



"Don't worry about anybody getting ahead of you, don't worry about triumph, don't worry about failure unless it comes through your own fault."

- F. Scott Fitzgerald

So leave no stone unturned and give your 100% to everything you do.

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(1) Indirect Taxation

(a) Point of Taxation Rules under the context of Service Tax

We must thoroughly understand terms "Point of Taxation", "taxable event" and "value of taxable services" for the following reasons:

- i. The amount of service tax is based on the Point of Taxation.
- ii. Service tax is payable on the basis of provision of service instead of realization of value of taxable service except in the case of individuals/firms/limited liability partnership firms (LLP's) w.e.f. 1-4-2012.
- iii. If money is received in advance, ahead of completion or rendering of service, service tax is payable as soon as the advance is received.

The point of taxation defines the point in time when a service shall be deemed to have been provided. It has impact on determination of rate of tax, as normally the rate of tax shall apply as prevailing on the date when service shall be deemed to have been provided.

The Government of India has introduced the Point of Taxation Rules, 2011 to remove the disputes about applicability of the rate of tax and for ascertainment of the Point of Taxation. These rules have been explained with the help of examples are as follows:

Rule 1: These rules shall be called the Point of Taxation Rules, 2011

Rule 2: Definitions

Rule 2(a) "Act" means the Finance Act, 1994;

Rule 2(b) "associated enterprises" shall have the meaning assigned to it in section 92A of the Income Tax Act, 1961;

Rule 2(ba) "change in effective rate of tax" shall include a change in the portion of value on which tax is payable in terms of a notification issued in the Official

Gazette under the provisions of the Act, or rules made there under (w.e.f. 1.4.2012).

Rule 2(c) "continuous supply of service" means any service which is provided, or to be provided continuously or on recurrent basis, under a contract, for a period **exceeding three** months with the obligation for payment periodically or from time to time or where the Central Govt. by notification in the Official Gazette, prescribes provision of a particular service to be a continuous supply of service, whether or not subject to any condition.

Rule 2(d) "invoice" means the invoice referred to in rule 4A of the Service Tax Rules, 1994 and shall include any document as referred to in the said rule;

Rule 2(e) "point of taxation" means the point in time when a service shall be deemed to have been provided;

Rule 2(f) "taxable service" (omitted w.e.f. 1-7-2012)

Rule 2A: Date of payment (w.e.f. 1-4-2012):

When change in effective rate of tax or new levy between date of book entry or credited to bank - Date of payment shall be the earlier of the dates on which the payment is entered in the books of accounts or is credited to the bank account of the person liable to pay tax.

Example 1: Payment was credited in the books of accounts on 7.6.2013 Payment was credited in the bank account on 10.6.2013. Compute the date of payment.

Date of change in effective rate of tax is on 8.6.2013

Answer: Date of payment is 7.6.2013

Example 2: Payment was credited in the books of accounts on 1.6.2013 Payment was credited in the bank account on 10.6.2013

Date of change in effective rate of tax is on 5.6.2013

Answer: Date of Payment Is 10.6.2013

Rule 3: Determination of point of taxation:

(a) Date of invoice or payment, whichever is earlier, if the invoice is issued within the prescribed period of 30 days from the date of completion of the provision of service (w.e.f. 1-4-2012).



(b) Date of completion of the provision of service or payment, whichever is earlier if the invoice is not issued within the prescribed period as state in rule 4A of the Service Tax Rules, 1994.

W.e.f. 1-4-2012, in case of continuous supply of service where the provision of the whole or part of the service is determined periodically on the completion of an event in terms of a contract, which requires the receiver of service to make any payment to service provider, the date of completion of each such event as specified in the contract shall be deemed to be the date of completion of provision of service.

Example 3:

In the case of construction services if the payments are linked to stage-by-stage completion of construction, the provision of service shall be deemed to be completed in part when each stage of construction is completed.

