

Inter-relationship of Accounting with Excise, Customs and Service Tax

Cenvat Credit

Question 1

M/s. AJ imported some inputs and paid basic customs duty ₹ 5 lakhs, surcharge on customs duty ₹ 50,000 and CVD ₹ 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?

Answer

M/s. AJ can take credit of ₹ 1,00,000 i.e. of additional duty of customs (CVD). **Rule 3(1)** of CENVAT Credit Rules, 2004 allows the credit of additional duty of customs imposed under section 3 of the Customs Tariff Act, 1975. The credit of other two duties i.e. basic custom duty and the surcharge on customs duty is not allowed.

It will not make any difference if the assessee is a service provider as credit of additional duty of customs (CVD) can be availed both by the manufacturers and the service providers alike.

Note: It has been assumed that the additional duty of customs (CVD) referred to in the question is not the additional duty of customs (CVD) leviable under section 3(5) of the Customs Tariff Act, 1975 as in that case the service provider will not be entitled to avail the CENVAT credit.

Question 2

Ascertain whether the refund of service tax paid on input services can be claimed in the following case:

Total credit of service tax on input services	₹ 6,000
Total turnover of output service	₹ 30,000
Output service exported	₹ 20,000

Answer

Rule 5 of CENVAT Credit Rules, 2004 *inter alia* provides that the CENVAT credit in respect of the input services used in providing output services which are exported shall be allowed to be utilized towards payment of service tax on taxable output services. However, where such adjustment is not possible, the refund of credit shall be allowed.

In this case the service tax liability on taxable services of ₹ 10,000 (₹ 30,000 - ₹ 20,000) is ₹ 1236 @12.36%. Therefore, there is an excess credit of ₹ 4,764 (₹ 6,000 - ₹ 1,236) which

can not be utilized. Thus, the refund of such credit can be claimed. However, the refund will be restricted to the extent of ratio of export turnover to the total turnover for the given period, i.e. ₹ 4,000 [$₹ 6,000 \times (\frac{₹ 20,000}{₹ 30,000})$].

Question 3

State the points of difference between valuation of imported goods under Customs Act, 1962 and imported services under Finance Act, 1994 and valuation of imported goods and services, as per relevant Accounting Standard.

Answer

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

Further, there may be more difference between the value of imported goods derived as per the customs provisions and the value computed as per the accounting principles. The differences may be on account of various additions or deductions made to/from the invoice value in terms of section 14 of the Customs Act, 1962 and Customs Valuation (Determination of Value of Imported Goods) Rules, 2007. For example, customs laws provide for the addition of commission and brokerage, licence or royalty fees etc. to the value of the imported goods. Also, price reduced after importation is not considered for customs purposes whilst the same is considered for recording the value of the goods in the account books.

As regards imported services, there are no statutory provisions similar to customs in the service tax law which provide for the rates of conversion of currency for the purpose of converting consideration of taxable services received in foreign currency into Indian currency.

Exercise

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