

Subject : GST Precautions in Finalization of Balance Sheet
Organized by : J. B. NAGAR CPE STUDY CIRCLE
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Venue : Direct Plex, New Nagardas Road, Near Andheri Subway, Andheri

GST

Goods &
Services
Tax



CA Gopal Kedia

Ph : +91-9920010157 | gopalkedia1@gmail.com

Scope of Presentation

- ➡ **GST Audit – Legal Provisions**
- ➡ **Scope of GST Audit**
- ➡ **Maintenance of Books of Accounts**
- ➡ **Precaution of GST in finalization of Books of Accounts**

LEGAL PROVISIONS

GST Audit- Legal Provisions

Sec 35 (5) of CGST Act

Section 35(5) of CGST Act, 2017:

Every registered person whose **turnover** during a **financial year** exceeds the **prescribed limit** shall get his accounts audited by a CA or a CWA and shall submit

- A **copy of audited accounts**,
- The reconciliation statement u/s. 44(2) and
- such other documents in such form and manner as may be prescribed

Rule 80(3) of CGST Rule, 2017

Every registered person whose **aggregate turnover** during a **financial year** exceeds **Rs. 2 crore** shall get his accounts audited as specified under section 35(5) and he shall furnish a copy of audited annual accounts and a reconciliation statement, **duly certified**, in **FORM GSTR-9C**, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner.

Section 44(2) – Submission of Audit Report

- **Every registered person required to get his accounts audited under Provisions of Section 35(5)**
- Shall furnish, electronically, the **annual return (“AR”)**
 - along with a copy of **audited annual accounts**; and
 - a reconciliation statement, reconciling value of supplies declared **in the return furnished for the financial year** with the **audited annual financial statements**; and
 - Such other particulars as may be prescribed

SCOPE OF GST AUDIT

'Audit' – Statutory Definition

- Section 2(13) of the Act defines Audit to mean:
- examination of **records, returns and other documents** maintained or furnished by the **registered person under the Act or the rules** made thereunder or **under any law for the time being in force** to verify the **correctness of-**
 - Turnover declared,
 - Taxed paid,
 - Refund claimed,
 - Input tax credit availed
 - To assess his compliance with the provisions of the Act or rules made thereunder.

Scope of Audit- Press Release (3rd July 2019)

Role of chartered accountant or a cost accountant in certifying reconciliation statement: There are apprehensions that the chartered accountant or cost accountant may go **beyond the books of account** in their recommendations under FORM GSTR-9C. The GST Act is clear in this regard. With respect to the reconciliation statement, **their role is limited to reconciling the values declared in annual return (FORM GSTR-9) with the audited annual accounts of the taxpayer.**

Maintenance of Books Of Accounts

Maintenance of Books Of Accounts

Ascertain the method of accounting adopted by the entity, which will depend on :

- Constitution of Entity
- Entity govern by specific law
- Books are govern by specific law
- As per GGSP (Generally accepted Accounting Principles)
- Cash method vs Mercantile Method
- Which act will govern maintenance of books of Accounts
- Companies Act read with Accounting Standard
- Income Tax Act read with ICDS
- Books of accounts **Legal Entity wise or GSTIN Wise**

Requirement of Books Of Accounts under GST Act

Sec 35

Every registered person shall keep and maintain, at his principal place of business, as mentioned in the certificate of registration, a **true and correct account of—**

- a) production or manufacture of goods;
- b) inward and outward supply of goods or services or both;
- c) stock of goods;
- d) input tax credit availed;
- e) output tax payable and paid; and
- f) such other particulars as may be prescribed: **Rule 56**

Requirement of Books Of Accounts under GST Act

Maintenance of accounts by registered persons Rule 56

2) Every registered person, other than a person paying tax under section 10, shall maintain **the accounts of stock** in respect of goods received and supplied by him, and such accounts shall contain particulars of the opening balance, receipt, supply, **goods lost, stolen, destroyed, written off or disposed of by way of gift or free sample** and the balance of stock including raw materials, finished goods, scrap and wastage thereof.

