

INCLUDING EXCLUSIVE SELECTED
PRACTICAL QUESTIONS FOR
SERVICE TAX-VAT CALCULATION

SERVICE TAX-VAT

REVISIONARY NOTES
FOR CA-IPCC

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Features:

- ⇒ Summarized format for easy understanding
- ⇒ Strictly according to the syllabus of CA-IPCC
- ⇒ All IMP aspects has been covered
- ⇒ Selected practical questions given with master Solutions
- ⇒ "At a glance" portion for Last Minute Revision (LMR)

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Rules of My Life:

"Don't use anyone, but being useful for everyone."

"There is no tax on helping each other."

"Live for other is more joyful rather than live for yourself."

"If you light a lamp for somebody, it will also brighten your path."

"Happiness is a by-product of an effort to make someone else happy." ☺

– Me

DEDICATED TO MY FRIENDS

- Written by Bhavin Pathak

SERVICE TAX

Service Tax-at a glance

- ⇒ Services tax was imposed by **Chapter V of Finance Act 1994** and *there is no separate "Service Tax Act"*. Service Tax is imposed every year by making amendment to the Finance Act 1994. Central excise department has been entrusted to look after the administration of Service Tax.
- ⇒ *Service Tax extends to whole of India except the state of Jammu and Kashmir*. There shall be no Service Tax on the services provided / consumed in the state of Jammu and Kashmir. However if service provider is in the state of Jammu and Kashmir and provides services to anyone outside the state of Jammu and Kashmir then Service Tax shall be imposed on such services rendered.
- ⇒ Service Tax is *imposed on taxable services provided or to be provided in future* by the service provider. Services to be provided in future shall be chargeable to Service Tax only if the advance payment for it is received.
- ⇒ Taxable services are mentioned in **Section 65(105) of Finance Act 1994**.
- ⇒ **Service Tax is charged at the rate of 12% and education cess as applicable.**
- ⇒ WEF **1/4/2008** a threshold **limit of ₹ 10 Lakhs** has been prescribed. Till this limit value of all taxable services provided by the service provider is *fully exempt from Service Tax*.
- ⇒ The *method of payment* of Service Tax is *mentioned in Service Tax Rules 1994*. Service Tax has to be paid by the service provider *on the receipt of consideration*. If any advance has been received then Service Tax shall be imposed on such advance amount.
- ⇒ **Valuation of taxable services: Section 67**
 - (a) Service Tax shall be *charged on gross amount charged*. It shall mean only *the amount received from the service receiver and not the amount which has been billed to him*.
 - (b) The service provider is required to *show the Service Tax separately in the invoice/bill*. If it is *not shown separately then the value of the services shall be taken as an inclusive of Service Tax*.
 - (c) If the service provider has paid any *excess Service Tax* to the government, in respect of that services which have not been provided for any reason then such excess Service Tax paid *can be adjusted against Service Tax payable by him for any subsequent period*. This shall be applicable only *if the service provider has refunded Service Tax* to the person from whom it was received.
 - (d) If the amount charged by the service provider includes value of the goods and material sold then Service Tax is not payable on the value of such goods sold. There should be proper documentary evidence showing value of the goods and material sold. However in some cases supply of goods is integral part of the services and supply of goods can't be separated from the services rendered. In such case Service Tax shall be charged on the full amount including the value of goods.
 - (e) The service provider often claims reimbursement of certain expenses incurred by him (like expenses on travelling, boarding and loading etc.) while providing a taxable service. These are often termed as out of pocket expenses. All such expenses will be includible in the value of taxable services.
 - (f) Expenses which are incurred by the service provider on the behalf on service receiver (as a pure agent) shall not be part of value of the services.
 - (g) If the services are provided free of cost, there shall be no Service Tax payable even if services are taxable.
 - (h) Service provided during the warranty period of the goods is taxable services and it is subject to Service Tax.
 - (i) If consideration of services has been received in kind then the Service Tax shall be imposed and for this the value of the identical services provided shall be deemed to be the value of such services which have been provided and for which consideration has been received in kind.

⇒ **Exemption from Service Tax**

- (a) Small service providers providing aggregate services up to ₹ 10 lakhs are exempt from paying Service Tax.
- (b) Even if the service provider crosses turnover of ₹ 10 lakhs in current year, he will be liable to Service Tax only on turnover exceeding ₹ 10 lakhs and not on entire turnover. However, if taxable turnover in current exceeds ₹ 10 lakhs, there will be no exemption from Service Tax in next financial year.
- (c) There is no Service Tax on export of services, if service is exported
- (d) Services provided to United Nations & International Agencies is exempt from Service Tax.
- (e) All services provided to foreign diplomatic missions or consular posts in India are fully exempt provided services are used for their official purposes.
- (f) Exemption from Service Tax has been provided to all taxable services provided by Reserve Bank of India
- (g) Sometimes the gross amount of contract shall include the amount charged for services as well as some other facilities provided. In such case Service Tax is payable at lower rates, i.e. partial abatement is available from gross value.

