

**Paper-10 Applied Indirect Taxation**

Time Allowed: 3 hours

Full Marks: 100

Working notes should form part of the answers.

Answer **Question No. 1** which is compulsory and **any five** from the rest.

**Question 1.**

**(a) Fill up the blanks:**

- (i) SSI unit whose turnover was less than or equal to \_\_\_\_\_ in previous year are entitled to full exemption upto \_\_\_\_\_ in current financial year.
- (ii) Under the concept of \_\_\_\_\_ mechanism, for one service the service provider as well as service receiver is made liable for payment of service tax to the extent notified.
- (iii) The Central Excise Revenue Audit is conducted by the \_\_\_\_\_.
- (iv) In case of Anti-dumping, margin of dumping means the difference between normal value and \_\_\_\_\_.
- (v) Form \_\_\_\_\_ is prescribed for application to get registered u/s 7 of CST Act.
- (vi) The \_\_\_\_\_ sale price should be the maximum price at which excisable goods in packaged forms are sold to ultimate consumer.
- (vii) In customs, imported goods are cleared from seaport/airport on submission of \_\_\_\_\_ for warehousing.
- (viii) Manual Payment of service tax may be either by cheque or cash depositing it through \_\_\_\_\_ Challan with the bank designated by the CBEC.
- (ix) \_\_\_\_\_ goods means goods declared under Section 14 of CST Act to be of special importance in interstate trade or commerce.
- (x) In the context of central excise, \_\_\_\_\_ duty is payable on the basis of length, area, volume etc.
- (xi) The return form ER-1 in excise is to be filed by \_\_\_\_\_ [100% Export Oriented Unit (EOU)/ manufacturer/ SSI (Small Scale Industries) unit].
- (xii) Services rendered by a foreign diplomatic mission located in India are included in the \_\_\_\_\_ list of service in the context of service tax.
- (xiii) In case of imported goods, if the cost of insurance is not ascertainable, such cost shall be \_\_\_\_\_% of the FOB value of the goods.
- (xiv) Upgradation of computer system by increasing its storage or processing capacity \_\_\_\_\_ (is/ is not) manufacture.
- (xv) Renting of an immovable property is a \_\_\_\_\_ service for the purpose of service tax. [15 × 1]

**Answer:**

- (i) ₹ 4 crores, ₹ 150 lakhs
- (ii) joint charge
- (iii) Comptroller and Auditor General of India
- (iv) export price
- (v) A
- (vi) retail

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- (vii) Bill of Entry
- (viii) GAR-7
- (ix) Declared
- (x) specific
- (xi) manufacturer
- (xii) negative
- (xiii) 1.125
- (xiv) is not
- (xv) declared

**(b) State with reasons whether the following statements are 'True' or 'False':**

- (i) An unsecured debt is transferred to a third person for a consideration will come under the purview of service tax.**
- (ii) There is no difference between 'Zero Rated Sale' and 'Exempted sale'.**
- (iii) Advertising/ publicity expenditure by brand name/copyright owner is excludible in the assessable value for the purpose of excise.**
- (iv) Any goods imported in any conveyance will be allowed to remain on the conveyance and to be transited without payment of duty, to any place out of India or any customs station, called transshipment of goods.**
- (v) Section 14 of CST Act describes goods of special importance consist of oilseeds, pulses etc.**

[5 × 2]

**Answer:**

**(i) False:** The transaction cannot be regarded as service. Since unsecured debt is an actionable claim, a transaction only in such actionable claim is outside the ambit of service. So service tax is not payable. However if a service fee or processing fee or any other charge is collected in the course of transfer or assignment of a debt then the same would be chargeable to service tax.

**(ii) False:** in case of 'Zero Rated Sale', credit is available on tax paid on inputs, while in case of exempt sale, credit of tax paid on inputs is not available.

**(iii) True:** The expenditure incurred by brand name/copyright owner on advertisement and publicity charges, in respect of goods will not be added to assessable value; as such expenditure is not incurred on behalf of the manufacturer-assessee.

