

Note: All the problems are worked based on the provisions of Finance Act 2010 and notifications up to 31.10.2010

Every care is taken to avoid mistakes and Errors, if any may crept it is unintentional.

Errors/ Mistakes if any please brought to notice by mail to rajdhost@yahoo.com

Excise Valuation

Note: Consider Appropriate Education Cess in all the Calculations:

Problem No 1

How would you arrive at the assessable value for the purposes of levy of excise duty from the following particulars-cum-duty selling price exclusive of sales-tax Rs. 10,000 - Rate of excise duty applicable to the product: 15% - Trade discount allowed - Rs. 1,200 - Freight Rs. 750.

Solution

Cum Duty Price		10000
Less: Permissible deductions		
Trade discount	1200	
Freight	750	1950
		8050
Assessable Value		
$8050 \times 100 / 115.45$		6973
Excise duty including Education Cess		
$8050 \times 15.45 / 115.45$		1077
Excise duty 15% on AV		1046
Education Cess- 2%		21
Higher Education Cess-1%		10

It is assumed that cum duty price is given before trade discount and freight

Problem No 2

1,500 pieces of a product 'A' were manufactured during 2010-11. Its list price (i.e. retail price) is Rs. 250 per piece, exclusive of taxes. The manufacturer offers 20% discount to wholesalers on the list price. During the year, 840 pieces were sold in wholesale, 510 pieces were sold in retail, and 35 pieces were distributed as free samples. Balance quantity of 115 pieces was in stock at the end of the year. The rate of duty is 15%. What is the total duty payable during the year 09-10 Assume that the manufacturer is not eligible for SSI concession

Solution

Calculation of Sales Value			
Particulars	Qty in units	Rate Rs.	Value Rs.
Whole sale	840	200	168000
Retail	510	250	127500

Samples	35	200	7000
Total Assessable value			302500
Excise duty @ 15%			45375
Education Cess 2%			908
Secondary Higher Education Cess 1%			454
Total Excise duty payable			46736

Note

Samples are to be valued at a identical goods price nearest place of removal.

Since it is not given, they are valued at price at highest quantity is sold

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Problem No 3

A manufacturer has appointed brokers for obtaining orders from wholesalers. The brokers procure orders for which they get brokerage of 5% on selling price. Manufacturer sells goods to buyers at Rs. 250 per piece. The price is inclusive of sales tax and Central excise duty. Sales tax rate is 6% and excise duty rate is 20%. What is the AV, and what is duty payable per piece?

Solution

Let the Assessable value		Rs. X
Add: Excise duty @20.6% (incl ec)		0.206 X
Assessable value including E D		1.206 X
Add Sales tax @ 6% on above		0.072 X
Assessable value including E D & Sales tax		1.278 X
It is given AV including ED and ST is Rs. 250		
$1.278 X = 250$		Rs
$X = 250/1.278$		195.62
Excise duty 20%		39.12
Education Cess 2%		0.78
Higher Secondary Education Cess 1%		0.39
Total Duty payable		40.30

Note: Sales man Commission is includible and not deductible

Problem No 4

A manufacturer has to supply a machinery on following terms and conditions: (a) Price of machinery: 3,40,000 (net of taxes and duties) (b) Machinery erection expenses: 26,000 (c) Packing (normally done by him for all machinery) : 4,000 (d) Design and drawing charges relating to manufacture of machinery : 30,000 (Net of taxes and duties) (e) Central Sales Tax @ 2% (f) Central Excise Duty @ 20% (g) Cash discount of Rs. 5,000 will be offered if full payment is received before despatch of goods. (h) The machine will be supplied along with bought out accessories @ Rs. 8,500. The accessories were optional. You are informed that (a) the buyer made all payment before delivery. (b) The manufacturer incurred cost of Rs. 1,200 in loading the machinery in the truck in his factory. These are not charged separately to buyer. - Find the 'Assessable Value' and the duty payable

Solution

Calculation of Assessable Value

Price of Machinery		340000
Add: Inclusions		
Packing Charges	4000	
Design and drawing	30000	34000
		374000
Less Cash Discount		5000
Assessable Value		369000
Excise Duty @20%		73800
Education Cess 2%		1476
Higher Secondary Education Cess 1%		738
Total Duty Payable		76014

Note

1. Erection expenses, bought out accessories and CST not includible in valuation
2. Loading for truck in machinery Rs. 1200 is includible in valuation. However it is specified that they are not charged separately, hence it is assumed that it is included in the price of machinery.

Problem No 5

Find Assessable Value and duty payable - Maximum Retail Trade Price: Rs. 1,100/- per unit. - Sales Tax, Surcharge, Octroi and other Local Taxes: 10% - Cash Discount: 2% - Trade Discount: 8% - Primary and Secondary packing cost included in the above MRP: Rs. 100 - Excise duty rate: 8% advalorem. Abatement 40%. What will be your answer if the product not covered under MRP Provisions?

Solution

Maximum Retail Price		1,100
Less: Abatement 40%		440
Assessable Value		660
Excise Duty @8%		52.80
Education Cess 2%		1.06
Higher Secondary Education Cess 1%		0.53
Total Duty Payable		54

When the product covered under MRP except abatement no other deduction Will be available.

If the Product Not covered under MRP Provisions

Maximum Retail Price(CDP)		1100
Less: Trade Discount 8%	88	
Cash discount 2%	22	110
		990
Let the Assessable value		Rs. X
Add: Excise duty @8.24% (incl. ec)		0.0824 X

Assessable value including E D	1.0824 X
Add Sales tax and other @ 10% on above	0.01824 X
Assessable value including E D & Sales tax	1.10064 X
$2.10 X = 990$	
$X = 990/1.10064$	899.48
Excise Duty @8%	71.96
Education Cess 2%	1.44
Higher Secondary Education Cess 1%	0.72
Total Duty Payable	74,12.

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Problem No 6

B Ltd. manufactures two products namely, skin Ointment and Eye Ointment. Skin Ointment is a specified product under section 4A (MRP Valuation) of Central Excise Act, 1944. Where Eye product is chargeable under advalorem (Transaction Value) valuation. The sales prices of both the products are at Rs. 43/unit and Rs.33/unit respectively. The sales price of both products included 16% excise duty. Additional information is as follows: Units cleared: Eye Ointment: 1,00,000 units Skin Ointment: 1,50,000 units, Deduction permissible under section 4A(Abatement) 40%. Calculate the total excise duty liability of B Ltd., on both the products

What will be your answer if the price of the two products is inclusive of basic excise duty 16%,special excise duty 8% and CST 2%..

Solution

Skin Ointment	
MRP of one unit of Skin Ointment	43.00
Less: Abatement 40%	17.20
Assessable Value	25.80
Eye Ointment	
Cum duty price per Unit	33.00
Assessable Value	
$(33 \times 100/116.48)$	28.33
Calculation of total Excise duty Liability	
Sale Value	
Skin Ointment 150000 units @ Rs. 25.80	3870000
Eye Ointment 100000 Units @ Rs. 28.33	2833000
Total Assessable Value	6703000
Excise Duty @16%	1072480
Education Cess 2%	21450
Higher Secondary Education Cess 1%	10725
Total Duty Payable	1104654

Assessable value including E D	1.0824 X
Add Sales tax and other @ 10% on above	0.01824 X
Assessable value including E D & Sales tax	2.10 X
2.10 X = 990	
X = 990/2.10	471.43
Excise Duty @8%	37.71
Education Cess 2%	0.75
Higher Secondary Education Cess 1%	0.38
Total Duty Payable	39

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Education Cess 2%	21450
Higher Secondary Education Cess 1%	10725
Total Duty Payable	1104654

Problem No. 7

X Ltd. is engaged in the manufacture of 'paracetamol' tablets that has an MRP of Rs.49 per strip. The Company cleared 1,00,000 tablets and distributed as physician's samples. The goods are not covered by MRP, but the MRP includes 16% Excise Duty and 3% CST. If the cost of production of the tablet is Rs. 3 Per tablet, The whole sale price is Rs. 4.00 per tablet. determine the total duty payable

When tables is given as samples M RP Provision not applicable samples are to b Valued price of identical goods at the nearest place price of removal, It is assumed that Whole sale price per tablet of is the nearest place price of removal

$$AV \text{ is } 100000 \times 4 = 4,00,000$$

Alternatively, MRP can also be assumed as nearest place of removal including duty and taxes, in that Assume X is Av and can be solved as below

Solution

Let the Assessable value per Strip	Rs. X
Add: Excise duty @16.48% (incl ec)	0.1648 X
Assessable value including E D	1.1648 X
Add CST 3% on above	0.035 X
Assessable value including E D & CST	1.1998 X
It is given 1.1998 X = Rs. 49.00	
X= 49/1.1998(A V per Strip) =	40.84
Total Assessable Value - 10000 @ Rs. 40.84	4,08,400

Problem

No. 8

M/s. Philips & Co., Chennai sold 3000 emergency lamps at a uniform *duty* price of Rs. 1000 per piece for delivery at any place in Tamil Nadu. The details of sales are as follows: -1000 lamps were sold at the Chennai factory gate and hence no transport charges were incurred on them. 1000 lamps were delivered to a buyer at Madurai by incurring freight charges of Rs.14,000 and 1000 to a buyer at Trichy at a freight cost of Rs.10,000. What is the assessable value per emergency lamp?

Solution

Calculation of Equalized freight per lamp		
Equalized freight = Total freight/ total no of units sold		
(0+14000+10000/1000+1000+1000)=	24000/3000	Rs. 8 per lamp
A V per lamp = Rs 1000-Rs. 8	992	
Note: Value as per Valuation Rule 5 (F O R Contract)		

Problem No 9

Product 'P' is sold by the Company at uniform price of Rs. 15,000 per Ton at various depots of Company in different States. The price is inclusive of excise duty. Local sales tax is charged extra. During the year, 3,000 Tons of 'P' was sold in Haryana, Delhi and Rajasthan as per following details:

State	Qty. sold	Freight Charge paid (Rs.)
Haryana	1,100	9,50,000
Delhi	1,400	11,30,000

Rajasthan	500	7,40,000
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The 'freight charge' is from factory to the depot. Excise duty rate is 16.00%. What is the 'Value' under section 4 of Central Excise and total excise duty payable?

Solution

Price per ton is given depot price. No deduction for freight

Since the price is inclusive of excise duty 16% the Assessable value will be calculated using backwards = 15000×100

/116.48

12877.75

Calculation of Total Assessable Value			
Depot	Qty in tons	Av per ton	Assessable
		Rs	Value Rs
Haryana	1100	12877.75	1,41,65,525
Delhi	1400	12877.75	1,80,28,850
Rajasthan	500	12877.75	64,38,875
	3000		3,86,33,250
Excise Duty @16%			61,81,320
Education Cess 2%			1,23,626
Higher Secondary Education Cess 1%			61,813
Total Duty Payable			63,66,760

Problem No 10

Depot price of a company are –

Place of removal	Price at depot on 1.1.2011	Price at depot on 31.12.2010	Actual sale price at depot on 01.02.2011
Amritsar Depot	Rs 100 per unit	Rs 105 per unit	Rs 115 per unit
Bhopal Depot	Rs 120 per unit	Rs 115 per unit	Rs 125 per unit
Cuttack depot	Rs 130 per unit	Rs 125 per unit	Rs 135 per unit

Additional information: i) Quantity cleared to Amritsar Depot - 100 units ii) Quantity cleared to Bhopal Depot - 200 units iii) Quantity cleared to Cuttack Depot - 200 units iv) The goods were cleared to respective depots on 01/01/2011 and actually sold at the depots on 01/02/2011 Determine Assessable Value .

Solution			
Calculation of Total Assessable Value			
Depot	Qty in Units	Av per ton	Assessable
		Rs	Value Rs
Amritsar	100	100	10,000
Bhopal	200	120	24,000
Cuttack	200	130	26,000

	500		60,000
Note			
As per valuation Rule No 7, In case of depot sale Price of depot			
on the date of removal from factory is the value,			

Problem No 11

A trader is owner of a brand name 'J-17'. He supplies materials to a job-worker. The job worker manufactures goods with brand name 'J-17' and supplies the goods to the trader. Cost of inputs is Rs. 360 per piece, inclusive of transport cost up to the factory of job worker. Job worker charges Rs. 130 per piece to manufacture the product. The trader sells the goods in market at Rs. 630 per piece. The rate of duty is 16%. Find the Assessable Value. What is the duty payable per piece?

Solution
Assessable value will be Rs. 630 Per piece, As per New Valuation rule 10 A price at which the
Principal manufacturer sells the goods is the value Cost of raw material and Job worker charges are not relevant

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Problem No 12

M/s. Ashok Leyland, Chennai sent their chassis (value Rs. 5,00,000) to M/s. T.V. Sundaram Iyengar & Sons, Chennai for bus body building. The latter built the body and sent the bus to the former with their bill for Rs.5,00,000. Who will pay E.D. on the bus? . Ashok Leyland will sell the bus for Rs.15,00,000/- What is the assessable value? Work out the total E.D. payable assuming Cenvat @ 16% and taking the values given above.

M/S T V sundaram Iyengar has to pay excise duty, because the body building of vehicle is deemed manufacture as per section/ chapter Notes of CETA. Valuation can be done using job work valuation rule 10 A. Assessable value will be the price at which Ashok Leyland sells bus ie Rs. 15 lakhs

Total Duty payable	
Assessable value	15,00,000
Excise Duty @16%	2,40,000
Education Cess 2%	4,800
Higher Secondary Education Cess 1%	2,400
Total Duty Payable	2,47,200

Alternatively Ashok Leyland can also pay duty if TVS claim exemption from duty of job work under notification no 214/86. TVS can also claim exemption from duty if it receive material under cenvat provisions.

Problem No.

13

Asha Ltd. supplies raw material to a job worker Kareena Ltd. After completing the job-work, the finished product of 5,000 packets are returned to Asha Ltd. putting the retail sale price as Rs. 20 on each packet. The product in the packet is covered under MRP provisions and 40% abatement is available on it. Determine the assessable value under Central excise law from the following details: * Cost of Raw material supplied Rs. 30,000/- * Job worker's charges including profit Rs. 10,000/- * Transportation charges for sending the raw material to the job worker Rs. 3,000/- * Transportation charges for returning the finished packets to Asha Ltd. Rs. 3,000/

Solution

Where goods covered under M R P Provisions value will be done as per M R P Provisions only

M R P per packet	20.00
Less Abatement 40%	8.00
Assessable Value per packet	12.00
Total Assessable for 5000 packets @ Rs. 12	60,000

Note: The details given regarding Job work not relevant

Problem No 14

A manufacturer manufactured some furniture within the factory for his own use. He purchased material of Rs. 27,500 for this purpose. Cost of the operations carried out by him, as certified by a Cost Accountant, as per CAS-4, is Rs. 12,200. The furniture is liable for duty @ 16%. The manufacturer generally earns profit of 18% on his total cost. Sales tax on furniture is 10%. Find the excise duty and sales tax payable.

Solution

Note: When Furniture is captively consumed duty payable as per Valuation rule No 8 at Cost plus 10%

Calculation of cost of Production

Cost of Raw material	27500
Cost of Operations	12200
	39700
Add 10%	3970
Assessable Value	43670
Excise Duty @16%	6987
Education Cess 2%	140
Higher Secondary Education Cess 1%	70
Total Duty Payable	7197

Note: Since furniture is not sold sales tax not payable. Profit margin on cost is not relevant for Excise valuation

Problem No 15

Determine the cost of production on manufacture of the under-mentioned product for purpose of captive consumption in terms of Rule 8 of the Central Excise Valuation (DPE) Rules, 2000 - Direct material – Rs 11,600, Direct Wages & Salaries – Rs 8,400, Works Overheads – Rs 6,200, Quality Control Costs – Rs 3,500, Research and Development Costs – Rs 2,400, Administrative Overheads – Rs 4,100, Selling and Distribution Costs – Rs 1,600, Realisable Value of Scrap – Rs 1,200. Administrative overheads are in relation to production activities. Material cost includes Excise duty Rs. 1,600.