⇒ **Registration under Service Tax**

- (a) No registration is required till turnover exceeds ₹ 9 lakhs.
- (b) Time limit to apply for registration is 30 days from the levy of Service Tax or start of the business as the case may be.
- (c) Registration is provided in 7 days and if not then deemed to have been provided after 7th day.
- (d) No document except PAN issued by the income tax dept. is required.
- (e) Service Tax registration no is 15 digits alphanumerical no.
- (f) Rules for centralized registration and non-centralized registration exist.
- (g) In case of more than 1 service, single registration covering all services is done.

⇒ **Payment of Service Tax**

- (a) Service Tax is payable at the time of realization of the amount for services from the client.
- (b) Service Tax is payable on the advance money received.
- (c) Where there is short recovery of the billed amount, service provider should revise the bill otherwise he shall be liable to pay Service Tax on the full amount which has been billed to service receiver.
- (d) Where there is excess recovery from a client or customer then such excess amount can be refunded to such client or customer

⇒ **Due dates for the payment of Service Tax**

- (a) If the assessee is an individual or proprietary firm or partnership firm, the Service Tax shall be paid to the Central Government by the 5th of the next month immediately following the quarter in which the payments are received, towards the value of taxable services. **In case e-payment is made, due date is 6th.**
- (b) In all other cases Service Tax received during any calendar month shall be paid to the Central Government by the 5th of the month immediately following the calendar month in which payments are received, towards value of taxable services. **In case e-payment is made, due date is 6th.**
- (c) If the Service Tax on the value of taxable services is received during the month of March, or the quarter ending in March, as the case may be, shall be paid to the Government by the 31st day of March of the calendar year.

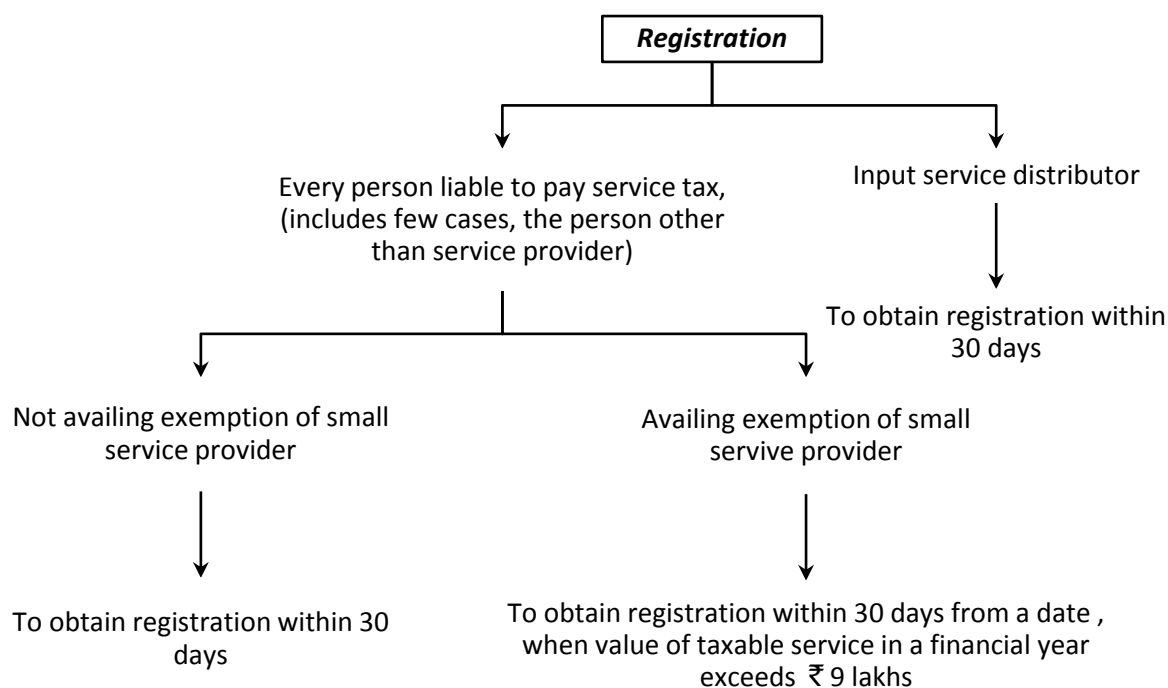
⇒ **Service Tax To Be Paid Electronically:** Where the assessee has paid Service Tax of ₹ 50 lakhs or more during the preceeding financial year or has already paid Service Tax of ₹ 50 lakhs in current financial year, he shall deposit the Service Tax liable to be paid by him electronically, through internet banking.