Wherever the provider of taxable service receives a payment up to ₹ 1,000 in excess of the amount indicated in the invoice, the point of taxation to the extent of such excess amount, at the option of the provider of taxable service, shall be the date of receipt of such amount.

Example 4:

M/s X Pvt. Ltd. provided services for ₹ 1,00,000 and service tax charged separately @12.36% vide invoice dated 1-4-2013. Payment received ₹ 1,13,260 on 1st July 2013. It means excess payment received is ₹ 900. Hence, no need to issue separate invoice for the same. Hence, the point of taxation for the invoice value is 1-4-2013, whereas for ₹ 900 the point of taxation is 1st July 2013.

Example 5:

The applicability of the rule will be clear from the following table:

M/s X Pvt. Ltd. is provider of service

SL. No.	Date of completion of service	Date of invoice	Date on which payment recd.	Point of Taxation	Due date of payment (manual payment)	Remarks
1.	April 10, 2013	April 20, 2013	June 30, 2013	April 20, 2013	5 th May 2013	Invoice issued in 30 days from the date of completion of service. Dt. of invoice or Dt. of payment whichever is earlier
2.	April 10, 2013	May 26, 2013	June 30, 2013	April 10, 2013	5 th May 2013	Invoice not issued within 30 days and

SL. No.	Date of completion of service	Date of invoice	Date on which payment recd.	Point of Taxation	Due date of payment (manual payment)	Remarks
						payment received after completion of service
3.	May 10, 2013	May 20, 2013	April 15, 2013	April 15, 2013	5 th May 2013	Invoice issued in 30 days but payment received before invoice
4.	April 10, 2013	May 26, 2013	April 5, 2013 (part) and May 25, 2013 (remaining)	April 5, 2013 And April 10, 2013 for respective amounts	5 th May 2013	Invoice not issued in 30 days. Part payment before completion, remaining later

Service Tax liability on receipt basis for Individuals and Partnership Firms including LLP's (w.e.f. 1-4-2012)

It is pertinent to note point of taxation in case of individuals and partnership firms whose aggregate value of taxable services provided from one or more premises is ₹ 50 lakhs or less in the previous financial year, the service provider shall have the option to pay tax on taxable services provided or to be provided by him up to a total of ₹ 50 lakhs in the current financial year, by the dates specified in the Rule 6 of Service Tax Rules, 1994, with respect to the relevant quarter, in which payment is received.

Example 6:

Dr. C, a medical practitioner, started profession in the year 2013-14 (₹ in lakhs) has chosen the option to pay service tax on receipt basis in the current year.

Particulars	1st qtr.	2nd qtr.
Services provided	20	2
Services to be provided (i.e. advance)	35	NIL
TOTAL	55	2
S.T. @12.36% Note: small service provider exemption not availed	4.326	0.2472

Note:

Services provided or to be provided exceeds ₹ 50 lakhs in the 1st quarter itself. Entire value of ₹ 35 lakhs is taxable on receipt basis as per point of taxation rule 3.

Services provided in the 1st quarter for ₹ 20 lakhs will be taxable on receipt basis.



Service provided or to be provided in the 2nd quarter fully taxable as per Point of Taxation Rule 3.

Example 7:

Mr. C, Practicing Cost Accountant started profession in the year 2013-14 (rupees in lakhs) has chosen the option to pay service tax on receipt basis in the current year.

₹ in lakhs

Particulars	1st qtr.	2nd qtr.
Services provided	55	2
Services to be provided (i.e. advance)	NIL	NIL
TOTAL	55	2
S.T. @12.36%	6.798	0.2472

Note 1:

- Small service provider exemption not availed
- Since, ₹ 50 lakhs exceeds in the 1st quarter, services provided over and above ₹ 50 lakhs is taxable as per point of taxation rule 3.

Service tax is payable on ₹ 5 lakhs on provisional basis and balance ₹ 50 lakhs will be taxable on receipt basis. From 2nd quarter onwards services are taxable based on point of taxation rule 3

Example 8:

Mr. C, Practicing C.A. started profession in the year 2013-14 (₹ in lakhs) has been chosen the option to pay service tax on receipt basis in the current year.

