



## IPCC – November 2017

INDIRECT TAXATION

Test Code – 8040

Branch (MULTIPLE) (Date : 02.07.2017)

(50 Marks)

**Note:** All questions are compulsory.

### Question 1(6marks)

#### Computation of excise duty payable

Particulars	
Price of the machinery	4,00,000
Add: Packing charges [Note 1] (1 mark)	20,000
Add: Extra design charges [Note 1] (1 mark)	<u>50,000</u>
Total	4,70,000
Less : 2% cash discount on price of machinery [ $4,00,000 \times 2\%$ ] [Note 2] (1 mark)	<u>8,000</u>
Assessable value	4,62,000
Excise duty @ 12.5%(1 mark)	<b>57,750</b>

#### Notes: (2 marks)

- While computing assessable value, packing charges and extra designing charges have been included as such payments are in connection with sale.
- Cash discount has been allowed as deduction since discount has been passed on to the buyer.
- While computing assessable value, outward freight and transit insurance has not been included as they are incurred for transporting the goods beyond the place of removal.
- State VAT does not affect excise duty payable.

### Question 2 (6 marks)

#### Computation of customs duty payable

Particulars		
Assessable value (A)	(A)	2,00,000.00
Basic customs duty @ 10% of (A) (1 mark)	(B)	20,000.00
CVD [Refer note below] (1 mark)	(C)	43,750.00
Education cesses of customs @ 3% on [(B) + (C)] (1 mark)	(D)	1,912.50
Value for computing special CVD [(A) + (B) + (C) + (D)] (1 mark)	(E)	2,65,662.50
Special CVD @ 4% on (E) (rounded off) (1 mark)	(F)	10,626.50
<b>Total custom duty payable [(B) + (C) + (D) + (F)] [Rounded off] (1 mark)</b>		<b>76,289</b>

**Note:** If imported goods are similar to goods covered under section 4A of the Central Excise Act, 1944, CVD is payable on basis of MRP printed on the package less abatement, as permissible. Therefore, CVD is computed as under:

Particulars	
Maximum retail price [10,000 pieces × ` 50]	5,00,000
Less: Abatement @ 30%	<u>1,50,000</u>
Assessable value for CVD	<u>3,50,000</u>
CVD @ 12.5% of ` 3,50,000	43,750

**Question 3 (6 marks)**

**Computation of sale price under CST Act**

Particulars	
Total sales(1 mark)	75,00,000
Less: Goods returned by Mr. A(1 mark) (deductible since such goods are returned within 6 months)	1,00,000
Goods rejected by Mr. B after six months(1 mark) (deductible since the period of 6 months for return of goods is not applicable in respect of rejected goods being a case of un-fructified sale)	50,000
Goods returned by Mr. C(1 mark) (not deductible since such goods are returned after six months)	Nil
Dharmada (includible while computing turnover ) (1 mark)	<u>Nil</u>
<b>Sale Price under CST Act(1 mark)</b>	<b><u>73,50,000</u></b>

**Question 4(4 marks)**

If a tax has been levied on sale or purchase of any declared goods inside a State and the same goods are subsequently sold in the course of inter -state trade or commerce and is subjected to tax under the CST Act, sales tax paid has to be reimbursed to the dealer. However, sales tax paid within the state can be reimbursed only when the CST has been paid subsequently and not otherwise.

Hence, in this case, Mr. Y can claim refund of tax paid within the State after payment of central sales tax in respect of such declared goods.

**Question 5 (6 marks)**

**Computation of CENVAT credit available with Krishna Motors Ltd.:**

Particulars	Service tax @ 14% ( ` )
Sales promotion services [Note 1] (1 mark)	1,40,000
Market research for the new car launched by Krishna Motors Ltd. (1 mark)	2,80,000
Quality control services [Note 1] (1 mark)	1,40,000
Routine maintenance of the cars manufactured by Krishna Motors Ltd. (1 mark)	70,000
Insurance of the cars manufactured [Note 2] (1 mark)	98,000
Outdoor catering services provided to its employees [Note 3] (1 mark)	Nil
<b>Total CENVAT credit available</b>	<b><u>7,28,000</u></b>

**Notes:**

1. As per the definition of the input services, there is a specific inclusion with regard to the following services:-

- (a) Sales promotion services
- (b) Market research services
- (c) Quality control services

Hence, the CENVAT credit of the service tax paid on the aforesaid services is available.

2. Service of general insurance business and repair and maintenance, in so far as they relate to a motor vehicle which is not a capital goods, is excluded from the definition of the input service except when used by a manufacturer of a motor vehicle in respect of a motor vehicle manufactured by such person.