⇒ **Special provision for the payment of Service Tax in case of life insurance business:** An insurer carrying on life insurance business who is liable for paying Service Tax has the option to pay an amount calculated @ 1% of the gross amount of premium charged by him towards the

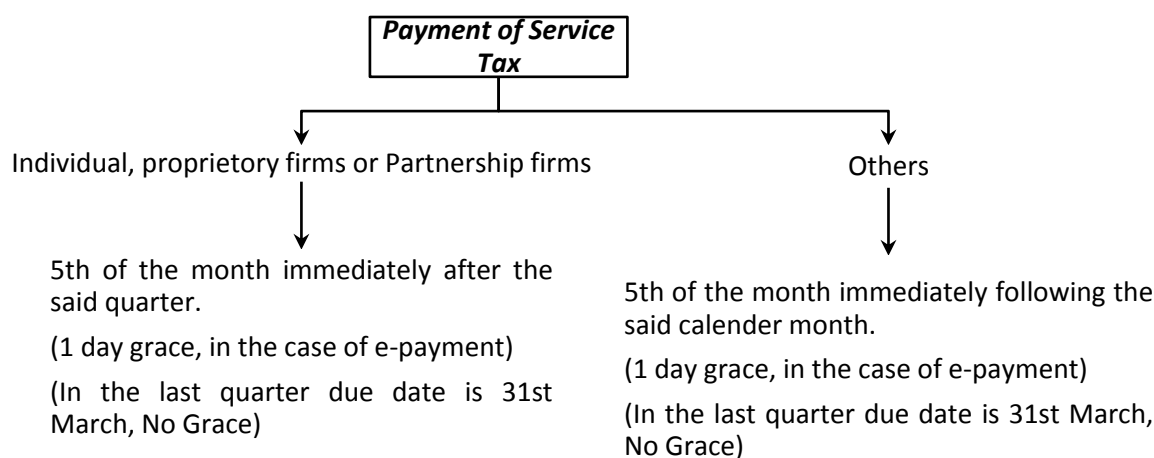
- discharge of his Service Tax liability instead of paying Service Tax @ 12%.
- ⇒ Service Tax return shall be submitted on half yearly basis on 25th October and 25th April every year.
 - ⇒ Service Tax return can be revised within 90 days from filling of original return.
 - ⇒ Belated Service Tax return is also allowed upon the payment of prescribed fees which is as follows:
 1. If delay is up to 15 days from the due date of return: Fess of ₹ 500 is to be paid.
 2. If delay is beyond 15 days but up to 30 days from due date: Fees of ₹ 1000 is to be paid.
- If delay is beyond 30 days from the due date: Fees of ₹ 1000 is to be paid + ₹ 100 for every day from the 31st day tills the date of furnishing of return but subject to the maximum of ₹ 2000.

INFORMATION CAN BE USEFUL FOR PRACTICAL QUESTIONS

Registration

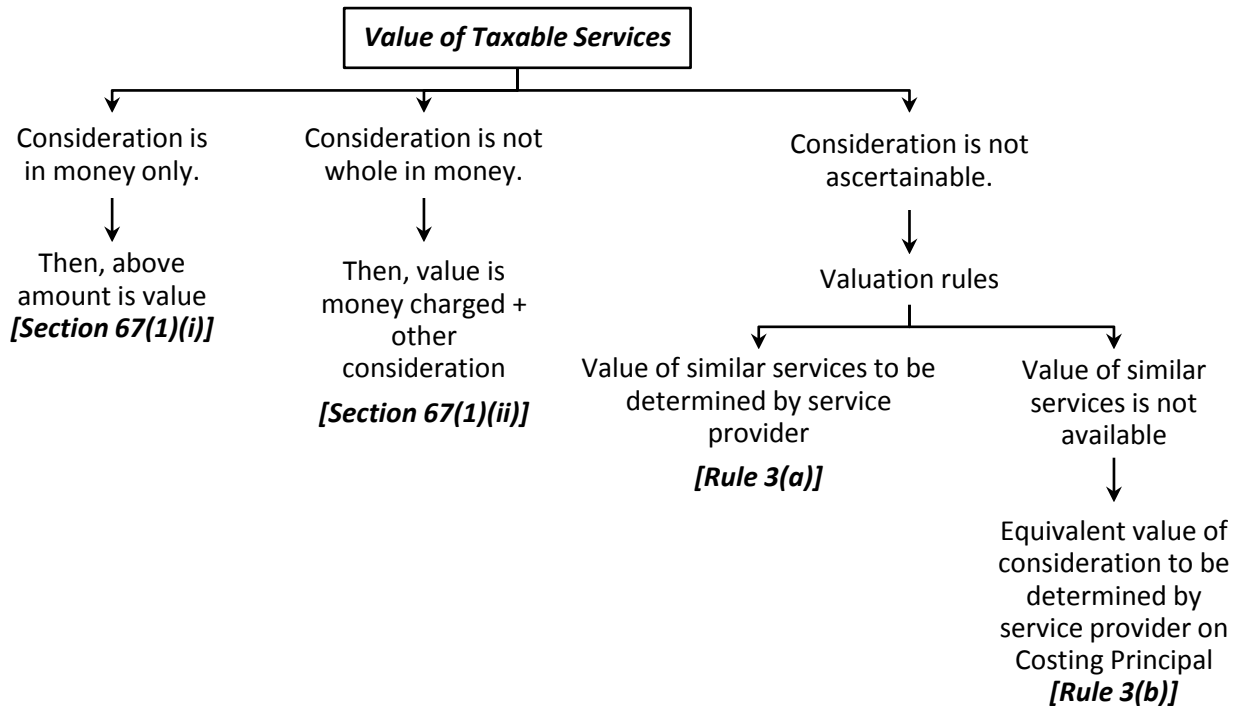


Payment of Service Tax



Note: E-payment is compulsory for all persons, if service tax exceeds ₹ 50 lakhs in the previous year or in the current year.