(3) Every registered person shall keep and maintain a separate **account of advances received**, paid and adjustments made thereto.

Reconciliation of Outward Supply

Reconciliation of GSTR 3B & 1

- 1. Taxes paid under reverse charge mechanism – diff bet'n 3b & 1**
- 2. Outward Supply not reported in GST Retrun :**

Need to be reported disclose in GSTR-1 of Sept 2019 to enable the customer to claim the ITC on the same

- 1. Reconciliation of taxes paid IGST Vs CGST +SGST-**
- 2. Adjustment in GST returns made post March and before Sept the effects in books of accounts should be provided upto 31st March.**
- 3. Reconciliation of GST liability Ledgers**
- 4. Sale of capital goods –**

In respect of sale of capital goods, only the profit / loss arising on the sale of such capital goods is disclosed in the Profit and Loss account. However, the GST on supply of capital goods is leviable on the transaction value

- 1. Computation of consequential interest and their provisioning in books of accounts**

Impact of GST on Books of Accounts

Effect of Credit Notes

- Accounting Credit Notes Vs GST Credit Note
- Post Sale Discount – Ascertain whether the additional discount is given by is in **lieu of consideration for any additional activity** with obligation to perform additional activities like special sales drive, advertisement campaign, exhibition etc.,
(Should be linked with the original invoice)
(Accounting treatment of **rate of taxes** based on the preposition taken)
- Post Supply Discount – Not in accordance with Sec 15 (3) (b) – Does ITC reversal is required ? (**Circular 105/2019**)
- (Treatment in books of account either to show as indirect Income in P&L A/c or net your purchases)
- Additional discount by Reduction in price – Supplier -> dealer->Customer
- (TN AAR- Sanghvi Movers Ltd)

Impact of GST on Books of Accounts

Free Sample or Gift (Circular 92/2019)

Either treat as free gift and reverse the ITC as per 17 (5) (h) or
Treat as matter of supply in accordance with Schedule I of CGST Act.

How to ascertain ITC of manufactured Goods ??

Buy one, Get one free

Option one	Option Two
Qty X units	Qty X units
2000*1 = 2000	2000*2 = 4000
Free one unit	Less Dis 50% = <u>2000</u>
	Net value = 2000

Impact of GST on Other Income

- **Treatment of Warranty Supply** – Whether Free supply or reversal of ITC
- **Employer and Employer related transaction**
 - *Amenities Vs Deduction – Kerala AAAR- Caltech Polymer*
 - *Notice Pay Recovery (Saving in Expenses, not recorded in accounts)*
 - *Manufactured goods sold to employee at concessional rate- valuation rules will apply.*
- **Changes in rates from time to time :**
 - Sales of Used Motor Cars :
 - Book printing where contents are provided – Services @18%
- **Value of Goods written off in the Books of accounts – Reversal of ITC u/s 17(5) (h)**

Impact in Accounts of GST RCM liability

- **Export /Import of Services :**
 - Provisioning of Tax liability, if payment is not realized in 1 year.
 - RCM provision need to be check with POS, need to verify with payments made in foreign currency
 - Last date for availing the ITC is due date of filing GST return of Sept 2019
- **Ocean Freight :**
 - Inco term agreed as FOB – RCM applicable
 - Inco terms agreed as CIF - ?? What will the value?
- **Transportation Services**
 - Identify the Transportation services, GTA (FCM) and GTA (RCM)
 - If RCM attract – the last date for availing the ITC is due date of filing GST return of Sept 2019

Impact in Accounts Due to Point of Taxation in GST

Accounting effect of GST liability in Books of accounts due to difference in Point of taxation and revenue recognition

- **Works Contract Services** – Continuous supply of services, Verify if the invoicing are made as per the agreement
- **Goods send on approval Basis** – not returned with 180 days
- **Goods send to job worker** - not returned with 180 days
- **Liability on Advances received on services** – Some time advances are not adjusted against the invoices raised then reduce the liability in GSTR-3B of subsequent period. And effect should be provided in books of accounts.