₹ in lakhs

Particulars	1st qtr.	2nd qtr.
Services provided	NIL	2
Services to be provided (i.e. advance)	55	NIL
TOTAL	55	2
S.T. @12.36%	6.798	0.2472

Note:

- Small service provider exemption not availed
- Since, in the 1st quarter services to be provided for which advance received exceeds ₹ 50 lakhs, then the entire value on receipt basis taxable, and subsequently service provider is liable to pay service tax as per Point of Taxation Rule 3.

Rule 4: Determination of point of taxation in case of change in effective rate of tax:

Notwithstanding anything contained in rule 3, the point of taxation in cases where there is a change in effective rate of tax in respect of a service, shall be determined in the following manner, namely:-

(a) in case a taxable service has been provided before the change in effective rate,—

- where the invoice for the same has been issued and the payment received after the change in effective rate, the point of taxation shall be date of payment or issuing of invoice, whichever is earlier; or

- where the invoice has also been issued prior to change in effective rate but the payment is received after the change in effective rate, the point of taxation shall be the date of issuing of invoice; or

- where the payment is also received before the change in effective rate, but the invoice for the same has been issued after the change in effective rate, the point of taxation shall be the date of payment;

Example 9:

(a) The applicability of the rule will be clear from the illustrations in the following table:

Sl. No	Date of provision of service	Date of Invoice	Date on which payment received	Point of taxation
(i)	Before change	After change	After change	Date of payment of invoice, whichever is earlier
(ii)	Before change	Before change	After change	Date of invoice
(iii)	Before change	After change	Before change	Date of payment

(b) In case a taxable service has been provided after the change in effective rate,-

- where the payment for the invoice is also made after the change in effective rate but the invoice has been issued prior to the change in effective rate, the point of taxation shall be the date of payment; or
- where the invoice has been issued and the payment for the invoice received before the change in effective rate, the point of taxation shall be the date of receipt of payment or date of issuance of invoice, whichever is earlier; or
- where the invoice has also been raised after the change in effective rate but the payment has been received before the change in effective rate, the point of taxation shall be date of issuing of invoice.

Example 10:

The applicability of the rule will be clear from the illustrations in the following table:

Sl. No.	Date of provision of service	Date of Invoice	Date on which payment received	Point of taxation
(i)	After change	Before change	After change	Date of payment
(ii)	After change	Before change	Before change	Date of payment or invoice, whichever is



				earlier
(iii)	After change	After change	Before change	Date of invoice

Explanation: For the purposes of this rule, "change in effective rate of tax" shall include a change in the portion of value on which tax is payable in terms of a notification issued under the provisions of Finance Act, 1994 or rules made thereunder.

Alternative: there are three voters namely date of provision of service, date of invoice and date of payment received and two candidates' namely new rate of tax and old rate of tax. Hence, majority wins.

Example 11:

Sl. No.	Date of provision of service	Date of Invoice	Date on which payment received	Effective rate of S.T.
(i)	Before change	After change	After change	New Rate
(ii)	Before change	Before change	After change	Old Rate
(iii)	Before change	After change	Before change	Old Rate
(iv)	After change	Before change	After change	New Rate
(v)	After change	Before change	Before change	Old Rate
(vi)	After change	After change	Before change	New Rate

Rule 5: Payment of tax in cases of new services:

Where a service, not being a service covered by rule 6, is taxed for the first time, then,—

(a) no tax shall be payable to the extent the invoice has been issued and the payment received against such invoice before such service became taxable;

Example 12:

Food King Pvt. Ltd., provider of restaurant services having facility of air conditioning and license to serve alcoholic beverages in relation to serving of food or beverage. These services are taxable w.e.f. 1-5-2011. Payment received and invoice raised prior to 1-5-2011 are not taxable.

b) no tax shall be payable if the payment has been received before the service becomes taxable and invoice has been issued within 14 days of the date when the service is taxed for the first time (w.e.f. 1-4-2012).