Value of Taxable Services



Note: Rule 4 & 5 should be kept in mind while deciding the value

PRACTICAL QUESTIONS

Q.1: (Based on registration) Discuss whether the following person are liable to apply for registration under Service Tax law and if yes; by which date:

- (a) A provider of taxable service, whose aggregate value of taxable services is ₹ 8, 80,000 upto 31-3-2010
- (b) A provider of taxable service, whose aggregate value of taxable services is ₹ 9,10 000 upto 1-1 -2010
- (c) A provider of taxable service, who has provided services as follows:
Aggregate value of services upto 15-5-2009 (i.e. before the service became taxable) ₹ 5,00,000
Aggregate value of taxable services from 16-5-2009 to 31-3-2010 ₹ 8,95,000
- (d) An input service distributor who start his business w. e. f. 1-1-2010
- (e) A provider of taxable service who starts his business w. e. f. 11-8-2009 and whose aggregate value of services as on 10-10-2009 becomes ₹ 9,02,000

Solution:

- (a) Not liable for registration, as aggregate value of taxable services doesn't exceed ₹ 9,00,000
- (b) Liable for registration, application to be made up to 31-1-2010
- (c) Not liable for registration, as aggregate value of taxable service doesn't exceed ₹ 9,00,000
- (d) Liable for registration, application to be made up to 31-1-2010
- (e) Liable for registration, application to be made up to 9-11-2009

Q.2: (Payment of Service Tax) Mr. X, a Chartered Accountant, raised an invoice for ₹ 27,575 (25,000 + 2575 Service Tax) to a client on 20-1-2010. Client, however, as paid a lump sum of ₹ 26,000 on 28-4-2010 for full and final settlement-

- (a) How much Service Tax Mr. X has to pay and when does this tax becomes due for payment?
- (b) What will be his liability, if client refuse to pay Service Tax and pays only ₹ 25,000 in total?

Solution:

(a) Service Tax = $26,000 \times \frac{10.30}{110.30} = \boxed{\text{₹ } 2,428}$ (approx.) which payable by 5th July 2010

(b) Liability = $25,000 \times \frac{10.30}{110.30} = \boxed{\text{₹ } 2,335}$

Q.3: (Due date of payment of Service Tax) Mr. Y is consulting engineer raised a bill of ₹ 2,20,600 (including Service Tax) on his client for consulting services rendered by him in the month of June 2009. A partial payment of ₹ 1,65,450 was received by him in the month of March 2010. Compute the Service Tax amount payable by Mr. Y and due date by which Service Tax can be deposited.

Solution:

Service Tax is payable only when the value thereof has been received. Since only part of the value has been received in March, 2010, the amount so received shall be deemed to include proportionate element of

Service Tax = $1,65,450 \times \frac{10.30}{110.30} = \boxed{\text{₹ } 15,450}$.

The amount of Service Tax is required to be deposited with central government by 31st March, 2010 for the month/quarter ending 31st March, 2010.

Q.4: (Payment of Service Tax/Due dates) Give due dates for payment of Service Tax in following cases:

- (a) M/s. Sanghvi & Co., a sole-proprietorship concern, receives payment of services provided in July 2009 partly on 8th August 2008, partly on 1st January and balance on 25th April 2009.
- (b) M/s. Thakur-Macwan & Co., a partnership concern, receives a payment of services provided in April 2009 on 28th February 2010
- (c) M/s. Shah Ltd., a company, receives payment of services provided in April 2009 on 28th February 2010

Solution:

(a)	Payment Received on	Due Dated
	8 th August 2008	5 th October 2008
	1 st January 2009	31 st March 2009
	25 th April 2009	5 th July 2009

(b) 31st March 2010

(c) 5th March 2010

Q.5: (Interest on delay in payment of Service Tax) Macwan Engineering Ltd. deposited the Service Tax in the month of May, 2009 by cheque in the designated bank on 5th June 2009 and it is cleared on 8th June, 2009. The Service Tax has a notice to the company under Section 75 of Chapter V of Finance Act, 1994 demanding interest for the delayed period. Is demand justified?

Solution:

Payment has been made by due date. Demand is unjustified.

Q.6: (Small service provider exemption) The value of taxable services provided by Mr. Kamdar during the financial year 2008-09 was ₹ 9 lakhs. During the financial year 2009-10 (upto January 2010), Mr. Kamdar provides taxable services valuing ₹ 10 lakhs but receives payment towards taxable services valuing ₹ 11 lakhs. No taxable services provided during February to March 2010. Compute the amount of Service Tax payable by him. Will he get any exemption in the Financial Year 2010-11?

