

J. B. Nagar CPE Study Circle of the ICAI

Event : Panel Discussion on Interplay of Ind-AS, ICDS & GST

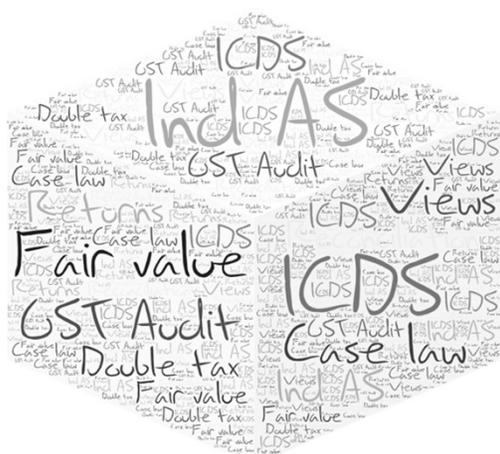
Day & Date : Sunday, 8th May, 2022

Panelists : CA Milan Mody (Ind AS)
CA Gopal Bohra (ICDS)
CA Naresh Sheth (GST)

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Basic Overview

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Applicability of Ind AS (other than Banks and Insurance Companies)

Phase	Date from which IND AS is effective	Applicable To
Phase I	1 st April 2016	<ul style="list-style-type: none"> Listed Company Unlisted Company Net worth greater than or equal to Rs. 500 crores
Phase II	1 st April 2017	<ul style="list-style-type: none"> Listed Company (other than covered in Phase I) Unlisted Company having net worth greater than or equal to Rs. 250 crores but not exceeding Rs. 500 crore
Phase III	1 st April 2018	<ul style="list-style-type: none"> NBFC- having net worth greater than or equal to Rs. 500 crore
Phase IV	1 st April 2019	<ul style="list-style-type: none"> NBFC listed or in the process of listing-having net worth less than Rs. 500 crore Unlisted NBFCs having net worth of Rs. 250 crores or more but less than Rs. 500 crores

Where any company achieves the thresholds subsequently, Ind AS will be applicable from succeeding year.

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Ind AS - Overview

More principles based as against rule based

Substance over form of a transaction i.e., economic reality of a transaction

Transparency – Extensive disclosure

Moving towards fair value and measurements based on time value of money

Investors-oriented and extensive disclosures

Transitional relaxation given in the standard and also issued by SEBI

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ICDS- Overview

- Section 145(1) - income under "Profits and Gains of business/profession" and Income from Other Sources to be computed either cash or mercantile system of accounting
- Section 145(2) gives power to Central Government to notify AS/ICDS
- 10 ICDS made applicable from AY 2017-18
- ICDS are Applicable for computation of income under the head "Profits and Gains of business/profession" and Income from Other Sources
- Applicable to all assessee following mercantile system of accounting except:
 - Individuals not liable to tax audit
 - HUFs not liable to tax audit

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ICDS- Overview

- ICDS to be followed for purpose of computation of income and not for maintenance of books of account
- Delhi High Court in Chamber of Tax Consultants v UOI (87 taxmann.com 93) quashed certain ICDS and certain portions of other ICDS
- Finance Act, 2018 has brought amendments in the Act retrospectively from A.Y. 2017-18 to annul above referred decision of Delhi High Court
- Circular No. 10/2017 – Clarifications by way of FAQs
- Non-compliance with ICDS may lead to best judgment assessment

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GST- Overview

- GST is a transaction tax
- Economic transactions carried out in course or furtherance of business is liable to tax
- Exchange or barter is also a supply liable to GST
- At present, alcoholic liquor for human consumption and petroleum products are out of GST levy
- Legislation provides for :
 - Taxable event – Supply of goods or services or both
 - Time of supply- i.e. Point of time when taxable event occurs
 - Value of supply- Elaborate provisions and rules for determining value of supply

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Importance & Relevance of Today's Session