Solution

Calculation of cost of Production

Direct material	10000
Direct wages	8400
Works overheads	6200
Quality control costs	3500
Research and development cost	2400

Administrative overheads	4100
	34600
Less Realizable value of scrap	1200
Cost of Production	33400
Add 10%	3340
Assessable Value	36740

Note: selling and distribution costs are not includible in cost of production

It is assumed that Research and development costs are relating to production

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Problem No 16

Determine the value on which Excise duty is payable in the following instances. Quote the relevant section / rules of Central Excise Law. (a) A. Ltd. sold goods to B Ltd., at a value of Rs. 100 per unit, In turn; B Ltd. sold the same to C Ltd. at a value of Rs. 110 per unit. A Ltd. and B Ltd. are related, whereas B Ltd. and C Ltd. are unrelated. (b) A Ltd. and B. Ltd. are inter-connected undertakings, under section 2(g) of MRTP Act. A Ltd. sells goods to B Ltd. at a value of Rs. 100 per unit and to C Ltd. at Rs. 110 per unit, who is an independent buyer. c) A Ltd. sells goods to B Ltd. at a value of Rs.

100 per unit. The said goods are captively consumed by B Ltd. in its factory. A Ltd. and B Ltd. are unrelated. The cost of production of the goods to A Ltd. is Rs. 120 per unit. (d) A Ltd. sells motor spirit to B Ltd. at a value of Rs. 31 per litre. But motor spirit has administered price of Rs. 30 per litre, fixed by the Central Government. (e) A Ltd. sells to B Ltd. at a value of Rs. 100 per unit. B Ltd. sells the goods in retail market at a value of Rs. 120 per unit. The sale price of Rs. 100 per unit is wholesale price of A Ltd. Also, A Ltd. and B Ltd. are related.

Solution

Particulars of transaction	Assessable Value Per Unit	Reasons/remarks
(a)	110	A ltd and B Ltd are relative persons Price of B Ltd to C Ltd is the value
(b),	110	A ltd and B Ltd are relative persons as IC U. It is assumed as A Ltd and B ltd are Holding and Subsidiary companies. Hence the Price of B ltd to C ltd is the value
(c),	100	A ltd and B Ltd are un relative persons. The Price of A ltd to B ltd is the value Cost of production, captive consumption are not relevant
(d)	30	When Administered price is declared it can be considered as tariff value. Hence it is value
(e)	100	The whole sale price of A ltd is also Rs. 100/. The goods are sold to relative at same price. Hence whole sale price of A ltd can be taken for value

Problem No 17

X Ltd. manufactures three health drinks viz. Slim, Trim, Prim. Slim was sold only to Y Ltd., a subsidiary company of X Ltd. Trim was sold to Z Ltd., where the Managing Director of X Ltd. is a Manager. Prim is sold to P Ltd. who is sole distributor of X Ltd., and was coming under the same management of X Ltd. Determine the assessable value/transaction value of the three products in the hands of X Ltd. on the basis of the following information:

Price of X Ltd. to Y Ltd.	Rs	100
Price of X Ltd. to Z Ltd.	Rs	50
Price of X Ltd. to P Ltd.	Rs	20
Price of Y Ltd. to consumer	Rs	120
Price of Z Ltd. to consumer	Rs	60
Price of P Ltd. to consumer	Rs	30

Solution

Note: X Ltd and Y Ltd are relatives because holding and subsidiary companies are relatives (X Ltd and Z Ltd were not relatives (Mere ICU are not relatives Common director, managers are not relatives as per Rule 10)

X Ltd and P Ltd were not relatives (Mere distributor is not relative)

Assessable Value will be in this case

Slim Rs. 120 (X Ltd and Y Ltd are relatives, Price of Y Ltd., to Consumer is the value

Trim Rs. 50 (X Ltd and Z Limited are not relatives. Price of X Ltd to Z Ltd is the value.. Price of Z Ltd to Consumer is not relevant

Prim Rs. 20 (X Ltd and P Ltd are not relatives Price of X Ltd to P Ltd is the value.. Price of P Ltd to Consumer is not relevant

Problem No 18

The selling price of a product inclusive of excise duty and sales tax is Rs. 3,500 per dozen. Sales tax is 4%. The excise duty payable is 16%. Work out the assessable value and total duty payable per dozen.

Solution

Let the Assessable Value will be		Rs X
Excise duty @ 16.48%		0.1648 X
A V including E D		1.1648 X
Sales tax @ 4% on above		0.0466 X
A V including E D and Sales tax		1.2114 X
It is given Selling price including ED and Sales tax is Rs.3500		
Hence $1.2114 X = 3500$		
$X = 3500/1.2114$		2889
Assessable value		2889
Excise duty @ 16%		462.28
Education Cess 2%		9.25
Higher and Secondary education cess 1%		4.62
Total Duty Payable		476

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Problem No 19

An assessee was under impression that his product is exempt from excise duty and hence sold the goods @ Rs 100 per piece without charging excise duty. Later, it was found that actually, the product was dutiable @ 16%. Department claimed that since goods were removed without duty, assessable value should be Rs 100 and duty is payable accordingly. Assessee contended that price of Rs 100 should be taken as cum-duty price and actual duty payable should be calculated by back calculations. Determine the correct duty payable per piece.

Solution

As per CBEC Circular when dutiable goods are removed under impression they are exempted Goods. The Price at which goods are removed should be taken as Cumduty price. In case of

Cum duty price, Assessable value should be calculated using back wards as below Assessable Value = (Cum duty price- permissible deductions) x 100/100+ rate of duty Hence the contention of the department was wrong. The contention of assessee was valid

AV = 100 x 100/116.48 =	85.85
Duty payable per piece	13.74
Education Cess 2%	0.27
Higher and Secondary education cess 1%	0.14
Total Duty Payable	14.15

Problem No 20

How would you arrive at the assessable value for the purpose of levy of excise duty from the following particulars: * Cum-duty selling price exclusive of sales tax Rs 20,000 * Rate of excise duty applicable to the product 16% * Trade discount allowed Rs. 2,400 * Freight Rs. 1,500

Solution

Cum Duty selling price		20,000
Less Permissible deductions		
Trade discount	2400	
Freight	1500	3,900
		16,100
Assessable Value = 16100 X 100/116.48		13,822.12
Excise duty @ 16%		2,211.54
Education Cess 2%		44.23
Higher and Secondary education cess 1%		22.12
Total Duty Payable		2278

Problem No 21

A manufacturer has agreed to supply a machine on following terms: - (i) Price of the machine at Rs. 4,50,000 (Exclusive of taxes and duties) (ii) Packing for transportation of the machine Rs. 15,000 (iii) Transport charges of machinery Rs. 25,000 (iv) Development and tooling charges Rs. 40,000 (exclusive of taxes and duties), (v) C.S.T. @ 3% (vi) Octroi paid on machine supplied Rs. 2,000 (not recovered from party separately) (vii) Excise duty @ 16%, (viii) Interest will be charged @ 16% on delayed payment beyond 30 days, (ix) Special discount of Rs. 5,000. if advance of Rs. 2,00,000 is paid with order. Work out the excise duty liability based on following additional information - (i) Actual transportation cost is Rs. 26,000 (ii) Interest of Rs. 5,000 was charged as party has failed to make payment within 30 days, (iii) The buyer paid advance with the order.

Solution

Price of Machinery		4,50,000
Add Inclusions		
Packing for transport	15,000	
Development and tooling	40,000	55,000
		5,05,000
Less: Octroi		2,000
Assessable Value		5,03,000

Excise duty @ 16%		80,480
Education Cess 2%		1,610
Higher and Secondary education cess 1%		805
Total Duty Payable		82,894

Transport charges not includible in valuation, Actual transport not relevant CST, Interest for delayed payment not includible in valuation. Octroi not includible in valuation, hence it is not charged separately is assumed it is included in price and hence it is deducted. Special discount RS. 5000 was not deductible, as it is condition for advance Payment, as the price is not sole consideration

Problem No 22

Having regard to provisions of section 4 of the Central Excise Act, 1944, compute the assessable value of excisable goods and the duty amount, given the following information - (i) cum-duty wholesale price (inclusive of sales tax Rs 3,000) - Rs 16,000 (ii) Normal secondary packing cost - Rs 1,000 (iii) Cost of special secondary packing - Rs 2,000 (iv) Cost of durable and returnable package - Rs 1,000 (v) Freight (outward) - Rs 750 (vi) Insurance on freight - Rs 300 (vii) Trade discount (as per normal practice) - Rs 900. (viii) The rate of central excise duty as per the central excise tariff is 16%.)

Cum Duty selling price		13,000
Less Permissible deductions		
Durable and returnable packing	1000	
Trade discount	900	
Freight and insurance	1050	2950
		10050
Assessable value = $10050 \times 100/116.48$		8628.10
Excise duty @ 16%		1380.50
Education Cess 2%		27.61
Higher and Secondary education cess 1%		13.80
Total Duty Payable		1422

Problem No 23

Having regard to the provisions of Section 4 of the Central Excises Act, 1944, compute/derive the assessable value of excisable goods, for levy of duty of excise, given the following information: * Cum-duty wholesale price (including sales tax of Rs. 2,000) - Rs 15,000 * Normal secondary packing cost - Rs 1,000 * Cost of special secondary packing - Rs 1,500 * Cost of durable and returnable packing - Rs 1,500 * Freight - Rs 750 * Insurance on freight - Rs 200 * Trade discount (normal practice) - Rs 1,000 * Rate of C.E. duty as per C.E. Tariff - 16% Adv. State in the footnote to your answer, reasons for the admissibility or otherwise of the deductions.

Solution: same as above with minor changes in figures

Problem No 24

Cost of production of a product 'X' calculated as per CAS-4 standard is Rs 350 per piece. 500 pieces of a product were manufactured. 120 pieces were sold at Rs. 700 per piece to Industrial Consumers, 70 pieces were sold to a Central Government department @ Rs. 690 per piece; 210 pieces were sold to wholesalers at Rs. 720 per piece; 70 pieces were sold in retail @ Rs. 800 per piece and 20 pieces were given as free samples. Out of the 70 pieces sold to Government department, 25 pieces were rejected, which were subsequently sold to other customers @ Rs. 300 per piece, without bringing them in the factory. Balance pieces were in stock, out of which 25 pieces were so damaged that they became unsaleable. [Note that all the prices are exclusive of excise and sales tax. The rate of duty on the product is 16%. What is total duty payable? Advise Management about steps to be taken in respect of 25 pieces,

which have been damaged in storage.

Solution

Particulars	Qty	Rate	Value
Sale to Industrial Consumers	120	700	84000
Sale to Central Government	70	690	48300
Sale to Wholesalers	210	720	151200
Sale in Retail	70	800	56000
Removed as Samples	20	720	14400
			353900
Excise duty @ 16%			56624.00
Education Cess 2%			1132.48
Higher and Secondary education cess 1%			566.24
Total Duty Payable			58323

Note

Samples are to be valued at price of identical goods sold at nearest place of removal. Since it is not given Samples are valued at a price highest quantity sold Subsequent sale of rejected piece of central government is not relevant. As per section 4 price at the time of removal is value any subsequent reduction is not relevant.

An application to AC/DC of excise is to be made for remission of excise duty on damaged pieces, Remission will be granted by CEO after he is being satisfied

Problem No 25

A trader supplies fabrics to independent processor. Cost of fabrics is Rs. 1,150. The processor charges Rs. 450, which includes Rs. 350 as processing charges and Rs. 100 as his profit. After processing goods are sent back to the trader, who sells them at Rs. 1,800. Transport charges for receiving goods at the premises of the processor is Rs. 50 and the transport charges for sending goods after processing is Rs. 60. Please determine the assessable value of the goods under Section 4 of the Central Excise Act.

Solution

As per new Valuation Rule 10 A for Job work value will Rs. 1800

Cost of material, Job worker charges and transport not relevant.

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Problem No 26

An assessee manufactures certain goods on job-work basis. The trader supplies the raw material to job-worker and sells the manufactured product under his brand name. Find the assessable value for the purpose of levy of excise duty from the following particulars - (i) Cost of raw material supplied by trader – Rs. 10,000. (ii) Cost of bringing raw material to factory – Rs. 500. (iii) Value of job work done – Rs. 2,500. (iv) Job worker's profit – Rs. 400. (v) Transportation charges incurred for returning the manufactured product to the trader – Rs. 600. (vi) Trader's sales price of finished product – Rs. 15,000

Solution

As per new Valuation Rule 10 A for Job work value will Rs. 15000

Cost of material, Jobworker charges and transport not relevant.

Problem No 27

Calculate the cost of production for the purpose of captive consumption based upon the following details: Materials purchased (includes excise duty Rs. 2,000) - Rs. 22,000 Realisable value of scrap – Rs. 2,000. Wages – Rs. 12,000. Manufacturing expenses – 8,000. Administrative expenses – 8,500. Selling and Distribution expenses – Rs. 3,400. Expenses of quality inspection department – Rs 4,000. Expenses of research and development department – Rs 6,000.

Solution

Calculation of Cost of Production	
Particulars	Amount

Material (Exclusive of ED)	20,000
Wages	12,000
Manufacturing expenses	8,000
Quality inspection department exp	4,000
Expenses of Research and development	6,000
	50,000
Less: realization of Scrap	2,000
Cost of Production	48,000

Note

It is assumed admin expenses are not relating to production It is assumed research expenses are t relating to production Selling and distribution expenses not includible in cost of production.

Problem No 28

A manufacturer having a factory at Jaipur has uniform price of Rs. 1,000 per unit (excluding taxes) for sale anywhere in India. During the financial year 2008-09, he made the following sales: (i) Sale at factory gate in Jaipur: 1,000 units – no transport charges. (ii) Sale to buyers in Delhi: 500 pieces – actual transport charges incurred Rs. 12,000. (iii) Sale to buyers in Chennai: 600 pieces – actual transport charges incurred Rs. 48,000. (iv) Sale to buyers in Mumbai: 900 pieces – actual transport charges incurred Rs. 30,000. Find assessable value per unit under the central excise.

Solution

Calculation of Equalized freight per unit

$$0 + 12000 + 48000 + 30000 / 1000 + 500 + 600 + 900 =$$

$$90000 / 3000 = 30$$

$$\text{Assessable value} = \text{FOR Price} - \text{freight} = 1000 - 30 = 970$$

Problem No 29

M/s Jani Manufacturing Co. Ltd., Delhi are despatching 100 'Mixing Machines' to their dealer in U.P. The dealer in U.P is not registered under Central Sales Tax Act. Sales Tax on 'mixing machine' in State of Delhi is 6%. The retail price of the machine is Rs. 800 (exclusive of sales tax and excise). Dealers get discount of 15% on this price. Excise duty is 16% plus education cess @ 2%. Packing cost is Rs 50 per piece. Manufacturer normally sales the goods with the packing. Transport charges are Rs. 1,500 extra. What will be total value of Invoice? Prepare an Invoice showing copy, which will be useful for transport purposes.

Solution

Invoice		
Particulars	Rs	Rs
100 Mixing machines @ Rs. 800	80000	
Less Discount 15%	12000	
		68,000.00
Packing Cost @ Rs. 50 per piece		5,000.00
		73,000.00
Add: excise Duty 16%	11680	
Education Cess 2%	233.60	
H S ec 1%	116.80	12,030.40
		85,030.40
Add: CST - 6%		5,101.82
		90,132.22
Add. Transport Charges		1500.00

Total Invoice Value		91,632.22
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Particulars as per rule 11 should be indicated in invoice such as name add, ecc no etc.,
Problem No 30

Shiva and Co., an assessee, transferred a consignment of 10 tons paper to the depot from Delhi to Chandigarh on 10th March, 2011 for value of Rs. 12,500 per ton. The transport cost was Rs. 500 per ton. The same variety and quality of paper normally being sold at Chandigarh depot on 10th March, 2011 was at a transaction value of Rs. 15,000 per ton to unrelated buyers. (i) Which transaction value should be considered for assessment to excise duty? (ii) In case there were no sales of that variety and quality of paper on 10th March, 2011, but sales were effected on 1st March, 2011 previously for Rs. 14,000 per ton, what would be your answer?

