CA. RAJESH GOYAL

[ACMA, ACA, M.Com, B.Com (H)]

Visiting Faculty of ICWAI

Classes for

CWA-Final – Indirect & Direct Tax (Paper 14)

CWA-INTER – Direct Tax (Paper 7)

Indirect Tax (Paper 10)

Indirect Tax Paper of CWA Exam

Dec 2012 Exam

(With Solutions)

Classes AT:

Genius Instt of Commerce	Commerce Shiksha Classes
1/10 & 1/12, 2nd Floor (Above LG Showroom), Opp. Metro Pillar – 27, Near Gurudwara, LAXMI NGR	289, 2nd Floor, SATYA NIKETAN Opp. VENKY College, Dhaula Kuan Delhi - 21
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Note: More than 95% paper of Dec 2012 and last many attempts is covered from CA. RAJESH GOYAL TAX CLASSES.

SCHEDULE OF NEW BATCHES FOR CWA INTER

GROUP – 1

Subject	Faculty	Timing	Days	Fees
Financial A/c	CA. Ravinder VATS (AICWA, ACA, M.Com)	10.45 – 1.30 pm	TTS	5,000
Law & Audit	CA. R. K. RASTOGI/ CS. DEV Sharma	To be announced	SAT/SUN	5,100
Applied Direct Taxes	**CA. RAJESH GOYAL** (AICWA, ACA, M.Com) (ICWAI Visiting Faculty)	**11 – 1 pm**	**MWF**	**4,500**
		4 – 6 pm	**MWF**	
		To be announced	**Sat/Sun**	

GROUP – 2

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Cost & Mgnt. A/c	CA. Ravinder VATS (AICWA, ACA, M.Com)	1.30 – 4pm	TTS	4,300
OM & IT	Mr. Ashutosh Tiwari/ Mayank Agarwal Sir	TO BE ANNOUNCED		
Applied Indirect Taxes	**CA. RAJESH GOYAL** (AICWA, ACA, M.Com) (ICWAI Visiting Faculty)	8 – 10 am	TTS	4,100
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(Full 100% satisfactory classes in terms of understanding, Material and course completion, as per the feedback of old students from previous batches.)

CMA DEC 2012 – APPLIED INDIRECT TAXATION (With Solution)

Time allowed: 3 Hours **Max Marks: 100**

Answer Q. No. 1 which is compulsory and any 5 from the rest.

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

Question 1(a): Fill in the blanks: **[1X15 = 15M]**

(i) Shipping bill for export of goods under claim for duty drawback should be in **Green** colour.
(ii) Rule **6** of the Central Excise Rules, 2001 provides for self assessment of duty.
(iii) Service tax came into force from the year **1994**.
(iv) Duty drawback on re-export is allowed if goods are re-exported within **2** years.
(v) SSI units can make the excise duty payments once in **each particular quarter**.
(vi) Waste and scrap can be subjected to excise duty if they are **Movable and marketable**.
(vii) Additional duty of customs (special CVD) payable on non-exempt items is **4%**.
(viii) Excise duty ___ (**is** / is not) payable in respect of small quantities of goods pilfered from premises prior to their removal from factory.
(ix) For a manufacturer engaged only in manufacture of goods, to be considered as a Large Tax Payer for excise, the excise duty paid by him must exceed Rs **5Cr**.
(x) Declared goods means goods declared u/s. 14 of the CST Act to be of **Special importance**.
(xi) State Government **cannot** grant exemption from charge of CST.
(xii) As per White Paper, VAT rates prescribed are 0%, 1 %, 4% and **12.5%**.
(xiii) As per White Paper, VAT becomes payable where the turnover exceeds **Rs. 5 lakhs**.
(xiv) In Central Excise Code No. AACPB6245K/XM/095, as to whether the assessee is a manufacturer or dealer is donated by the characters **XM**.
(xv) Under Central Excise Rules, 2002, the return form for furnishing Annual Financial Information Statement is **ER-4**.