Solution:

Since the value of taxable services provided in financial year 2008-09 was not exceeding ₹ 10 lakhs, Mr. Kamdar would get exemption in Financial Year 2009-10 in respect of aggregate value not exceeding ₹ 10 lakhs.

Hence, Service Tax payable = ₹ (11 lakh - 10 lakh) × 10.30% = ₹ 10,300

He will be eligible for exemption in the financial year 2010-11, as the value of taxable services provided in the financial year 2009-10 does not exceed ₹ 10 lakhs.

Q.7: (Small service provider exemption) Arihant Ltd. provided services valuing ₹ 8 lakhs during the financial year 2008-09. During financial year 2009-10, it has provided taxable services valuing ₹ 10 lakhs and has received payment towards taxable services ₹ 8.5 lakh. It also received services in the nature of transport of goods by road valuing ₹ 50,000, in respect of which it is the person liable to pay Service Tax. Compute the amount of Service Tax, of any, payable by Arihant Ltd. for financial year 2009-10. It is given that goods transport service is exempt to the extent of 75% of value thereof.

Solution:

Arihant Ltd. is eligible for small service provider exemption during the financial year 2009-10 as the value of taxable services provided during financial year 2009-10 does not exceeds ₹ 10 lakhs.

For the value of taxable services received during the financial year 2009-10, no tax liability would arise, as payment received do not exceeds ₹ 10 lakhs. However, for goods transport agency services received, in respect of which Arihant Ltd. is the person to pay Service Tax, the company cannot claim small service provider exemption. Therefore, it will have to pay Service Tax payable = ₹ 50,000 × 25% × 10.30% = ₹ 1,288

Q.8: (Value of taxable services) M/s. Shah Consultant is a labour contractor of manpower to M/s. Sanghvi Creation. They charged to the principal employer for the wages of their labour which amounts to ₹ 1,20,000 plus their service charges of ₹ 12,000 for arranging the labour. The issue is whether service is taxable on the gross amount charged by them or only their charges for labour.

Solution:

As per Section 67, the value of taxable service is the gross amount charged by the service provider for the provision of service. Hence, the value of taxable service in this case = ₹ 1,20,000 + ₹ 12,000 = ₹ 1,32,000.

Q.9: (Value of taxable services) Answer the following for services provided in January, 2010:

- (a) Bhavin contracts with Mohit, a real estate agent to sell his house and thereupon Mohit gives an advertisement in television costing ₹ 5 lakhs. Mohit billed ₹ 15 lakhs to Bhavin including charges of television advertisement, showing separately in invoice. Mr. Mohit says that value of taxable services in his case is ₹ 10 lakhs only, as acted as pure agent of Mr. Bhavin while taking advertisement. Compute Service Tax to be billed.
- (b) In the course of providing a taxable service, a service provider incurs cost such as travelling expences, postage, telephone, etc. to the tune of ₹ 20,000. He charged ₹ 80,000 for his services and indicates the said cost separately on the invoice issued to the recipient of service. Compute the amount of Service Tax to be billed by the service provider.

- (c) Amit contracts with Burhan, an architect for building a house and Burhan's fees is fixed at ₹ 3,00,000. During the course of providing the taxable service, Burhan incurs expenses such as telephone charges, air travel tickets, hotel accommodation, etc. ₹ 50,000 to enable him to effectively perform the provision of service to Amit. Compute the Service Tax liability for Burhan.
- (d) Anuj, a clearing and forwarding agent charges ₹ 50,000 for his services, which incurs octroi charges ₹10,000 paid on behalf of his client. Compute the Service Tax liability.
- (e) A cable operator charges ₹ 10,000 for his services, which includes Entertainment Tax ₹ 2,000 paid on behalf of his client. Compute the value of taxable services and Service Tax liability.

Solution:

- (a) Since advertisement service is an input service for the estate agent in order to enable or facilitate him to perform his services as an estate agent. Hence, Mr. Mohit does not act as agent of Mr. Bhavin in taking advertisement. Hence, Service Tax = ₹ 15 lakhs $\times$ 25% $\times$ 10.30% = ₹ 1,54,500
- (b) In this case, the service provider is not acting as an agent for recipient of service but procures such inputs or input service on his own account for providing taxable services. Such expenses do not become reimbursable expenditure merely because they are indicated separately in invoice issued by service provider to recipient of service.
Hence, Service Tax payable = ₹ (80,000 + 20,000) $\times$ 10.30% = ₹ 1,288
- (c) Value of taxable service = ₹ 3,00,000 + ₹ 50,000 = ₹ 3,50,000 and Service Tax @10.30% = ₹ 36,050
- (d) Anuj (the clearing and forwarding agent) act as pure agent of the client while providing octroi charges.
Hence, Value of taxable service = ₹ (50,000 – 10,000) = ₹ 40,000 and Service Tax @10.30% = ₹ 4,120
- (e) A cable operator acts as pure agent to the client while paying Entertainment Tax.
Hence, Value of taxable service = ₹ (10,000 – 2,000) = ₹ 8,000 and Service Tax @10.30% = ₹ 824

Q.10: (Pure agent) Mr. Anvesh, a custom house agent, charges ₹ 1,00,000 from his client. This sum includes ₹ 10,000 towards payment of custom duty on behalf of the client. Compute the service tax to be charged from his client.