**(iv) False:** Transshipment means transfer from one conveyance to another with or without payment of duty. It means to say that goods originally imported from outside India into India, then transhipped to another vessel to a place within India or outside India.

**(v) True:** Section 14 of CST Act describes goods of special importance consist of oilseeds, pulses, cereals, jute, sugars, tobacco, etc.

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### Question 2.

**(a) What are the disadvantages of indirect tax?**

**[3]**

**Answer:**

The following are the disadvantages of indirect tax:

- (i) Indirect taxes do not depend on paying capacity. Since this tax is uniform, the tax payable on commodity is same, whether it is purchased by a poor man or a rich person. Hence, the indirect taxes are termed as 'regressive'.
- (ii) Tax on goods and services increases its prices, which reduces demand of goods and services. Lesser demand means lower growth of industrialization.

**(b) Write down the differences between direct tax and indirect tax.**

**[3]**

**Answer:**

The following are the differences between direct tax and indirect tax:

<b>Direct Taxes</b>	<b>Indirect Taxes</b>
Direct Taxes are those taxes where the incidence and impact falls on the same person.	Indirect Tax is a tax where incidence and impact fall on two different person.
Direct Tax progressive in nature.	Indirect Taxes is regressive in nature.
Levied and collected from the Assessee.	Levied & collected from the consumer but paid / deposited to the Exchequer by the Assessee / Dealer.

**(c) What are the powers of taxation under Constitution of India?**

**[3]**

**Answer:**

**Power of Taxation under Constitution of India is as follows:**

- (a) The Central Government gets tax revenue from Income Tax (except on Agricultural Income), Excise (except on alcoholic drinks) and Customs.
- (b) The State Governments get tax revenue from sales tax, excise from liquor and alcoholic drinks, tax on agricultural income.
- (c) The Local Self Governments e.g. municipalities, etc. get tax revenue from entry tax and house property tax.

**(d) Robot Ltd., which is engaged in the manufacture of excisable goods started its business in May, 2013. It availed small scale exemption in terms of Notification No. 8/2003-C.E. dated 01-03-2003. The following details are provided (₹) :**

15,000 kg of inputs purchased @ ₹ 992.70 per kg. (inclusive of excise duty @ 12.36%)	1,48,90,500
Capital goods purchased on 25-06-2013 (inclusive of excise duty at 12.36%)	44,12,000
Finished goods sold (at uniform transaction value throughout the year)	2,50,00,000

Calculate excise duty payable by M/s. Robot Ltd. in cash, if any, during year 2013-14. Rate of duty on finished goods sold may be taken at 12.36% and you may assume that selling price is exclusive of central excise duty. There is neither any processing loss nor any inventory of input and output. Show your workings and notes with suitable assumptions as required. **[6]**

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**Solution:**

**Computation of duty payable by Robot Ltd. during financial year 2013-14**

Particulars	Units	₹/unit	₹
Total value of all finished goods	15,000	1,666.67	2,50,00,000
Less: Exemption of ₹150 lakhs	9,000	1,666.67	1,50,00,000
Dutiable clearances (60% clearances are exempt and 40% dutiable)	6,000	1,666.67	1,00,00,000
<b>Duty @ 12.36% on final product</b>		<b>206.00</b>	<b>12,36,000</b>
Total Credit on inputs [Duty = ₹ 992.70 x 12.36 ÷ 112.36]	15,000	109.20	16,38,000
Less: 60% credit relating to exempted clearances [Reversal under Rule 6 of the CENVAT CREDIT Rules, 2004]	9,000	109.20	9,82,800
Credit relating to dutiable clearances	6,000	109.20	6,55,200
Add: Credit relating to capital goods [100% credit available in first year to SSI- units] [ ₹44,12,000 x 12.36 ÷ 112.36]			4,85,336
Total CENVAT Credit			11,40,536
<b>Duty payable [Duty on Final Product – CENVAT Credit]</b>			<b>95,464</b>

**Question 3.**

**(a) Following transactions took place in the factory of Arvind Ltd. —**

- (i) An imported consignment of Raw Materials was received vide Bill of Entry dated 2<sup>nd</sup> Dec, showing the following Customs Duty payments —
 