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Solution

(i) A V Rs. 15000/- (ii) A V Rs.14,000/- adjustment for price if any for increase/decrease between 10th and 15th

Problem No 31

Determine the transaction value and the Excise duty payable from the following information: i) Total Invoice Price Rs. 18,000 ii) The Invoice Price includes the following:

a) Sales-tax	Rs. 1000
b) Surcharge on ST	Rs. 100
c) Octroi	Rs. 100
d) Insurance from Factory to depot	Rs. 100
e) Freight from factory to depot	Rs. 700
f) Rate of Basic Excise duty	16% ad valorem
g) Rate of Special Excise duty	24% ad valorem

Solution

Total Invoice price		18,000
Less: Exclusions		
Sales tax	1000	
Surcharge on Sales tax	100	
Octroi	100	1200
		16800
Assessable Value-16800 x 100/141.2		11898.02
Excise duty		
Basic - 16%	1903.68	
Special- 24%	2855.52	
Total	4759.21	
Ec 2%	95.18	
HS Ec 1%	47.59	
Total Duty Payable		4901.98

It is assumed the price is given is depot price

No deduction for freight and insurance from factory to Depot

Problem No 32

A large manufacturing unit undertook following job work: (a) Machining of raw materials supplied by the
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buyer. The material was sent under Cenvat challan. Job work charges were Rs. 30,000. Cost of raw material was Rs. 3,50,000. These were returned after job work. The principle manufacture sell the product at Rs.4,00,000 (b) Processing of inputs sent by a buyer under his own (buyer's) challan. Processing charges were Rs. 10,000 and cost on inputs was Rs. 2,00,000. (c) Repairs of a component. Original cost of component was Rs. 25,000 and repairs charges were Rs. 3,000. The component was sent by customer under cover of his letter. In all these cases, raw material was sent by customer. Excise duty payable is 16% plus education cess of 3%. You are required to (a) Find total duty payable, (b) Procedure to be followed by manufacturer for dispatch in each case after carrying out job work)

Solution

Answer: Duty payable in each case is as follows:

(A) Job work is exempt from duty if input is received under Cenvat. Hence, duty is not payable in this case. The customer has to file a declaration before Assistant Commissioner having jurisdiction over factory of manufacturer (job worker) that excise duty liability on final product will be borne by him. A V Rs. 4 Lakhs

(B) Excise duty is payable by the principal manufacturer on the price at which he is removing from the factory, since the price is not given duty not calculated. The material cost and Jobworker charges are not relevant. Goods should be cleared under serially numbered and pre-authenticated Invoice. This invoice should indicate the Assessable value on which duty has been paid. (Rule 11)

(C) Repair does not amount to 'manufacture' as no new product emerges. Hence, there is no liability of Central Excise. The goods should be cleared under manufacturer's own Delivery Note with full details of operations carried out. If repair process is manufacture duty payable on Rs.,28,000

Problem No 33

M/s OTV Ltd. manufactures T.V. sets. They had sent the T.V. sets from their plant to their depot at Jammu. The depot sold the same at Rs. 12,000 on 1.8.2008 and at Rs. 12,500 per set on 10.8.2008. Please mention what would be the value of the T.V. sets removed from the factory on 3.8.2008 and 10.8.2008(

Solution

Jammu depot price on 03.08.2008 and 10.08.2008 will be taken as value. The price of depot on 03.08.2008 is not given. And Hence the price of Depot on 01.08.2008 Rs.12,000 subject to change the price any between 01.08.2008 and 03.08.2008 should be considered.

In the second case Depot price on 10.08.2008 Rs. 12,500 is the Assessable value

Problem No 34

Thunder TV Ltd. is engaged in the manufacture of colour television sets having its factories at Bangalore and Pune. At Bangalore the company manufactures picture tubes which are stock transferred to Pune factory where it is consumed to produce television sets. Determine the Excise duty liability of captively consumed picture tubes from the following information: - * Direct material cost (per unit) Rs. 600 * Indirect Materials Rs. 50 * Direct Labour Rs. 100 * Indirect Labour Rs. 50

* Direct Expenses Rs. 100 * Indirect Expenses Rs. 50 * Administrative Overheads Rs. 50 * Selling and Distribution Overheads Rs. 100. Additional Information: - (1) Profit Margin as per the Annual Report of the company for 1999-2000 was 15% before Income Tax. (2) Material Cost includes Excise Duty paid Rs. 100 (3) Excise Duty Rate applicable is 16%.

Solution**Calculation of Cost of Production****Calculation of Cost of Production**

Particulars	Amount
Direct Material	500
Indirect material	50
Direct labour	100
Indirect labour	50

	700
Add 10% on Cost	70
Assessable Value	770
Excise duty @ 16%	123.20
Education Cess 2%	2.46
Higher and Secondary education cess 1%	1.23
Total Duty Payable	127

Note

It is assumed admin expenses/indirect expenses are not relating to production Profit margin is not relevant for excise valuation
Selling and distribution expenses not includible in cost of production.

Problem No 35

Sigma Ltd. asked for a quotation from Omega Ltd. for the supply of 100 complete computer systems. Omega Ltd. furnished the following quotation: (A) - Components - CPU - 20,000, Monitor - 10,000, Keyboard 5,000. Sub-Total - Rs 35,000 (B) Labour & Overheads - Rs 10,000 (C) Profit - Rs 5,000. Total price per unit (A+B+C) = Rs 50,000. Advance of Rs 20,000 was payable along with order. Delivery period was one month from date of receipt of firm order and advance. - . - Sigma Ltd. accepts the quotation subject to the following alterations which are agreed to by Omega Ltd. : i) Keyboard would be supplied free of cost by Sigma Ltd. to Omega Ltd. since Sigma Ltd. is able to purchase the keyboard for Rs. 3,000 per unit. ii) Profit charged by Omega Ltd. is to be reduced to Rs. 4000 since Sigma Ltd. would make an advance of Rs 20,000. However, no interest is payable on the advance. - . - Determine the assessable value under section 4 of the Central Excise Act, 1944, and the Excise Duty liability @ 15% advalorem.

Solution

Particulars	Rupees
CPU	20000
Monitor	10,000,
Keyboard	3,000
Labour & Overheads -	10,000
Profit -	5000
Assessable value	48000

Note:

Since key board is supplying free, which is not sold value is be done as per Rule 4, at price nearest place of removal. It is assumed Rs. 3000 price where sigma Ltd is able to purchase is the nearest place of removal price

Reduction in profit margin is includible in value as the price is not sole consideration, since the interest free advance received by Omega Ltd.

Problem No 36

Lalit Fans Ltd. is selling fans at a price of Rs. 1,200 at the factory gate at Chandigarh, Rs. 1,275 from their depot at New Delhi and Rs. 1,250 from Calcutta. 200 fans were dispatched on 1st March, 2009, to their depot at New Delhi which reached the depot on 20th March, 2009. 100 fans were dispatched on 3rd March, 2009, to Calcutta which reached on 15th March 2009. - . - Lalit Fans Ltd. revised the price of fans on 15th March, 2009 as follows: Ex-factory price Rs. 1,300 Ex-Delhi Depot Rs 1,375. Ex-depot Calcutta Rs. 1,350 - . - The goods were actually sold from Delhi depot at Rs. 1,375 per fan on 8th April, 2009 The Calcutta depot sold 90 fans @ Rs. 1,250 and 10 fans @ Rs. 1,350 per fan. Calculate the total duty payable, if the rate of Excise Duty is 10%. Prices given above are exclusive of taxed and duties.

Solution

Price of depot on the date of removal from factory is the value Rule 7

Depot	AV
New Delhi	1275
Calcutta	1250
Calculation of Assessable Value	
New Delhi -200 fans @ Rs. 1275	255000
Calcutta -100 fans @ Rs. 1250	125000
Assessable Value	380000
Excise duty @ 10%	38000
Education Cess 2%	760
Higher and Secondary education cess 1%	380
Total Duty Payable	39140

Note: Revision of price from 15th march is not relevant as all the fans removed from factory before 15th march

Price at which goods sold to consumer at depot is not relevant

Problem No 37

200 cycles were sold by ABC Ltd. to a related person M/s XYZ at Rs. 1,500 per cycle. M/s XYZ sold these cycles to independent buyers at Rs. 1,850 per cycle (prices exclusive of all taxes). The rate of Excise Duty is 10%. i) Determine the assessable value and the total duty payable. ii) What would be the position if 50 cycles are sold by ABC Ltd. to M/s. XYZ @ Rs. 1,500 per cycle and 50 cycles are sold directly to an independent buyer @ Rs. 1,700 per cycle ?

Solution

Av including duty Will be Rs. 1850. The price of relative person to independent buyer is the value

(ii) Av including duty Rs. 1700. since the price of 50 cycles of relative and independent buyer is same.

Calculation of AV.

Price inclusive of duty	1,850.00
AV = $1850 \times 100/110.3$	1,677.24
Total duty payable	
Excise duty @ 16%	167.72
Education Cess 2%	3.35
Higher and Secondary education cess 1%	1.68
Total Duty Payable	172.76

(ii)

Price inclusive of duty	1,700.00
AV = $1850 \times 100/110.3$	1,541.25
Total duty payable	
Excise duty @ 16%	154.13
Education Cess 2%	3.08
Higher and Secondary education cess 1%	1.54
Total Duty Payable	158.75

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Problem No 38

Bansen & Co., a retail trader, supplies raw material (grey fabrics) of Rs 1,400 to Nagpal, a processor of cloth. *Nagpal processes the grey cloth and, after bleaching, dyeing, printing etc. supplies the finished product to Bansen & Co. *Nagpal charges Rs 400 which includes Rs 300 as expenses and Rs

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100 as profit. The transport cost from the place of trader to the place of job worker is Rs 50 and transport cost from the place of job worker to the place of trader is Rs 60. Bansen & Co. sells the finished goods at Rs 2,400. Given the rate of duty at 10%, compute the Assessable Value (AV) and the duty payable.

Solution

As per new Valuation Rule 10 A for Job work value will Rs. 2400

Cost of material, Job worker charges and transport not relevant.

Av	2,400.00
Excise duty @ 10%	240.00
Education Cess 2%	4.80
Higher and Secondary education cess 1%	2.40
Total Duty Payable	247

Problem No 39

A manufacturing unit undertook the following two jobs

Machining of raw material supplied by the customer:

The material was sent under Cenvat challan. Job work charges were Rs. 30,000. Cost of the raw material was Rs. 3,50,000. These were returned after job work. The Principal manufacturer will sell the product for Rs. 450,000.

Repairs of a component:

Original cost of component was Rs. 25,000 Repair charges were Rs. 3,000. The component was sent by customer under cover of his letter. After repair, the principal manufacturer will return the component. If excise duty is payable @ 16%, in both the cases find out total duty payable and procedure to be followed by manufacturer for dispatch in each case after carrying out the work.

Solution

Duty payable in each case is as follows:

(A) Job work is exempt from duty if input is received under Cenvat. Hence, duty is not payable in this case. The customer has to file a declaration before Assistant Commissioner having jurisdiction over factory of manufacturer (job worker) that excise duty liability on final product will be borne by him.

(B) Excise duty is payable by the principal manufacturer on the price at which he is removing from the factory, ie Rs. 450,000. The duty payable is Rs. 450,000 x 16.48% = Rs 74,160, the material cost and Jobworker charges are not relevant. Goods should be cleared under serially numbered and pre-authenticated Invoice. This invoice should indicate the Assessable value on which duty has been paid. (Rule 11)

(C) Repair does not amount to 'manufacture' as no new product emerges. Hence, there is no liability of Central Excise. The goods should be cleared under manufacturer's own Delivery Note with full details of operations carried out. If the repairing process is a manufacture duty is payable.

Problem No 40

B, a trader, buys art silk yarn and gives it to C, a job work contractor for further processing. The cost of the art silk yarn supplied to C is Rs. 12,000. C bills B at Rs. 3,000 which comprises of process charges Rs. 2,500 and profit Rs. 500. Cost of carriage for moving goods to C's place is Rs. 100 and for moving these back to B, after processing, is Rs. 90. B sells the final product for Rs. 16,200. What is the assessable value of the goods under section 4 of the CE Act

Solution

As per new Valuation Rule 10 A for Job work value will Rs. 16,200

Cost of material, Job worker charges and transport not relevant.

Problem No 41

An assessee sold certain goods for Rs.4,35,000 and did not charge any excise duty in his invoice on the understanding that the product was exempt from excise duty. Subsequently, it was found that such goods were not exempted from excise duty, but were liable to pay duty @ 16%. Calculate the amount of excise duty payable thereon, stating reasons for your calculation.

Solution

As per CBEC Circular when dutiable goods are removed under impression they are exempted Goods. The Price at which goods are removed should be taken as Cumduty price. In case of Cumduty price, Assessable value should be calculated using back wards as below
 Assessable Value = (Cum duty price- permissible deductions) x 100/100+ rate of duty

AV = 435000 x 100/116.48 =	3,73,454.67
Duty payable per piece	59,752.75
Education Cess 2%	1,195.05
Higher and Secondary education cess 1%	597.53
Total Duty Payable	61,545.00

Problem No 42

A product which is covered under Section 4A provisions has MRP of Rs. 25 printed on the carton. It is cancelled by drawing two lines across the price, but the price is easily readable. Below that price, MRP price of Rs. 21 is shown to indicate the saving which will be made by buyer. The abatement available is 40% on MRP Excise duty rate is 16%. Calculate the excise duty payable.

Solution

As per Sec 4A Av will be Rs. 21, even scoring of Rs. 25 is visible

MRP	21.00
Less Abatement- 40%	8.40
Assessable Value	12.60
Excise Duty -16%	2.02
Education Cess 2%	0.04
Higher and Secondary education cess 1%	0.02
Total Duty Payable	2.08

Problem No 43

A product which is covered under Section 4A provisions has MRP of Rs. 25 printed on the carton. It is cancelled by drawing two lines across the price, but the price is easily readable. Below that price, MRP price of Rs. 21 is shown to indicate the saving which will be made by buyer. The abatement available is 40% on MRP Excise duty rate is 16%. Calculate the excise duty payable.

Solution

As per Sec 4A Av will be Rs. 21, even scoring of Rs. 25 is visible

MRP	21.00
Less Abatement- 40%	8.40
Assessable Value	12.60

Excise Duty -16%	2.02
Education Cess 2%	0.04
Higher and Secondary education cess 1%	0.02
Total Duty Payable	2.08

Problem No 44

Determine the total amount of excise duty payable under Section 4 of the Central Excise Act, 1944 from the following information: (I) Price of machinery excluding taxes and duties – Rs 5,50,000 (II) Installation and erection expenses – Rs 21,000 (III) Packing Charges (primary and secondary) – Rs 11,500 (IV) Design and engineering charges – Rs 2,000 (v) Cost of material supplied by buyer free of charge – Rs 8,500 (VI) Pre-delivery inspection charges – Rs 500. Other information: (a) Cash discount @2% on price of machinery was allowed as per terms of Contract since full payment was received before dispatch of machinery. (b) Bought out accessories supplied along with machinery valued at Rs. 6,000. (c) Central Excise duty rate 16% and educational cess as applicable @3%. Make suitable assumptions as are required and provide brief reasons (CA Final November 2009 New syllabus).

Answer – Installation charges, pre-delivery inspection charges and bought out accessories are not addible. Cash discount of Rs 11,000 (2% of cost of machinery) is allowable as deduction. It is assumed that design charges pertain to machinery and hence are addible.

Pre-delivery charges are not includible only if these were incurred by dealer out of his commission. Otherwise addible.

Calculation of duty is as follows (in Rs)

Price of machinery	5,50,000
Packing Charges	11,500
Design and Engineering	2,000
Free material supplied	8,500
Pre-Delivery Inspection	500
Total	5,72,500
Less Cash Discount	11,000
Assessable Value	5,61,500
Excise duty @ 16%	89,840.00
Education Cess 1% of Ex. Duty	898.40
SAH Education cess 2% of duty	1,796.80
Total duty including cess	92,535.20

Problem No 45

An excisable product is covered under the provisions of the Standards of Weights and Measures Act, 1976 and falls in the category of 'specified goods' subject to excise duty on the basis of retail sale price. Following particulars are made available: MRP printed on the package is Rs.10,894 per unit. The price is inclusive of excise duty of 10% and education and secondary and higher education cess at the currently applicable rates as per the Finance Act, 2008. Compute the assessable value, excise duty and cess payable if it is eligible for an abatement of 38% (CS Professional December 2009)

Answer – Assessable value is Rs 6,754.28 (62% of Rs 10,894). Duty payable @ 10% is Rs 675.43, Education Cess 2% - Rs 13.51 and SAHE cess 1% - Rs 6.75

Problem No 46

P. Ltd. manufactures 'A' product. The 'A' is a specified product under Section 4A of the Central Excise Act, 1944. The sale price is Rs. 50 per unit. The sale price includes 14% basic excise duty plus 2% education cess and 1% secondary and higher education cess. Central Sales tax @ 3% is also included. 1,00,000 units were removed from the factory for sale. Calculate the total excise duty liability of P Ltd. assuming that 40% abatement is permissible under section 4A on product A (CA Final November 2008 old syllabus) .

Ans

AV of A is Rs 30. On these, excise duty is to be calculated @ 14.42% and multiply by 1,00,000.