Solution:

Expenses incurred by the service provider (here Mr. Anvesh) in his capacity as pure agent do not form part of the value of taxable services. Hence, Mr. Anvesh (custom house agent) has paid ₹ 10,000 towards custom duty on behalf of the client, while expenditure incurred by Mr. Anvesh in his capacity as 'Pure Agent'. Since, the sum of ₹ 10,000 does not include any element of profit, the same will not form part of the value of taxable service.

Hence, Value of taxable service = ₹ (1,00,000 – 10,000) = ₹ 90,000

Service Tax to be charged = ₹ 90,000 $\times$ 10.30% = ₹ 9,270

Q.11: (Gross amount charged and value of taxable service) Hotel Nilkanth Palace charges 10% of amount as service charges and the Department has asked them to pay service tax on it. The assessee has submitted that the amount at 10% collected from the costumers is subsequently disbursed among the staff. Therefore, it is not part of their income and cannot be included in gross amount charged by them. Examine this care and advice.

Solution:

As per **Section 67**, the value of taxable service is the gross amount charged by the service provider for the taxable services or to be provided by him. Since the assessee was charging service tax @ 10% of bill amount from its customers for providing the services, therefore the said amount was liable to be included in the gross amount charged.

Therefore, service charges @ 10% of bill amount charged by Hotel Nilkanth Palace are included in gross amount charged by them and will be liable to service tax.

Q.12: (Value of taxable services) A beauty parlour charges ₹ 1,00,000 from a client for providing beauty treatment service, the break-up of the bill is as follows:

Labour and facility charges	₹ 60,000
Value of cosmetics and toilet preparations consumed in providing the services	₹ 30,000
Value of cosmetics and toilet preparations sold to the client	₹ 10,000
Total	₹ 1,00,000

Compute the amount of Service Tax to be charged from the client.

Solution:

The labour and facility charges are liable to Service Tax. The value of cosmetics and toilet preparations consumed in providing the services are forms intrinsic part of the value of service. The materials consumed during the provision of service form part of the cost of that service. Hence, the value of consumed materials will be included in the value of Service.

However, the value of cosmetics and toilet preparations sold to the client will be exempt.

Hence, Value of taxable service = ₹ (60,000 + 30,000) = ₹ 90,000

Service Tax to be charged = ₹ 90,000 × 10.30% = ₹ 9,270

Q.13: (Computation of taxable value and service tax – Exemption and Advance receipts)

B.I. Professionals, a partnership firm, gives the following particulars relating to the service provided to various clients by them for the half-year ended on 30-9-2009:

- (1) Total bills raised for ₹ 8,75,000 out of which bill for ₹ 75,000 was raised on an approved international organization and payments of bills for ₹ 1,00,000 were not, received till 30-9-2009.
- (2) Amount of ₹ 50,000 was received as an advance from MM Ltd. on 25-9-2009 to whom the services were to be provided in October, 2009

You are required to work out the:

- (a) Taxable value of services
- (b) Amount of service tax

Solution:

- (a) Assume that bill amount is exclusive of service tax.

Taxable value of services = Bill amount

- Exemption in respect of service provided to International Organization
- Amount not received (not liable to service tax)
- + Amount received in advance (liable for Service tax)

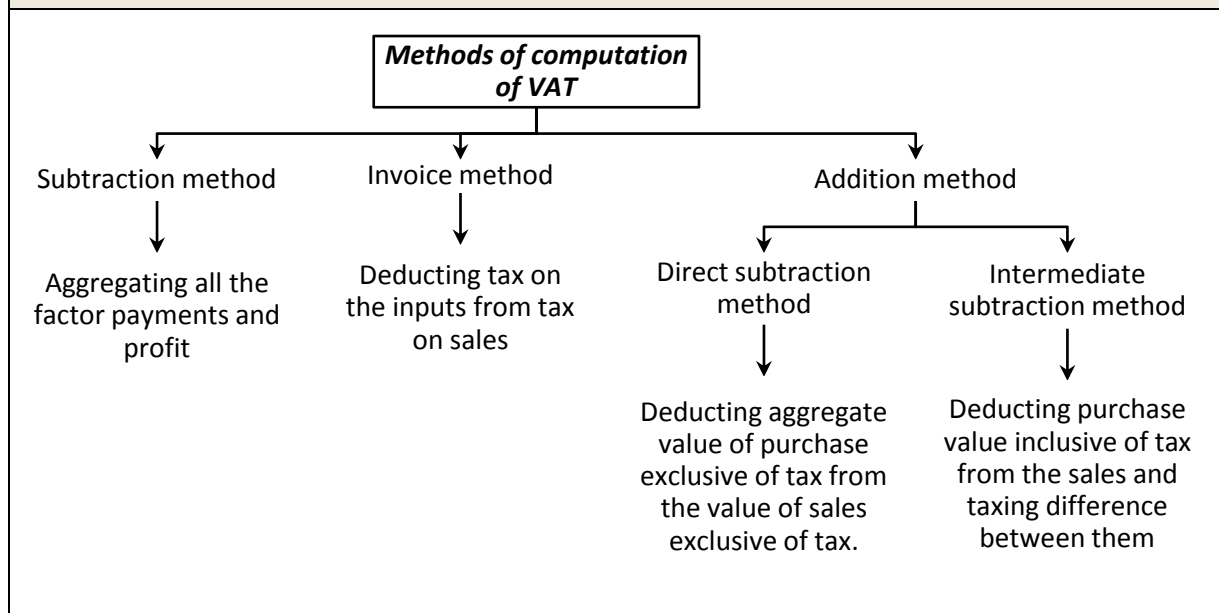
= ₹ (8,75,000 – 75,000 – 1,00,000 + 50,000) = ₹ 7,50,000