Example 13:

Queen Pvt. Ltd., provider of taxable services. These services are taxable w.e.f. 1-5-2013. Payment was received from a customer for ₹ 5,00,000 on 20-4-2013. The invoice has been issued on 4-5-2013 (i.e. within 14 days of the date when the service is taxed for the first time). Hence, service provider not liable to pay service tax on the entire value of ₹ 5,00,000.

Rule 6: Determination of point of taxation in case of continuous supply of service (Omitted w.e.f. 1-4-2012)

Rule 7: Determination of point of taxation in case of specified services or persons (w.e.f. 1-4-2012)

The Point of Taxation in respect of the persons required to pay tax as recipients of service under the rules made in this regard in respect of services notified under section 68(2) of the Finance Act, 1994 shall be the date on which payment is made; provided that, where the payment is made within a period of six months of the date of invoice.

In case the recipient of services failed to make the payment within a period of 6 months of the date of invoice, the point of taxation shall be determined as if this rule does not exist. It means if the recipient of service is not making the payment within 6 months, the point of taxation shall shift from the date of making payment to the condition specified under rule 3 of these rules.

In case of "associated enterprises", where the person providing the service is located outside India, the point of taxation shall be the date of credit in the books of account of the person receiving the service or date of making the payment whichever is earlier.

Rule 8: Determination of point of taxation in case of copyrights, etc.

In respect of royalties and payments pertaining to copyrights, trademarks, designs or patents, where the whole amount of the consideration for the provision of service is not ascertainable at the time when service was performed, and the payment for the benefit of such service is made subsequently. In this case, point of taxation will be each time when the payment received or the date when the invoice is issued by the provider of service, whichever is earlier.



Rule 8A: Determination of point of taxation in case of copyrights, etc. (w.e.f 1-4-2012):

For determination of POT in other cases whereby in the cases where date of invoice or date of payment is not available, the C.E.O. (Central Excise Officer) can conduct best judgment assessment to determine the point of taxation.

Rule 9: Transitional Provisions:

Nothing contained in these rules shall be applicable

- (i) where the provision of service is completed; or
- (ii) where invoices are issued

prior to the date on which these rules come into force.

Example 14 - DX Hotel provides the following services as under:

- (1) Renting of hotel rooms along with supply of food: ₹ 40 lakhs;
- (2) Serving of food in air conditioned restaurant: ₹ 35 lakhs;
- (3) Renting of Hotel rooms: ₹ 25 lakhs;
- (4) Serving of food in the open-air restaurant (i.e. not having any air condition facility): ₹ 8 lakhs;
- (5) A convention room in a hotel was rented to LP Ltd. for conducting meeting together with serving of food during lunch to the members attending the meeting: ₹ 25 lakhs. Compute value of taxable service and service tax thereon if all charges are exclusive of service tax. Ignore small Service Providers' exemption.

Solution:

The relevant computations are as follows (₹ in lakhs):

Renting of Hotel rooms along with supply of goods : ₹40 lakhs Less: Abatement @ 30% (40 x 30%=12 lakhs) [i.e. 40 - 12 = 28]	28.00
Serving of food in air conditioned restaurant [Value of service : ₹35 lakhs x 40% (being the service portion as per Rule 2 C of the Service Tax Rules)]	14.00
Renting of Hotel room : ₹25 lakhs Less: Abatement @ 40% (refer renting of immovable property) [i.e. 25 - 10= 15]	15.00
Serving of food in a restaurant without air condition facility	Exempted
Renting of convention room along with service of food : ₹25lakhs Less: Abatement @ 30%	17.50
Value of Taxable Service	74.5
Service Tax @ 12.36% (including applicable Cess)	9.21

Example 15:

EAT Pvt. Ltd. has provided following outdoor catering services. Compute the value of taxable service and service tax payable thereon if all charges are exclusive of service tax. Ignore Small Service Providers' exemption:

