

COMMISSIONER OF CENTRAL EXCISE, PUNE

v.

M/S. CADBURY INDIA LTD.

AUGUST 1, 2006

[ASHOK BHAN AND MARKANDEY KATJU, JJ.]

Central Excise (Valuation) Rules, 1975; Rule 6(b)(ii)/Circular No.692/8/2003—CX dated 13.2.2003 issued by the Central Board of Excise and Customs:

Valuation—Goods/milk products captively consumed in manufacturing of final product/chocolate—Expenditure incurred on—Factory expenses—Inclusion in the cost of production—Held: Products in question captively consumed by the assessee in his factories—These are neither marketable nor did the assessee sell them—Principles of Accountancy as recognized by the Central Board of Excise and Customs could be followed for determining the cost of production—Direct Labour Cost/material cost/overhead expenses in producing the intermediate products could only be included in the cost of production of the final product—Revenue is not permitted to take view to the contrary—Hence, factory expenses incurred on these products could not be included in the cost for the purpose of valuation.

The question, which arose for determination before this Court in these appeals was as to whether the expenditure incurred in manufacturing of certain products of milk which are captively consumed in the factories of the assessee in the manufacture of chocolate, the final product, and no part of which are sold by the respondent, could be included in the cost of production in terms of Rule 6(b)(ii) of the Central Excise (Valuation) Rules for the purpose of valuation.

Dismissing the appeals, the Court

HELD: 1.1. According to settled principles of accountancy only the elements that have actually gone into the manufacture/production of the intermediates i.e. sum total of the direct labor cost, direct material cost, direct cost of manufacture and the factory overheads of the factory producing such intermediate products are included in the cost of

A production. [210-F-G]

CCE v. Dai Ichi Karkaria Ltd., [1999] 7 SCC 448, relied on.

B 1.2. The cost accounting principles as laid down by the Institute of Cost and Works Accountants of India (ICWAI) have been recognized by the Central Board of Excise and Customs vide Circular No.692/8/2003 - CX dated 13.2.2003. The circular requires the department to determine the cost of production of captively consumed goods strictly in accordance with these principles. [211-H; 212-A]

C *BMF Beltings Ltd. v. CCE* : (2005) 184 E.L.T. 158 (Tri. - Bang.); *ITC v. CCE*, (190) ELT 119; *Teja Engineering v. CCE*, (2006) 193 ELT 100 (Tri-Chennai); *Ashima Denims v. CCE*, (2005) 191 ELT 318 (Tri-Mumbai); and *Arti Industries v. CCE*, (2005) 186 ELT 208 (Tri-Chennai), referred to.

D 1.3. In the present case the intermediate products are captively consumed in the assessee's own factory. These intermediate products are not sold nor are marketable. Hence question of including the factory expenses in producing the final product in their valuation as was sought to be added by the Revenue, does not arise. [212-D]

E CIVIL APPELLATE JURISDICTION : Civil Appeal Nos. 2947-2948 of 2001.

From the Final Order No. C-1/3430-31/WZB/2000 dated 28.9.2000/24.10.2000 of the Customs, Excise & Gold (Control) Appellate Tribunal, West Regional Bench at Mumbai in appeal No. E/1021/2000-MUM.

F WITH

C.A. Nos. 1856-1857/2002, 5232-5233/2003, 1425/2005 and 2878-2879/2005.

G Harish Chander, Binu Tamta, T.S. Murthy, R. Sudhinder and B.K. Prasad for the Appellant.

H Joseph Vellapally, Ashok H. Desai, D.B. Shroff, Pratap Venugopal, E. Venu Kumarr for (K.J. John & Co.), U.A. Rana, P.K. Thakur (Gagrat & Co.), Bhavesh Panjwani, P.H. Parekh, Sameer Parikj, Arun Francis (for P.H. Parekh & Co.), C.N. Sree Kumar, V. Lakshmikumaran, Alok Yadav and Rajesh Kumar for the Respondents.

The Judgment of the Court was delivered by

MARKANDEY KATJU, J. Civil Appeals Nos. 2947-2948/2001 have been filed against the impugned final order dated 28.9.2000 passed by the Customs Excise and Gold (Control) Appellate Tribunal, West Regional Bench at Mumbai in Appeal No. E/1021, 1022/2000-MUN.

Heard learned counsel for the parties.

The question involved in these appeals is about the valuation of milk crumbs, refined milk chocolate and four other products manufactured by the respondent - M/s. Cadbury India Limited, in its factory at Induri, Pune and captively consumed in that factory and other factories of the respondent in the manufacture of chocolate. No part of these products are sold by the respondent.

The respondent had sought valuation of these goods under Rule 6(b)(ii) of the Central Excise (Valuation) Rules, which provides for basing the valuation on such goods on the "cost of production on manufacture including profits, if any, the assessee would have earned in the sale of such goods."

The assessee had showed the price of these goods supported by a statement verified by a chartered accountant. The statement indicated the cost of edible and packing material used in the manufacture including its overheads. A separate statement in support of the profit added was formulated and these assessments were provisionally approved.

At the time of the finalization of the assessment, the department took the view that the value of the goods should include the labour cost, direct expenses, total factory expense, administration expenses, travelling expense, insurance premium, advertising expense and interest. The Assistant Commissioner added these elements to the declared value. He added the total expenses of the company as shown in the balance sheet and deducted the cost material. A percentage of this cost of the remaining figure was treated as the factor by which the assessable value should be increased.

In appeal the Commissioner (Appeals) upheld the order of the Assistant Commissioner. He held that since Rule 6(b)(ii) itself specified including the profit on the goods captively consumed hence this indicated the intention in the rule that the valuation should be brought to the level of the sale value of the goods and hence this includes all expenses referred to above. The

A Commissioner (Appeals) also relied on the circular dated 30.10.1996 issued by the Board relating to captively consumed goods. He has also relied upon paragraph 49 of the Supreme Court's judgment in *Union of India v. Bombay Tyres International*, AIR (1984) SC 420.