Problem No 47

Janak Electricals Ltd., manufactures product M. The sale prices of M are Rs. 45 per unit. The above includes 10% basic excise duty, as increased by 3% education cess and secondary higher education cess, also 2% CST. 10,000 units of each product were removed from the factory to sales depots. You are required to compute the excise duty liability (ICWA Final Old Syllabus June 2009)

Answer –

If X is assessable value, amount including excise duty @ 10.3% is 1.103. Add CST @ 2%. Then total price is 1.12506 X. Now, 1.12506 X = Rs 45. Hence, X i.e. assessable value is Rs 40.00. Hence, value for 10,000 pieces is Rs 4,00,000. Duty @ 10% is Rs 40,000. Education cess @ 2% - Rs 800. SAHE cess @ 1% - Rs 400.

Problem No 48

Determine the total amount of Excise duty payable on a machine using the details given below : (i) Sale price of the machine excluding taxes and duties 2,00,000 (ii) Sales tax 20,000 (iii) Cost of durable and returnable packing included in the sale price given at (i) above – Rs 5,000 (iv) Design and Development charges paid by buyer on behalf of seller to a third party Rs 20,000 (v) Warranty charges charged separately by the seller 5,000. Rate of Excise duty 10%. Education cess 3%. Calculations should be supported by notes wherever, required (CA Final New Syllabus June 2009)

Answer –

Design charges of Rs 20,000 includible. Deduction of cost of durable and returnable packing of Rs 5,000 is allowable. Warranty charges are presumed to be optional post sales charges and hence not includible. Sales tax is not addible in assessable value and it is presumed that it has been charged separately. Hence, assessable value is Rs 2,15,000 (2,00,000 + 20,000 – 5,000). Excise duty @ 10% is Rs 21,500. Education cess @ 2% - 430. SAHE cess @ 1% - Rs 215.

Problem No 49

Vasudha Electronics Ltd. having its factory at Delhi, furnishes the following information. (i) 3000 Units sold at factory gate (ii) 6000 Units sold to dealers in Nagpur. Actual transport expenses Rs. 30,000 charged. (iii) 1000 Units sold to dealers in Lucknow, actual transport expenses Rs. 10,000, but charged to dealers at Rs. 12,000. (iv) Invoice price for the above is Rs. 10,000 per unit, excluding transport charges and all items

below: (1) Sales tax shown separately Rs. 40,000 (2) Octroi shown separately Rs. 18,000. (3) Dharmada shown separately collected from dealers Rs. 12,000. The basic rate of excise duty is 16%. Determine the total excise duty payable, assuming that the dealer is not entitled to any exemption (ICWA Inter Old Syllabus December 2007)

Answer

Reasonable profit on outward transportation is not includible in assessable value. Sales tax and octroi is not includible but dharmada is includible. Hence, assessable value is 10,00,12,000 (10,000 x 10,000 + 12,000). Excise duty @ 16% is Rs 1,60,01,920. Education cess @ 2% - Rs 3,20,038.40 and SAHE cess @ 1% Rs 1,60,019.20.

Problem No 50

How will the assessable value under the subject transaction be determined under section 4 of the Central Excise Act, 1944? Give reasons with suitable assumptions where necessary. Contracted sale price for delivery at buyer's premises - Rs. 9,00,000. The contracted sale price includes the following elements of cost - (i) Cost of drawings and designs Rs. 4,000 (ii) Cost of primary packing Rs. 3,000 (iii) Cost of packing at buyer's request for safety during transport Rs. 7,000 (iv) Excise duty Rs.1,11,200 (v) VAT (Sales tax) Rs. 37,000 (vi) Octroi Rs. 9,500 (vii) Freight and insurance charges paid from factory to 'place of removal' Rs. 20,000 (viii) Actual freight and insurance from 'place of removal' to buyer's premises Rs. 42,300 (CA Final New Syllabus November, 2008)

Answer –

Following deductions are allowable – Vat – 37,000, Excise duty 1,11,200 (presumed to be on final product and not on inputs), Octroi 9,500, Freight after place of removal – Rs 42,300. Total deduction – Rs 2,00,000. Hence, assessable value – Rs 7,00,000 (9,00,000 – 1,63,000)

Problem No 51

Compute the assessable value and amount of excise duty payable under the Central Excise Act, 1944 and rules made there under from the following information (i) Goods transferred from factory to depot on 8th February - 1,000 Nos. On that day, price at factory was Rs 200 per unit and price at depot was Rs 220 per unit. Rate of duty was 10% *ad valorem* (ii) Goods actually sold at depot on 18th February -750 Nos. On that day, price at factory was Rs 225 per unit and price at depot was Rs 250 per unit. Rate of duty was 8% *ad valorem* (CA Final may 2010, New Syllabus)

Answer

The price relevant is Rs 220 per unit and rate relevant is 10%. Total value is Rs 2,20,000. It is assumed that this is inclusive of excise duty of 10.30% (duty 10%, education cess 2% and SAHE cess 1%). Hence, assessable value is Rs 1,99,456.02. Excise duty @ 10% is Rs 19,945.60. Education cess @ 2% is Rs 398.92 and SAHE cess @ 1% is Rs 199.46 (Total Rs 2,20,000).

Problem No 52

Price of 'X' is Rs 100 if sold from the factory at Ahmedabad, Rs 120 ex-depot Mumbai and Rs 130 ex-godown of consignment agent at Chennai. M/s ABC Co. Ltd. sold 200 pieces from factory at Ahmedabad on 30-10-2001. On the same day, 30 pieces were cleared for Mumbai depot and 70 pieces were cleared for

Chennai godown of consignment agent. The prices are exclusive of all taxes. What is the assessable value in each case.

Answer – Assessable value will be Rs 100, 120 and Rs 130 respectively.

Problem No 53

What will be the position, if the goods were sold from Mumbai in November 2001 at Rs 135 per piece and goods from Chennai were sold at Rs 125 per piece.

Answer

Price change after removal of goods from factory does has no effect on the assessable value. Thus, no differential duty is payable if goods are sold from depot later at higher prices. Similarly, no refund is permissible, even if goods are actually sold from depot later at lower prices.

Problem No 54

Price of 'Z' is Rs 1,000 if sold from the factory at Varanasi; Rs 1,150 if sold from his depot at Kolkata and Rs 1,100 if sold from ex-depot Kanpur. On 30th October 2007, assessee despatched 100 pieces of 'Z' to his depot at Kolkata. The goods reached Kolkata depot on 16th November 2007. The assessee increased his selling prices on 1st November, 2007. As per increased prices, the ex-factory price was Rs 1,050 and ex-Kolkata depot price was Rs 1,200. The goods were actually sold from Kolkata at Rs 1,200 on 9th December, 2007. What is the duty payable? Rate of excise duty is 16% plus education cess of 2%. (All aforesaid prices are exclusive of taxes and duties).

What will be the position if 90 pieces are sold from Kolkata @ Rs 1,200, four pieces are sold @ Rs 1,150 and six pieces were transferred to another depot from which they were sold later @ Rs 1,400 per piece.

Answer

In this case, duty payable is on the basis of price ruling ex-depot Kolkata on date of removal from the factory, i.e. as on 30th October, 2007. Thus, duty payable is Rs 184 per piece (16% of Rs 1,150), plus education cess of Rs 3.68 plus SAH education cess of Rs 1.84 Total duty payable on 100 pieces will be Rs 18,400 plus education cess of Rs 368 and SAH education cess of Rs 184. Any subsequent change in prices has no effect on the duty payable.

Problem No 55

M/s XYZ Ltd. sold machinery to Mr. K at a price of Rs. 5 lakhs on 15th June, 2008 and the same was removed from the factory at Kolkata. The rate of excise duty applicable is 10.3% on the date of removal. Mr. K. refused to take delivery of the machine when it reached his destination. In the meantime, M/s. XYZ Ltd. increased the prices of the similar type of machinery to Rs. 6 lakhs with effect from 16th June, 2008. The machinery as refused by Mr. K. has been sold on 20th June 2008 to Mr. L at the revised price of Rs. 6 lakhs. The excise duty including education cess is 12.36% applicable with effect from 10th June, 2008. Explain the following with reasons: (i) What is the value to be taken as assessable value? (ii) What is the rate of excise duty applicable and duty payable on above transaction? (iii) The Central Excise Officer is demanding duty on the price of Rs. 6 lakhs at the time of sale to Mr. L. Is he right in his approach? (iv) Does cost of production have any bearing on the assessable value? (ICWAI Final New Syllabus December 2009)

Answer –

(i) to (iii) Price and excise duty as on date of removal from factory is relevant for excise valuation. Subsequent price change does not affect assessable value or rate of duty (iv) Cost of production is not relevant for assessable value. However, if sales are below cost, doubt about genuineness of price can be raised by excise officer.

Problem No 56

Determine the value of a product and excise duty payable on the basis of following data (i) Goods sold at Depot Price 20,000, Fright from factory to Depot 500, Insurance 500, Octroi 1200, State VAT 800, CE 10%, Education Cess 2% SAH Cess 1% (ii) Compute assessable value if the aforesaid goods are used for captive consumption. Assume cost of production is 80% of the invoice price in above Problem No. (ICWA Inter New Syllabus December 2008)

Answer –

(i) No deduction is available of freight, octroi and insurance upto depot. Deduction of State Vat is available. Hence, Assessable value is Rs 20,000 less 800 i.e. Rs 19,200. Excise duty is 1,920. Education cess Rs 38.40 and SAHE cess Rs 19.20 (ii) Assessable value – Rs 16,000

Problem No. 57

Thilagam Turbines Ltd. manufactured a steam turbine for Mr. Prem, who supplied special steel purchased by him from wholesale market (Cost Rs. 10,00,000 plus Central Excise Rs. 1,33,000). The normal price of such material is Rs. 12,00,000 plus Central Excise Rs. 1,48,320. Mr. Prem is eligible to claim Cenvat Credit. Thilagam Turbines Ltd. incurred manufacturing cost of Rs. 23,00,000. What is assessable value of the turbine? Briefly touch upon the issues involved (ICWA Final New Syllabus June 2009)

Answer

Cost of special steel Rs 10,00,000 is includible as it is actual purchase price. Excise duty of Rs 1,33,000 is not includible in assessable value as its Cenvat credit is available. Manufacturing cost of turbine is not relevant. Since profit percentage is not given, sales price cannot be calculated. Hence assessable value cannot be calculated. However, cost of steel should be added to sale price to arrive at assessable value for excise.

Problem No 58

A trader supplies raw material of Rs. 1,150 to processor. Processor processes the raw material and supplies finished product to the trader. The processor charges Rs. 450, which include Rs. 350 as processing expenses and Rs. 100 as his (processor's) profit. Transport cost for sending the raw material to the factory of processor is Rs. 50. Transport charges for returning the finished product to the trader from the premises of the processor is Rs. 60. The finished product is sold by the trader at Rs. 2,100 from his premises. He charges Vat separately in his invoice at applicable rates. The rate of duty is 16% plus education cess as applicable. What is the A V, and what is total duty payable? (ICWA Final Old Syllabus June 2010)

Answer – AV Rs. 2100.

Problem No 59

A company manufacturing consumer durables has factory in Tamilnadu. It has a depot in Maharashtra. Its product 'A' is dispatched to its depots in Maharashtra and sold from the depot to its dealers in Maharashtra. The depot administration expenses are Rs eight lakhs per annum. These do not include

transport charges from Tamilnadu to Maharashtra. The dealers in Maharashtra are registered under CST Act. The present price for sale from Maharashtra Depot is Rs 22,500, inclusive of transport charges from Tamilnadu to Maharashtra. Actual transportation charges from Tamilnadu to Maharashtra are Rs 1,000 per piece. The depot price is inclusive of applicable excise duty @ 16% plus education cess of 2% and SAH education cess of 1%, but exclusive of Maharashtra sales tax. Sale from Maharashtra depot of product A are 2,000 pieces per annum. As an economy measure, it is proposed to close the depot in Maharashtra and make direct sale from Tamilnadu to dealers in Maharashtra. Marketing department has stated that if goods are sold from Tamilnadu, total amount payable by dealers in Maharashtra should remain unaltered. Otherwise, sales will be badly affected. Taxation department argues that this will reduce the profitability of the product, as the CST payable will have to be borne by the company. Finance department is of the view that this extra tax burden will get offset by reduction in depot expenses and slight reduction in excise duty quantum. Evaluate the financial implications to decide whether it will be economical to close the depot in Maharashtra and advise Management about desirability or otherwise of closing the depot. Ignore effect of Maharashtra Vat, if any [ICWA Final June 2004 adopted].

Answer

Presently, goods are sold from depot. If the sale is from depot, excise duty is payable on the depot price of Rs 22,500. No deduction of transport cost from Tamilnadu to Maharashtra is allowable. Since the price is inclusive of excise duty @ 16.48% (16% plus 2% education cess plus 1% SAH education cess), the duty payable is Rs 3,183.38 and Assessable Value is Rs. 19,316.62 After deducting freight expenses of Rs 1,000, present net realisation is 18,316.62 per piece is Rs per piece.

If goods are sold directly from Tamilnadu, CST @ 4% will be payable. The price chargeable to dealers is required to remain unchanged to Rs 22,500 per piece. If we assume that net sale price from Tamilnadu is 'x', then, total invoice value to dealers in Maharashtra will be as follows –

Net Price of Product A	x
Add – Excise Duty @ 16.48%	0.1648x
Add – CST @ 4% on 1.1648 x	0.046592 x
Total price	1.211392 x
Add – Transport charges	Rs 1,000
Total Invoice Value	1.211392 x + 1000

Note – Excise duty and CST are not payable on transport charges, if charged separately in invoice, if sale is from factory.

Now, $1.211392x + 1000 = 22,500$

Hence, $x = \text{Rs } 17,748.18$

Thus, the realisation per piece has reduced from Rs 18,316.62 to Rs 17,748.18 per piece. This results in loss of Rs 568.44 per piece. Since sale is 2,000 pieces per annum, total loss per year will be Rs 11,36,880. If depot is closed, there will be saving of Rs 8,00,000 per annum. Thus, there will be net loss of Rs 3,36,880 if the depot is closed and sales are effected directly from Tamilnadu. Hence, it is not advisable to close the depot.

Problem No 60

A manufacturer in Gujarat has a depot in Bangalore. His factory gate price is Rs 9,000. Transport charges from Gujarat to Bangalore are Rs 500 per piece. The manufacturer's Karnataka depot price is Rs 10,000

exclusive of excise duty and Karnataka Sales Tax. Karnataka Sales Tax on the goods is 10%. As per Karnataka Sales Tax Law, sales tax is payable on selling price plus excise duty. The manufacturer is planning to make direct sale to Bangalore buyers from his Gujarat factory, instead of selling from depot. Bangalore dealers want that their present cum-duty invoice price (excluding Karnataka Sales Tax) should remain unaffected even if goods are sold from Gujarat. The reason they are giving is that if goods are directly sold to them from Gujarat, they will have to pay Karnataka Sales Tax. The Bangalore dealers are registered under CST Act and are in a position to issue C form for their purchases. The manufacturer has agreed to the request of dealers. You are required to calculate the assessable value and excise duty and CST payable if goods are sold directly from Gujarat, assuming that dealers' request is accepted. The product is leviable to excise duty @ 14% plus education cess of 2% plus SAH education cess of 1%. If the product is sold in Gujarat State, the State Vat rate is 4%. [ICWA Final December 2004].

Answer - Present selling price of the manufacturer from his depot is as follows –

Net Price	Rs 10,000
Add Excise Duty @ 14.42%	Rs 1,442
Total Sales price (excluding Karnataka Sales Tax)	Rs 11,442

It is desired that the price to dealer should remain unchanged. If C form is issued, CST rate will be 3%.

Assume that Assessable Value if goods are sold from Gujarat is 'X'. Excise duty @ 14.42% will be $0.1442x$. CST @ 3% on $1.1442x$ is equal to 0.034326 . Invoice price will be Rs $1.178526x$. Transport charges of Rs 500 can be charged extra.

$1.178526x + \text{Rs } 500$	=	Rs 11,442
$1.178526x$	=	Rs 10,942
X	=	$\text{Rs } 10,942 / 1.178526$
X	=	Rs 9,284.48

Check this as follows –

Assessable Value	Rs 9,284.48
Add – Excise duty @ 14.42%	Rs 1,338.82
Add – CST @ 3% on Rs 10,623.30	Rs 318.70
Add – Freight	Rs 500.00
Total Invoice Price	Rs 11,442.00

Hence, the selling price from Gujarat will be Rs 9,284.48.