Impact in Accounts Due to Point of Taxation in GST

Accounting effect of GST liability in Books of accounts due to difference in Point of taxation and revenue recognition

- **Goods Rejected vs Goods Return** – either by Debit note or sales invoice.
- **Rent Receivable** : Provision is made in books of accounts on accrual basis but POT falls in subsequent period sat 15th April.

Impact in Accounts Due to Place of Supply in GST

Accounting effect of GST liability in Books of accounts due to Place of Supply

- Verification of Place of Supply specially in case of Bill to Ship to transaction.
- Export of Goods without payment of IGST without LUT – Whether provision of IGST required ?
- Verification of Place of Supply specially in case of Bill to Ship to transaction.
- **Timing Difference**
e.g. An export is made on CIF basis,
Tax invoice as per GST will be raised according to sec 12, However in accounts revenue is recognized on the date of receipt of delivery by the foreign buyer, meanwhile it will recognised as unearned revenue.
- In case of Export of Services – If payment is not realized whether provision of IGST is required

GST Impact in Accounts Due to ITC

Adjustment in books of accounts need to be made due to ITC in GST:

- **Export refund rejected – whether re-credited in ECL, necessary accounting treatment in books of accounts**
- **Reversal of ITC in case of Exempted supply / non GST supply (*Annual Basis*) –**

Rule 42 (2)

(2) The input tax credit determined under sub-rule (1) shall be calculated finally for the financial year before the due date for furnishing of the return for the month of September following the end of the financial year to which such credit relates, in the manner specified in the said sub-rule and-

- Excess ITC shall be added to the output tax liability before sept with interest
- Excess reversal shall be claimed as ITC before sept

GST Impact in Accounts Due to ITC

Adjustment in books of accounts need to be made due to ITC in GST:

- **Reconciliation with GSTR-2A-**

Para (C) of Press release dated 3rd July 2019

Premise of Table 8D of Annual Return

Therefore, taxpayers need not be concerned about the values reflected in this table. This is merely an information that the Government needs for settlement purposes. Figures in Table 8A of FORM GSTR-9 are auto-populated only for those FORM GSTR-1 which were furnished by the corresponding suppliers by the due date. Thus, ITC on supplies made during the financial year 2017-18, if reported beyond the said date by the corresponding supplier, will not get auto-populated in said Table 8A. It may also be noted that FORM GSTR-2A continues to be auto-populated on the basis of the corresponding FORM GSTR-1 furnished by suppliers even after the due date. In such cases there would be a mis-match between the updated FORM GSTR-2A and the auto-populated information in Table 8A. It is important to note that Table 8A of the annual returns is autopopulated from FORM GSTR-2A as on 1st May, 2019.

- **Still recommended to identify any un availed ITC.**

GST Impact in Accounts Due to ITC

Adjustment in books of accounts need to be made due to ITC in GST:

- **ITC on pre- paid expenses** – Examp : Lease Rent, Insurance Rent etc, whether these are considered as services received to full fill the condition of sec 16 (2)
- **Reversal on ITC on account of non payment to creditors with 180 Days**
- **Matching of ITC on import of Goods with ICEGATE:** Some time made as part of cost of Goods – last date of availing ITC is sept.
- **ITC on expenses are accounted as cost of expenses :**

GST Impact in Accounts Due to Valuation

Adjustment in books of accounts need to be made due to Valuation Rules:

- **Branch Transfer : What is the value of such supply**

Proviso to rule 28

Provided further that where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the open market value of the goods or services.

- Adjustment of Foreign exchange fluctuations to be made here only when you have included the foreign exchange fluctuation in computing Turnover over as per Clause 5A
 - Value of Taxable Goods = Rate noti by CBEC
 - Value of service – Rate as per generally accepted a/cing principal



CA Gopal Kedia,

+91-9920010157

email:gopalkedia1@gmail.com