- (b) Accordingly, Service Tax to be charged = ₹ 7,50,000 × 10.30% = ₹ 77,250

Value Added Tax-VAT

VAT- at a glance

- 1) Under the system of VAT the sales tax levied and collected at each stage of sale only the value added at every stage.
 - 2) As commonly understood this is a method by which final consumer shall be taxed at different stages of production and distribution in various installments. For this difference between the sale price and purchase price is taken as value added and a tax is imposed at every level where there is some value addition.
 - 3) **Need for VAT in India**
 - (a) Avoids distortions in the economy due to uniformity all across the channel.
 - (b) Prevents cascading effect (multiple-taxation) by providing credit of Input taxation.
 - (c) VAT is just and logical way of taxing all dealers in equitable manner whereby all dealers share burden of tax.
 - (d) This system leads to easy computation and compliance.
 - (e) Credit of input taxation leads to cost efficiency.
 - 4) **Merits of VAT**
 - (a) Eliminates multiple-taxation.
 - (b) No tax evasion.
 - (c) Simple method.
 - (d) Lowering tax burden.
 - (e) Transparency
 - (f) Better revenue collection and stability.
 - (g) Better accounting systems.
 - 5) **Demerits of VAT**
 - (a) VAT does not cover services.
 - (b) Non integration of central VAT with state-VAT.
 - (c) Accounting burden.
 - (d) Cost of administration for government.
 - (e) Exemptions on goods.
 - 6) **Concept of input tax credit:** The main feature of system of VAT is that it provides the benefit of set off of input tax from the main output tax. The value added tax is based on the value addition to the goods, and the related VAT liability of the dealer is calculated by deducting input tax credit from the tax collected on sales during a particular period.
 - 1) **Variants of VAT:** VAT could be levied under three variants. Gross product variant, Income variant, Consumption variant. These variants could be further distinguished according to their methods of calculation and they are addition method and subtraction method. The subtraction method could be further divided into direct subtraction method, intermediate subtraction method, and indirect subtraction method.
- Methods for computation of VAT:** VAT is form of a sales tax and is charged at each stage on the 'Value Added' to the goods. 'Value Added' is the difference sales and purchases of the business. There are several methods to calculate the 'Value Added' to the goods for levy of tax. The three commonly used methods are addition method, invoice method (tax credit method) and subtraction method.

INFORMATION CAN BE USEFUL FOR PRACTICAL QUESTIONS**Methods of computation of VAT**

PRACTICAL QUESTIONS

Q.1: Vishal, a manufacturer sells goods to Vinit, a distributor for ₹ 2,000 (excluding of VAT). Vinit sells goods to Samkit, a wholesale dealer for ₹ 2,400. Samkit, the wholesale dealer sells the goods to Bhavin, a retailer for ₹ 3,000, who ultimately sells to the consumers for ₹ 4,000. Compute the tax liability, input credit availed and tax payable by manufacturer, distributor, wholesale dealer and retailer under invoice method assuming VAT rate @ 12.50%.
(IPCC, Nov. 2009, 8 marks)

Solution:

Computation of tax liability, input tax credit availed and tax payable under invoice method:

Stage	Particulars	VAT Liability (a)	Less VAT Credit (b)	Tax payable to Government (c)=(a)-(b)
1.	Vishal, the manufacturer, sells to Vinit, the distributor, for ₹2,000. Therefore his tax liability will be ₹ 250 (₹ 2,000 @ 12.5%). He will not have any VAT credit.	250	-	250
2.	Vinit, the distributor, sells goods to Samkit, the wholesale dealer, for ₹ 2,400. Vinit's tax liability will be ₹ 300 (₹ 2,400 @ 12.5%). He will get set off of tax paid at earlier stage of ₹ 250. Thus, tax payable by him will be ₹ 50.	300	(250)	50
3.	Samkit, the wholesaler dealer, sells to Bhavin, the retailer at ₹ 3,000. Samkit's tax liability will be ₹ 375 (₹ 3,000 @ 12.5%). He will get set off of tax paid at earlier stage of ₹ 300. Thus, tax payable by him will be ₹ 75.	375	(300)	75
4.	Bhavin, the retailer sells goods to consumers at ₹ 4,000. His tax liability will be ₹ 500 (₹ 4,000 @ 12.5%). He will get set off of tax paid at earlier stage of ₹ 375. Thus, tax payable by him will be ₹ 125/-	500	(375)	125

Note: It has been assumed that sales made by the distributor, the wholesale dealer and the retailer are also exclusive of VAT.

