of production.

Abnormal and non-recurring cost arising due to unusual or unexpected occurrence of events, such as heavy break down of plants, accident, market condition restricting sales below normal level, abnormal idle capacity, abnormal process loss, abnormal scrap and wastage, payments like VRS, retrenchment compensation, lay-off wages etc. The abnormal cost shall not form the part of cost of production.

		Qty	
Q1	Quantity Produced (Unit of Measure)		
Q2	Quantity Despatched (Unit of Measure)		
	Particulars	Total Cost (Rs)	Cost/ unit (Rs)
1.	Material Consumed		
2.	Direct Wages and Salaries		
3.	Direct Expenses		
4.	Works Overheads		
5.	Quality Control Cost		
6.	Research & Development Cost		
7.	Administrative Overheads (relating to production activity)		
8.	Total (1 to 7)		
9.	Add : Opening stock of Work - in –Progress		
10.	Less : Closing stock of Work -in- Progress		

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11.	Total (8+9-10)		
12.	Less : Credit for Recoveries/Scrap/By-Products / misc income		
13.	Packing cost		
14.	Cost of production (11 - 12 + 13)		
15.	Add: Inputs received free of cost		
16.	Add: Amortised cost of Moulds, Tools, Dies & Patterns etc received free of cost		
17.	Cost of Production for goods produced for captive consumption (14 + 15 + 16)		
18.	Add : Opening stock of finished goods		
19.	Less : Closing stock of finished goods		
20.	Cost of production for goods despatched (17 + 18 - 19)		

The cost sheet should be prepared in the format as per Appendix – 1 or as near thereto as possible.

Statement of Cost of Production of _____ manufactured/to be manufactured during the period _____.

The ICWAI has also issued CAS-1: Classification of Cost to prepare cost statements. This standard is useful for assessment of excise duty and other taxes, anti-dumping measures etc. CAS-5: Average (Equalized) Cost of Transportation is useful in calculating the amount of deduction on account of freight from assessable value of excisable goods.

16.4 GUIDANCE NOTES

Guidance Notes are primarily designed to provide guidance to members of ICAI on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature. While discharging their attest function, the practicing chartered accountants should examine, *inter alia*, whether the recommendations in a Guidance Note relating to an accounting matter have been followed or not. Guidance Notes are issued by the Council of the ICAI from time to time.

Institute of Chartered Accountants of India has issued Guidance Notes on Accounting Treatment for Excise Duty and Accounting Treatment for MODVAT/CENVAT. *Presently, the Guidance Note on Accounting Treatment for MODVAT/CENVAT is under revision.* Also, ICAI has issued the Guidance Note on Accounting for State-level value added tax which addresses to all accounting related issues of State-level VAT.

16.4.1 Guidance Note on Accounting Treatment for Excise Duty

As per the Guidance Note on Accounting Treatment for Excise Duty, excise duty should be considered as a manufacturing expense and like other manufacturing expenses be considered as an element of cost for inventory valuation.

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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 i.e. (non-Cenvatable), 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.

Where the liability for excise duty has been incurred but its collection is deferred, provision for the unpaid liability should be made. Such a situation arises in case of finished goods lying in the warehouse or factory as the liability to excise duty arises on the manufacture thereof but the collection gets postponed till the time of sale. Such a provision should be created by applying the rate of duty prevailing at the Balance Sheet date. For this purpose, other factors affecting the liability should also be considered, e.g., exemptions being availed by the enterprise, pattern of sales-export or domestic etc.

Thus, if a small scale unit is availing the benefit of exemption allowed in a particular financial year and declares that it wishes to avail such exemption during next financial year also, excise duty liability should be calculated after taking into consideration the availability of exemption under the relevant notification. Similarly, if an enterprise is captively consuming all its production of a specific product and has been availing of exemption from payment of duty on that product, no provision for excise duty may be required in respect of non-duty paid stock of that product lying in factory or bonded warehouse.

The excise liability so determined should be added in the closing inventory of the finished goods.

