

Query from Mr. Sudhir Verma through email dated 23rd February 2016

Facts on Determination of Cost of Production of Excisable Goods used for Captive Consumption (CAS-4)

1. A shoe manufacturing company is having three units "A", "B" and "C" at different places.
2. Unit "A" produces finished leather and transfers it to unit "B" at Cost of Production. For Unit "A" Excise Duty payable on its production is at NIL rate of duty.
3. Unit "B" produces shoes upper using finished Leather transferred from Unit "A". It transfers its output to unit "C" at cost price. Assessable value is computed for excise duty purpose @ 110% of cost of production and excise duty is being paid @ 6% of Assessable Value.
4. Unit "C" is exempted from payment of excise duty. It assembles the upper, Sole, Insole, and produce complete shoe pair.
5. Some consultants (not being Cost Accountant) are advising for unit "B" (producing shoe upper) that the finished leather received from unit "A" (Excise duty payable at 0%) should also be valued and transferred from unit "A" to unit "B" at 110% of cost of production.

Opinion on Determination of Cost of Production of Excisable Goods used for Captive Consumption (CAS 4)

The finished leather should be transferred from unit "A" to unit "B" at cost of Production, or at 110% of cost of production.

Clarification:

On the introduction of ***Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, w.e.f. 1st of July 2000***, the general principles of costing were referred as the basis for the valuation. This clarity was made by the Board vide ***Circular No.354/81/2000-TRU dated 30 June 2000***, that in order to value goods which are captively consumed, the general principles of costing would be adopted for the application of Rule 8.

By ***Circular No. 692/8/2003-CX, dated 13.2.2003*** the Board clarified that cost of production of captively consumed goods will henceforth be done strictly in accordance with Cost Accounting Standard- 4.

Application of CAS-4 is where a manufacturer is manufacturing a product which is otherwise exempt from Duty but in process of manufacture an intermediate product mentioned in the tariff, comes into existence which is dutiable. The intermediate goods which come into existence must discharge applicable duty before it gets cleared for factory/ unit for the manufacture of the duty exempted final product. The value of duty in all such cases shall be on 'Cost + 10%' w.e.f. 5th August, 2003. In this context extract of Rule 8 is reproduced below:

"8. Where the whole or part of excisable goods are not sold by the taxpayer but are used for consumption by him or on his behalf in the production or manufacture of other articles, the value

of such goods shall be one hundred ten percent of the cost of production or manufacture of such goods.”

Opinion:

The value of a product used for captive consumption is 110% (Cost of Production + 10%) pursuant to Rule 8. The addition of 10% is required to be done to determine the assessable value to determine the amount to be paid as Excise Duty. The assessable value is not the value at which the goods are transferred for further processing of the captively consumed product.

Even if the rate of Excise Duty was not NIL for products transferred from Unit A, the value at which the goods would be transferred to Unit B would remain the cost of production and not 110% of the cost of production. The addition of 10% is notional to arrive at the assessable value as required by the law and it does not change the cost of production. In either case the transfer will be made at cost of production and not at 110% of cost of production.

In the instant case, Unit A&B are producing goods for the captive consumption wholly by Unit C. Unit A is not required to pay excise duty since the rate of duty is NIL. Unit B is required to discharge Excise Duty liability at the rate of 6%.

Transfer from Unit A to Unit B, the question of determining assessable value does not arise since there is no liability to pay excise duty. The transfer is at cost of production.

Products transferred from Unit B to C attract the provisions of **Rule 8 of the Central Excise (Determination of Price of Excisable Goods) Rules, 2000**. Consequently, the assessable value of its products will be 100% of cost of production determined in accordance with CAS-4.

The Unit B has to discharge duty at the rate of 6% on such assessable value but the products will be transferred to Unit-C at cost of production. As explained earlier, the addition of 10% is notional and has no role in the transfer value of the products.