

MOCK TEST - 2

INTERMEDIATE (IPC) : GROUP - I

IDT (2nd Batch 11 to 1 time)

PAPER - 4: TAXATION SUGGESTED ANSWERS/HINTS

1(A).

1. **Computation of excise duty payable**

Particulars	Amount	
Price of the machinery	4,00,000	
Add: Packing charges [Note 1]	20,000	1/2
Add: Extra design charges [Note 1]	50,000	1/2
Total	4,70,000	1/2
Less : 2% cash discount on price of machinery [4,00,000 x 2%] [Note 2]	8,000	1/2
Assessable value	4,62,000	
Excise duty @ 12.5%	57,750	①

Notes:

1. While computing assessable value, packing charges and extra designing charges have been included as such payments are in connection with sale. 1/2
2. Cash discount has been allowed as deduction since discount has been passed on to the buyer. 1/2
3. 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. 1/2
4. State VAT does not affect excise duty payable. 1/2

1(B)

1. **Computation of customs duty payable**

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

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	Amount	
Maximum retail price [10,000 pieces × 50]	5,00,000	1/2
Less: Abatement @ 30%	1,50,000	1/2
Assessable value for CVD	3,50,000	①
CVD @ 12.5% of 3,50,000	43,750	1/2

When the goods are sent by dealer outside the State to his other place of business, such movement of goods is an inter-State stock transfer and is not liable to central sales tax. The burden to prove that the inter-State movement of goods is stock transfer, lies on the dealer and not on the Department. For this purpose, the dealer has to submit a declaration obtained from his other place of business in Form F.

(ii) If at the time of stock transfer outside the State, the dealer has an order for such sale in hand; movement of such goods shall be deemed to have been occasioned as a result of sale. Therefore, such inter-State sale of goods will be liable to central sales tax.

2(B)

Computation of taxable turnover and tax liability of Shine India Pvt. Ltd.

Particulars	Amount (Rs.)
Total sales	1,50,00,000
Less: Goods returned by Mr. X (deductible as returned within 6 months)	1,50,000
Less: Goods returned by Mr. Z (not deductible since returned after six months)	Nil
Less: Goods rejected by Mr. Y after six months (Refer note below)	55,000
	1,47,95,000
Less : Central sales tax = $4 \times 1,47,95,000$ 104	5,69,038
Turnover	1,42,25,962

Note: The period of six months for return of goods is not applicable in respect of rejected goods as it is a case of un-fructified sale.

3 (a)

Computation of Net VAT payable and input tax credit

Particulars	Amount
Output VAT	
Purchases of raw material [excluding VAT of 95,000 ($8,55,000 \times 12.5/112.5$)]	7,60,000
Manufacturing and other expenses	1,00,000
Cost of production	8,60,000
Cost of goods sold [80% of 8,60,000]	6,88,000
Add: Profit @ 25% on the cost of goods sold	1,72,000
Sale price	8,60,000
Output VAT payable @ 12.5% (A)	1,07,500
Input VAT	
Input tax credit on raw materials used in manufacture of finished goods that are sold [$95,000 \times 80\%$]	76,000
Input tax credit on raw materials used in manufacture of finished goods that are stock transferred to Manipur [$7,60,000 \times 20\% \times (12.5 - 2)\%$]	15,960
(In case of inter-state stock transfer of finished goods, input tax paid on inputs used in manufacture of such finished goods in excess of 2% is available as input tax credit.)	
Total input tax credit (B)	
Net VAT payable (A) - (B)	15,540

(b) Computation of excise duty payable

Particulars	Rs.
Total invoice price	40,000
Less: State VAT (Note 1)	4,000 — $\frac{1}{2}$
Freight charges (Note 2)	2,000 — $\frac{1}{2}$
Insurance charges (Note 2)	200
Price-cum-duty (a)	33,800 — $\frac{1}{2}$
Less : Excise duty @ 12.36% (inclusive of 3% education cesses) [Rs.33,800 x 12.36/112.36]	3,718.12 (1)
Total excise duty including education cesses (rounded off) (b)	3,718
Assessable value (a) – (b)	30,082 (1)

Notes:

1. Invoice price includes State VAT. Thus for calculating assessable value, deduction has been allowed for State VAT.

4(a)

(i) Since in the given case, sale is effected by transfer of documents of title to the goods after the goods have crossed the customs frontiers of India, it is not an inter-State sale, but a sale in the course of export.

(ii) The sale is completed at Delhi itself. Therefore, the sale does not occasion the movement of goods from one State to another. Hence, sale of goods by Y to X is not an inter-State sale.

(b) Computation of VAT payable by Shiv & Co. under subtraction method

Particulars	Value added (Rs.)	VAT (Rs.)
Sale by manufacturer to distributor	11,250	$11250/112.5 * 12.5 = 1250$ $\frac{3}{4}$
Sale by distributor to wholesaler	$13,500 - 11,250 = 2,250$	$2250/112.5 * 12.5 = 250$ $\frac{3}{4}$
Sale by wholesaler to retailer	$16,875 - 13,500 = 3,375$	$3375/112.5 * 12.5 = 375$ $\frac{3}{4}$
Sale by retailer to consumer	$22,500 - 16,875 = 5,625$	$5625/112.5 * 12.5 = 625$ $\frac{3}{4}$
Total VAT payable		2,500 (1)

5.(a)

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.

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.

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 [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 [M/s. Snips Industries should pay the excise duty by 06.07.2016. Duty may be paid in cash or by utilizing CENVAT credit or both [Rule 8 of the Central Excise Rules, 2002 (CER)]. Monthly ER-1 return will have to be filed electronically by 10.07.2016 [Rule 12 of CER].

① (b) [Government can impose anti dumping duty on such imported magnets to protect the domestic producers.] [The anti-dumping duty is equal to difference between normal value (i.e. his sale price in his country) and export price (price at which he is exporting the goods).] ②

6(a)

① ② [Since aerated waters are notified under section 4A of Central Excise Act, 1944, excise duty will be payable on the basis of RSP less abatement.

Particulars (₹)

MRP marked on the bottles of aerated water	30	① ②
Less: Abatement @ 40% of MRP [40% of ` 30]	12	① ②
Assessable Value for purpose of excise duty	18	① ②

① ② [When more than one MRP is declared on the package of excisable goods, the maximum of such price will be deemed to be the MRP. Thus, if Spring Fresh declares two MRPs namely, ` 30 and ` 40 on each bottle of aerated water, then ` 40 would be deemed to be the MRP.] [The assessable value for the purpose of excise duty will be calculated in the following manner:-

Particulars (₹)

MRP marked on the bottles of aerated water	40	① ②
Less: Abatement @ 40% of MRP [40% of ` 40]	16	① ②
Assessable Value for purpose of excise duty	24	① ②

6(b)

① ② [No, duty paid on the goods, in the instant case, cannot be remitted as the goods have been damaged after their clearance for home consumption from the warehouse.] [The duty on the imported goods can be remitted only when such goods are destroyed at any time before clearance for home consumption.] ②