Basic Customs Duty	₹ 23,000
Additional Duty (CVD)	₹ 20,000
Special Additional Duty	₹ 5,800
- (ii) A consignment of 1,000 kgs of inputs was received. The Excise Duty paid as per the invoice was ₹ 10,000. While the input was being unloaded 50 kgs were damaged, and were found to be not usable.
- (iii) Some inputs for final product were received. These were accompanied by a certified Xerox Copy (photo copy) of Invoice No. 356 dated 23<sup>rd</sup> Dec. indicating the Excise duty of ₹ 6,400 has been paid on inputs. The original for duplicate copy of invoice are not traceable.

Indicate the eligibility of CENVAT Credit under the CENVAT Credit Rules, 2004 with explanations where necessary. [8]

**Solution:**

**Eligibility of Cenvat credit**

Situation	Eligible Amount	Reasoning
Imported Consignment	₹ 25,800	Countervailing Duty for Excise Duty and VAT Equivalent will be eligible for credit under CENVAT Credit Rules. Basic Customs Duty of ₹ 23,000 is not eligible.

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Loss of Inputs	₹ 9,500	<ul style="list-style-type: none"> <li>• Inputs used in the manufacture of dutiable finished products alone are eligible for CENVAT Credit.</li> <li>• When inputs are damaged irretrievably before usage in the manufacturing process, duty attributable to such goods cannot be claimed as CENVAT Credit.</li> <li>• Therefore, duty for 950 Kgs alone is eligible for CENVAT Credit = ₹ 10,000 x 950 Kgs used / 1,000 Kgs received.</li> </ul>
Inputs received under Photocopy of Invoice	₹ 6,400	<ul style="list-style-type: none"> <li>• Duty can be claimed only if inputs have been received and documents evidencing payment of duty is available.</li> <li>• CENVAT Credit is allowable on Photostat copies of authenticated invoices. [Kothari General Foods Corpn Ltd 144 ELT 338 (Tri.)]</li> </ul>
<b>Total Credit</b>	<b>₹ 53,700</b>	

**(b) M/s. Mili Pvt. Ltd., not an SSI unit, purchased fibre 10,000 kg @ ₹ 50 per kg plus excise duty. The said fibre was used to manufacture intermediate product yarn. The said yarn was captively used for the manufacture of fabrics. The said fabric was exempt from duty. The other information are as follows:**

- (i) Normal processing loss: 2% of inputs in manufacture of yarn
- (ii) Rate of excise duty on all products is 12.36%;
- (iii) Assessable Value of yarn: ₹ 80 per Kg.;
- (iv) Assessable Value of Fabric (Total): ₹ 13 lakhs;
- (v) Colouring Dyes used in the manufacture of Fabric: ₹ 2 lakhs plus excise duty.
- (vi) Duty on Capital Goods imported during the period and used in the manufacture of yarn: Basic Customs Duty ₹ 20,000; Additional duty of customs under section 3(1) of the Customs Tariff ₹ 30,000; Additional duty of customs under section 3(5) of the Customs Tariff Act ₹ 10,000.

**Compute - (i) CENVAT Credit available; (ii) Duty payable.**

**[7]**

**Solution:**

Since the final product 'fabrics' is exempt from duty, hence, the intermediate product 'yarn' shall be liable to excise duty. Thus, the CENVAT Credit of raw material fibre shall be available.

The relevant computations are as follows—

	(Amounts in ₹)
(1) Excise duty on yarn : (10,000 kg - 2% Normal Loss = 9,800 kg) x ₹ 80 per kg x 12.36%	96,902
(2) CENVAT Credit:	
(a) On raw material fibre 10,000 kg x ₹ 50 per kg x 12.36% [WN-1]	61,800
(b) Colouring Dyes [WN-2]	---
(c) Capital goods used in the manufacture of yarn are eligible for 50% credit as follows -	

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Basic Customs Duty is not eligible for Cenvat credit.	---
Additional Customs Duty u/s 3(1) of CTA - Eligible for 50% credit in the current year and the balance in subsequent year	15,000
Additional duty of customs u/s 3(5) of CTA - Eligible for 100% credit in current year	10,000
<b>Total Credit [2(a) + 2(b) + 2(c)]</b>	<b>86,800</b>
<b>(3) Duty payable in cash [1 - 2]</b>	<b>10,102</b>

### Working Notes:

- Normal loss of inputs is incurred in factory and in relation to manufacture; hence the same shall also be eligible for Cenvat Credit.
- Colouring Dyes used in the manufacture of fabric shall not be eligible for credit as fabric is exempt from duty.