Disclosure of excise duty payable on final products

As per the Accounting Standard Interpretation 14, "Disclosure of Revenue from Sales Transactions" the amount of excise duty has to be disclosed as a deduction from turnover. This excise duty should be the total excise duty for the year except the excise duty related to the difference between the closing stock and opening stock of finished goods.

The excise duty related to the difference between the closing stock and the opening stock should be recognised separately in the profit and loss statements with an explanatory note in the notes to accounts to explain the nature of the two amounts of excise duty.

It may be noted that the Accounting Standard Interpretations address questions that arise in course of application of a standard. These are therefore issued after issue of the relevant standard. Authority of an interpretation is same as that of the Accounting Standard to which it relates. So far, 30 interpretations have been issued. These (ASIs) issued by ICAI should be read in conjunction with relevant accounting standards.

16.4.2 Guidance Note on Accounting Treatment of MODVAT/CENVAT (*under revision*)

The accounting treatment for CENVAT credit in the light of the relevant provisions of the Guidance Note on Accounting Treatment of MODVAT/CENVAT is discussed below:

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(i) Inputs

Specified duty paid on inputs may be debited to a separate account, e.g., CENVAT Credit Receivable (Inputs) Account. As and when CENVAT credit is actually utilised against payment of excise duty on final products, CENVAT Credit Receivable (Inputs) Account is credited.

(i) *On purchase of raw materials*

Purchases A/c	Dr.
CENVAT Credit Receivable (Inputs) A/c	Dr.
To Creditors	

(ii) *On clearance of finished goods*

Excise duty paid A/c	Dr.
To CENVAT Credit Receivable (Inputs) A/c	

In this case, the purchase cost of the inputs would be net of the specified duty on inputs. Therefore, the inputs consumed and the inventory of inputs would be valued on the basis of purchase cost net of the specified duty on inputs. This treatment is also suggested by the AS-2 on Valuation of Inventories. The debit balance in CENVAT Credit Receivable (Inputs) Account should be shown on the assets side of the balance sheet under the head 'Advances'.

As per CENVAT provisions, credit of the excise duty can be taken immediately after receipt of the inputs. Therefore, necessary entries must be passed even though documents evidencing payment of specified duty on said inputs are received later than the physical receipt of the same. However, such credit should be accounted only if one is reasonably certain of getting the said documents at a later date.

It may be worthwhile to mention here that CENVAT is available instantly on receipt of the inputs and the same may be utilised even before the said inputs are actually used in the production.

If any input is used for the production of both excisable and exempted final products and separate inventory of the input is not maintained, the entire inventory of inputs should be valued at net of excise duty. However, if separate inventory is being maintained, the inventory of inputs to be used in the manufacture of excisable final products should be valued at net of excise duty and the inventory of inputs meant for manufacture of exempted final products should be valued at the actual cost inclusive of excise duty.

It is to be noted that while valuing inventories of final products, the value of inputs should be net of the duty on inputs, that is, the purchase cost as reduced by the CENVAT credit.

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(ii) Capital goods

As per AS 10 on Accounting for Fixed Assets, the cost of an item of fixed asset comprises its purchase price, including import duties and other non-refundable taxes or levies and any directly attributable cost of bringing the asset to its working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price. Since, CENVAT credit is a refundable tax, it should be reduced from the purchase cost of capital goods concerned in the light of the above definition.

Since, under Income-tax Act also, the cost of the fixed assets should be net of Cenvatable excise duty, depreciation under section 32 of the Income-tax Act cannot be claimed in respect of such Cenvatable duty element of the fixed asset. Rule 4(4) of the CENVAT Credit Rules, 2004 prescribe the same treatment.

The CENVAT credit in respect of capital goods is allowed for an amount not exceeding 50% of the duty paid on such capital goods in the financial year in which the goods are received in factory and the balance is allowed in the subsequent year(s). Therefore, amount of CENVAT credit taken in the financial year, in which goods are received, should be debited to an appropriate account, say, "CENVAT Credit Receivable (Capital Goods) Account" and balance may be debited to another appropriate account, say, "CENVAT Credit Deferred Account".