B In further appeal the Tribunal set aside the orders of the Commissioner and the Assistant Commissioner. The Tribunal held that sub-rule (ii) of Rule 6(b) can be invoked only in a situation where the goods are not sold and there are no comparable goods. The Tribunal held that the expenses other than the cost of manufacture, cost of raw materials and the profit would not be includible in the assessable value.

C The issue in the present case is about the value of the goods captively consumed by the respondent. The assessee has contended that there is no dispute that these intermediate goods are not marketable and are not bought and sold in the market. Hence the valuation of these intermediate goods has to be done according to Rule 6(b)(ii) of the Central Excise (Valuation) Rules,

D 1975.

Rule 6(b)(ii) reads as follows:

“Rule 6 If the value of the excisable goods under assessment cannot be determined under Rule 4 or Rule 5, and

E (a)

(b)(i)

F (ii) if the value cannot be determined under sub-clause (i), on the cost of production or manufacture including profits, if any, which the assessee would have normally earned on the sale of such goods; “

G According to settled principles of accountancy only the elements that have actually gone into the manufacture/production of these intermediates i.e. sum total of the direct labor cost, direct material cost, direct cost of manufacture and the factory overheads of the factory producing such intermediate products are included in the cost of production. The Appellant produced alongwith the reply to the Show Cause Notice the following authoritative texts: *Wheldon's Cost Accounting and Costing Methods*, *Cost Accounting methods* by B K Bhar, *Principles of Cost Accounting* by N.K. Prasad, *Glossary of Management Accounting Terms* by ICWAI.

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In *CCE v. Dai Ichi Karkaria Ltd.*, [1999] 7 SCC 448, at page 459 it has been held that the normal principles of accountancy shall be applied to determine the cost. In this decision this Court observed :

“Learned Counsel for the respondents drew our attention to the judgment of this Court in *Challapalli Sugar Ltd. v. CIT*. The Court was concerned with “written-down value”. The “written-down value” had to be taken into consideration while considering the question of deduction on account of depreciation and development rebate under the Income Tax Act. “Written-down value” depended upon the “actual cost” of the assets to the assessee. The expression “actual cost” had not been defined in the Income Tax Act, 1922 and the question was whether the interest paid before the commencement of production on the amount borrowed for the acquisition and installation of the plant and machinery could be considered to be a part of the “actual cost” of the assets to the assessee. As the expression “actual cost” had not been defined, this Court was of the view that it should be construed “in the sense which no commercial man would misunderstand. For this purpose, it could be necessary to ascertain the connotation of the above expression in accordance with the normal rules of accountancy prevailing in commerce and industry”. Having considered authoritative books in this regard, this Court said that the accepted accountancy rule for determining the cost of fixed assets was to include all expenditure necessary to bring such assets into existence and to put them in a working condition. *That rule of accountancy had to be adopted for determining the “actual cost” of the assets in the absence of any statutory definition or other indication to the contrary.*”

Subsequent to the filing of these appeals, the Institute of Cost and Works Accountants of India (ICWAI) has laid down the principles of determining cost of production for captive consumption and formulated the standards for costing : CAS-4. According to CAS-4 the definition of “cost of production” is as under :

“4.1. Cost of Production : Cost of Production shall consist of Material consumed, Direct wages and salaries, Direct expenses, Works overheads, Quality Control cost, Research and Development cost, Packing cost, Administrative Overheads relating to production.”

The cost accounting principles laid down by ICWAI have been recognized by the Central Board of Excise and Customs vide Circular No.

- A 692/8/2003 CX dated 13.2.2003. The circular requires the department to determine the cost of production of captively consumed goods strictly in accordance with CAS-4.

- B The Tribunal in the case of *BMF BELTINGS LTD. v. CCE* : (2005) 184 E.L.T. 158 (Tri. Bang.) for the period 1995 to 2000 has directed the department to apply CAS-4 for the determination of the cost of production of the captively consumed goods. In *ITC v. CCE*, (190) ELT 119 the Tribunal held that the department has to calculate the cost of production in terms of CAS-4. Other decisions of the Tribunal, wherein it has directed that CAS-4 be applied for determination of the cost of production, are *Teja Engineering v. CCE*, (2006) 193 ELT 100 (Tri-Chennai), *Ashima Denims v. CCE*, (2005) 191 ELT 318 (Tri-Mumbai), and *Arti Industries v. CCE*, (2005) 186 ELT 208 (Tri-Chennai). This is therefore a consistent view taken by the Tribunal. The department has not filed any appeal in these cases and accepted the legal position. Apart from this, in the light of several decisions of this Court, the Department is also bound by the said circular No.692/8/2003-CX dated 13.2.2003 issued by
- D the CBEC. As such it cannot now take a contrary stand.

- E It may be noted that in the present case the intermediate products (milk crumbs, refined milk chocolate and four other intermediate products) are captively consumed in the Respondent's own factory. These intermediate products are not sold nor are marketable. Hence there can be no question of including the expenses of the factory which produces the final product namely the chocolate e.g. advertising, insurance and another expenses in their valuation as was sought to be added by the Commissioner (Appeals) and the Assistant Commissioner.

- F For the reasons given above, we find no merit in these appeals and they are dismissed. No costs.

Civil Appeal Nos. 1856-1957/2002, 5232-5233/2003, 1425/2005 & 2878-2879/2005)

- G In view of the decision in Civil Appeal Nos. 2947-2948/2001, these appeals are accordingly dismissed. No costs.

S.K.S.

Appeals dismissed.