Thus, credit of the service tax paid on the insurance and maintenance of cars manufactured by Krishna Motors Ltd. is available.

3. Outdoor catering services to the employees are specifically excluded from the definition of the input services. Hence, CENVAT credit of service tax paid on such services is not available.

4. Credit of SBC is not available since it is not CENVATable. Further, since Krishna Motors Ltd. is a manufacturer, credit of KKC will also not be available. So, credit of only service tax @ 14% is allowed.

**Question 6 (5 marks)**

As per rule 3 of the CCR, 2004, a manufacturer is required to pay an amount equivalent to the CENVAT credit taken in respect of inputs when the value of such inputs is written off fully or partially before being put to use. **(1 mark)**

Thus, PQR will have to pay an amount equivalent to the CENVAT credit taken on inputs valuing `20000 (inputs written off) which is `2500 (12500x20000/100000) **(1 mark)**

However, if said inputs is subsequently used in the manufacture of final products, manufacturer shall be entitled to take credit of the amount equivalent to the CENVAT credit paid earlier subject to the other provisions of CCR, 2004. **(1 mark)**

Thus, in present case, by virtue of aforesaid provision, when in September, 20XX, company puts to use entire inputs of 1,00,000; the company will be entitled to take credit of amount equivalent to the CENVAT credit paid earlier i.e. ` 2,500/-**(2 marks)**

**Question 7 (6 marks)**

Excise duty is leviable on waste and scrap if –

- (i) the waste/scrap is „excisable goods“ i.e., they are specified in Central Excise Tariff and are marketable, and
- (ii) the waste and scrap is generated in the course of manufacture. **(1 mark)**

In the given case, waste and scrap is generated in the course of manufacture and is marketable. Therefore, excise duty will be leviable on the waste and scrap if the same are mentioned in the Central Excise Tariff. **(1 mark)**

Excise duty will also be leviable on manufacture of prohibited goods, if such goods find place in Tariff. Excise duty is leviable on manufacture of excisable goods irrespective of whether such excisable goods are prohibited or not. **(1 mark)**

Duty will be payable on waste and scrap and prohibited goods at the effective rate of duty mentioned in Central Excise Tariff (after considering exemptions, if any). **(1 mark)**

M/s. Packard Industries should pay the excise duty by 06.07.20XX. Duty may be paid in cash or by utilizing CENVAT credit or both [Rule 8 of the Central Excise Rules, 2002 (CER)]. **(1 mark)**

Monthly ER-1 return will have to be filed electronically by 10.07.20XX [Rule 12 of CER]. **(1 mark)**

**Question 8 (6 marks)**

**Computation of customs duty payable**

Particulars	(`)
Assessable value <b>(1 mark)</b>	10,00,000.00
Add: Basic custom duty @ 10% (Note below) <b>(1 mark)</b>	1,00,000.00
Total	11,00,000.00
Add: CVD @12.5% <b>(1 mark)</b>	1,37,500.00
Add: Education cess @ 2% and Secondary and Higher Education Cess @ 1% (3% of custom duty)	7,125.00
= 3% of (` 1,00,000 + ` 1,37,500) <b>(1 mark)</b>	
Total for Special CVD [ ` 11,00,000 + ` 1,37,500 + ` 7,125]	12,44,625.00
Special CVD @ 4% <b>(1 mark)</b>	49,785.00
<b>Total duty payable ( ` 1,00,000 + ` 1,37,500 + ` 7,125 + ` 49,785) (1 mark)</b>	<b>2,94,410</b>

**Question 9 (5 marks)**

As per rule 3 of the CCR, a manufacturer of final product can take CENVAT credit of service tax paid on any input service received by it and used for the manufacture of final product. **(1 mark)**

Thus, Mr. Govinda being a manufacturer of final product is eligible to avail CENVAT credit of service tax paid on input services received. **(1 mark)**

However, rule 4(7) of CCR, stipulates that the manufacturer or the provider of output service shall not take CENVAT credit after one year of the date of issue of invoice. Further, credit will not be available of SBC and KKC paid on value of input services. **(1 mark)**

Since Mr. Govinda is a manufacturer, credit of KKC is not available. Credit of SBC is also not available as it is not CENVATable. **(1 mark)**

In view of the said provisions, Mr. Govinda can avail CENVAT credit with respect to Bill No. 705 and 803 and not with respect to Bill No. 701 as pe riod of one year has expired from the date of issuance of invoice. **(1 mark)**

\*\*\*\*\*