In the subsequent financial year(s), when balance CENVAT credit is availed of, the appropriate adjustment for the same should be made, i.e., amount of CENVAT credit availed of should be credited to "CENVAT Credit Deferred Account" with a corresponding debit to "CENVAT Credit Receivable (Capital Goods) Account". The unadjusted balance standing in the CENVAT Credit Receivable (Capital Goods) Account, if any, should be shown on the assets side of the balance sheet under the head 'advances'.

(i) On purchase of the asset

Fixed asset A/c	Dr.
CENVAT Credit Receivable (Capital Goods) A/c (50% of specified duty)	Dr.
As CENVAT Credit Deferred A/c (50% of the specified duty)	Dr.
To Creditors	

(ii) On clearance of finished goods in the year of purchase of fixed asset

Excise duty paid A/c	Dr.
To CENVAT Credit Receivable (Capital Goods) A/c	

(iii) On availing the balance 50% credit in the subsequent financial year

CENVAT Credit Receivable (Capital Goods) A/c	Dr.
To CENVAT Credit Deferred A/c	

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CENVAT credit in respect of capital goods should be recognised in the books of account only when the following conditions are satisfied:

- (i) The enterprise is entitled to the CENVAT credit as per the CENVAT provisions and
- (ii) there is a reasonable certainty that the CENVAT credit would be utilised.

(iii) Capital goods acquired on lease

CENVAT credit is available to the lessee where the capital goods have been acquired on lease. Where the financing arrangement between the lessor and the lessee covers the specified duty on capital goods, the asset given on lease should be shown at purchase cost net of the specified duty on the capital goods in the books of the lessor. Such specified duty on capital goods, (which would be availed of as CENVAT credit by the lessee) should be recorded and disclosed separately as the duty recoverable from the lessee. This duty would not form part of 'Minimum Lease Payments' in view of the definition of the aforesaid term in AS 19 on Leases which is reproduced below:

Minimum lease payments are the payments over the lease term that the lessee is, or can be required, to make excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

- (a) in the case of the lessee, any residual value guaranteed by or on behalf of the lessee; or
- (b) in the case of the lessor, any residual value guaranteed to the lessor:
 - (i) by or on behalf of the lessee; or
 - (ii) by an independent third party financially capable of meeting this guarantee.

Where the specified duty on capital goods does not form part of the financing arrangement and the lessee pays the duty directly to the supplier, obviously the same need not be recorded in the books of the lessor.

In the books of the lessee, CENVAT credit receivable on the capital assets acquired on lease should be treated in the same manner as discussed in point no. (ii) above, except that the cost of the relevant leased capital asset and depreciation would not be accounted in the books of the lessee.

(iv) Capital goods acquired on hire-purchase

Cenvat Credit is also available on the capital goods acquired on hire purchase. Capital asset acquired on hire-purchase should be recorded and disclosed at net cash value, i.e., cash value net of CENVAT credit receivable in the books of the hirer. The other accounting treatment in relation to CENVAT in the books of the hirer should be the same as if the asset has been acquired on outright purchase basis. Such an accounting treatment, in the books of the hirer, should be made whether or not the specified duty on the capital goods forms part of the financing arrangement.

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In cases where the specified duty on capital goods forms part of the hire purchase arrangement and the benefit of CENVAT credit is available to the hirer, the vendor should book the sale in the normal course inclusive of the specified duty on the capital goods in his books. However, where the specified duty on the capital goods does not form part of the financing arrangement and the hirer directly assumes the duty liability, the same need not be recorded in the books of the vendor.

(v) Job Work

(a) Accounting treatment in case of inputs and/or partially processed inputs/capital goods sent outside the factory to job-worker for further processing

The CENVAT credit on goods (being inputs or capital goods) sent to the job worker for further processing, testing, repair, reconditioning or for the manufacture of intermediate goods necessary for the manufacture of final products or any other purpose may be taken. However, if these goods are not returned within 180 days the credit on such goods has to be reversed.