### Question 4.

(a) Compute the duty payable under the Customs Act, 1962 for an imported machinery based on the following information:

- Assessable value of the imported equipment US \$ 12,000.
- Date of Bill of Entry 25.03.2014 basic customs duty on this date 20% and exchange rate notified by the Central Board of Excise and Customs US \$ 1 = ₹ 65.
- Date of Entry inwards 21.03.2014 Basic customs duty on this date 16% and exchange rate notified by the Central Board of Excise and Customs US \$ 1 = ₹ 57.
- Additional duty payable under Section 3(1) and (2) of the Customs Tariff Act, 1975: 15%.
- Additional duty under Section 3(5) of the Customs Tariff Act, 1975: 4%.
- Education Cess @ 2% in terms of the Finance (No. 2) Act, 2004 and secondary and higher education cess @ 1% in terms of the Finance Act, 2007.

Make suitable assumptions where required and show the relevant workings and round off your answer to the nearest Rupee. [7]

### Answer:

Computation of Duty

	Duty		Total
	Rate	₹	₹
Assessable Value (US\$ 12,200 x Rate of exchange in force on date of presentation of bill of entry i.e., ₹65)	---	---	7,87,800.00
Add: BCD [As per section 15(1)(a), rate of duty prevalent on date of presentation of bill of entry or date of entry inwards, whichever is later, shall be applicable. Therefore, rate prevalent on 25-03-2013 viz. 20% shall be taken.]	20.00%	1,57,560.00	1,57,560.00
Add: Additional duty i.e., CVD u/s 3(1) (excise duty excluding EC and SHEC due to exemption)	15.00%	1,41,804.00	1,41,804.00
Add: Education Cess @ 3% on DUTY sub-total upto last stage	3.00%	8,981.00	8,981.00
		2,99,364.00	10,87,164.00

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Add: Special CVD u/s 3(5) @ 4% of total value (including duty)	4.00%	3,08,345.00 43,846.00	10,96,145.00 43,846.00
Total (rounded off on nearest rupee)		3,52,191.00	11,39,991.00

**(b) An importer imported some goods for subsequent sale in India at \$ 30,000 on CIF basis. Relevant exchange rate as notified by the Central Government ₹60. The item imported attracts basic duty at 10% and education Cess as applicable. If similar goods were manufactured in India, Excise Duty payable as per Tariff is 14% plus education Cess of 2% and SAH 1%. Special Additional Customs Duty is 4%. Find the total duty payable. [8]**

**Solution:**

Calculation of duty payable:

	(₹)
CIF value USD 30,000 X 60	18,00,000
Add: Loading and unloading @1%	18,000
Assessable Value	18,18,000
Add: Basic Customs Duty @10% on ₹18,18,000	1,81,800
	19,99,800
Add: Additional Customs Duty [@14% x ₹19,99,800]	2,79,972
	22,79,772
Add: Education Cess 2% on (₹ 1,81,800+ ₹ 2,79,972)	9,235
Add: SAH @1% on (₹ 1,81,800+ ₹ 2,79,972)	4,618
	22,93,625
Add: Special Additional Customs Duty [@4% x ₹22,93,625]	91,745
Total value of imported goods	23,85,370

Therefore total duty payable ₹5,10,634.

**Notes:**

- While calculating CVD we should not take into account NCCD of excise.
- CVD can also be imposed even if there is exemption from Basic Customs Duty.
- Imported goods contain more than one classification and the importer is unable to give the breakup of each item with value then the highest rate of duty among them will be considered.
- CVD can be levied only when the importer imported manufactured goods. It means CVD can be levied only if goods are obtained by a process of manufacture [*Hyderabad Industries Ltd v Union of India (1995) (SC)*].