Problem No 61

Compute the assessable value under the Central Excise Act, 1944 in the following case : (i) Production : 2,000 units on 1.1.2010 (ii) Quantity sold : 450 units @ Rs. 200 per unit, 650 units @ Rs. 190 per unit,

Samples clearances 50 units (iii) Balance in Stock - 850 units (at the end of factory day for 1.1.2010). Assume that the rate per unit is exclusive of Central Excise duty (CA Final May 2010 old Syllabus).

Answer

Valuation of samples should be done on the basis of value of such goods sold by assessee at any other time nearest to the time of removal, subject to reasonable adjustments. In the example, time of clearance of 450 units and 650 units is not given and both have been cleared on the same day. In such case, rule 11 states that value shall be determined using reasonable means consistent with the principles and general provisions of the Excise Valuation Rules and section 4 of Central Excise Act. This is best judgment assessment. We can take recourse to rule 7 and 9 where principle of 'normal transaction value' is accepted, when prices are varying. As per rule 2(b) of Valuation Rules, 'normal transaction value' means the transaction value at which the greatest aggregate quantity of goods are sold.

Since the greatest aggregate quantity (i.e. 650 pieces) is sold at Rs 190, same value can be taken for valuation of free samples. Hence, assessable value = 450 units x Rs 200 plus 700 units x Rs 190 = Rs 2,23,000.

Problem No 62

Determine the total amount of Excise duty payable on a machine using the details given below : (i) Sale price of the machine excluding taxes and duties 2,00,000 (ii) Sales tax 20,000 (iii) Cost of durable and returnable packing included in the sale price given at (i) above – Rs 5,000 (iv) Design and Development charges paid by buyer on behalf of seller to a third party Rs 20,000 (v) Warranty charges charged separately by the seller 5,000. Rate of Excise duty 16%. Education cess 3%. Calculations should be supported by notes wherever required (CA Final New Syllabus, June 2009)

Answer

Sale price of machine excluding taxes and duties	2,00,000
Less: Cost of durable and returnable packing	(5,000)
	5,000
Add: Warranty charges charged separately by the seller	20,000
Add: Design and development charges paid by buyer on behalf of seller to a third party	
Assessable Value	2,20,000
EXCISE DUTY PAYABLE (Rs 2,20,000 * 16.48%)	Rs 36,256

Note – Entire cost of durable and returnable packing is not includible. Only amortised cost is includible. In absence of details, it is presumed that the cost is already included in selling price of the machine.

Problem No 63

ABC Ltd. manufactures two products A and B. The product A is specified under section 4A of the Central Excise Act, 1944. The deduction (abatement) permissible under section 4A is 40%. The MRP of the product is Rs. 40 per unit. The sale price takes into account 16% BED and education cess @ 3%. Sale price also

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includes CST @ 2%. The company has cleared 3,00,000 units of this product. The company had cleared 2,00,000 pieces of product B which is sold at Rs. 50 per piece inclusive of excise duty @ 16% (plus cess @ 3%) and CST @ 2%. Calculate the excise duty liability of the company (ICWAI Inter June 2010 Old Syllabus)

Answer

Product A – Assessable Value – Rs 24 (60% of Rs 40). Basic excise Duty payable = $3,00,000 \times 24 \times 0.16 = \text{Rs } 11,52,000$. Education cess (2%) – Rs 23,040. SAHE cess (1%) – Rs 11,520 (Note – once abatement is allowed on MRP, no other deduction is allowable).

Product B – If 'X' is assessable value, amount including excise duty would be $1.1648 X$. CST @ 2% of $1.1648 X$ would be $0.023296 X$. Hence, selling price inclusive of excise duty and CST would be $1.188096 X$. Now, $1.188096 X = \text{Rs } 50$. Hence, X i.e. assessable value = Rs 42.08. Basic Excise duty on 2,00,000 pieces would be $2,00,000 \times 42.08 \times 0.16 = \text{Rs } 13,46,560$. Education cess @ 2% would be Rs 26,931.20 and SAHE cess @ 1% would be Rs 13465.60.

Problem No 64

An assessee clears certain goods from his factory on 21st August, 2000 to his depot at Faridabad. On that day, his net selling price (excluding excise duty) is Rs 1,000 for sale from factory gate and Rs 1,100 if sale is from depot. The goods reach Faridabad on 29th August 2000.

(a) The assessee increases his selling prices on 1st September 2000 as follows - Rs 1,050 for sale at factory gate and Rs 1,150 if sale is from depot. Goods are actually sold from Faridabad depot on 5th September, 2000 at Rs 1,150. What is the Assessable Value?

(b) The assessee reduced the prices and goods are actually sold from Faridabad at Rs 900. What is the Assessable Value? If assessee had paid duty at higher rate, can he get refund ?.

Answer –

The Assessable Value is Rs 1,100 in both the cases. Once goods are removed from factory, it does not matter whether subsequently they are sold at higher prices or lower prices from depot. Assessee is not entitled to refund even if goods are sold at lower price from depot at a later date.

Problem No 65

- An assessee sales certain goods to a buyer who is a 'related person' for net price (excluding excise duty) of Rs 1,400. The buyer does not sale the goods but uses it himself as intermediate product. The cost of production of the goods is Rs 1,000. What is the assessable value? What will be the assessable value if the goods were sold to unrelated person at net price of Rs 1,400, who does not sale it, but uses it as intermediate product?

Answer

If goods were sold to related person, the assessable value is Rs 1,100. [In case of captive consumption by related person, valuation is cost of production plus 10%]. If goods were sold to unrelated buyer, the assessable value will be Rs 1,400.

Problem No 66

Ram & Co. are dealers in engineering goods. They obtained an order for an engineering item 'A'. They quoted a price of Rs 5,000 per piece for 'A'. Ram & Co. then approached Laxman & Co. who was manufacturer of engineering items. It was agreed that Ram & Co. will supply raw material required for manufacture of 'A' to Laxman & Co. free of cost. Laxman & Co. will manufacture product 'A' and supply it to Ram & Co. It was agreed that Laxman & Co. will charge Rs 1,500 as their job charges per piece. Other information is as follows – (i) Raw material supplied by Ram & Co. to Laxman & Co. was purchased by Ram & Co. from the manufacturer 'Z'. The breakup of the invoice of 'Z' was as follows – Net Price per Kg of raw material – Rs 40. Excise duty – Rs 6.40. Education Cess Rs 0.13 SAH cess - 0.06 Sales Tax – Rs 1.86.. Ram & Co. generally sales goods after adding 10% to their purchase price (ii) Product A requires 50 Kg of raw material per piece, including normal wastage of 5%. (iii) Transport charges incurred by Ram & Co. for delivering raw material to factory of Laxman & Co – Rs 100 per piece (iv) Transport charges for returning the finished product to the Ram & Co – Rs 130 per piece. These are paid by Laxman & Co. and recovered from Ram & Co. by issuing a separate debit note. - - The rate of duty is 14% plus education cess of 2% plus SAH education cess of 1% on excise duty. Who is liable for payment of excise duty ? What will be the assessable value ? [ICWA Inter June 2004 adopted].

Answer - The manufacturer is Laxman & Co. It will be his liability to pay duty. Laxman & Co. is liable to pay duty on the selling price of Ram & Co. which is Rs 5,000 per piece (as per rule 10A effective from 1-4-2007). This is to be taken as cum-duty price.

Hence, making back calculations, is Assessable Value 4,369.86 and duty @ 14.42% will be Rs 630.14.
Practical Examples on 'Related Person'

Problem No 67

An assessee sold certain goods to PQR Company Limited for Rs. 20,000 on 09.09.2009. The buyer is a related person as defined under Section 4(3)(b) of the Central Excise Act, 1944. The buyer did not sale the goods but used it as intermediary product. The "cost of production" of the goods was 16,000. What should be the assessable value ? What should be the assessable value, if the goods were sold to unrelated person for Rs. 20,000, who also used it as intermediary product? You may assume that the price charged from the buyer is excluding excise duty and other taxes (CA Final Old Syllabus November 2009)

Answer – Assessable value is Rs 17,600 (Rs 16,000 plus 10%). If goods were sold to unrelated buyer, assessable value would be Rs 20,000.

Problem No 68

An assessee sales goods to ABC Co Ltd. The buyer is a 'related person' as defined u/s 4(3)(b) of Central Excise Act for Rs 10,000 on 15th December, 2000. On that date, the net price (excluding excise duty) of related person to an unrelated buyer was Rs 12,000. What will be the 'Assessable Value' in each of the following cases -

(a) The related person sales the goods to an unrelated buyer on 5th February, 2001 at Rs 12,500, exclusive of excise duty.

(b) The related person sales the goods to unrelated buyer on 10th February, 2001 at Rs 11,000, exclusive of excise duty.

(c) The buyer is treated as 'related person' as it is an 'inter connected undertaking' in relation to manufacturer (assessee). However, the buyer is not a holding or subsidiary of assessee. Buyer and seller do not have interest in each other.

Answer - In case (a) and (b) the Assessable Value' will be Rs 12,000. In case (c), the assessable value will be Rs 10,000. [Note that since buyer is a limited company, it cannot be relative of assessee. An artificial person cannot be 'relative' of other. Hence, buyer cannot fall in any other definition of 'relative']

Problems on Cenvat Credit Note:

Consider Appropriate education cess in all Problems

Problem No 1

M/s AJ imported some inputs and paid Basic Customs duty Rs. 5 lakhs, surcharge on customs duty Rs. 50,000 and CVD Rs. 1 lakh. Calculate the amount that he can claim as Cenvat credit. Would it make any difference, if the assessee is not a manufacturer, but a service provider **CA Final May 2006**

Solution

Cenvat Credit available on CVD Rs. 1 lakh. No Cenvat Credit Basic customs duty Rs. 5 lakh. If assessee is a service provider Credit can be taken on CVD Rs. 1 lakh if the Imported material used in providing Output service

Problem No 2

Based on the following information, determine the CENVAT Credit available for use in the current year under the CENVAT Credit Rules, 2004 [Amount after each item indicates Central Excise duty paid at the time of Purchase of goods (Rs.) – (a) Pollution control equipments – Rs 25,000 (b) Spares for pollution control equipments – Rs 5,000 (c) Equipments used in office – Rs 12,000 (d) Storage Tank – Rs 10,000 (e) Paints used for painting machinery used – Rs 6,000 (f) Packing material – Rs 4,000 (g) Lubricating oils – Rs 8,000 (h) High Speed diesel oil – Rs 7,000 **CA Final Nov 2002**

Solution

Particulars of goods	Nature of Goods	Duty paid	Education Cess	Cenvat Credit		Reason Remarks
				Eligible in Current year		
				Duty	E C	
Pollution Control Equipments	Capital goods	25000	750	12500	375	Capital goods current year Credit available to extent of 50%
Spares for Pollution control Equipment	Capital goods	5000	150	2500	75	Capital goods current year Credit available to extent of 50%
Equipment used in office	Not a Capital goods	12000	360	Nil	Nil	
Storage Tank	Capital goods	10000	300	5000	150	" "
Paints used for painting Machinery	Inputs	6000	180	6000	180	Inputs full credit available
Packing Material	Inputs	4000	120	4000	120	Inputs full credit available
Lubricating Oils	Inputs	8000	240	8000	240	Inputs full credit available
High speed diesel	Not a Input	7000	210	nil		

Total Credit available in Current year	38000	1140	
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Problem No 3

Discuss about the eligibility of Cenvat Credit in each of the following situations - (i) 1000 kgs of raw materials were purchased on which duty paid was Rs. 16,000. Whilst in the production yard, they were destroyed by accidental fire (ii) 1000 kgs of raw materials on which duty paid was Rs. 10,000 was used in manufacture of a final product for which the duty payable is Rs. 8000 (iii) The original invoice for 1,000 units of inputs purchased were missing; however 'Duplicate for transport' copy of invoice is available, which shows that duty of Rs. 10,000 had been paid on inputs

Solution

1. Credit is available when inputs are destroyed during the course of process. If they are Destroyed before issue for production. No credit is available
2. Credit can be utilised to the extent of Rs. 8000 and balance Rs. 2000 can be carry forward
3. Credit is available only based on original copy of invoice will all prescribed particulars under rule 9
However credit cannot denied for minor irregularities. In this credit can be availed with the permission of AC/DC of excise.

Problem No 4

H Ltd. purchased a Boring-Drilling machine at a cum-duty price of Rs. 32,14,476. The Excise duty rate charged on the said machine was @ 16%. The machine was purchased on 01.04.2008 and disposed of on 30.09.2009 for a price of Rs. 12 lakhs. The company was claiming depreciation @ 25% following Straight Line Method. Using the said information, answer the following questions: (i) what is the Excise duty paid on the machine? (ii) What is the Cenvat credit allowable under Cenvat Rules? (iii) What is the amount of Cenvat credit reversible or duty payable at the time of clearance of the said machinery

Solution

Calculation of Excise duty paid on the Machine		
Cum duty price		32,14,476
Assessable Value = $3214476 \times 100/116.48$		27,59,681
Excise duty including EC 3%		4,54,795
Availability of Cenvat credit		
In the year 07-08 -50% Of Rs. 454795		2,27,398
In the year 08-09 -50% Of Rs. 454795		2,27,397
Credit of EC available only on payment of EC		
If manufactures claim depreciation under sec 32 of Income tax Act		
on machinery including duty amount Cenvat credit not available		
Cenvat credit reversible at the time of clearance		
Cenvat Credit availed in year 07-08	227398	
Less : 2.5% per quarter for 6 quarters-15%	34410	1,93,288
Cenvat Credit availed in year 08-09	227397	
Less : 2.5% per quarter for 2 quarters	11371	2,16,027
Total amount payable at the time of clearance		4,09,315

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Problem No 5

A manufacturer under CENVAT purchased inputs of value at Rs. 60,000 on which duty of Rs. 9,000 was paid @ 15% on 25th January 2008. After two months, due to change in production schedule, he found that he does not need the material. He sold the inputs lying in stock @ Rs. 70,000 on 17th July 2008. However, due to budget change announced earlier, duty on those inputs was increased to 20%. (a) Does the manufacturer have to pay excise duty? If so, how much? (b) If, instead of increase of duty to 20%, the inputs were exempted from duty in the budget, what would have been your answer?

Solution

When inputs cleared as such (without using) an amount equal to cenvat credit availed is payable Rs. 9000 Note: Increase in rate of duty, exemption from duty and sale at higher value is not relevant

Problem No 6

A manufacturer manufactures 3,500 Nos. of a product 'P'. Its Assessable Value is Rs. 650 per piece. Duty payable is 10%. He bought inputs for the same, on which duty paid was Rs. 90,000. The manufacturer sells 2,000 pieces in India and 1,500 pieces are exported. What is CENVAT available and what is the duty payable through PLA?

Solution

Duty payable on units Cleared for Home consumption

A V = 2000 @ Rs. 650 Per Piece		1300000
	Duty	E C 3%
Duty payable 10%	130000	3900
Less Cenvat credit on Inputs	90000	2700
Duty payable through P L A	40000	1200

Problem No 7

U & V Ltd. manufactures 10,000 units of Product W, assessable value of which is Rs. 400 per unit. Duty payable is 16%. Duty paid on raw material is Rs. 3,00,000. U&V Ltd. sells 2,000 units in India and 8,000 units are exported through a merchant exporter. What is CENVAT credit available and what is the duty payable through personal ledger account (PLA)? Can U&V Ltd. gets any refund of CENVAT credit?

Solution

Duty payable on units Cleared for Home consumption

A V = 2000 @ Rs. 400 Per Piece		800000
	Duty	E C 3%
Duty payable 16%	128000	3840
Less Cenvat credit on Inputs	128000	3840
Duty payable through P L A	Nil	Nil

Balance Credit Rs. 172000 and ec3% can be carrying forward and can be Adjusted in subsequent clearing for home consumption. If such Adjustment is not possible refund can be claimed.