The entry for such reversal may be:

When inputs are not returned

Purchases A/c

Dr.

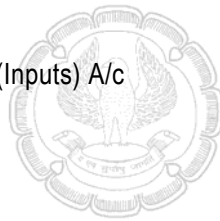
To CENVAT Credit Receivable (Inputs) A/c

When capital goods are not returned

Fixed Assets A/c

Dr.

To CENVAT Credit Receivable (Capital Goods) A/c



The credit can be retaken once the goods come back. Therefore, time factor is quite relevant in accounting for CENVAT credit in case of job work.

(b) Accounting treatment in case of inputs received by a job worker for further processing on job-work basis

An enterprise may receive inputs from a principal for processing and/or converting to final products on job work basis and may be required to avail CENVAT credit on such inputs and discharge duty liability on clearance of final products on behalf of the principal. The ownership of the inputs and final products shall continue to be that of the principal.

In such cases, the enterprise should, at the time of taking CENVAT credit, debit an appropriate account say, "CENVAT Credit Receivable Account" and the account to be credited would depend upon the terms of job work with the principal. There are two possible alternatives viz., the job worker bears excise duty or the principal bears the excise duty. In the first case the entry should be:

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CENVAT Credit Receivable A/c Dr.
To Excise Duty paid A/c

On clearance of the goods the entry would be:

Excise Duty paid A/c Dr.
To CENVAT Credit Receivable A/c

In the second case the entry should be:

CENVAT Credit Receivable A/c Dr.
To Principal A/c

On clearance of the goods the entry would be:

Principal A/c Dr.
To CENVAT Credit Receivable A/c

(vi) Review of balances in CENVAT credit receivable accounts

A review of the balances in CENVAT Credit Receivable Accounts should be taken up at the year end. If after such review, it is found that the balances of the CENVAT credit are not likely to be used in the normal course of business within a reasonable time, such non-usable excess credit should be adjusted in the accounts. This adjustment may be done irrespective of the right to carry forward such excess credit in the CENVAT provisions. Such a situation of excess non-usable credit may arise when the credit on inputs is more than the duty payable on the final products.

The above adjustment related to input credit should be made to the raw material or input purchase account. The effect of this would be to increase the cost of purchase and thereby to increase the cost of inputs for the purpose of accounting for consumption and valuation of closing stocks. Where it is not possible to debit or identify this excess credit to a particular lot or lots of materials purchased, such excess credit may be apportioned over the entire purchases of raw materials, components etc., entitled to CENVAT credit during the year on pro-rata basis.

The adjustment of excess credit related to capital goods should be made to the concerned Capital Goods Account. The excess CENVAT credit, either availed or deferred, which relates to fixed assets acquired, should be added to the cost of the relevant fixed asset. Therefore, for accounting purposes, depreciation on the revised unamortised depreciable amount should be provided prospectively over the residual useful life of the asset. In case the fixed asset no longer exists, the relevant amount should be written-off in the profit and loss account. To facilitate such a treatment, CENVAT credit records should be maintained fixed asset-wise.

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In relation to capital goods other than fixed assets (e.g. spares, accessories etc.), the accounting treatment for the excess CENVAT credit would be the same as that of inputs. It is, therefore, advisable that CENVAT Credit Receivable (Capital Goods) Account is maintained separately for fixed assets and other capital goods.

Where, at any time during the year, it is revealed that the terms and conditions subject to which the benefit of CENVAT credit is available, have not been complied with or are not being capable of compliance, e.g., where the inputs are destroyed prior to the manufacture of final product or the relevant plant and machinery cannot be put to use for the manufacture of final product, appropriate adjustments should be made in the accounts to reverse such credit which cannot be availed of for inputs and for capital goods.

As a result of such adjustments, the balances of the CENVAT Credit Receivable Accounts in the financial accounts may be lower than the credit available in the excise records. In such a case, a reconciliation statement should be prepared indicating the amounts adjusted so that a track is kept for the difference between the financial accounts and the credit available as per the excise records.