Question 1(b): True or false: **[2X5 = 10M]**

(i) CST is leviable on sale of stocks, shares and securities traded by a dealer in shares – False.
(ii) A dealer holding stocks purchased from outside the State cannot opt for Composition Scheme under VAT law – **True.**
(iii) All assessees are now required to pay service tax electronically – False
(iv) Excise duty drawback rate is fixed by the Central Government – False
(v) Tooling supplied by seller along with machinery are not regarded as capital goods for claiming Cenvat credit – False

Question 2(a): State when the taxable event takes place under the relevant legislation relating to CST, service tax, excise duty and customs duty. **[4M]**

Ans:

Particular	**Taxable event**
CST	Sale of goods 'inter state'
Service tax	Taxable services provided or to be provided
Excise duty	Manufacturing or production of goods
Customs duty	Importation of goods into India or exportation of goods from India

Question 2(b): In the service tax registration Number AACPS2345M-ST-123, what does the first 10 characters and the last 3 characters denote? **[2M]**

Solution: First 10 digits denote – The PAN of the assesse
Last 3 digits denote – The premises number / code

(This and Similar types of many practical life issues were discussed in detail in CA. Rajesh Goyal Sir's classes and are covered in Sir's Book – See Chapter of Registration in Service Tax)

Question 2(c): What is meant by specific duty in the context of excise law? **[2M]**
Solution: Refer chapter No – 3 of CA. Rajesh Goyal Sir's book.

(The one of the very important and expected question – See chapter No – 3 of CA. Rajesh Goyal Sir's Excise Module)

Question 2(d): Cum-duty selling price inclusive of VAT @ 4% (before discount) Rs. 16,10,128
Excise duty paid @ 10.3%
Trade discount allowed Rs. 4,000.
Freight (to be charged in addition) Rs. 14,200.
Compute the assessable value for the purposes of excise duty. Append reasoning for your answer. **[7M]**

Solution:	Cum duty price incl. of VAT	=	16,10,128
	Less: Trade discount	=	(4,000)
	Price net of discount	=	16,06,128
	Less VAT (1595928 / 104 X 4)	=	(61,774)
	Price net of VAT	=	15,44,356
	Less Excise Duty (15,34,546 / 110.3 X 10.3)	=	(1,44,215)
	AV	=	**14,00,141**

(Almost 9 similar questions are covered in CA. Rajesh Goyal Sir's Excise module in chapter no – 2)

Question 3(a): R R Phanna Ltd. manufactures a particular drug, which is not covered by MRP. On 12.3.2012, 2000 units of this drug were cleared from the factory, for distribution as free samples to physicians. The MRP of a unit is Rs. 202, inclusive of VAT at 1% and excise duty at 10.3%.
Cost of production per unit is Rs. 160 per unit.

The company has approached you with the following views:
(i) Free samples given to the doctors cannot be sold by anyone, as per the Drug Control Act; hence they are not marketable. As a logical corollary, excise duty is not leviable;
(ii) If this has to be valued, the company makes no profit and hence should be valued at cost.
Advise the company suitably, as regards the value to be adopted for the free samples. **[6M]**
Solution: In the given problem, the company will be liable to pay excise duties as per below points:
As in the given case, there is no 'Sale' at the time of removal, so the company needs to calculate the AV as per Valuation Rules, 2000.
The view as given by the company are not maintainable because of below reasons:
(i) The goods does not become marketable just because they are restricted to be sold in the hands of the doctors after removal from the factory. The marketability has to be decided from the company's point of view so this point is not tenable in law.
(ii) Further, if the company does not make any profit still valuation will be done as per rules prescribed in this regard.
The company will be liable to pay excise duty as per Rule 4 i.e. value of such goods sold at any other time nearest to the removal of subject goods.
Calculation of AV

Market price	=	202
Less: VAT [202/101 X 1]	=	(2)
Value	=	200
Less: Excise duty (200 / 110.3X10.3)	=	(19)
So AV of goods removed	=	**181**

Question 3(b): Explain how the provisions relating to credit for input services utilized for manufacturing a product exported, provide relief to the exporters. [4M]
Solution: In case of export of services, the exporter is not liable to pay service tax on exported services but he is eligible for cenvat of service tax paid on his input services which can be utilized to pay output tax on other services or otherwise refund can be availed.
(***Discuss in detail with an illustration - Refer last chapter of CA. Rajesh Goyal Sir' Service Tax***

Module.)

Question 3(c): Vivitha & Co., a registered dealer in Ludhiana, furnishes the following details of purchases and sales pertaining to the month of March, 2012 (Rs. in lacs):

Opening balance in VAT Input Credit brought forward	0.2
Purchases of raw materials within the State (final invoice value):	
From registered dealers	26.0
From dealers opting for Composition Scheme	5.2
Purchases from outside the State (final invoice value)	10.2
Sales within State of finished goods, excluding VAT	40

The InputVAT rate for raw materials is 4%; Output rate is 10%.
Determine the VAT liability of the dealer. **[5M]**

Solution:

Output VAT	: 40L X 10%			=	4L
Input VAT	: 26L / 104 X 4	=	1L		
Add: Opening balance		=	0.2		
Total credit available				=	(1.02)
Balance VAT Liability to be paid in cash				=	**2.98L**

Notes: 1. No credit of vat on purchase from composite dealers
2. No credit of tax on inter state purchases.