- (i) Providing food to the students under mid day meals scheme sponsored by Government: ₹28 lakhs
- (ii) Provides catering services along with supply of food and drinks in marriage functions: ₹120 lakhs
Fair market value of goods supplied by receiver: ₹48 lakhs
No amount was charged for the goods supplied.
- (iii) Provides catering service to TMT Pvt. Ltd. where food & drinks are not supplied: ₹45 lakhs

Solution:

The relevant computations are as follows (₹ in lakhs):

Particulars	Amount (₹ lakhs)
Provision of food under Mid Day meal Scheme	Exempted
Provision of catering service along with supply of food & drinks Gross amount charged : 120 lakhs Add: FMV of goods supplied : 48 lakhs Less: Amount charged for goods supplied Nil Total amount charged : 168 lakhs Value of service (₹ 168 lakhs x 60%)	100.80
Provision of catering services to PQR Pvt. Ltd. where foods and drinks are not supplied	45.00
Value of Taxable service	145.80
Service tax Payable@12.36%	18.02

(2) On Direct Taxation

(a) Special Issues on Capital Gains related to "Transfer"

(i) Mr. Arup Roy, Karta of a Hindu Undivided Family, transferred a house property, which was in the name of the HUF, to Mr. Abhi Roy, a member of the HUF. Mr. Arup Roy considers this to be exempted from taxability under capital gains as per provisions of Section 47(i).

Section 47(i) says that any distribution of capital asset in kind by a Hindu Undivided Family on total or partial partition of the family is not treated as a transfer. Here, in this case, capital asset i.e. the house property is transferred but there is no situation leading to total or partial partition of the HUF.



Hence, the contention of Mr. Arup Roy is not tenable as per law. This transaction shall constitute a transfer for the purpose of Capital Gains and the HUF shall be assessed and tax liability shall be determined on the basis of capital gains, if any, which may arise from this transaction.

(ii) X Ltd. is a 100% subsidiary of Y Ltd. which is also a 100% subsidiary of Z Ltd. Z Ltd. transferred one acre of land to X Ltd. and another one acre of land to Y Ltd on 31.01.2013.

X Ltd. constructed a factory on that land whereas, Y Ltd. treated the land as stock in trade. All the companies are Indian Companies.

According to Section 47(iv), any transfer of a capital asset by a company to its 100% subsidiary company which is an Indian company, will not be regarded as transfer and shall not attract taxability under capital gains. However, if the capital asset is transferred as stock in trade after February 29, 1988, then the aforesaid rule is not applicable and it will be treated as transfer.

In the above case, Z Ltd. transferred two separate lands, one to Y Ltd., which is its 100% subsidiary, and another to X Ltd. which is 100% subsidiary of Y Ltd.

The transfer of land to Y Ltd. though satisfied the conditions of 100% subsidiary company and Indian company, will be regarded as transfer as Y Ltd. has recorded this land as stock in trade.

Further the exemption of this clause (iv) of section 47 will not apply when the company to which transfer is made, is a sub-subsidiary as definition under the Companies Act, 1956 cannot be resorted to when this clause applies to wholly owned subsidiary company [Kaundi Investments Pvt. Ltd. vs. CIT (2002) 256 ITR 713 (Guj.)]. Hence, the transfer of land to X Ltd. (i.e. the sub-subsidiary of Z Ltd) will be treated as transfer in the hands of Z Ltd, as it is not a 100% subsidiary of Z Ltd. rather it is a 100% subsidiary of Y Ltd.

(iii) Sun Ltd. is a foreign company holding 10,000 equity shares of Moon Ltd. which is an Indian company. Sun Ltd is amalgamated with Star Ltd. which is also a foreign company. Under that scheme, Sun Ltd. transferred its shares of Moon Ltd. to Star Ltd. 30% of the shareholders of Sun Ltd. continued to remain shareholders of the Star Ltd., even after this amalgamation.