Problem No 8

M/s Tips and Toes Ltd., manufactures four types of "Nail Polishes", namely Sweety, Pretty, Beauty, Tweety. The company has availed CENVAT credit of Rs. 4,00,000 on the common inputs used in the manufacture of 'Nail Polishes'. During the financial year 2009-10 the company manufactured 1000 litres of each type of 'Nail Polishes'. The CENVAT availed input was used in equal proportion in all the four types of the products. Examine the availability of Cenvat Credit and duty payable

Product	Nature of Sale	Sale Price excluding Sales Tax & other local taxes
Sweety	Sale to Home Consumption	Rs. 30 per 20 ml bottle
Pretty	Sold to a 100% EOU	Rs. 40 per 20 ml bottle
Beauty	Fully exported	Rs. 50 per 20 ml bottle
Tweety	Supplied to Defence Canteen under exemption	Rs. 60 per 20 ml bottle

Solution

As per Cenvat credit Rule No 5 Credit on duty paid on inputs used in pretty and beauty can be availed duty payable on Sweety cleared for home consumption

With regard to credit on duty paid on inputs used in Tweety cleared to defence under exemption Assesse has three options

Option 1

If separate books are maintained for inputs used in tweety and pretty, beauty and sweety .No credit on duty paid on inputs used in tweety. And credit can be availed on Sweety, Pretty and Beauty

Option 2

If No separate books are maintained for inputs used in tweety and pretty, beauty and sweety Credit can be availed and amount at 10% on the A V of tweety is payable Since rate of duty on sweety is not given calculations were not made

Option 3

When no separate records With intimation to AC, assessee can avail prorated credit on the common inputs based on the mathematic formula.

Problem No 9

From the following data, determine the CENVAT allowable if the goods are produced or manufactured in a FTZ or by a 100% EOU and used in any other place in India. Assessable value: Rs. 770 per unit, Quantity cleared 77,770 units, BCD – 30%, CVD – 16%

Solution

Cenvat can be available based on the formula

Cenvat can be available = $X \times 1 + (BCD)/200 + CVD/100$

Where X is A V, BCD is basic customs duty and CVD is countervailing duty

From the given details

A V = 77770 × 770 =	5,98,82,900
Given B C D = 30% and CVD = 16%	
Cenvat crédit available =	
$5,98,82,900 \times 1 + (30/200) \times 16.48/100$	
$= 5,98,82,900 \times (1 + 0.15) \times 0.1648$	
$= 1.13,49,007$	
Duty amount	1,10,18,454
Education amount 3%	3,30,554

Problem No 10

An assessee cleared his manufactured final Product during the month of January 2010. The duty payable on the final product for the month is Basic excise duty Rs. 48,000, NCCD Rs.2000 and applicable education cess. During the month he has received various inputs total duty paid on the inputs was as follows. Basic Excise duty Rs. 40000, Special excise duty 4000, Service tax paid on inputs Rs. 8000, for all duties applicable education cess was paid. How much duty is payable through account current

Solution

Duty payable on Final Product

	Duty	EC 3%	Duty	E C 3%
Basic Excise duty			48000	1440
N C C D			2000	60
Total payable (A)			50000	1500
Cenvat credit available				
Basic Excise duty	40000	1200		
Special excise duty	4000	120		
Service tax	6000	180		
(to the extent of Rs. 6000)				
Total Cenvat credit available	50000	1500		
Less: Cenvat Credit			50000	1500
Duty payable through P L A			0	0

Note: balance credit of Rs. 2000 service tax can be carry forward

Problem No 11

An assessee cleared his manufactured final Product during the month of March 2010. The duty payable on the final product for the month is Basic excise duty Rs. 200000, Special excise duty Rs. 1,00,000) and applicable education cess. During the month he has received various inputs total duty paid on the inputs was as follows. Basic Excise duty Rs. 50000, Additional excise duty (GSI) Rs. 5000 . Excise duty paid on capital goods received during the month was Rs. 12000 Service tax paid on inputs Rs. 1000, for all duties and service tax applicable education cess was paid. How much duty is payable through account current

Solution

Duty payable on Final Product

	Duty	EC 3%	Duty	E C 3%
Basic Excise duty			200000	6000
Special excise duty			100000	3000
Total payable (A)			300000	9000
Cenvat credit available				
Basic Excise duty	50000	1500		
Excise duty on C G 50%	6000	180		
Service tax	1000	30		
Total Cenvat credit available	57000	1710		
Less: Cenvat Credit			57000	1710

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Duty payable through P L A			243000	7290
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Note: Credit of Addl. ED on G S I available only for payment of addl. Ed on G S I

Problem No 12

Prepare a Cenvat account in the books of A Ltd., and determine the balance as on 30-09-2010 from the following data: -

- Opening balance as on 01-04-2010 Rs. 47,000.
- Inputs received on 04-04-2010 involving excise duty paid Rs. 14,747
- Purchased a lathe for Rs. 1,16,000 -cum duty price @ excise duty rate of 16% on 05-04-2010 and received the lathe into the factory on 05-12-2010.
- On 06-04-2010 paid excise duty on final products @ 16% through Cenvat A/c (cum duty price of the goods Rs. 2,32,000).
- Inputs cleared as such to a job worker on 01-04-2010 not returned in 180 days, quantity 1,000 Kgs; Assessable value Rs. 2 lacs; ED @ 16% of the above, 50 % of the inputs were received on 01-10-2010.
- Common inputs were used in a product, which was exempted from payment of duty cleared at a price of Rs. 100/unit, which included taxes of Rs. 20/unit; quantity cleared 1,000 units.
- On 07-04-2010 duty paid on inputs amounting to Rs. 17,867 was taken credit for in the Cenvat A/c as Rs. 17,687

Solution

Cenvat Account on 30/09/2010							
Particulars		Cenvat Available (Dr)		Cenvat Utilised (Cr)		Balance	
		Duty	EC 3%	Duty	EC 3%	Duty	EC 3%
01/04/2010	Opening balance	47000	1410			47000	1410
04/04/2010	Inputs purchase	14747	442			61747	1852
04/04/2010	Removals			32000	960	29747	892
07/04/2010	original entry	17687	531			47434	1423
	Rectification	180	5			47614	1428
	(17867-17687)						
	Payment of amount						
	on common inputs						
	(1000 x80 x5%)			4000	-----	43614	1428
28/09/2010	Inputs sent for			32000	960	11614	468
	Job work						

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Note

- Credit on lathe is available only on 05/12/2010
- No eC payable on the amount paid on 5% of AV of Exempted products
- Reversal of credit is required on expiry of 180 days when inputs sent for job work not returned
50% of credit can be availed on 01/10/2010

Problem No 13

Following transactions took place in a month:

- The manufacturer received inputs with Invoice evidencing payment of duty of Rs. 42,800 on 2nd. the invoice was marked 'ORIGINAL FOR BUYER'.

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- (b) 400 pieces of Final products were dispatched under Invoice on 6th. Assessable value was Rs. 80 per piece and excise duty rate was 16%.
- (c) 1,000 pieces of input 'I' was sent outside for job work on 10th. When the inputs were received, credit of duty of Rs. 15,000 was taken on those inputs.
- (d) Some inputs were purchased from a manufacturer in Chennai in March, these were directly despatched from factory of the supplier to factory of job worker. Duty paid on the inputs is Rs. 40,000. Out of those inputs, 45% on inputs were received after carrying out the job work. On 18th.
- (e) An imported consignment of raw materials was received on 19th. The materials were not imported directly, but were purchased from an importer. The invoice of importer showed that customs duty paid was Rs. 26,000, special duty of Rs 3,000, additional customs duty paid was Rs. 13,200 and special additional customs duty paid was Rs 5,400. The importer was registered with Central Excise authorities.
- (f) Goods worth Rs 2,00,000 were despatched on 24th. Rate of duty was 16%.

There was no opening balance in PLA or Cenvat credit account at the beginning of the month. Calculate the amount of duty payable

Solution

Particulars		Cenvat Available (Dr)		Cenvat Utilised (Cr)		Balance	
		Duty	EC 3%	Duty	EC 3%	Duty	EC 3%
2nd	Inputs	42800	1284			42800	1284
6th	Removals			5120	154	37680	1130
18th	inputs from J W						
	45% of 40000	18000	540			55680	1670
19 th	Imports	13200	396			68880	2066
24th	Removals			32000	960	36880	1066

Note

1 no reversal of Credit when material send for job work

2 when inputs send to Jobworker directly credit can be taken only when inputs received to factory

3. In respect of imports credit will be available only on CVD (addl customs duty) U/s 3(3), It assumed that manufacturer intends to claim refund of Special additional customs duty and does not want to avail Cenvat Credit

Problem No 14

X availed Cenvat credit of Rs. 42,000 for manufacture of an item chargeable to duty. These goods were lying in his factory till 28-02-2011, from 1.3.2011; the final product was made exempt from duty. Now, when the final goods are cleared, should the Cenvat credit of Rs. 42,000 availed earlier be reversed (Ans Yes)

Solution

As per Cenvat Credit Rule 11(3) when dutiable goods becomes exempt,

Cenvat credit availed on inputs, work-in process and finished goods should be reversed. Hence

X has to reverse an amount of Rs. 42000/- of credit availed

Problem No 15

A manufacturer purchased machinery falling under chapter heading 84 from supplier 'X Co'. The invoice was for Rs 23,200, comprising of price of goods as Rs 20,000 and Rs 3,200 as excise duty and education cess. Pass journal entry in accounts book to record the purchase transaction. Explain how the balance will appear in Balance Sheet.

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Solution

Capital Goods A/c Dr	20000	
Cenvat credit Receivable (Capital goods)	1600	
Cenvat credit Receivable (Capital goods) deferred A/c	1600	
To Sundry Creditors- X & Co		23200

In the Balance sheet Deferred account will be shown under loans and advances

Problem No 16

An assessee had procured machinery in April 2008 for Rs 10 lakhs. Duty paid on machinery was Rs 1,60,000. It was commissioned in June 2008 Assessee had availed 50% Cenvat credit of Rs 80,000 in 2008-09, and Rs 80,000 (balance 50% credit) in 2009-10. Including education cess. He sold the capital goods after use, in May 2010 as second hand goods for Rs 3,00,000. How much excise duty or 'amount' is payable while clearing the machinery?

Solution

Cenvat Credit availed in year 08-09	80,000		
Less : 2.5% per quarter for 9 quarters -22.5%	18,000		62000
Cenvat Credit availed in year 09-10	80,000		
Less : 2.5% per quarter for 5 quarters- 12.5%	10,000		70000
Total amount payable at the time of clearance			132000

Problem No 17

Closing balance of Cenvat Credit in of a manufacturer on 3rd July 2010 was Rs. 11,500. On 4th July 2010, following transactions took place: (i) The manufacturer received inputs under Invoice No. 253 dated 5th June 2010, evidencing payment of duty of Rs. 74,000; (ii) 90 pieces of Final products were despatched under Invoice No. 768. Assessable value was Rs. 1,200 per piece and excise duty rate was 16%; (iii) Some inputs on which cenvat was taken earlier were sold for Rs. 1,20,000 as they were found in excess. When the inputs were received duty rate on inputs was 15%, and Cenvat credit taken was Rs. 21,000. However on 4th July 2010 the excise rate applicable on inputs was 20%; (iv) Some inputs (10,000 pieces) were sent outside on 1st July 2010 for job work). Duty of Rs. 5,000 was paid while purchasing these inputs on 4th July 2010, 6000 pieces (out of 10,000 pieces) were returned to the factory after job work. - . - Prepare Cenvat credit account

Solution

Particulars		Cenvat Available (Dr)		Cenvat Utilised (Cr)		Balance	
		Duty	EC 3%	Duty	EC 3%	Duty	EC 3%
Date							
Opening Balance		11500	345			11500	345
inv 253	Inputs	74000	2220			85500	2565
inv 768	Removals			17280	518	68220	2047
04.07.2010	Inputs removed as such			21000	630	47220	1417

Problem No 18

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A manufacturer received certain inputs. The cost of inputs was Rs. 2,00,000 and duty paid @ 16% was Rs. 32,000. After receipt of the inputs, the cenvat credit was availed of by the manufacturer. He further carried out some processes on the inputs. The cost of processing was Rs. 50,000. The semi-processed material was sent to a small-scale unit for a job work. –Is there any duty payable at the time of removal of inputs for the job work ? The material sent was not returned by the small- scale unit after the job work within 180 days. What will be the duty payable on such goods not returned after being sent out for the job work?

(Ans; No duty payable at the time of removal to job work, When inputs does not receive within 180 days amount payable Rs.32000)

Solution

No duty payable when goods send for job work and there is no need to reverse the credit vailed when material send for job work

If the material sent for job work not returned with in 180 days, an amount equal to to cenvat credit availed is to be paid. ie Rs. 32000.

If finished goods are directly cleared from job worker place, duty is payable based on AV and prescribed procedure is to be followed.

Problem No 19

Machinotech Ltd. purchased a lathe machine at a price of Rs. 1,00,000 on which 16% Excise Duty was paid and the company availed of the Cenvat credit on the said capital goods. The lathe machine was purchased on 27-01-2010 and it was disposed of on 29-04-2010. Can the assessee enjoy the Cenvat credit ? Is it necessary to reverse the cenvat credit on disposal of the machine ? If your answer is yes, quantify the amount.

Solution

Cenvat credit reversible at the time of clearance			
Cenvat Credit availed in year 08-09 and 09-10	16480		
Less : 2.5% per quarter for one quarter- or part there of	824		
27.01.2010 to 26.04.2010 and 27.04.2010 to 29.04.2010			
Total 5%			
Total amount payable at the time of clearance incl ec 3%		15,656	

Problem No 20

Surya Ltd. purchased certain inputs for Rs. 50,00,000 and also paid Excise Duty @ 16% ad valorem. The company also purchased a drilling machine for Rs. 5,00,000 and paid Excise Duty @ 16% ad valorem. The company availed of the Cenvat credit on the inputs and on the capital good in April, 2010, on the same day. On 10-05-2010, the company cleared the finished goods to Tara Ltd., the cum-duty price of which worked out to Rs. 70,80,000. The final product (finished goods) sold attracted Excise Duty @ 16% ad valorem. The company also deposited Rs. 6,00,000 through TR-6 Challan on 10-05-2010, itself. It may be noted that the inputs were purchased from Usha Ltd. and the drilling machine from Probha Ltd., on credit in both cases. Pass the necessary journal entries in the books of Surya Ltd

Solution

Purchase of Raw materials	Dr.	5000000	
Cenvat Credit Receivable account	Dr	800000	
Cenvat Credit Receivable (Education Cess) account	Dr	24000	
To Sundry Creditors	Cr		5824000
(Being purchase inputs)			

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Purchase of Capital goods	Dr.	500000	
Cenvat Credit Receivable account	Dr	40000	
Cenvat Credit Receivable (Education Cess) account	Dr	1200	
Cenvat Credit Receivable deferred account	Dr	40000	
Cenvat Credit Receivable deferred (Education Cess) account	Dr	1200	
To Sundry Creditors	Cr		582400
(Being purchase of machine)			
Excise duty on final product $7080000 \times 16/116.48$	Dr	972527	
Education cess on excise duty $7080000 \times 0.48/116.48$	Dr	29176	
To Bank (582524 + ec Rs.17476)			600000
To Cenvat Credit Receivable account (utilised)	Cr		390003
Cenvat Credit Receivable (Education Cess) account (utilization) 29176-17476	Cr		11700

It is assumed Rs. 6 lakhs paid though GAR 7 is inclusive of EC 3% Rs.17476

Cenvat credit Balance

	Available		Utilised		Balance	
Particulars	Duty	EC	Duty	EC	Duty	EC
Inputs	800000	24000	390003	11700	409997	12300
Capital goods	40000	1200	nil	nil	40000	1200
Capital deferred account credit available Next year Rs. 40000 and Ec Rs.1200						

Problem No 21

A manufacturer brings some inputs valued at Rs 25,000 on which duty of Rs. 5,000 has been paid @ 20%. And ec 3% subsequently the manufacturer sold the input as such, which goods he sold for Rs. 30,000. What is the duty payable by the manufacturer if - i) rate of duty on the date of clearance on inputs was 25% ii) rate of duty on the date of clearance on input was 10% ? CWA Inter Dec 1998

Solution

When inputs cleared as such (without using) an amount equal to cenvat credit availed is payable Rs. 5000/-

Note: Increase in rate of duty, decrease in rate of duty and sale at higher value is not relevant

Problem No 22

FO on 15th March, 2011 at 9.00 a.m., following was the position of Camac Corporation, Calcutta - 1) opening balance of PLA Rs. 50750, 2) opening balance cenvat credit register. 21200. The following materials were received up to 3 p.m. on the same day. - i) A machine was received vide invoice No. 1075 dated 3rd March, 2011 marked 'duplicate for transport', indicating that duty paid was Rs. 25,000. The same is not yet installed. ii) Some inputs were sent for job work, cenvat credit availed

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on this inputs were Rs. 20,000. Out of these inputs, 60% were received with in 180 days. iii) Raw materials purchased from a dealer were received. The dealer was registered with the Central Excise. The dealer's invoice No. 1052 dated 10th March, 2011, has certified that the duty paid by the manufacturer Rs. 22,700. The invoice was marked as 'first stage dealer' and 'duplicate for transport'. iv) Some raw materials were received vide invoice No. 758 dated 20th February 2011

Duty paid was Rs. 50,750. The invoice was marked 'duplicate for transport'. At 4 p.m., an urgent dispatch order was received to dispatch the maximum possible quantity of the finished product X to Chennai. The Assessable Value of X is Rs. 500 per kg. and duty is payable at 10%. Adequate stock of X is lying with Camac Corporation. What is the maximum quantity of X which can be dispatched on 15th March,2011

Solution							
Particulars		Cenvat Available (Dr)		Cenvat Utilised (Cr)		Balance	
		Duty	EC 3%	Duty	EC 3%	Duty	EC 3%
Opening Balance		21200	636			21200	636
	Machine	12500	375			33700	1011
	Reversal of credit						
	40% of 20000			8000	240	25700	771
04.07.	Inputs received	22700	681			48400	1452
	Inputs received (FSD Invoice	50750	1523			99150	2975

Balance available in Cenvat credit Register = 99150
 Less: Opening Balance of PLA (duty payable) = 50750
 Net Cenvat Available = 48400

Balance available in cenvat register Rs. 48400

Assessable equal vent to duty of Rs.48400 @ 10% = 48400 x

10 =

4,84,000

Maximum quantity can be cleared = 484000/500

968 Units

Note:

Credit can be availed even machinery is not installed, receipt of machinery to factory is a precondition to avail credit

Problem No 23

An assessee was availing SSI exemption from 1-4-2010. He crossed turnover Rs. 150 lakhs on 15-11-2010 and started payment of excise duty. He had received machinery on 10-11-2010 one which excise duty paid was Rs. 3,20,000. He intends to avail Cenvat credit of this duty. Can he do so?

