

# Accounting for CENVAT

**Institute of Chartered Accountants of India**

**National Academy of Customs, Excise and Narcotics**

22 November 2006

# [ Objective ]

---

- ▶ To understand the scheme of accounting entries suggested by the Institute of Chartered Accountants of India in accounting for CENVAT Credits
- ▶ Case Study to differentiate the suggested scheme vis-à-vis another

# [ Guidance Note ]

---

- ▶ Are primarily designed to provide a guidance on specific matters and are recommendatory in nature
- ▶ Advised that where the same has not been followed, appropriate disclosures may be made based on the circumstances of the case

# CENVAT Credits

GN primarily identifies the accounting entries for:

- ▶ Purchases
- ▶ Sales
- ▶ Capital assets
- ▶ Hire purchase / lease transactions
- ▶ Payment of duties
- ▶ Duty demands
- ▶ Changes in accounting policies
- ▶ Reconciliations
- ▶ Other Aspects:
  - > Valuation of inventories
  - > Valuation of capital goods

**Accounting  
Standards or  
GAAP  
vs.  
Provisions of  
Central Excise**

# Scheme of Entries

Purchases (R)	Dr	Customer (CA)	Dr
CENVAT Credit (CA)	Dr	To Sales (R)	
To Supplier (CL)		To Excise Duty (CL)	

---

Fixed Assets (FA)	Dr
CENVAT Credit - FA (CA)	Dr
To Supplier (CL)	

---

CENVAT Credit (CA)	Dr
To CENVAT Credit - FA (CA)	

---

Excise Duty (CL)	Dr
To CENVAT Credit (CA)	

Excise Duty (CL)	Dr
To Bank (CA)	

---

# Reconciliations

- ▶ Review of the following accounts to ensure appropriate carry forward of balances:
  - > CENVAT Credit (CA)
  - > CENVAT Credit – FA (CA)
  - > ED Payable (CL)
- ▶ Rectification entries
  - > Unavailability of relevant documents
  - > Disqualified for CENVAT Credits
  - > Loss / theft of goods
  - > Destruction of goods prior to use
  - > FAs not in use / existence
  - > Erroneously no credits claimed earlier
  - > Duty demands of earlier periods discharged

# Accounting Entries

## Unclaimed amounts

CENVAT Credit (CA)                      Dr  
    To Purchase / Expd (R)

## Excess credits claimed

Purchase / Expd (R)                      Dr  
    OR  
Rates & Taxes (R)                      Dr  
    CENVAT Credit (CA)

---

## FA not in use

Fixed Assets (FA)                      Dr  
    To CENVAT Credit - FA (CA)

## Demand of earlier year

Rates & Taxes (R)                      Dr  
    To Bank (CA)  
    OR  
    CENVAT Credit (CA)

---

# Disclosures in Financial Statements

- ▶ CENVAT Credits on Inputs
  - > Current Assets (Loans & Advances) – Balance Sheet
- ▶ CENVAT Credits on Capital Goods
  - > Representing 50% to be availed in the subsequent year
  - > Current Assets (Loans & Advances) – Balance Sheet
- ▶ Excise duty payable on Sales
  - > No balance to be reflected as on 31.03 since the same is payable by 31.03
  - > Balance, if any due to disputes or earlier years rectifications
    - Current Liabilities – Balance Sheet
- ▶ Valuation of Inventory and Capital Goods
  - > Significant Accounting Policy Statement disclosures



# [ Case Study ]



<b>Particulars</b>	<b>Inputs</b>	<b>Services</b>	<b>CG</b>	<b>FG</b>
Purchases / Sales	25000	20000	100000	85000
CE	4000	2400	16000	13600
EC	80	48	320	272
	29080	22448	116320	98872

# Case Study (*Accounting – Method 1*)

## Profit and Loss Account

Consumption	25000	Sales	85000
Other Expenses	20000		
Depreciation @ 15%	15000		
Profit	25000		
	<b>85000</b>		<b>85000</b>

# Case Study (*Accounting – Method 1*)

## Balance Sheet

Profit	25000	Fixed Assets	85000
Bank Balance (OD)	69996	CENVAT	
		FA	8000
		Inputs	1000
		IS	800
		EC	
		FA	160
		Inputs	20
		IS	16
	<b>94996</b>		<b>94996</b>

# Case Study (*Accounting – Method 2*)

## Journal Entries

Dr Purchases	25000	Dr CENVAT (FA)	8000
Dr CENVAT	4000	Dr EC (FA)	160
Dr EC	80	Cr Prepaid CENVAT (FA)	8000
Cr Supplier	29080	Cr Prepaid EC (FA)	160
Dr Services	20000	Dr ED CENVAT (FA)	8000
Dr SE (CENVAT)	2400	Dr EC CENVAT (FA)	160
Dr SE (EC)	48	Cr CENVAT (FA)	8000
Cr Service Provider	22448	Cr EC (FA)	160
Dr FA	100000	Dr ED on Clearance	13600
Dr Prepaid CENVAT (FA)	16000	Dr EC on Clearance	272
Dr Prepaid EC (FA)	320	Cr ED CENVAT	3000
Cr Supplier	116320	Cr ED CENVAT (FA)	8000
Dr ED CENVAT	3000	Cr Service Tax (CENVAT)	1600
Dr EC CENVAT	60	Cr EC CENVAT	60
Cr CENVAT Consumption	3000	Cr EC CENVAT (FA)	160
Cr CENVAT (EC) Consumption	60	Cr Service Tax (EC)	32
Dr Customer	98872	Cr ED Payable	1000
Cr Sales	98872	Cr EC Payable	20
Dr ED on Sales	13600	Dr ED Payable	1000
Dr EC on Sales	272	Dr EC Payable	20
Cr ED on Clearance	13600	Cr Bank	1020