Section 47(via) provides that any transfer:

- ❖ in a scheme of amalgamation of shares held in an Indian company by the amalgamating foreign company to the amalgamated foreign company
- ❖ if at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated company and
- ❖ such transfer does not attract capital gains tax in the country, in which that foreign amalgamating company is incorporated will not be regarded as transfer.

In the given case, it is needed to check whether such transfer attracts capital gain tax in the country in which Sun Ltd. is incorporated as the condition i.e. at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company is satisfied.

It should be noted that if such transaction attracts capital gain tax of the country in which Sun Ltd. is incorporated, the transaction shall also be regarded as transfer for the purpose of capital gains tax in India.

(iv) A Ltd. a foreign company has 3 industrial units – Unit X, Unit Y and Unit Z. In a scheme of demerger, Unit Z is transferred to B Ltd, an Indian company.

As per Section 47(vib), any transfer, in a scheme of demerger, of a capital asset by the demerged company to the resulting company where the resulting company is an Indian company will not be regarded as transfer for the purpose of imposing tax liability under capital gains.

Hence, in the given case as all the conditions are satisfied, such transaction will not be regarded as a transfer and hence shall not attract capital gains tax.

(v) In a scheme of amalgamation, the business of Goal Ltd. is transferred to Aim Ltd. Aim Ltd. is an Indian company. Amal holds 1,000 equity shares of Goal Ltd. He has been allotted 300 equity shares and 700 debentures of Aim Ltd. in lieu of 1,000 equity shares of Goal Ltd.

According to Section 47(vii), any transfer, by a shareholder, in a scheme of amalgamation, of shares held by him in the amalgamating company if the transfer is made in consideration of the allotment to him of any share or shares in the amalgamated company except where the shareholder himself is the amalgamating company and the amalgamated company is an Indian company, will not be regarded as transfer for the purpose of capital gains.

Here, Amal received 'shares' as well as 'debentures' as consideration. The Madras High Court, in the case of CIT vs. M.Ct.M. Corporation Pvt. Ltd. (1996) 221 ITR 524 (Mad.), has taken a view that where shares and debentures are allotted to the assessee on account of the amalgamation of two companies and the identity of the transferor company gets lost in the amalgamation, there is no transfer or extinguishment of any right in allotting shares and debentures in favour of the assessee under the provisions of Section 2(47), because the amalgamation is sanctioned by the High Court and the allotment of shares or debentures flows therefrom would be entitled to exemption u/s 47(vii).

Hence, the given transaction would not be regarded as transfer for the purpose of capital gains.



(3) Value addition in Paper 8 : Cost Accounting & Financial Management (Syllabus 2012)

All concerned are requested to make a note of this revision/value addition.

In Page 2.48 : Information gap is now revised.

Illustration 25: Valuation of Receipt of Material (special treatment related of losses)

Purchase of Materials ₹ 5,00,000 (inclusive of Trade Discount ₹ 8,000); Import Duty paid ₹ 45,000; Freight inward ₹ 62,000 ; Insurance paid by the seller for import by air ₹ 28,000, not recovered or charged from the purchaser; Rebates allowed ₹ 10,000; Cash discount ₹ 3,000; CENVAT Credit refundable ₹ 7,000; Abnormal Loss of Materials ₹14,000; Price variation due to computation of cost under standard rates ₹ 1,500. Compute the landed cost of material.

Solution:

Computation of Landed Cost of Material

	Particulars	Amount (₹)
	Purchase price of Material	5,00,000
Add	Import Duties of purchasing the material	45,000
Add	Freight Inward during the procurement of material	62,000
Add	Price Variation due to computation of cost under standard rates	1,500
	Total	6,08,500
Less	Trade Discount	8,000
Less	Abnormal Loss of materials	14,000
Less	Rebates	10,000
	Value of Receipt of Material	5,76,500

Note:

- Normal loss is not deducted
- Price variation is allowable inclusion as the cost was maintained on standard cost
- Insurance charges paid by seller but not recovered or charged from the importer. Since it is not involving any cash outflow for the importer, hence, it is not included in cost.