Q.2: Compute the VAT amount payable by Ankit who purchase goods from a manufacturer on payment of ₹2,25,000 (including VAT) and earn 10% profit on sale to retailer? VAT rate on purchase and sale is 12.50%.
(IPCC, June 2009, 3 marks)

Solution:

Computation of VAT payable by Ankit:

Particulars	₹
Payment made by manufacturer	2,25,000
Less: VAT paid $\left(\frac{(2,25,000 \times 12.50)}{112.50} \right)$	(25,000)
Purchase price	2,00,000
Add: Profit margin	20,000
Sales price before VAT	2,20,000
Add: VAT @ 12.50% on ₹ 2,20,000	27,500
Invoice value after 10% profit margin	2,47,500
VAT charged in invoice	27,500
Less: VAT input credit $\left(\frac{(2,25,000 \times 12.50)}{112.50} \right)$	(25,000)
VAT payable by Ankit	2,500

Note: Profit has been computed as 10% of the cost price of the goods.

Q.3: Compute the VAT amount payable by Rahul who purchase goods from a manufacturer on payment of ₹1,20,000 and after adding for expense of ₹ 10,000 and profit ₹ 15,000 had sold the same. VAT rate on purchase and sale is 12.50%.
(IPCC, Nov. 2007, 3 marks)

Solution:

Computation of Invoice Value:

Particulars	₹	₹
Cost of goods purchased		1,20,000
Add: Expenses	10,000	
Profit margin	15,000	25,000
Product sale value		1,45,000
Add: VAT @ 12.50%		18,125
Invoice Value		1,63,125

Computation of tax payable under VAT:

VAT charged on sale	₹ 18,125
Less: Input credit of VAT on purchase @ 12.50% on ₹ 1,20,000	(15,000)
Tax payable under VAT	3,125

Note: It has been assumed that the purchase price of ₹ 1,20,000 is exclusive of VAT.

Q.4: Sandeep, a trader selling raw materials to manufacturer of finished products. He imports his stock in trade as well as purchase the same from the local markets. Following transaction took place during the financial year 2009-10. Calculate the VAT and invoice charges by him to a manufacturer. Assume the rate of VAT @ 12.50%.

Cost of imported materials (from other state) including VAT	₹ 2,00,000
Cost of local material including VAT	₹ 4,50,000
Other expenditure including storage, transport, interest and profit earned by him	₹ 1,00,000

Solution:

The facts of the question may be taken to be that of the financial year 2009-10

Sale Price of goods:

Particulars	₹	₹
Imported material cost		2,00,000
VAT @ 12.50%		25,000
[Since, this is not a VAT levied inside the State, it will form part of cost of input]		
Add: Cost of local materials	4,50,000	
Less: VAT @ 12.50% $\left(\frac{(4,50,000 \times 12.50)}{112.50} \right)$	(50,000)	4,00,000
[Since, credit of Rs. 50,000 would be available, it will not be included in cost of input]		
Add: Other expenses and profit		1,00,000
Sale price of goods		7,25,000
Add: VAT on the above @ 12.50%		90,625
Invoice value charged by Mr. Sandeep to the manufacturer		8,15,625

Q.5: Mercy, a trader selling raw materials to manufacturer of finished products. He imports his stock in trade as well as purchases the same from the local markets. Following transaction took place during the financial year 2009-10. Calculate the VAT and invoice charges by him to a manufacturer. Assume the rate of VAT @ 4%

Cost of imported materials (from other state) including VAT	₹ 1,50,000
Cost of local material including VAT	₹ 6,24,000
Other expenditure including storage, transport, interest and profit earned by him	₹ 3,25,000

Solution:***The facts of the question may be taken to be that of the financial year 2009-10***

Sale Price of goods:

	Particulars	₹	₹
	Imported material cost		1,50,000
	VAT @ 4%		6,000
	[Since, this is not a VAT levied inside the State, it will form part of cost of input]		
Add:	Cost of local materials	6,24,000	
Less:	VAT @ 4% $\left(\frac{(6,24,000 \times 4)}{104} \right)$	(24,000)	6,00,000
	[Since, credit of Rs. 50,000 would be available, it will not be included in cost of input]		
Add:	Other expenses and profit		3,25,000
	Sale price of goods		10,81,000
Add:	VAT on the above @ 4%		43,240
	Invoice value charged by Mr. Sandeep to the manufacturer		11,24,240

ALL THE BEST

“Ego and attitude is small words, can create big differences”***-Churchill***