The balance of CENVAT account (unavailed credit), in case of exports should not be written off as the same can be refunded in cash.

(vii) Duty demands paid by debit to CENVAT credit balance

An enterprise may choose to discharge excise duty demands made by Central Excise Department from time to time by way of debit to CENVAT credit balance pertaining either to inputs or to capital goods. In that case, the duty demand so paid out of the CENVAT credit balance should be debited to appropriate account, depending upon the nature of demand and credit should be given to CENVAT Credit Receivable Account. For example, if the duty demand pertains to excise duty on finished goods, the same should be debited to excise duty account. If, on the other hand, it pertains to disallowance of CENVAT credit taken on purchase of raw materials during the year, the same should be added to the cost of inputs. Appropriate adjustment in that case would have to be made while valuing inventory of inputs.

If the duty demand pertains to disallowance of CENVAT credit in respect of purchases effected in earlier years, the accounting treatment would depend on whether the said inputs are consumed or are available in stock. If they are consumed, the disallowance should be debited to excise duty account and treated as expense of the current year. If raw materials are still lying in stock, duty demand should be added to the cost of stock of inputs.

Illustration of accounting for CENVAT Credit on Inputs

The illustration is based on the following assumptions:

- (i) There is an opening stock of 50 units purchased at Rs. 100/- per unit (Excise duty @ 8%).

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- (ii) 100 units of raw materials are purchased at Rs. 100/- per unit. Excise duty @ 8%.
- (iii) 120 units of raw material are consumed in a process involving manufacture of a component. All the 120 units are sold in the year. The balance 30 units are manufactured and sold in the subsequent year.
- (iv) The manufactured components are sold at a price of Rs. 120/- per unit (including excise duty @ 8%).
- (v) CENVAT credit is available on the raw material purchased and can be set-off against the excise duty payable on the final product.

Conversion costs are ignored. For simplification, rates of excise duty are assumed to be inclusive of education cess.

Profit & Loss Account

Particulars	Units	Rate	Amount (Rs)		Particulars	Units	Rate	Amount (Rs.)
To Opening Stock of Raw Materials	50	100	5000		By Sales	120	120	14400
To Purchases of Raw Materials	100	100	10000					
	150	100	15000					
Less: Closing Stock of Raw Materials	30	100	3000	12000				
To Excise Duty		8%		1152				
To Gross Profit				1248				
Total				14400	Total			14400

NOTE:

- Opening balance of the CENVAT Credit Receivable Account is Rs.400 (8% of Rs.5000)
- Besides showing stock of raw materials at Rs.3000, the Balance Sheet would also reflect, CENVAT Credit Receivable Account at Rs.48, arising out of the following entries:

(a) Purchase A/c	Dr. 10000
CENVAT Credit Receivable A/c	Dr. 800
To Sundry Creditors	Dr. 10800

(Being the purchase of 100 units at Rs.100 plus excise duty @ 8% in respect of which

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the company is eligible to claim CENVAT credit)

(b)	Excise Duty A/c	Dr.	1152
	To CENVAT Credit Receivable A/c		1152

(Being the payment of excise duty out of CENVAT credit available to the company)

Balance Sheet

Liabilities	Amount	Assets	Amount
		Current Assets, Loans and Advances	
		(A) <i>Current Assets</i>	
		Inventory of raw materials	3000
		(B) <i>Loans and Advances</i>	
		CENVAT Receivable A/c	48

The opening balances of inventories of raw materials and CENVAT Receivable Account, for the next year, would be Rs.3000 and Rs.48 respectively.