- Ind AS, ICDS and GST require in-depth deliberations amongst corporates, tax professionals and auditors
- Revenue as declared in financial statements could be materially different from revenue declared in GST / Income Tax returns mainly on account of:
 - Timing difference in revenue recognition under Ind AS, Income Tax and GST
 - GST is pre-dominantly a tax on transaction value whereas Ind AS recognizes transaction at its fair value
 - Income tax is a pre-dominantly a tax on real Income
 - Ind AS accounts for expenses / losses on provisional basis while its allowability under Income Tax depends on Specific provision
- Differences in treatment of expenditure (capital as well as revenue) under Ind AS, ICDS and GST

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Importance & Relevance of Today's Session

- Need for reconciliation of financial statement, tax returns and GST returns arise mainly due to difference in :
 - Accounting treatment of transaction as per Ind AS and Taxability as per ICDS and GST Act
 - Timing difference in revenue recognition in Accounts , Income Tax returns and GST Returns
 - Difference in value of transaction as per Accounts, ICDS and GST
- **It is settled jurisprudence that accounting treatment does not determine tax treatment:**
 - Kedarnath Jute Mfg. Co. Ltd vs Commissioner Of Income Tax [1971 AIR 2145, 1972 SCR (1) 277]
 - Shoorji Vallabhdas And Co. [1962 46 ITR 144 SC]
- Tax treatment (Direct or Indirect Tax) is independent of accounting treatment
- Similarly accounting treatment is also independent of tax treatment

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Case Studies

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Case study 1: Performance Obligation and Control

- XYZ Limited ('the Company') raised sales invoices of Rs. 50 Lakhs in FY 2020-21 for which effective control was not transferred to buyer or performance obligation criteria was not met
- What will be the accounting treatment under IND-AS 115?
- How does ICDS deal with these Ind AS adjustments?
- What are the GST implications of these Ind AS adjustments?

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Case study 2: Sale with differential credit terms

- XYZ Limited enters a contract with Mr. A and Mr. B on 1st January 2020 for sale of machinery
- XYZ Ltd sold the machinery to Mr. A at Rs. 6 Crores with standard credit term of 60 days
- It also sold same machine to Mr. B at Rs. 7 Crores for credit period of 365 days
- What are Ind AS implications of above transactions?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

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Case study 3: Sale with warranty

- XYZ Limited sells machinery with following options to the customers:
 - With 1 year standard warranty at Rs. 6 Crores
 - With 3 years extended warranty at Rs. 6.5 Crores
 - With 1 year warranty at Rs. 6 Crores along with option to buy additional 2 years warranty at 60 lakhs
 - What are Ind AS implications of above transactions?
 - How does ICDS deal with above transaction?
 - What are the GST implications of above transactions?
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Case study 4: Provision for sales return

- M/s Sellkart Ltd sells goods with the term that customer can return goods within one year
- In FY 2021-22, it has sold 1,500 units at Rs. 10,000 each
- Past trend shows that 3% of the goods sold are returned in next financial year
- What are Ind AS implications of above transactions?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

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Case study 5: Non-refundable membership fees

- M/s Holiday Inn is a club having resorts in various parts of the country
- It offers membership of 25 years to its customers against one-time upfront payment of Rs. 10 lakhs
- What are Ind AS implications of above transactions?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

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Case study 6: Unbilled revenue

- Company enters into an agreement on 15th January 2021 with one customer for providing consultancy services on monthly basis. Consideration to be charged is based on number of hours spent by the Company on each 15th of the month for the cycle from 16th to 15th. Payment for each month is due on 21st of the next month.
- The Company has Rs. 20 Lakhs of income which is not billed to customer for the period from 16th March 2021 to 31st March 2021.
- What are Ind AS implications of above transactions?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

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Case study 7: Revenue from trial runs

- ABC Speciality Gases is in the business of manufacture and sale of chemicals. It has set up a new plant for manufacture of a new chemical.
- The Company conducted an initial trial run, the main emphasis of which was to achieve the desired quality of output and continuous operation without breakdown. This was continued till the Company believed that the plant is ready for commercial production
- The Company incurred the cost of Rs. 10,00,000 and earned revenue from it of Rs. 15,00,000.
- What are Ind AS implications of above transactions?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

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Case study 8: Operating lease