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### Question 5.

(a) What are the taxable event in case of imports in customs.

[5]

**Answer:**

**Taxable event in case of imports in customs:**

- (i) In case of goods cleared for home consumption: It implies that customs duty on imported goods has been paid and thus, goods can be removed by the importer for utilization or consumption within the country. Import of goods commences when they cross the territorial waters, but continues and is completed when they become part of the mass of goods within the country; the taxable event being reached at the time when the goods reach the customs barriers and bill of entry for home consumption is filed.
- (ii) In case of goods cleared for warehousing: In case where the goods are not immediately cleared for home consumption, they may be deposited in a warehouse and cleared at a later point of time. In such a case, the collection of customs duty will be deferred till such goods are cleared from warehouse for home consumption. In case of warehoused goods, the goods continue to be in customs bond. Hence, import takes place when the goods are cleared from the warehouse. The customs barriers would be crossed when they are sought to be taken out of the customs and brought to the mass of goods in the country.

(b) Explain abatements and composition schemes in the context of service tax. Also state the distinction between them. [5]

**Answer:**

Service tax is payable on value of taxable service. In case of some services, composition schemes are available while in some cases, partial abatement is available.

**Composition schemes** - 'Composition scheme' is a simplified scheme for payment of service tax when calculation of 'value of service' for payment of service tax is very cumbersome or difficult. In composition scheme, some easy method is prescribed (like deduction of some ad hoc amount) to arrive at the value of taxable service. Composition scheme is at the option of assessee.

**Abatement i.e. partial exemption** - In case of some services, service tax is payable on lower value, i.e. abatement is available from amount charged. Abatement is nothing but partial exemption from service tax. However, in case of some services, abatement is used as a composition scheme.

Abatement is subject to certain conditions like restrictions on availment of Cenvat credit. If assessee does not want to avail the abatement, he simply should not comply with the conditions. In that case, he is required to pay service tax.

**Distinction between abatement and composition scheme:** Practically, result of both abatement and composition scheme appears to be same. However, abatement is nothing but partial exemption from service tax payable, subject to prescribed conditions, while composition scheme is an easy mode of calculating value of service, where finding of value of taxable service is difficult. However, this distinction has not been fully followed. In case of some services, abatement is actually used as a composition scheme.

(c) Gupta and Gupta is located in India and holding 51% of shares of Kate Ltd., a USA based company. Kate Ltd. provides Business Auxiliary Services to Gupta & Gupta Ltd. From the following details, determine the Point of Taxation of Gupta & Gupta Ltd.:

Agreed consideration	US \$ 1,00,000
Date on which services are provided by Kate Ltd.	16 - 09 - 2013



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Date on which invoice is sent by Kate Ltd.	19 – 09 – 2013
Date of debit in the books of account of Gupta & Gupta Ltd.	30 – 09 – 2013
Date on which payment is made by Gupta & Gupta Ltd.	23 – 12 - 2013

[5]

**Solution:**

As per section 65B(13) of Finance Act, 1994, associated enterprises have the same meaning as assigned to in section 92A of the Income-tax Act, 1961. In terms of that provision, since Gupta and Gupta holds 51% of shares of Kate Ltd., USA, the two companies are "associated enterprises".

Therefore, in case of "associated enterprises" (viz. Gupta and Kate), where the person providing the service viz. Kate is located in USA (outside India), the Point of Taxation (PoT) shall be determined as per 2nd proviso to Rule 7 of the Point of Taxation Rules, 2011. Accordingly, PoT =

- Date of debit in the books of account of the person receiving the service (Date of debit in books of Gupta) i.e., 30-9-2013 ; or
- Date of making payment i.e., 23-12-2013, whichever is earlier.

Therefore, PoT = 30-9-2013.

