



Govt. of India

Ministry of Finance, Department of Revenue
Office of the Commissioner

Central Excise & Service Tax, Large Taxpayer Unit
NBCC Plaza, Pushp Vihar, Saket, New Delhi-110017

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C. No. LTU/CEX/Adj/ITL/282/2011/ *5610*
23/11/11

To

Director,
The Institute of Cost and Works Accountants of India,
3, Siri Fort Institutional Area, Lodi Road,
New Delhi-110003

Sir,

Sub :- Costing of parts of Motor vehicles manufactured
and sold to the related units- - regarding.

M/s. International Tractors Limited is a manufacturer of MUV engines, sheet metal parts of Motor Vehicles in addition to manufacture of Tractors. The said items are being sold to the related unit named ICML situated at AMB, District UNA (HP).

2. The valuation of the said goods are being done in accordance with Rule 8 and 9 of Central Excise Valuation Rules, 2000 i.e. Excise Duty is paid on the basis of 110% of cost of production. The installed capacity and actual production is as follows.
Installed capacity and actual production of the Party is as under :-

YEAR	PRESS SHOP		MUV ENGINE	
	Installed Capacity	Actual Production	Installed Capacity	Actual Production
2005-06	2800	123	N.A.	N.A.
2006-07	8400	524	4900	32
2007-08	8400	2008	8400	2008
2008-09	42000	25581	8400	3427
2009-10	42000	37974	8400	744

The Noticee has taken installed capacity as the basis of allocation of costs but they never achieved the installed capacity during the period. They had taken all costs (except material cost which was on actual basis) on the basis of installed capacity.

3. As per cost accounting standard, the calculations on the basis of installed capacity are not correct as the calculations are to be made on the basis of actual production only. Therefore taking into consideration all the factors of Cost Accounting Standard (i.e. CAS-1, CAS-2, CAS-3 & CAS-4) for reference and inference the allocation of cost was made on the basis of actual production of normal goods or average of 3 years production whichever is higher, in cases of all items of costs which are semi variables and fixed in nature including depreciation.


4. Based on the above premise a demand Show Cause Notice was issued to the party in respect of differential duty on the parts manufactured and sold to related units by M/s. International Tractors Ltd. For arriving at the cost of the goods sold, the department has taken the actual production of goods as the basis. But M/s. International Tractors Limited states that they have paid the correct amount of duty and they have taken the installed capacity as the basis for calculating the cost of productions.

5. Both the department and M/s. International Tractors Ltd states that the basis of arriving at the cost of goods is as per CAS-1, CAS-2, CAS-3 & CAS-4 standards.

6. Since the issue needs to be decided, this office may be advised as to what is the proper procedure which is CAS-4 compliant to arrive at the cost of production and value of goods.

7. In this connection, it is requested to offer your comments/ view regarding costing of parts of Motor vehicles manufactured and sold to related units by M/s. International Tractors Ltd., Hoshiarpur as per the actual Cost Accounting Standards complying to CAS-1 to CAS-4.

Yours faithfully,


(John Joseph)
Commissioner, LTU