

Class Test – Answer Sheet

IPCC - TAXATION (VAT)

Time Allowed – 1 Hours

Marks – 30

All Question are compulsory

Marks

1. **Computation of VAT liability :**

4

Particulars	₹	₹
Purchase price of goods	6,75,000	
<i>Less:</i> Input VAT (₹ 6,75,000 × 12.5/112.5)	75,000	6,00,000
<i>Add:</i> Profit (25% of cost)		1,50,000
Sale price		7,50,000
Output VAT (₹ 7,50,000 × 12.5%)		93,750
<i>Less:</i> Input tax credit (₹ 6,75,000 × 12.5/112.5)		75,000
Net VAT payable		18,750

2. **Computation of VAT liability :**

4

Particulars	₹
Raw material net of VAT (₹ 65,000 × 100 ÷ 104)	62,500
Storage Cost	750
Transport Cost	1,750
Total cost	65,000
<i>Add:</i> 5% mark-up on cost	3,250
Sale price	68,250
VAT on sale price @ 4%	2,730
<i>Less:</i> Input tax credit (₹ 62,500 × 4%)	2,500
VAT payable in cash	230

3. **Computation of VAT liability of M/s. Varadan & Co. :**

5

Particulars	(₹)
Output VAT payable on :	
Sale of taxable goods within State [(₹ 40,24,000 × 4)/104]	1,54,769
Sale of exempted goods within State [WN]	Nil
Total output VAT payable [A]	1,54,769
Input tax credit available on :	
Intra-State purchases of 500 units of raw materials [₹ 11,25,000 × 12.5/112.5]	1,25,000
Inter-State purchases of raw materials (CST paid on inter State purchases is not eligible for input tax credit)	Nil
Import of packing material (Customs duty is not eligible for input tax credit)	Nil
Purchase of Capital Goods : VAT paid on purchase of capital goods is eligible for input tax credit.	
However, the same has to be spread over a period of two years [₹ 5,50,000 × 10/110 × 2]	25,000
Total input tax credit available [B]	1,50,000
Net VAT payable [A] - [B]	4,769

Working Note : Since these goods were manufactured from the inter-State purchases of raw materials (non-vatable inputs), input tax credit is not affected.

4. Computation of VAT and CST payable :

4

Particulars	₹
Cost of raw-material 'A' purchased from Haryana	6,00,000
<i>Add: CST @ 2%</i>	12,000
	6,12,000
Cost of raw-material 'B' purchased from Delhi	8,00,000
Total cost of raw-material	14,12,000
Manufacturing other expenses	2,00,000
Profit	1,00,000
Total	17,12,000
Value of 60% of goods sold in Delhi ($₹ 17,12,000 \times 60/100$)	10,27,200
<i>Add: VAT charged @ 12.5%</i>	1,28,400
	11,55,600
Value of 40% of goods sold to dealer in Maharashtra ($₹ 17,12,000 \times 40/100$)	6,84,800
<i>Add: CST @ 2%</i>	13,696
	6,98,496
Output VAT liability	128,400
<i>Less: VAT paid on local materials ($₹ 8,00,000 \times 4%$)</i>	32,000
Vat Payable in cash	96,400
CST payable in cash	13,696

5. Under gross product variant of VAT, deduction for taxes on all purchases of raw materials and components is allowed. However, deduction for tax paid on capital goods is not allowed. Hence, the VAT liability under gross product variant would be calculated as under:

5

Computation of VAT liability under Gross Product Variant :

Particulars	₹
VAT payable on sales ($₹ 90,00,000 \times 4%$)	3,60,000
<i>Less: Input VAT allowed on raw material ($₹ 50,00,000 \times 4%$)</i>	2,00,000
Net VAT payable	1,60,000

Under consumption variant of VAT, deduction for taxes paid on all business purchases including capital goods is allowed. Hence, VAT liability under consumption variant would be calculated as under:

Computation of VAT liability under Consumption Variant :

Particulars	₹	₹
VAT payable on sales ($₹ 90,00,000 \times 4%$)		3,60,000
<i>Less: Input VAT allowed on raw material ($₹ 50,00,000 \times 4%$)</i>	2,00,000	
Input VAT allowed on capital goods ($₹ 30,00,000 \times 4%$)	1,20,000	3,20,000
(whole input tax credit is allowed in the year of acquisition itself)		
Net VAT payable		40,000

Since, the net VAT liability under consumption variant is less than the VAT liability under gross product variant, consumption variant is beneficial to the Soumya Enterprises.

6. Computation of VAT payable -

4

Particulars	₹
Computation of Output VAT :	
Sale within Gujarat – Manufacture from RM 'X' [₹ 5 lakhs × 12.5%]	62,500
- Manufacture from RM 'Y' [Exempt]	Exempt
- Manufacture from RM 'Z' [₹ 40 lakhs × 4%]	1,60,000
Inter-state sales to Maharashtra [WN-1]	12,000
Total Output VAT [A]	2,34,500
Computation of Input VAT :	
RM 'X' [WN-2]	Nil
RM 'Y' [WN-3]	Nil
RM Z [₹ 35 lakhs × 12.5%]	4,37,500
<i>Less:</i> Retention of Credit in respect of RM Z transferred to Branch [5 lakh × 2%] [WN-4]	-10,000
Total Input VAT [B]	4,27,500
Net VAT Credit to be carried forward [B - A]	1,93,000

Note: The balance lying in input VAT credit is due to inverted tax structure, where RM Z is liable to VAT @ 12.5% and finished goods manufactured therefrom are liable to VAT @ 4%.

Working Notes :

- (1) CST leviable on inter-state sales to Maharashtra = 2% of ₹ 6 lakhs = ₹ 12,000. Credit of Input VAT credit can be used to pay CST on output sales.
- (2) Since RM X is exempt, there is no question of any credit.
- (3) Since RM Y has been used in manufacture of finished goods which are exempt from VAT, hence, no credit can be availed in respect of RM Y.
- (4) If inputs are used in the manufacture of finished goods, which are stock/branch transferred, then, tax paid on such inputs/goods will be available as input tax credit subject to retention of 2% out of such tax by the State Governments.

7. Under the works contract, the turnover for imposition of VAT is the sale price of the goods in which there is a transfer of property. The amount representing the labour & other charges incurred for such execution is deductible.

4

Particulars	₹
Total Contract Price (excluding VAT)	1,00,00,000
<i>Less:</i> Labour charges paid for execution of the contract	-35,00,000
Cost of consumables used not involving transfer of property in goods	-5,00,000
Taxable Value of the 'works contract'	60,00,000
VAT payable thereon @ 12.5%	7,50,000
<i>Less:</i> Input VAT credit on materials (₹ 45 lakhs × 12.5% ÷ 112.5%)	5,00,000
VAT credit on capital goods (₹ 10.4 lakhs × 4% ÷ 104%)	40,000
Net tax payable	2,10,000

8. **Cancellation of registration :** The registration obtained by a dealer can be cancelled in the following circumstances -

2

- (i) discontinuance of business; or
- (ii) disposal of business; or
- (iii) transfer of business to a new location; or
- (iv) annual turnover of a manufacturer or a trader dealing in designated goods or services falling below the specified amount; or
- (v) dealer has failed to furnish requisite security or has committed fraud/misrepresentation of facts.