**Question 6.**

- (a) State with reasons whether service tax will be levied or not on the interest in relation to overdraft, cash credit, bill discount or exchange in the region of Banking and financial services.** [5]

**Answer:**

In the context of Banking and other financial instructions, the Hon'ble Tribunal in State Bank of Indore v. CCE 2011 (23) STR 346 (Tri) held that interest in relation to overdraft, cash credit, bill discount or exchange was exempted under Notification No. 29/2004-ST, dated 22.09.2004. The mere fact that the bank did not show separately in the invoice the interest is not very factual to avail the exemption in view of the fact that the assessee, the banking company was regulated by RBI guidelines and public norm requires disclosure of bank's earning, Therefore, the Tribunal held that subject to the appellant adducing evidence as required by the Notification, the matter should stand remanded to the adjudicating authority for passing appropriate order.

- (b) Determine the Point of Taxation in each of following independent cases in accordance with point of Taxation Rules, 2011.**

S. No.	Date of actual provision of service	Time [date] of Invoice, Bill or Challan as the case may be	Date on which payment received
1	10.04.2013	30.04.2013	06.04.2013 (part) and 16.04.2013 (remaining)
2.	10.04.2013	12.05.2013	30.04.2013
3.	10.04.2013	12.05.2013	05.04.2013 (part) and 25.04.2013 (remaining)
4.	10.04.2013	22.05.2013	12.06.2013

[5]

**Solution:**

**Point of Taxation for the different cases:**

S. No.	Date of	Time [date] of	Date on	Point of	Remarks
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	completion of service	Invoice, Bill or Challan as the case may be	which payment received	Taxation	
1.	10.04.2013	30.04.2013	06.04.2013 (part) and 16.04.2013 (remaining)	06.04.2013 and 16.04.2013 for the respective amounts	Invoice issued within 30 days. Part payment (in the form of advance received before issue of invoice and remaining payment received after completion of service)
2.	10.04.2013	12.05.2013	30.04.2013	10.04.2013	Invoice not issued within 30 days and payment received after completion of service
3.	10.04.2013	12.05.2013	05.04.2013 (part) and 25.04.2013 (remaining)	05.04.2013 and 10.04.2013 for the respective amounts	Invoice not issued within 30 days. Part payment received as advance before completion of service and remaining payment received subsequently
4.	10.04.2013	22.05.2013	12.06.2013	10.04.2013	Invoice not issued within 30 days and entire payment received after completion of service

**(c) Explain provisions relating to service tax on restaurant service.**

**[5]**

**Answer:**

Service tax provisions apply to restaurants air conditioned or having central air-heating in any part of establishment.

The restaurants with AC/central heating and bar are required to pay service tax on 40% amount. They can avail Cenvat credit of input services, capital goods and input goods other than food items.

However, services provided in relation to serving of food or beverages by a canteen maintained in factory covered under Factories Act having facility of air conditioning or central air heating at any time during the year is exempt from service tax.

**Question 7.**

**(a) What is meant by export of service?**

**[5]**

**Answer:**

Rule 6A of Service Tax Rules, as inserted w.e.f. 1-7-2012 states as follows -

The provision of any service provided or agreed to be provided shall be treated as export of service when-

- (a) the provider of service is located in the taxable territory,

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- (b) the recipient of service is located outside India,  
 (c) the service is not a service specified in the section 66D of the Finance Act, 1994,  
 (d) the place of provision of the service is outside India,  
 (e) the payment for such service has been received by the provider of service in convertible foreign exchange, and  
 (f) the provider of service and recipient of service are not merely establishments of a distinct person in accordance with item (b) of Explanation 3 of clause (44) of section 65B of the Act.

**(b) Compute the net VAT liability of Ritesh using the information given as follows:-**

**Raw material purchased from foreign market (including duty paid on imports @ 20%):**

**₹ 13,200**

**Raw material purchased from local market (including VAT charged on the material @ 4%):**

**₹ 22,880**

**Raw material purchased from neighbouring state (including CST paid on purchases @ 2%):**

**₹ 7,854**

**Storage, transportation cost and interest: ₹ 2,750**

**Other manufacturing expenses incurred: ₹ 660**

**Ritesh sold the goods to Binay and earned profit @ 10% on the cost of production. VAT rate on sale of such goods is 12.5%. [5]**