Solution

Assessee can avail cenvat credit on Capital goods full in the first year itself immediately after receiving machinery in to factory on 10.11.2010. The credit can be utilized after crossing the limit of Rs. 150 lakhs on 15.11.2010

Problem No 24

500 pieces of inputs were received. Duty paid on these goods was Rs. 2,500. These were issued to production. While on production line, a fire broke out and 200 pieces of inputs lying on the shop floor were destroyed. 1000 litres were received on which duty paid was Rs. 18,000. These were issued to production. Out of these, 940 litres of final products were manufactured. 60 litres of inputs were lost in process

Discuss eligibility of Cenvat credit in the above cases

Solution

Credit can be availed on duty paid on inputs destroyed during the process

Credit can be availed on duty paid on inputs lost during the process credit is available on 1000 ltrs duty paid amount. Rs.18000)

Hence in the both cases credit can be availed.

Problem No 25

Examine the validity of the following statements:

- (i) Purchased a plant for Rs. 1,16,480 cum-duty price. Excise duty rate 16.48% on 12.12.2008 and received the plant into the factory on 5.4.2009 Cenvat allowed will be only Rs. 8,240 for the year ended on 31.3.2009.
- (ii) An assessee purchased inputs weighting 400 tons. The duty paid on inputs was Rs. 4,000. During transit, 20 tons of the inputs were destroyed. The destroyed quantity of inputs does not qualify to be 'inputs' within the meaning of Cenvat Credit Rules, 2004.

Solution

Assessee can avail cenvat credit on Capital goods 50% in the Current year. And balance 50% in subsequent year. The capital goods not received in the year 2008-09 and received only on 05.04.2009 Hence credit can be availed 50% Rs. 8240 in the year 2009-10 and 50% Rs.8240 in the year 2010-11

Credit can be availed on duty paid on inputs lost during the process

Problem No 26

A Small Scale Industrial unit (SSI) is required to pay the following central excise duties by January 15, 2009 for clearances effected from its factory in respect of final products manufactured during the month of December, 2008:

Basic Excise Duty (B.E.D.): Rs.36,000

Special Excise Duty (S.E.D.): Rs.18,000

National Calamity Contingent Duty (N.C.C.D.): Rs.1,000

Education Cess (E.C.): 3 % of B.E.D. + S.E.D. + N.C.C.D.

Balances available as credit at the beginning of the month i.e. December, 2008 were as follows:

B.E.D. Rs.24,000, N.C.C.D. Rs.2,000, E.C. Rs.790.

No inputs were received during the month. However, certain inputs were received on January 1, 2009 on which total duty paid by the suppliers of inputs was as follows :

B.E.D. Rs.16000, E.C. Rs.480

Excise duty paid on capital goods received during the month was as follows:

B.E.D. Rs.40,000, E.C. Rs.1200

For the month of December, 2008 you are required to determine : (i)

the credit available for utilization;

(ii) the permissible extent to which such available credit may be utilised against payment of B.E.D.,

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S.E.D., N.C.C.D., and E.C.; and

(iii) The B.E.D., S.E.D., and E.C. payable through account current (P.L.A.).

Solution

Duty payable on Final Product				
	Duty	EC 3%	Duty	E C 3%
Basic Excise duty			36000	1080
Special excise duty			18000	540
N C C D			1000	30
Total payable (A)			55000	1650
Cenvat credit available				
Basic Excise duty	24000	720		
NCCD	1000	30		
BED on Capital goods (50%)	20000	600		
Out of Rs.40000 to the extent of 20000				
Total Cenvat credit available (B)	45000	1350		
Less: Cenvat Credit			45000	1350
Duty payable through P L A(A-B)			10000	300
Balance of Credit of duties				
NCCD	1000			
B E D and SED	Nil			
When duty payable for the month of Dec 2008 Credit is available only up to inputs/ Capital goods Received up to the month end.				
Credit of NCCD can utilised only for payment of NCCD				

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Problem No 27

An assessee purchased various inputs and credit of duty on inputs was taken up instantly. Later on, some inputs were pilfered from the store room of the assessee. The proper officer raised a demand under section 11A of the Central Excise Act, 1944, and as per CENVAT Credit Rules, 2004, for recovery of CENVAT credit wrongly taken on inputs lost from store room. The assessee has claimed that one to one co-relation is not required for CENVAT credit and as he has suffered duty, CENVAT credit is available to him. Examine the case in the light of central excise provisions

Solution

As per Cenvat credit rules credit on inputs available only when inputs used in or in relation to manufacture of final product.

No credit when inputs pilfered before issue for production. Credit can be availed if inputs Destroyed during the process.

Hence the contention of Assessee is not tenable; CEO is justified in rising demand for cenvat availed.

Problem No 28

An assessee cleared various manufactured final products during June 2009. The duty payable for June 2009 on his final products was as follows – Basic – Rs. 2,00,000 Education Cesses – As applicable. During the month, he received various inputs on which total duty paid by suppliers of inputs was as follows – Basic duty – Rs. 50,000, Education Cess – Rs. 1,000, SAH education Cess Rs. 500. Excise duty paid on capital goods received during the month was as follows – Basic duty – Rs.

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12,000. Education Cess - Rs. 240. SAH education cess - Rs. 120. Service tax paid on input services was as follows – Service Tax – Rs. 10,000. Education cess – Rs. 200 SAH Education Cess - Rs. 100. How much duty the assessee will be required to pay by GAR-7 challan for the month of June 2009, if assessee had no opening balance in his PLA account? What is last date for payment?

Ans

	Basic Duty Rs	Education Cess Rs	SAH Education Cess
(A) Duty payable	2,00,000	4,000	2,000
(B) Cenvat Credit	66,000	1,320	660
Net amount payable (A-B)	1,34,000	2,680	1,340

Last date for payment is 5th July, 2009

Problem No 29

Explain eligibility of Cenvat Credit in each of the following transactions occurred in a month.

- A tempo containing raw materials was received. The raw materials were purchased through dealer. The dealer was registered with Central Excise. The dealer's Invoice has certified in the invoice that the duty paid by manufacturer was Rs. 13,200/-. The invoice was marked as 'First Stage Dealer'. The Invoice was marked 'ORIGINAL FOR BUYER'.
- A truck containing machinery falling under chapter heading 84 was received. Accompanying invoice marked 'DUPLICATE FOR TRANSPORT' indicated that duty paid was Rs. 7,600.
- Some inputs were directly sent on 1st of the month for job work to the factory of job worker, from place of the input supplier, without bringing them in factory. As per the invoice of supplier of inputs, duty paid on inputs was Rs. 5,000. Out of these inputs, 85% were received on 14th of the month, after carrying out job work.
- Some spare parts of machinery falling under chapter 84 were received. The invoice indicated that the duty paid was Rs. 1,600/-. The Invoice was marked 'DUPLICATE FOR TRANSPORT'.
- Some raw materials were received. Accompanying Invoice indicated that the duty paid was Rs. 4,500/-. The Invoice was marked 'DUPLICATE FOR TRANSPORT'. The Invoice did not contain time of removal from the factory.
- Some raw material was received. The Invoice was in the name of dealer from whom the goods were purchased. However, name of user-manufacturer was indicated as 'Consignee'. The invoice No. 543 dated 7th September 2005 was marked 'ORIGINAL FOR BUYER' and excise duty paid was Rs. 15,000.
- An imported consignment of raw materials was received vide Bill of Entry showing payment of following duties - Basic customs duty - Rs. 1,000, CVD - Rs. 1,760, Education Cess of Excise - Rs. 35.20, SAH Education Cess of excise - Rs. 17.60, Education Cess of Customs - Rs. 56.26, SAH education cess of customs - Rs. 28.13. Special CVD @ 4% - Rs. 515.89.
- A consignment of 1,000 Kg of inputs was received. The excise duty paid was per invoice was Rs. 10,000. While the inputs were being unloaded, 50 Kgs were damaged and it was found that these were not usable.
- Some inputs for final product were received. These were accompanied by a certified Xerox copy of Invoice No. 286 dated 15th January, 2006 indicating that excise duty of Rs. 6,400 has been paid on the inputs. The original or duplicate copy of Invoice was not traceable.
- 500 pieces of inputs were received. Duty paid on these goods was Rs. 2,500. These were issued to production. While on production line, a fire broke out and 200 pieces of inputs lying on shop floor were destroyed.
- 1000 litres of inputs were received on which duty paid was Rs. 10,000. Out of these, 950 litres of final products were manufactured. 50 litres of inputs were lost in process
- Some inputs were received on which duty paid was Rs. 20,000. Assessee used 60% of the inputs but balance 40% could not be used due to change in design. He made provision for 'obsolete goods written off' in his books of account. However, the inputs were still in his store room.
- Cenvat credit of Rs. 10,000 was taken on some inputs. These became obsolete and were sold

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as scrap for Rs. 15,000. Excise duty payable on scrap is 16.48%.

- n. 1,000 pieces of input 'I' were sent outside for job work on 10th. When the inputs were received, credit of duty of Rs. 15,000 was taken on those inputs.

Answers

- Cenvat credit of Rs. 13,200 is available.
- Cenvat credit of Rs. 3,800 (50%) is available.
- Credit can be taken on the Quantity received, if the qty received is along with duty paying document
- Cenvat credit of Rs. 800 is available (since spare parts are 'capital goods')
- If there is any defect in invoice, Cenvat credit can be availed only with permission of Assistant/ Deputy Commissioner. Hence, application should be made.
- Cenvat credit of Rs. 15,000 is available
- Credit available - CVD - Rs. 1,760, Education Cess of Excise - Rs. 35.20, SAH Education Cess of excise - Rs. 17.60, Special CVD @ 4% - Rs. 515.89
- Inputs lost before issuing to production cannot be termed as 'used in or in relation to manufacture'. Cenvat credit of Rs. 9,500 can be availed..Rs.500 No Credit
- Cenvat credit cannot be taken on basis of certified Xerox copy. If assessee can procure triplicate copy (available with supplier), he can avail Cenvat credit.
- If inputs are lost during manufacturing process, it is 'used in or in relation to manufacture'. Hence any reversal of Cenvat credit is not required. Full credit is available on Rs.2500
- Same as j
- He will have to reverse the Cenvat credit of Rs.8,000. If at a later date, he decides to use the material, he can take credit again.
- Assessee will have to reverse Cenvat credit of Rs. 10,000.
- No duty or amount is payable when inputs are sent outside for job work.

Problem No 30

A manufacturer 'M' brings some inputs 'I' of value at Rs. 1 lakh on which duty of Rs. 16,000 has been paid @ 16%. As soon as he receives the inputs, he availed CENVAT credit. Subsequently, since he did not require the input, he sold the goods @ Rs. 1,20,000. What is the duty payable by 'M' if (a) On the date of clearance, duty rate on 'I' was 20% (b) On the date of clearance, duty rate on 'I' was 10%.

Answer : No 'duty' is payable. However, in case (a) as well as (b), an 'amount' of Rs. 16,000 is payable. Buyer can avail Cenvat credit of the 'amount'.

Problem No 31

An assessee had procured some inputs in May 2009 for Rs. 20 lakhs. Duty paid on the inputs was Rs. 3,20,000 (@ 16%) plus education cess of Rs. 6,400. He was unable to use the inputs in view of change in market conditions. He sold the inputs in March 2010 for Rs. 16,00,000. How much 'duty' or 'amount' is payable while clearing the inputs? (ICWA Inter June 2004).

Answer - As per Cenvat Credit Rule 3(5), an 'amount' equal to Cenvat credit availed is payable if inputs are removed 'as such'. Hence, the assessee is required to pay an 'amount' of Rs. 3,26,400 while clearing the inputs 'as such'.

Problem No 32

A manufacturer manufactures 1,000 Nos. of product 'P', Assessable Value of which is Rs. 2,000 per piece. Duty payable is 20%. Duty paid on raw materials is Rs. 2,00,000. The manufacturer sells 700 pieces in India and 300 pieces are exported. What is CENVAT available and what is the duty payable through PLA ?

Answer : The duty payable is Rs. 400 per piece and hence, duty payable on 700 pieces is Rs. 2,80,000. The manufacturer can avail CENVAT credit of Rs. 2,00,000 and will have to pay duty

of Rs. 80,000 by cash through PLA.

Problems in SSI Units

Problem No 1

The value of excisable goods viz. Iron and Steel articles manufactured by M/s. Alpha Ltd., was Rs. 170 lakhs during the financial year 2009-10. The goods attract 16% ad valorem duty. Determine the excise duty liability when the assessee opts for 'CENVAT Credit' and 'opts for not to avail CENVAT Credit' under SSI exemption notifications respectively.

Solution		
When Opts for Cenvat Credit		
Full duty payable on whole turnover		
Excise duty @16% on 170 lakhs		27,20,000
Education Cess 2%		54,400
Higher and Secondary education cess 1%		27,200
Total Duty payable		28,01,600
When not Opts for Cenvat credit		
No duty on first 150 lakhs and balance 20 lakhs normal duty		
Excise duty on 20 laks @ 16%		3,20,000
Education Cess 2%		6,400
Higher and Secondary education cess 1%		3,200
Total Duty payable		3,29,600

Problem No2

Briefly explain whether the following units are eligible for the benefits under Notification No. 8/2003-CE dated 1.3.2003 during the financial year 2006-07 as Small Scale Industry:

(i) ABC Ltd. had registered a turnover for the purposes of the above Notification of Rs. 3.2 crores in the financial year 2007-2008. Due to recession in the industry, they anticipate a fall in turnover of 20% in 2008-09, when compared to the year 2007-08

(ii) XYZ Ltd. has started its manufacturing operations in the year 2006-07 with an investment of Rs. 3.5 crores in plant and machinery and hope to achieve a sales turnover of Rs. 2 crores in 2007-08.

Solution

in both the cases previous turnover is less than 400 lakhs

hence ssl benefit is available in the current year

Problem No 3

A SSI unit has effected clearances of goods of the value of Rs. 475 lacs during the Financial Year 2009-10. The said clearances include the following: (i) Clearance of excisable goods without payment of excise duty to a 100% EOU unit. Rs. 120 lacs (ii) Job work in terms of notification no : 214/86 CE, which is exempt from duty – Rs. 75 lacs (iii) Export to Nepal and Bhutan – Rs. 50 lacs (iv) Goods manufactured in rural area with the brand name of the others – Rs. 90 lacs. Examine with reference to the notification governing SSI, under the Central Excise Act whether the benefit of exemption would be available to the unit.