- ABC Malls Limited has taken on lease the fully furnished premises for the period of 5 years.
- Rent payable for 5 years is as below:
 - Year 1 – Rs. 2,00,000
 - Year 2 and 3 – Rs. 2,50,000
 - Year 4 and 5 – Rs. 3,00,000
- Lease entered is non-cancellable lease and agreement is duly registered.
- What are Ind AS implications of above transactions in the books of ABC Malls Limited?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

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Case study 9: Lease rent income on SLM basis

- Malik Limited is a lessor who earns rent income on property given for 5 years on lease
- Agreement for lease (effective from 1st April 2020) includes rent escalation of 10% each year with a clause for lock-in period upto 3 years. This agreement can be further renewed at the option of lessee for 2 more years
- What are Ind AS implications of above transactions?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

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Case study 10: Interest-free security deposit

- X Ltd leased out its commercial property to Y Ltd on following terms:
 - Y Ltd to occupy premises from 1st April 2021 to 31st March 2024
 - Y Ltd to give interest free security deposit of Rs. 100 lakhs on the date of execution of rent agreement (i.e. 1st April 2021) as against normal deposit of Rs 2 Lakhs
 - Said deposit is refundable on vacating the premises
 - Monthly rent will be Rs. 10,000/- as against normal market rent of Rs. 60,000
- What are Ind AS implications of above transactions for X Ltd & Y Ltd?
- What are ICDS implications of above transactions for X Ltd & Y Ltd?
- What are the GST implications of above transactions for X Ltd & Y Ltd?

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Case study 11 : Effective Interest rate

- Malamal Limited has given a loan of Rs. 10 crores to Udhaar Ltd at interest of 10% p.a.
- The tenure of the loan is 5 years
- It has also charged upfront 2% processing fees on sanction of loan
- What are Ind AS implications of above transactions for Malamal Ltd and Udhaar Ltd?
- How does ICDS deal with above transaction for Malamal Ltd and Udhaar Ltd?
- What are the GST implications of above transaction for Malamal Ltd and Udhaar Ltd?

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Case study 12: Sale of business

- M/s United Chemicals Limited sold one of its business on slump sale basis to M/s Tahoma Laboratories Limited for Rs. 3,000 Crores
- Business has been sold as a going concern on slump sale basis
- What are Ind AS implications of above transactions in the books of United Chemicals?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

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Case study 13: Corporate guarantee

- H Limited (Holding Company) gives corporate guarantee of Rs.10 Crores to banks for loan taken by S Limited (Subsidiary Company)
- Holding Company has either not charged or charged very nominal Guarantee Commission to subsidiary
- What is Ind AS implication of above transaction?
- How does ICDS deal with the above transaction?
- What is the GST implication of above transaction?

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Case study 14: ITC Reversal of Research Material

- M/s Medicines Ltd has incurred expenditure on research and development.
- Historically 20% of such items are expired
- Expired items are destroyed at periodic intervals
- Provision of Rs. 20,00,000 was made in FY 2020-21 for expired products
- During the FY 2021-22, material worth Rs. 30,00,000 is destroyed
- What are Ind AS implications of above transactions?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

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Case study 15: Prior period income

- Advertising Company received advance of Rs.50 Lakhs from client in F.Y. 2019-20
- The advertising campaign was over in F.Y. 2019-20 itself
- The Company missed to raise invoice on it's client in F.Y. 2019-20
- Mistake detected in F.Y. 2021-22 and company intends to rectify it
- Please advise about IND AS, ICDS and GST implications for this rectification

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Conclusion

- Additional responsibility on Accountant, Auditor and GST Consultant to align and reconcile GST returns, Financial Statements and Income Tax returns
- ERP and accounting packages would have to be customized
- Advisable to have automated (or process driven) reconciliations since year / period end reconciliation would be time consuming and cumbersome
- GST department needs to train its personnel to comprehend Ind AS Financial Statements to avoid unnecessary hassles and litigations

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Words of Caution

- Views expressed are the personal views of panelists based on their interpretation of law
- Presentation needs to be revised and revisited on future amendments in Law
- Presentation is made for educational meeting arranged with a clear understanding that neither the Panelists nor J.B Nagar Study Circle of ICAI will be responsible for any error, omission, commission and result of any action taken by a participant or anyone on the basis of this presentation
- Views expressed by the panelists should not be treated as professional advice or legal opinion on the issue discussed

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