**Solution:**

Computation of net VAT liability (₹)

Imported goods (import duty is not eligible as Input credit, hence, import duty will form part of cost)	13,200
Local purchases [Input VAT is eligible for credit, hence, it will not form part of cost] [Total Price inclusive of VAT ₹ 22,880 – VAT 22,880 x 4 ÷ 104 = 22,880 – 880 = ₹ 22,000]	22,000
Purchases from other state (CST is ineligible for credit, hence, it will form part of cost)	7,854
Storage, transportation, interest and other manufacturing expenses [2,750 + 660] [Interest has been included in cost of production, assuming that it is an interest on working capital and operating expenditure; in any other case, it will not form part of cost of production.]	3,410
<b>Total Cost</b>	<b>46,464</b>
Add: Profit @ 10 % on cost	4,646
<b>Sale Price</b>	<b>51,110</b>
Add: VAT @ 12.5% on sale price	6,389
<b>Total Invoice Price</b>	<b>57,449</b>
VAT on Sales	6,389
Less: Credit of VAT paid on local purchases	880
<b>VAT payable in cash</b>	<b>5,509</b>

**(c) Disha Enterprises, a dealer in Rajasthan dealing in consumer goods, submits the following information pertaining to the month of March, 2014:**

**(i) Exempt goods 'X' purchased for ₹ 1,75,000 and sold for ₹ 3,50,000.**

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- (ii) Goods 'Y' purchased for ₹ 2,25,000 (including VAT) and sold at a margin of 20% profit on purchases (VAT rate for purchases and sales is 12.5%)
- (iii) Goods 'Z' purchased for ₹ 2,00,000 (excluding VAT) and sold for ₹ 2,50,000 (VAT rate for purchases and sales is 4%);
- (iv) His unutilized balance of input VAT credit on 01.03.2014 was ₹ 3,000.

Compute the turnover, Input VAT, Output VAT and Net VAT payable by Disha Enterprises. [5]

**Solution:**

Goods	Purchases [A]	Input VAT rate [B]	Input VAT credit [C] = [A] x [B]	Sales (Turnover) [D]	Output VAT rate [E]	Output VAT [F] = [C] x [D]
	₹	%	₹	₹	%	₹
X	1,75,000	—	—	3,50,000	—	—
Y	2,00,000	12.5	25,000	2,40,000	12.5	30,000
Z	2,00,000	4	8,000	2,50,000	4	10,000
Total	5,75,000		33,000	8,40,000		40,000

### Computation of Net VAT payable by Disha Enterprises

	₹
Opening balance of input VAT credit	3,000
Add: Input VAT credit for march, 2014 [C]	33,000
Total Input VAT credit available	36,000
Less: Output VAT payable on taxable turnover [F]	40,000
Net VAT payable	4,000

**Question 8.**

(a) Sri Hari, a Registered Dealer at Mumbai, furnishes the following information:

	(₹)
(i) Inter-state sale of goods This includes the following—	40,00,000
(ii) Excise duty	42,000
(iii) Goods returned on 17/1/2014 [These goods were sold on 12/4/2013]	1,05,000
(iv) Cash discount shown in invoice and allowed according to prevailing trade practice	50,000
(v) Freight and transportation charges (of this ₹ 1,50,000 is on inclusive basis)	4,50,000
(vi) Insurance premium paid prior to delivery of goods	70,000
(vii) Installation and commissioning charges levied separately in invoices	75,000

Compute the taxable turnover under the CST Act, assuming the rate of tax @ 2%. [5]

## Answer to MTP\_Intermediate\_Syllabus 2008\_Dec2014\_Set 2

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**Solution:**

### Computation of taxable turnover

	(₹)
Sales turnover	40,00,000
Less: Deductions	
Cash discount according to normal trade practice	50,000
Freight and transportation charges – deductible to the extent shown separately in the invoices	3,00,000
Installation and commissioning charges levied separately in invoices	75,000
Turnover inclusive of CST	35,75,000
Less: Central Sales Tax	70,098
<b>Taxable turnover</b>	<b>35,04,902</b>