# Case Study (*Accounting – Method 2*)

Sl #	Account Description	Dr	Cr	Sl #	Account Description	Dr	Cr
1	CENVAT (EC) Consumption		60	12	CENVAT	0	
2	CENVAT Consumption		3000	13	CENVAT (FA)	0	
3	EC	80		14	EC (FA)	0	
4	EC on Sales	272		15	EC CENVAT	0	
5	ED on Sales	13600		16	EC CENVAT (FA)	0	
6	Prepaid CENVAT (FA)	8000		17	ED CENVAT	0	
7	Prepaid EC (FA)	160		18	ED CENVAT (FA)	0	
8	SE (CENVAT)	2400		19	EC on Clearance		0
9	SE (EC)	48		20	EC Payable		0
10	Service Tax (CENVAT)		1600	21	ED on Clearance		0
11	Service Tax (EC)		32	22	ED Payable		0

# Case Study (*Accounting – Method 2*)

## Profit and Loss Account

Inputs	25000	Sales	98872
Other Expenses	20000		
Depreciation	15000		
ED on Sales	13600		
EC on Sales	272		
Profit	25000		
	<b>98872</b>		<b>98872</b>

# Case Study (*Accounting – Method 2*)

## Balance Sheet

Profit	25000	Fixed Assets	85000
Bank (OD)	69996		
Excise Duty A/cs		Excise Duty A/cs	
CENVAT Consumption	3000	CENVAT	4000
ED on Clearance	0	Prepaid CENVAT (FA)	8000
ED Payable	0	CENVAT (FA)	0
		ED CENVAT	0
		ED CENVAT (FA)	0
Service Tax A/cs		Service Tax A/cs	
Service Tax (CENVAT)	1600	SE (CENVAT)	2400
EC A/cs		EC A/cs	
CENVAT (EC) Consumption	60	EC	80
Service Tax (EC)	32	SE (EC)	48
EC on Clearance	0	Prepaid EC (FA)	160
EC Payable	0	EC (FA)	0
		EC CENVAT	0
		EC CENVAT (FA)	0
	<b>99688</b>		<b>99688</b>

# [ Comparison ]

---

- ▶ Profit remains unchanged
- ▶ Net current assets remains unchanged



A horizontal gradient bar with a color gradient from dark grey on the left to light grey on the right. A large black left square bracket is positioned on the left side of the bar, and a large orange right square bracket is positioned on the right side of the bar. The text "Review of Reports" is centered within the bar.

# Review of Reports

# [ SAP and NTA ]

- ▶ Inventory
  - > Valuation of inventory
- ▶ Fixed Assets
  - > Valuation of fixed assets
  - > Disposals during the period
- ▶ Segmental information
  - > Product / Geography / Business units
- ▶ Quantitative details on consumption of inputs and production of FGs
- ▶ Other aspects:
  - > Loss / theft of goods
  - > Temporary closure / stoppage of production / business
  - > List of branches / warehouses / offices
  - > Prior period expenditure

# [ CARO ]

- ▶ Inventory
  - > Conduct of physical verification during the period
  - > Maintenance of adequate records
- ▶ Fixed Assets
  - > Existence of fixed assets
- ▶ Payment of dues
  - > Regularity in payment of dues
  - > Dues remaining outstanding for greater than 6 months
- ▶ List of parties related in terms of the provisions contained in Section 301 of the Companies' Act, 1956

# [ Form 3CD ]

- ▶ Depreciation claim on fixed assets
- ▶ Claim of CENVAT Credit
  - > Excise duty on Inputs / CGs
  - > Accuracy of the carried forward balances
- ▶ Valuation of inventory
  - > Inclusion of ED on finished goods for valuation purposes only
- ▶ Capital Assets converted into Stock-in-trade
- ▶ Amounts due but yet to be remitted – *Quantified*
- ▶ Quantitative details on consumption of inputs and production of FGs
- ▶ Refunds, if any of SE, CE or Customs obtained during the period
  - > Treatment in Accounts

# [ To Conclude: ]

- ? Accuracy in the rate/s of duty applied
- ? Valuation for levy of central excise / service tax
- ? Entitlement to claim CENVAT Credits
- ? Adherence to procedures under Central Excise
- ? Regularity in filing of returns
- ? Differences in financial records and returns filed

## **Internal Audit Reports**

- ▶ Compulsory if Rs. 50 lakhs of paid up share capital + reserves or Rs. 5 Crores of average sales turnover for preceding 3 years
- ▶ Scope of Internal Audits is management driven

*Access to such reports ?*



Thank you

**Badrinath NR**

+91 98454 77385

+90 80 4151 6187

[badrinath@accretiveglobal.com](mailto:badrinath@accretiveglobal.com)