(Almost many similar questions are covered in CA. Rajesh Goyal Sir's VAT module)

Question 4(a): Briefly discuss about the treatment of packing charges in the context of assessable value for excise duty purposes. **[5M]**
Solution: To be added in transaction value if it is integral part of the goods or are sold as a reason of/ in connection with sale of goods.
(***For detailed Discussion refer chapter No-2 of CA. Rajesh Goyal Sir's Excise Module.)***

Question 4(b): The following data relating to an.importer are available.
Customs Value (Assessable Value of imported goods) is Rs, 4,00,000
Basic Customs Duty is payable 10%. If the goods were produced in India, Central Excise Duty would have been 16%, Education Cess and Secondary and Higher Education Cess are as applicable.
Special CVD is at appropriate rate is applicable.
Find the customs duty payable.
How much Cenvat credit can be availed by importer if the importer is a manufacturer? **[5M]**

Solution: Landed value = 4,00,000 + 40,000 + 72,512 + 3,375 + 20,635 = 5,36,522
(AV) BCD CVD u/s3(1) Cess Spl CVD

Total duties payable = 5,36,522 – 4,00,000 = 1,36,522
Credit available to manufacturer = 72,512 + 20,635 = 93,147

(Many Almost similar questions are covered in CA. Rajesh Goyal Sir's Customs module)

Question 4(c): Mr. Ashok Kumar, a first stage dealer in packing machinery in the city of Mumbai, furnishes the following data:

Particulars	Amount (Rs.)
Total inter-State sales during financial year 2011-12 (CST not shown separately)	92,50,000
Above Sales includes:	
Excise Duty.	9,00,000
Freight (of this Rs. 50,000 not shown separately in invoices)	1,50,000
Insurance charges incurred prior to delivery of goods	32,000
Installation and commissioning charges shown separately	15,000

Determine the turnover and CST payable, assuring that all transactions were covered by valid 'C' Forms.

Solution: Total Sales 92,50,000

Less: Excise	(9,00,000)
Value for charging CST	83,50,000
Less: CST @2%	1,63,725
Taxable turnover	81,86,275

Notes: 1. First stage dealer does not collect Excise in his invoice nor the duty paid on purchases is a cost for him. He just pass on the excise cenvat credit to further buyers.
2. Assume freight of 1,00,000 shown separately in the invoice and not included in the above sale of 92,50,000, so CST not charged.
3. Installation and commissioning charges are shown separately, so no CST to be charged.
(Many almost similar questions are covered in CA. Rajesh Goyal Sir's CST module)

Question 5(a): Compute the cost of production on manufacture of the under mentioned product for the purpose of captive consumption as per Rule 8 of the Central Excise Valuation (DPE) Rules, 2000:

Direct material (including Cenvat credit Rs. 1,030)	11,030
Direct wages and salaries	9,000
Direct expenses	1,200
Works overheads	5,500
Research cost	1,300
Selling costs	2,200

Also ascertain the assessable value for excise duty purposes.
Solution: AV = 110% of Cost of Production
i.e 110% of [11,030 – 1,030 + 9,000 + 1,200 + 5,500 + 1,300] = 29,700

Question 5(b): What is meant by 'Acquisition fraud' in the context of VAT? [4M]
Solution: Acquisition Fraud / Carousel fraud – Under this fraud, the dealer either has his own VAT registration number or he hijacks other's VAT number. He collects the tax from buyer and then disappears without paying the collected tax to Government.
The buyer is usually innocent and is not aware that the seller is not going to pay tax to Government. This is 'missing trader fraud' of one type.
Also, there may be cases when in a number of stages of sale, the one or more seller may disapper instead of paying tax to government.

(Very Detailed practical life discussion in CA. Rajesh Goyal Sir's class under VAT topic)

Question 5(c): Xavier Phanna Ltd. imported a machinery from Paris. Due to urgency, the machine was airlifted. The details are:

Sale price charged by seller	€40,000
Airfreight	€9,000
Insurance details are not available	
Exchange rate notified by CBEC	Rs. 80 per €

Compute the assessable value for customs duty purposes. [4M]

Solution: Sale price charged by seller (i.e FOB price)	€40,000
Add: Air freight (Max 20% of FOB)	€8,000
Add: Insurance (1.125% of FOB)	€450
CIF value	**€48,450**
Add: Loading / unloading (1%)	€484.5
AV	€48934.50
AV (In INR)	**Rs. 39,14,760**

(Many almost similar questions are covered in CA. Rajesh Goyal Sir's CST module. Very detailed discussion on this practical point in class.)