**Note:** Goods returned after 6 months from the date of sale attracted CST @2%.

**(b) Star Constructions undertakes works contracts and maintains sufficient records to quantify the labour and other service charges. From the details given below, calculate the taxable turnover, input tax credit and net vat payable under the State VAT Law –**

- (i) Total contract price (excluding VAT) ₹ 1,80,00,000
- (ii) Materials purchased and used for the contract taxable at 12.5% VAT (inclusive of VAT) ₹ 33,75,000
- (iii) Labour charges paid for execution of the contract ₹ 40,00,000
- (iv) Other service charges paid for the execution of the contract ₹ 20,00,000
- (v) Cost of consumables used not involving transfer of property in goods ₹ 10,00,000.

**Strong Constructions also purchased a plant for use in the contract for ₹20,80,000 (inclusive of VAT). In the VAT invoice relating to the same, VAT was charged at 4% separately. Assume 100% input tax credit is available on capital goods immediately. Make suitable assumptions where required and show the workings. [5]**

**Solution:**

**Following deductions are available from total value of works contract –**

(i) Labour charges	40,00,000
(ii) Other service charges	20,00,000
(iii) Consumables of which property is not transferred	10,00,000
Total deductions	70,00,000

Hence value for purpose of Vat on works contract - 1,10,00,000 [1,80,00,000 - 70,00,000].

Vat payable on the works contract is not given in the question. Hence, it is assumed to be 12.5%. Thus, Vat payable @ 12.5% on 1,10,00,000 is ₹ 13,75,000

**Calculation of Input Tax Credit available –**

- (a) Materials purchased and used for the contract taxable at 12.5% VAT (inclusive of VAT) ₹33,75,000. Hence, Vat on purchase is 3,75,000 [(33,75,000 × 12.5)/112.5].
- (b) Vat on capital goods - 4% of 20,80,000 i.e. 83,200. Entire credit on capital goods is available.

Hence, total input tax credit available is ₹ 4,58,200 [3,75,000 + 83,200].

Hence, net Vat payable by cash = 13,75,000 - 4,58,200 = ₹ 9,16,800.

## Answer to MTP\_Intermediate\_Syllabus 2008\_Dec2014\_Set 2

(c) Lucky, a registered dealer submits the following information for the month of February, 2014

(A) Details of purchase –

- (i) Raw material purchased from another State (CST @ 2%) - ₹10,00,000
- (ii) Raw material X purchased within the State - ₹15,00,000 Vat rate 1%
- (iii) Raw material Y imported from Singapore (includes customs duty paid @ 10%) - ₹11,00,000
- (iv) Raw material Z purchased within the State - ₹6,00,000 Vat rate 12.5%

(B) Details of sales –

- (i) Sale of goods produced from raw material X - ₹ 27,00,000 Rate of Vat 4%
- (ii) Sale of goods produced from inter-state purchase and imported raw materials - ₹32,00,000 Rate of Vat 1%
- (iii) Sale of goods produced from raw material Z - ₹ 8,00,000 Rate of Vat 12.5%.

(Note - The purchase and sales figures given above do not include VAT/CST.)

Assume that there was no opening or closing inventory. Compute the amount of Value Added Tax (VAT) payable by Lucky for the month of February, 2014. [5]

**Solution:**

**(A) Input Tax Credit (Set off) Available –**

(i) CST paid on purchases	No credit
(ii) ITC on purchase of X	15,000
(iii) Customs duty paid on imports of Y	No credit
(iv) ITC on purchase of Z	75,000
Hence, total Input Tax Credit available	₹ 90,000

**(B) Vat payable on sales –**

(i) Sale of goods produced from raw material X	1,08,000 (4% of 2.7 lakhs)
(ii) Sale of goods produced from inter-state purchase and imported raw materials	32,000 (1% of 32,00,000)
(iii) Sale of goods produced from raw material Z	1,00,000 (12.5% of 8,00,000).
Total Vat payable on sales	₹ 2,40,000

Net Vat payable = ₹ 1,50,000 (2,40,000 - 90,000).

(Note that Vat provisions do not require one to one relation.)