16.5 ACCOUNTING FOR CENVAT CREDIT OF SERVICE TAX

The Guidance Note on Accounting for MODVAT/CENVAT does not contain the guidelines for accounting of service tax credit availed on input services. However, the CENVAT credit of service tax may be accounted for keeping in mind the principles of the CENVAT credit in respect of excise duty. It may be noted that service tax credit can be availed only after paying the value of the taxable service and the service tax thereon unlike the excise credit which can be availed as soon as the goods are received in the factory. Therefore, on receiving any input service the following entry may be passed:

Input service A/c	Dr.
CENVAT Credit Suspense (Input Services) A/c	Dr.
To Sundry Creditors	

On paying the value of the taxable service and the service tax thereon the following entry may be passed:

(b)	CENVAT Credit Receivable (Input Services) A/c	Dr.
	To CENVAT Credit Suspense (Input Services) A/c	

16.6 ACCOUNTING TREATMENT FOR PLA

Duty is deposited in Personal Ledger Account (PLA) through TR 6 challans. Whenever duty is deposited, PLA Account or Account Current Account should be debited and bank/cash

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account should be credited. While clearing the finished goods, if balance in PLA register is utilized for setting off the liability on finished goods, then excise duty paid account should be debited and PLA Account or Account Current Account should be credited. The balance in the PLA Account or Account Current Account should tally with the balance in PLA register at the year end. Such balance should be shown under the 'Current Assets' in the balance sheet.

With effect from 01.03.2008, a similar system of advance payment has been introduced for service tax. Whenever service tax is deposited, an appropriate account head (say Advance Service tax Account) should be debited and bank/cash account should be credited. While receiving the consideration for services, if balance in such account is utilized for setting off the liability on taxable output services, then service tax paid account should be debited and such account should be credited. The balance of such account should be shown under the 'Current Assets' in the balance sheet.

16.7 ACCOUNTING FOR IMPORT AND EXPORT DUTIES

The import duty paid on the fixed assets imported from a place other than India is capitalized along with the fixed assets while the import duty paid on imported raw materials is charged to profit and loss account along with the cost of purchase of the same. The cost of inventories of the imported raw material will include the duties paid on them. However, in case of raw materials eligible for duty drawback, the amount of such duty drawback will be deducted from such cost. Export incentives should be recognized only when ultimate collectibility becomes reasonably certain.

Here, it may be noted that CENVAT credit may be taken in respect of additional duty of customs leviable under section 3 of the Customs Tariff Act. Therefore, accounting treatment for such duty shall be governed by the principles discussed in para 17.4.2.

16.8 MAINTENANCE OF BOOKS OF ACCOUNT

Rule 10 of the Central Excise Rules, 2002 provides for the maintenance of a daily stock account by the assessee. Such records should be maintained on daily basis indicating particulars regarding.

- (i) Description of goods manufactured or produced
- (ii) Opening balance
- (iii) Quantity produced or manufactured
- (iv) Inventory of goods
- (v) Quantity removed
- (vi) Assessable value

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(vii) Amount of duty payable

(viii) Particulars regarding amount of actual duty paid invoices.

Further, rule 9 of the CENVAT Credit Rules, 2004 requires a manufacturer of final products or the provider of output service to maintain proper records for the receipt, disposal, consumption and inventory of the input and capital goods in which the relevant information regarding the value, duty paid, CENVAT credit taken and utilized, the person from whom the input or capital goods have been procured is recorded. Such records should also be maintained in respect of input services.

However, unlike section 44AA of the Income-tax Act which prescribes certain statutory books of accounts which are to be maintained by the assessee, the excise, customs and service tax laws do not provide for maintenance of any statutory books of accounts. Therefore, in case of assessee being a company the books of account should be maintained as per the requirement of the Companies Act.

Section 209 of the Companies Act states that every company is required to keep proper books of account showing (i) all monies received and spent and the details thereof, (ii) sales and purchases of goods, and (iii) assets and liabilities. A company engaged in production, processing, manufacturing or mining activities has also to maintain, if required by the Central Government, cost accounting records *i.e.*, particulars relating to utilisation of material, labour and other items of costs.

If such books of accounts which are necessary to give a true and fair view of the state of affairs of the company or branch office, as the case may be, and to explain its transactions are not kept, proper books of accounts shall not be deemed to have been kept. Also if such books are not kept on accrual basis and according to system of double entry book keeping, proper books of accounts shall not be deemed to have been kept.