Question 5(d): Hema Udyog Ltd. spent a sum of Rs.4L for updating their present computer systems. The Department contends that such updating amounts to 'manufacture' and is excisable. Decide. [3M]
Solution: Refer class notes of chapter 1 of CA. Rajesh Goyal Sir's Excise module.

Question 6(a): Unicorn Plastics Ltd., is a plastic manufacturing company. Following information are available for the financial year2011-12:

SI. No.	Particulars	Rs.(lakhs)
1.	Total value of clearance of goods bearing the brand name of Unicorn Plastics	75
2.	Total value of clearance of plastics containers bearing the name of "Teebok Jams" who use these plastics containers for packing the jam produced by them	200
3.	Job work under Notification No. 84/94-CE dated 11.04.1994	30
4.	Clearance of certain non-excisable goods manufactured by it	50
5.	Total exports including for Nepal and Bhutan Rs. 200 lakhs	500

On the basis of above information you are required to asertain whether Unicorn Plasti s Ltd., is eligible for the benefit of small scale exemption under Notification No. 8/2003-C.E., dated 01.03.2003 during the year 2011-12:

[7M]

Solution: (In the opinion of CA. Rajesh Goyal Sir, there is a clerical mistake in the question. Because th eligibility of a SSI unit is decided on the basis of last year's turnover. So the question must the eligibility for FY 2012-13.)

Assuming the same, the SSI exemption shall be available if turnover of the unit was not exceeding Rs. 400 L in the immediately preceding financial year.

The eligible turnover in FY 2011-12 = 75 + 200 + 200 = 475

So SSI exemption will not be available in the next year.

Question 6(b): Explain the validity of the following statements with reference to the provisions of the Custo s Act, 1962, giving brief reason: [4M]

(i) Inspection charges are not includible in the assessable value of the imported goods if contract does not specify for certification by an independent agency. .

(ii) Goods exempt from basic customs duty would automatically be exempt from additional duty of customs.

Solution: (i) True

(ii) False

(For detailed discussion, see CA. Rajesh Goyal Sir's Customs module)

Question 6(c): Test the veracity of the following statements: [4M]

(i) Excise Department cannot challenge the reasonableness of the MRP printed on the package.

(ii) If any excisable goods are exempted from the duty of excise absolutely, the manufacturer of such goods will be bound to avail the exemption .

Solution: (i) True, Only the printing of MRP is to be ensured.

(ii) True

(For detailed discussion, see CA. Rajesh Goyal Sir's Excise module)

Question 7(a): Pabanputra Udyog Ltd., a registered excise manufacturer, sells 10 units of its finished goods to a buyer @ Rs. 25,000 per unit offering 10% trade discount.

Central excise duty @ 10.3%

VAT@4%

Freight Rs. 3,000 (charged in addition and shown separately in invoice)

How will the values be computed in a central excise invoice? [5M]

Solution:

Transaction Value	25,000
Less: Trade Discount @10%	(2,500)
Assessable value for charging excise	22,500
Add: Excise @ 10.3%	2,317.50
Total	**24,817.50**
Add VAT @4%	993
Total value incl of excise and VAT	25,810.50
Add: Trade discount (sale figure is shown as inclusive of discount)	2,500
Add: Freight (Assume incurred after sale)	3,000
Total gross Invoice Value	**31,310.50**

Question 7(b): Following details of inter-State sales effected by Mrinal Traders, a registered dealer, for the month of February, 2012 are furnished:

Sale prices charged to customers	12,30,000
Excise duty charged 10% plus education cesses.	
Goods returned on 12.2.2012 for:	
Sales made on 13.10.2011	60,000
Sales made on 13.5.2011	40,000

In addition, there was a dispute about quality of the goods sold on 12.5.2011, the buyer rejected the goods and returned them on 21.3.2012. Sale price charged was Rs. 30,000. All the three transaction values are excluding excise duty.

Compute the CST liability of the trader. [5M]

Solution:

Particulars	**Sale price (Incl of duty and CST)**	**CST**	**Duty**	**Taxable turnover (Net of duty & CST)**
Total sale	12,30,000	12,30,000/102 X 2 = 24,118	12,05,882/110.3X10.3 = 1,12,607	10,93,275
Less: Sales return within 6M	-	-	-	(60,000)
Less: Goods rejected	-	-	-	(30,000)
Taxable Sale	-	-	-	10,03,275
Add : Excise duty @10.3%				1,03,337
Total				11,06,612
CST Liability @2%				**22,132**

Notes: (1) Sales price means the figure inclusive of excise duty and CST.
(2) As the three figures of sales return and rejection are exclusive of excise duty, **we assume that the figure are exclusive of CST as well**.
(3) Sales return can be deducted if within 6 months.
(4) Rejected goods will be deducted irrespective of any time limit.
(5) Assume all sales are made by transfer of valid 'C' forms.