In Page 2.49: Demurrage Charges was erroneously included for computing cost of materials, is now rectified. Hence, the revised calculation is furnished. All concerned must take a note of this change.

Illustration 27: Valuation of closing stock of raw materials:

Opening stock of raw materials (10,000 units) ₹ 1,80,000; Purchase of Raw Materials (35,000 units) ₹ 7,00,000; Closing Stock of Raw Materials 7,000 units; Freight Inward ₹ 85,000; Self-manufactured packing material for purchased raw materials only ₹60,000 (including share of administrative overheads related to marketing sales ₹ 8,000); Demurrage charges levied by transporter for delay in collection ₹ 11,000; Normal Loss due to shrinkage 1% of materials ; Abnormal Loss due to absorption of moisture before receipt of materials 100 units.

Solution:

Computation of value of closing stock of raw materials [Average Cost Method]

	Particulars	Quantity (Units)	Amount (₹)
	Opening Stock of Raw Materials	10,000	1,80,000
Add	Purchase of raw materials	35,000	7,00,000
Add	Freight inwards		85,000
			9,65,000
Less	Abnormal Loss of raw materials	(100)	(2,243)

	(due to absorption of moisture before receipt of materials) = $[(7,00,000 + 85,000) \times 100] / 35,000$		
Less	Normal loss of materials due to shrinkage during transit [1% of 35,000 units]	(350)	-----
Add	Cost of self-manufactured packing materials for purchased raw materials only (60,000 – 8,000)		52,000
	Cost of raw materials	44,450	10,14,757
Less:	Value of Closing Stock = Total Cost / (Total units – Units of Normal Loss) $[10,14,757 / (10,000 + 35,000 – 350)] \times 7,000$	(7,000)	(1,59,088)
	Cost of Raw Materials Consumed	37,450	8,55,669

Note:

- Units of normal loss adjusted in quantity only and not in cost, as it is an includible item
- Cost of self-manufactured packing materials does not include any share of administrative overheads or finance cost or marketing overheads. Hence, marketing overheads excluded.
- Abnormal loss of materials arised before the receipt of the raw materials, hence, valuation done on the basis of costs related to purchases only. Value of opening stock is not considered for arriving at the valuation of abnormal loss.
- Demurrage charges paid to transporter is not an includible item.

ALTERNATIVELY, SOLVING THE ABOVE ILLUSTRATION BASED ON FIFO METHOD

Computation of value of closing stock of raw materials [FIFO]

	Particulars	Quantity (Units)	Amount (₹)
	Opening Stock of Raw Materials	10,000	1,80,000
Add	Purchase of raw materials	35,000	7,00,000
Add	Freight inwards		85,000
			9,65,000
Less	Abnormal Loss of raw materials (due to absorption of moisture before receipt of materials) = $[(7,00,000 + 85,000) \times 100] / 35,000$	(100)	(2,243)
Less	Normal loss of materials due to shrinkage during transit = [1% of 35,000 units]	(350)	-----
Add	Cost of self-manufactured packing materials for purchased raw materials only (60,000 – 8,000)		52,000
	Cost of Raw Materials	44,550	10,14,757
Less:	Value of Closing Stock = Total Cost / (Total units – Units of Normal Loss) Where Total Cost = $[7,00,000 + 85,000 - 2,243 + 52,000] = 8,34,757$ And Total Units = $[35,000 – 1\% \text{ of } 35,000] = 34,650$ units Value of Closing Stock = $[8,34,757 \times 7,000] / 34,650$	(7,000)	(1,68,638)
	Cost of Raw Materials Consumed	37,550	8,46,119

Note:

- Since FIFO method is followed, hence for the purpose of estimating the units sold/used/consumed, it is presumed that there is no units left out of units in opening stock.
- Since normal loss is in transit, hence it is calculated on units purchased only.