As per rule 5(1) of Service Tax Rules, 1994, every person shall furnish to the Superintendent of Central Excise at the time of filing his return for the first time a list of all accounts maintained by the assessee in relation to service tax including memoranda received from his branch offices. The records (including computerised data) as maintained by an assessee in accordance with various laws in force from time to time shall be acceptable. Thus, the records as required under other laws applicable to an assessee shall be the records required for service tax e.g. the Council of the Institute of Chartered Accountants of India has notified the following books which should be maintained by a practising chartered accountant:

(i) Cash Book,

(ii) Ledger

Rule 6F of the Income Tax Rules, 1962, prescribes that the person carrying on legal, medical, engineering, or architectural profession or the profession of accountancy or technical consultancy or interior decoration or authorised representative or film artist, subject to certain

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exemptions specified in the proviso to Rule 6F(1), should maintain the following :

- (i) Cash Book,
- (ii) Journal, if accounts are maintained on mercantile system of accounting,
- (iii) Ledger,
- (iv) Carbon copies of bills and receipts,
- (v) Original Bills & Receipts for expenses.

16.9 DIVERGENCE BETWEEN ACCOUNTING AND TAXATION PRINCIPLES

Following are the instances of divergence between accounting and taxation principles with regards to indirect taxes:

(i) Valuation in excise

The value of finished goods as per the excise provisions may differ from the value recorded in the financial records on account of various additions or deductions made to/from the invoice value in terms of section 4 and Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000. For example, in financial records the invoice value shall be recorded as the value of finished goods while for excise purposes advertising expenses, storage and outward handling expenses, packing expenses etc. if any, borne by the buyer in connection with the sale shall be added to the invoice value.

(ii) Definition of capital goods

As per rule 2(a)(A)(iii) of the CENVAT Credit Rules, 2004 capital goods include components, spares and accessories of specified capital goods whereas these are not always treated as capital goods in the financial accounts. As per Accounting Standard Interpretation 2 on Accounting for Machinery Spares, these items are treated as inventories for the purpose of AS 2 if they are not specific to a particular item of fixed asset and can be used generally for various items of fixed assets. These should be charged to profit and loss account as and when issued for consumption in the ordinary course of operations.

Further, rule 2(a)(A)(1) clarifies that capital goods does not cover equipment or appliances used in the office of the manufacturer. However, such a distinction is not being made in the accounting principles. AS 10 on Fixed Assets does not call for exclusion of the capital goods used in the office from the definition of fixed assets.

(iii) Review of CENVAT credit balances

As per the Guidance Note on Accounting Treatment for MODVAT/CENVAT, balances in CENVAT Receivable Account pertaining to inputs and capital goods should be reviewed at the year end. If on such review any non usable excess credit (i.e. credit not likely to be used in normal course of business within reasonable time) is found the same should be adjusted in the accounts.

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However, the CENVAT provisions do not provide for such write off. The CENVAT credit balance can be carried forward to the next year for being used in setting off the duty/service tax liability. Therefore, a reconciliation statement should be prepared to explain the difference between financial accounts and excise records.

(iv) Valuation in case of customs

As per the customs provisions, the rate of exchange used for conversion of foreign currency into Indian currency for valuation purposes should be the rate declared by the Central Board of Excise and Customs. However, as per AS 11 the rate of exchange for conversion of foreign currency into reporting currency in respect of a transaction should be the rate prevalent at the date of the transaction. Thus, while valuing the imported goods for the purpose of paying customs duty, rate declared by CBEC is used whereas while recording the value of such goods in the books of accounts the exchange rate prevalent on the date of transaction as declared by the RBI is used.

It may be important to note here that unlike Customs Act and Income-tax Act, where the rate of exchange to be adopted for the purpose of conversion of currency is prescribed by section 14(2) and rule 115 and 115A of Income-Tax Rules respectively, there is no statutory provision in the service tax laws providing for the rates of conversion of currency for the purpose of converting consideration of taxable services received in foreign currency into Indian currency.