Question 7(c): From the following details relating to Narender & Co. pertaining to the quarter ended 30.9.2011, compute the value of taxable services rendered by the firm: [5M]

Particulars	**Amount (Rs.)**
Services rendered to Foreign Consular officials	12,20,000
Adance received from a charitable trust (no service was rendered during the year)	2,80,000
Services rendered to J, who made a consolidated payment, refusing to pay service tax	4,20,000
Other services billed (excluding service tax, which was charged and received)	9,00,000

Solution: Value of taxable services: (2,80,000 + 4,20,000) / 110.3 X 100 + 900,000 = **Rs. 15,34,633**

Note: (1) Assume advance received is inclusive of service tax.
(2) No service tax on services provided to Foreign consular.
(3) Service tax is taken @10.3%.

Question 8(a): Mr. Tharun, an Indian citizen, returned to India on 14.03.2012, after travelling to Los Angeles, USA for 7 months. He brought with him the following:

	Rs.
(i) Used shirts and cloth	30,000
(ii) New cloth and fancy jewellery	40,000
(iii) 2 kgs of gold valued at Rs. 3,000 per gram	
(iv) One laptop computer worth	50,000

What is the customs duty payable by him? [5M]

Question 8(b): Dilkhush Boilers Ltd is a registered SSI unit. For the year ended 31.3.2012 the assessable value of goods cleared from the unit is Rs. 2.4 crores.

Cenvat credit on raw materials purchased is Rs. 15,96,000.
Machinery of Rs, 3,20,000 was purchased on 11.02.2012 including Rs. 30,500 as excise duty. Compute the excise duty liability of the assessee for the year ended 31.3.2012, where it wants to avail the Cenvat credit. [5M]

Solution: As the SSI unit wants to avail the Cenvat credit, so the benefit of SSI exemption notification shall not be available.

Output Duty on Goods removed (2.4Crores X 10.3%)	=	24,72,000
Less: Input cenvat on purchases	=	15,96,000
Less: Cenvat on capital goods (50%)	=	25,250
Duty payable	=	**8,50,750**

Note: (1) Question is really very confusing as no excise rate is given. Either me not able to understand the question or some clerical mistake. So we have done the solution assuming 10.3% rate.
(The rate of duty on capital goods is also vague, so this rate is assumed)

Question 8(c): Distinguish between transfer of goods and transhipment of goods under customs law, as regards documents and permission required. [5M]

Solution: See the chapter No – 6 of CA> Rajesh Goyal Sir's Customs module.

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About classes by CA. RAJESH GOYAL

1. Best results since last many no. of attempts.
2. Interaction with each and every student.
3. Detailed and satisfactory Query session after class.
4. 100% backup of class is available in case student is not able to attend the class.
5. 100% disciplined classroom.
6. 100% examination paper covered from book issued, concept and examples covered in the class continuously in the attempts of Dec 10, June 11, Dec 11, June 12 & now in Dec 12.

ABOUT CA. RAJESH GOYAL

CA. RAJESH GOYAL is an Associate Member of the "Institute of Chartered Accountants of India" (ICAI) and an Associate Member of the "Institute of Cost and Works Accountants of India" (ICWAI). He has had a bright scholastic career throughout his academics.

CA Rajesh Goyal has been practicing as a leading Tax Consultant in Delhi and has also been teaching "Direct and Indirect Taxation" for more than 7 years and very much popular amongst the students for his lively session and practical approach to the subject.

He is a visiting faculty of ICWAI-NIRC for Taxation since the last two years. He has also been a visiting faculty member for various management institutes and other professional institutes.

CA Rajesh Goyal has long years of varied knowledge application and hands on experience. He has a vast exposure in multifarious spheres involving Direct and Indirect taxation; both at the corporate and the individual level. He has been associated with the best of the renowned academia and has unmatched acumen, and expertise in his field.

At present he is taking tax classes at NIRC (ICWAI) and at

GENIUS INSTITTUE OF COMMERCE

1/10 – 1/12, 2ND Floor (Above LG showroom), Opp. Metro Pillar No – 27, (Near Gurudwara), LAXMI NAGAR, Delhi – 92

&

COMMERCE SHIKSHA CLASSES

289, 2nd Floor, SATYA NIKETAN, Opp. VENKY College, Dhaula Kuan, Delhi – 21.

[A dream is not something that you wake up from, but something that wakes you up…..]

All the best

CA. RAJESH GOYAL