Solution

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Total Value of Clearance		475	lacs
Less: Exclusions			
Clearances to 100% E O U	120		
Job Work 214/86	75	195	lacs
Clearances for SSI benefit		280	lacs

Turnover is previous year 2009-10 is less than 400 lacs hence SSI benefit was available

Note: The following are includable in turnover limits

1. Exports to Nepal and Bhutan's
2. Goods manufactured in rural are under brand name of others (however no duty payable)

Problem No 4

M/s. RPL has three units situated in Bangalore, Delhi and Pune. The total clearances from all these Small Scale units of excisable goods were Rs.450 lakhs during the financial year, 2009-10. However, the value of individual clearances of excisable goods from each of the said units was : Bangalore Unit Rs.250 lakhs; Delhi Unit Rs.100 lakhs; and Pune Unit Rs.100 lakhs. Discuss briefly with reference to the Notifications governing small scale industrial undertakings under the Central Excise Act, 1944 whether the benefit of exemption would be available to M/s. RPL for the financial year, 2009-2010.

Solution

Value of the units of R P L Limited is to be clubbed ie

250+100+100=450 lakhs. The Turnover is exceeding 400 lakhs hence ssi benefit not available to RPL Limited

Problem No 5

Turnover of SSI for the financial year 2009-10 was as follows. (a)

Clearance made under the own brand name Rs. 110 lakhs

(b) Clearance made under the other brand name on payment of full duty Rs. 180 lakhs

(c) Waste and Scrap Rs. 10 lakhs

(d) Goods exempt from duty Rs. 225 lakhs

(e) Job work under notification No 214/86 Job Worker Charges Rs. 30 lakhs, Cost of material Rs. 120 lakhs

(f) Exports Rs. 90 lakhs

Can unit avail SSI Benefit

Solution

Calculation of turnover limit for SSI Benefit		
Clearance under own brand name	110	lacs
Waste and scrap	10	lacs
Turnover for SSI Limit	120	lacs

Note:

It is assumed exports are other than to Nepal and Bhutan

Job work, goods exempt from duty and Clearance made on payment of duty under brand name of others not includible

Problem No 6

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ABC and Co. is manufacturing the products specified below from excise duty paid high-density polyethylene granules. Part of the goods is captive consumed and other part of the goods cleared for home consumption in India and for export to Bhutan and United Kingdom.

The effective rate of duty is Product 'A' - 25%. Product 'B' - 25%. Product 'C' (waste & scrap) - Exempt from duty. The value of clearances during the preceding year 2009-10 and the current period 2010-11 are as follows -

Value of clearances in 2009-10 Rs in lakhs

S No	Particulars of Turnover	Product A	Product B	Product C
1	Clearance for home consumption	130	80	40
2	Clearance for captive Consumption in the manufacture of excisable goods	135	Nil	20
3	Export to Bhutan	35	50	Nil
4	Export to UK under bond	100	200	Nil

Value of clearances in 2010-11 Rs in lakhs

S No	Particulars of Turnover	Product A	Product B	Product C
1	Clearance for home consumption	50	80	50
2	Clearance for captive Consumption in the manufacture of excisable goods	40	Nil	Nil
3	Export to Bhutan	Nil	50	Nil
4	Export to UK under bond	50	100	Nil

Examine Whether SSI benefit available for the year 08-09 and 09-10

Solution

Calculation of turnover limit for SSI Benefit				Rs in lakhs	2009-10
S No	Particulars	Product A	Product B	Product C	Total
1	Clearance for Home Consumption	130	80	---	210
2	Clearance for Captive Consumption	---	---	20	20
3	Export to Bhutan	35	50		85
4	Export to UK under Bond	---	---	---	---
	Total	165	130	20	315

				Rs in lakhs	2010-11
S No	Particulars	Product A	Product B	Product C	Total
1	Clearance for Home Consumption	50	80	---	130
2	Clearance for Captive Consumption	---	---	---	---
3	Export to Bhutan	---	50		50
4	Export to UK under Bond	---	---	---	---
	Total	50	130	0	180

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Since the turnover for the both the years is less than 400 lakhs SSI benefit is available
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Problem No 7

ALtd. is a small-scale industrial unit manufacturing a product X. The Annual report for the year 2008-09 of the unit shows a gross sale turnover of Rs. 2,41,40,000. The product attracted an excise duty rate of 16% as BED and Sales Tax 10%. Determine the duty liability under Notification Nos.

8/2003 meant for SSI units what will be your answer if Turnover includes Central Excise and Sales tax

Solution

Gross Turnover		2,41,40,000
First 150 lakhs no duty balance		
91.40 lakhs Excise duty @ 16%		14,62,400
Education Cess 2%		29,248
Higher and Secondary education cess 1%		14,624
Total Duty payable		15,06,272

If the turnover includes Excise and Sales tax 10% the duty payable will be

Let the A V will be	(A)	X
Excise duty @ 16.48% on (X-15000000)		
.1648(X-15000000)	(B)	.1648 X -24,72,000
AV including Excise duty will be		
(x + 0.1648 x -2472000	(A + B) =C	1.1648x -24,72,000
Sales tax at 10% on the above		
0.1*(1.1648*-2472000)	10% on C= D	.11648x -2,47,200
Total AV including ED and ST	(C + D)	1.28128 X -27,19,200
1.28128 x -2719200 =24140000		
1.28128 x = 26859200		
x = 26859200/1.28128 = 20962787		
Assessable Value=		2,09,62,787
Excise duty on 150 lakhs nil on balance Rs. 5962787-16%		9,54,046
Education Cess 2%		19,081
Higher and Secondary education cess 1%		9,540
Total Duty payable		9,82,667

Problem No 8

A small scale manufacturer having a SSI Unit has achieved turnover of Rs. 2.02 crores during the year ended 31.03.2011. Normal duty payable on the product is 16%. Find the total excise duty payable by the manufacturer during the year: (i) if the unit has availed CENVAT Credit (ii) if the unit has not availed CENVAT Credit (The turnover mentioned above is without taxes and duties)

Solution

When Opts for Cenvat Credit		
Full duty payable on whole turnover		
Excise duty @16% on 202 lakhs		32,32,000
Education Cess 2%		64,640

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Higher and Secondary education cess 1%		32,320
Total Duty payable		33,28,960

When not Opts for Cenvat credit		
No duty on first 150 lakhs and balance 52 lakhs normal duty		
Excise duty on 20 laks @ 16%		8,32,000
Education Cess 2%		16,640
Higher and Secondary education cess 1%		8,320
Total Duty payable		8,56,960

Problem No 9

Viswas your old class mate is manufacturing a product in two units', turnover of unit I and Unit II is Rs. 245 lakhs and 280 lakhs during 2010-11. Advice whether SSI benefit available **(Ans No)**

Solution

Value of the unit I and II is to be clubbed ie

145+185=325 lakhs. The Turnover is not exceeding 400 lakhs

hence ssi benefit is available to Viswas

Problem No 10

The clearances of Akash Electric Co. Ltd. were Rs.450 lakh during the financial year 2010-11. The following are included in the said clearances:

Rs.

(i) Exports to Nepal and Bhutan	20,00,000
(ii) Exports to countries other than Nepal and Bhutan	1,00,00,000
(iii) Job work exempted from duty under Notification No.214/86	90,00,000
(iv) Sales to 100% EOU against Form CT-3	50,00,000

The company is of the view that it is not liable to pay any duty on its clearances in the financial year 2009-10 as per Notification No.8/2003 dated 1st March, 2003. Do you agree with the company? Give reasons for your answer. CS final June 2006

Solution

Total Value of Clearance		450	lacs
Less: Exclusions			
Export to other Countries	100		
Clearances to 100% E O U	50		
Job Work 214/86	90	240	lacs
Clearances for SSI benefit		210	lacs

Problem No 11

An SSI unit, which is a partnership firm, has achieved turnover of Rs. 140 lakhs in 2010-11 It is receiving good orders and its turnover may cross Rs. 150 lakhs in current year. It is planning to start another unit so that SSI exemption can be availed for both the units. The firm approaches you for advice. Advise them the legal position with reference to clubbing provisions of the SSI Central Excise Act

Answer:

In case of SSI Clubbing provisions will not be applicable in case as firms having common partners. However if there is substantial funding between two firms the turnover of the both the firms will be clubbed. Clubbing of turnover will also applicable, the other unit is only a dummy or bogus unit.

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In the given case if two firms are independent and firms have separate registration with regard to excise, income tax. Sales tax, the turnover of two firms will not be clubbed for duty payment purpose.

Problem No 12

A small scale manufacturer having a SSI Unit has achieved turnover of Rs. 2.02 crores during the year ended 31.03.2011. Normal duty payable on the product is 16%. Find the total excise duty payable by the manufacturer during the year: (i) if the unit has availed CENVAT Credit (ii) if the unit has not availed CENVAT Credit (The turnover mentioned above is without taxes and duties)

Solution

When Opts for Cenvat Credit		
Full duty payable on whole turnover		
Excise duty @16% on 202 lakhs		32,32,000
Education Cess 2%		64,640
Higher and Secondary education cess 1%		32,320
Total Duty payable		33,28,960

When not Opts for Cenvat credit		
No duty on first 150 lakhs and balance 52 lakhs normal duty		
Excise duty on 20 laks @ 16%		8,32,000
Education Cess 2%		16,640
Higher and Secondary education cess 1%		8,320
Total Duty payable		8,56,960

Problem No 13

Viswas your old class mate is manufacturing a product in two units', turnover of unit I and Unit II is Rs. 245 lakhs and 280 lakhs during 2010-11. Advice whether SSI benefit available **(Ans No)**

Solution

Value of the unit I and II is to be clubbed ie

145+185=325 lakhs. The Turnover is not exceeding 400 lakhs

hence ssi benefit is available to Viswas

Problem No 14

The clearances of Akash Electric Co. Ltd. were Rs.450 lakh during the financial year 2010-11. The following are included in the said clearances:

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Rs.

(i) Exports to Nepal and Bhutan	20,00,000
(ii) Exports to countries other than Nepal and Bhutan	1,00,00,000
(iii) Job work exempted from duty	
under Notification No.214/86	90,00,000
(iv) Sales to 100% EOU against Form CT-3	50,00,000

The company is of the view that it is not liable to pay any duty on its clearances in the financial year 2008-09 as per Notification No.8/2003 dated 1st March, 2003. Do you agree with the company? Give reasons for your answer. CS final June 2006

Solution

Total Value of Clearance		450	lacs
Less: Exclusions			
Export to other Countries	100		
Clearances to 100% E O U	50		
Job Work 214/86	90	240	lacs
Clearances for SSI benefit		210	lacs

Problem No 15

X Ltd. is having a manufacturing unit at Faridabad. In the financial year 2008-09 the value of total clearances from the unit was Rs. 850 lakhs as per the following details: (i) Exports to USA : Rs. 100 lakhs; to Nepal: Rs. 50 Lakhs (ii) Clearances to a 100% export oriented unit : Rs. 75 lakhs (iii) Clearances as loan licensee of goods carrying the brand name of another upon full payment of duty: Rs. 200 lakhs (iv) Clearances exempted *vide* Notification No. 214/86-C.E. dated 25-3-86 : Rs. 125 lakhs. (v) Balance clearances of goods in the normal course: Rs. 300 lakhs. You are required to state with reasons whether the unit is entitled to the benefit of exemption under Notification No.8/2003-C.E.dated 1-3-2003 as amended for the financial year 2009-10 (CA Final New Syllabus November 2010)

Answer – Following is includible for calculating limit of Rs 400 lakhs – (i) Exports to Nepal – Rs 50 lakhs (ii) Normal clearances Rs 300 lakhs. Total Rs 350 lakhs. Since the turnover is less than Rs 400 lakhs, X Ltd. is entitled to SSI concession in 2009-10.

Problem No16

- Y & Co. is a Small Scale unit located in a rural area and is availing the benefit of Small Scale exemption under Notification No. 8/2003-C.E. in the year 2007-08. Determine the value of the first clearance and duty liability on the basis of data given below: (1) Total value of clearances of goods with own brand name – Rs 75,00,000 (2) Total value of clearances of goods with brand name of other parties – Rs 90,00,000 (3) Clearances of goods which are totally exempt under another notification (other than an exemption based

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on quantity or value of clearances) – Rs 35,00,000. Normal rate of Excise duty—16%. Education cess @ 3% of Excise duty. Calculations should be supported with appropriate notes. It may be assumed that the unit is eligible for exemption under Notification No. 8/2003 (CA Final New Syllabus, June 2009).

Answer

While calculating SSI exemption limit of Rs 150 lakhs, goods cleared under brand name in rural area are to be included, since goods manufactured in rural area with brand name of others are entitled for SSI exemption. However, goods which are exempted from duty under notification other than exemption based on quantity or value of clearances is not required to be considered. Thus, for purpose of SSI exemption, his value of turnover is Rs 165 lakhs. His first turnover of Rs 150 lakhs is exempt. Thus, he is liable to pay service tax on Rs 15 lakhs. This will be inclusive of excise duty @ 16.48%.

Hence, assessable value is $15,00,000 \times 100/116.48$ i.e. Rs 12,87,774.73. Excise duty @ 16.48% is Rs 2,12,225.27 [check that total is Rs 15 lakhs].

[Note – Current excise duty rate is 10.3%. However, duty is calculated @ 16.48% as per the rate given in the Problem No.].

Problem No 17

- S & Co., a small scale unit, had cleared goods of the value of Rs. 750 lakhs during the financial year 2007-08. Records show that the following clearances were included in the total turnover of Rs. 750 lakhs : (i) Total exports during the year – 200 lakhs (30% of total exports were to Nepal). (ii) Job-work in terms of Notification No. 214/86 – 50 lakhs (iii) Job-work in terms of Notification No.83/94-E – 50 lakhs (iv) Clearances of excisable goods without payment of duty to a 100% E.O.U.- 20 lakhs (v) Goods manufactured in rural area with others brand - 100 lakhs. Find out whether the unit is eligible to avail concession for the year 2008-09, under Notification No. 8/2003-CE dated 1st March, 2003, giving reasons for your answer (CA Final June 2009).

Answer – Turnover not to be considered for Rs 400 lakhs – (i) Rs 140 lakhs (ii) Rs 50 lakhs (iii) Rs 50 lakhs (iv) Rs 20 lakhs. Excluding this turnover, his turnover during 2007-08 was Rs 490 lakhs. Since it is more than Rs 400 lakhs, he is not eligible for SSI exemption in 2008-09.

Problem No. 18

A Small Scale Unit (SSI) has effected clearances of goods of the value of Rs. 460 lakhs during the financial year 2010-11. The said clearances include the following: (i) Clearance of excisable goods without payment of Excise duty to a 100% EOU unit : Rs. 40 lakhs. (ii) Export to Nepal and Bhutan : Rs. 50 lakhs. (iii) Job-work in terms of Notification No. 214/86 C.E., which is exempt from duty : Rs. 60 lakhs. (iv) Goods manufactured in rural area with the brand name of others: Rs. 70 lakhs. Write a brief note with reference to the Notifications governing SSI under the Central Excise Act whether the benefit of exemption would be available to the unit for the financial year 2007-08 (CA Final May 2004 adopted)

An SSI unit will be entitled to SSI exemption in 2007-08 only if its turnover in 2006-07 was less than 400 lakhs. While calculating the turnover of Rs 400 lakhs, following are not required to be considered –

- (a) Deemed exports i.e. supplies to EOU

- (b) Job work that amounts to 'manufacture' done under notifications No. 214/86-CE, 83/94-CE and 84/94-CE.

Exports to Nepal and Bhutan cannot be excluded, i.e. export turnover to Nepal and Bhutan will have to be added while calculating limit of Rs 150 and 400 lakhs. It will be treated as 'clearance for home consumption', even if actually it is 'export'. The export to Nepal and Bhutan will be includible *even if* such export is against free foreign exchange.

If goods are manufactured in rural area with other's brand name, these are exempt upto Rs 150 lakhs. In such case, that turnover which is cleared without payment of duty will have to be **included** for calculating exemption limit of Rs 400 lakhs.

Thus, turnover in respect of sale to EOU (Rs 40 lakhs) and job work under notification No. 214/86-CE (Rs 60 lakhs) is required to be excluded for purpose of SSI exemption limit of Rs 400 lakhs. Turnover of SSI excluding these sales is Rs 360 lakhs (460-40-60 lakhs). Hence, the SSI unit will be entitled to exemption in 2007-08 upto first turnover of Rs 150 lakhs.