Further, there may be more difference between the value of imported goods derived as per the customs provisions and the value computed as per the accounting principles. The differences may be on account of various additions or deductions made to/from the invoice value in terms of section 14 and Customs Valuation (Determination of Price of Imported Goods) Rules, 1988. For example, customs laws provide for the addition of commission and brokerage, licence or royalty fees etc. to the value of the imported goods. Also, price reduced after importation is not considered for customs purposes whilst the same is considered for recording the value of the goods in the account books.

(v) Recognition of revenue in case of service tax

As per accrual concept of accounting the value of taxable services performed should be recognized during the period in which it has been performed even though the payment for the same has not been received in that period. However, as per Rule 6(1) of the Service Tax Rules, 1994 service tax is payable only on the value of taxable services **received** i.e., the liability to pay service tax arises only after the receipt of the value of the services.

The following entries are suggested in order to avoid any conflicts with the service tax provisions:

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(a) *At the time of billing to the client:*

Client A/c	Dr.
To Service Income A/c	
To Service Tax Deferred Liability	

(b) *At the time of realization of the consideration*

Service Tax Deferred Liability A/c	Dr.
To Service Tax Payable A/c	

As the service tax for the month of March has to be paid by the 31st of March, there will not be any balance at the year end in the service tax payable account. Further, there will not be any need of creating any provision for the service tax payable as there will not be any liability for the same. The balance in the CENVAT Credit Receivable (Input Service) A/c may be set off against the Service Tax Payable A/c and the difference left in the Service Tax Payable A/c should be paid to the department.

(vi) Treatment of advance in case of service tax

As per AS 9 on Revenue Recognition, revenue from service transactions is usually recognised as the service is performed, either by the proportionate completion method or by the completed service contract method. Therefore, advance received towards the provision of service is not recognized as revenue in the profit and loss account but is shown under the head 'Loans and Advances' in the balance sheet.

However, as per section 67(3) of the Finance Act, 1994 gross amount charged for the taxable service includes any amount received towards the taxable service before, during or after provision of such service and it is this gross amount charged, which is the value of taxable service, on which service tax has to be paid. This is in contrast with AS 9 which does not recognize advance as revenue in the profit and loss account.

(vii) Reimbursements in case of service tax

Subject to the provisions of rule 5(2), rule 5(1) of the Service Tax (Determination of Value) Rules, 2006 lays down that the expenditure or costs incurred by the service provider in the course of providing taxable service forms integral part of the taxable value of the service provided or to be provided. Therefore, they shall be included in the value for the purpose of charging service tax on the said service. It shall not be relevant that various expenditure or

costs are separately indicated in the invoice or bill issued by the service provider to his client. This means that out-of pocket expenses incurred by the service provider for the provision of services shall form part of the value of taxable services and would be charged to service tax.

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However, for accounting purposes the value received from the service receiver for services alone is treated as revenue in the profit and loss account. Expenditure or costs reimbursed are in the nature of reimbursement of out-of pocket expenses (e.g. conveyance, boarding, lodging etc.) incurred by the service provider in the course of providing the service and are thus not recognised in the profit and loss account.

(viii) Recognition of revenue in construction contracts

The service providers engaged in construction services should account the revenue and expenses of the contract as per the percentage completion method prescribed by this accounting standard. Under this method, contract revenue is matched with the contract cost incurred in reaching the stage of completion. Therefore, only the revenue, expenses and profit that can be attributed to the proportion of work completed are reported.

However, as per service tax provisions, the gross amount as and when received is considered for paying service tax. Therefore, “cash basis” is relevant for charging of service tax whereas “accrual” basis is adopted for accounting purposes.

Self-examination questions

1. Enumerate any five accounting standards which may be relevant in central excise, customs or service tax matters.
2. Discuss the treatment prescribed by the Guidance Note on Excise Duty for accounting excise duty in the books of account.
3. How should the excise duty be disclosed in the profit and loss account?
4. Explain the accounting treatment of inputs on which CENVAT credit has been availed.
5. Write a brief note on divergence between accounting principles and taxation laws.