

**J.B. NAGAR CPE STUDY CIRCLE** <sup>1</sup>  
**of**  
**WIRC of ICAI**

Finalisation of Accounts with GST  
Perspective

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Finalisation of Accounts  
with  
GST perspective

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## Session Coverage

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- Books of Accounts
- Financial Statements
- Director's Report
- Audit Report & CARO
- Notes to Accounts
- Internal Audit Report
- Tax Audit Report
- Year end Adjustment Entries

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## Books of Accounts

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Financial Books	GST Ledgers>Returns
ITC	Credit ledger
Excess cash paid (if any)	Cash Ledger
TDS -GST	Cash Ledger
Turnover	GSTR 1 & GSTR 3B
GST Liability	GSTR 3B
ITC refund receivable	Refund Application status
Turnover/GST Liability	Credit and Liability Statement

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## Review of Financial Statements 5

➤ Revenue recognition Vs GST turnover reconciliation.

*Eg:1. Goods invoiced on March 28. However risk and reward passes only in April. Revenue cannot be recognised as per Accounting Standard. Since invoice was raised in March, GST turnover will include the sale and tax has to be paid in April*

*Eg: 2. In construction contracts the turnover as per books & GST returns will vary and needs to be reconciled.*

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## Review of Financial Statements 6

➤ Revenue recognition Vs GST turnover reconciliation.

*Eg:3. Entities following IND AS, where the functional currency is not INR. For the purpose of GST, sales will be accounted at the exchange prevailing on the date of transaction, whereas in books it will generally be recorded at a prefixed average rate. This will result in difference, requiring reconciliation.*

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## Review of Financial Statements 7

- Analysis of turnover rate wise to ensure correctness of GST liability.
- Check if HSN & rates are appropriate.
- Impact of GST on year end discounts
  - *Volume discounts passed on at year end reduces the taxable value and consequently the GST liability. Auditor to ensure that an agreement was entered into before supply commenced and the discount can be linked to specific invoices. If not, discount will not reduce taxable value.*

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## Review of Financial Statements 8

- Analysis of **Other Income** to ascertain GST liability
  - Scrap sales** – Whether GST has been charged
  - Profit or loss on sale of fixed assets** – Where ITC has not been availed, GST liability is on the gross sale consideration.

However, in cases where ITC has been availed and the asset is sold within 5 years, the GST payable will be the higher of (a) sale consideration X applicable rate & (b) reversal of proportionate ITC claimed

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## Review of Financial Statements 9

### Profit or loss on sale of fixed assets

Cost of capital asset Rs 10,00,000

ITC claimed               Rs 1,80,000

Max life of asset as per GST rules – 5 years

Asset sold after 3 years of use for Rs 3,25,000

(A) ITC to be reversed =  $1,80,000 \times \frac{24}{60} = 72,000$

(B) GST payable on sale value =  $3,25,000 \times 18\% = 58,500$

**Higher of (A) & (B) will be the GST liability**

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## Review of Financial Statements 10

- Reconcile the ITC claimed on expenses with the amounts debited to the profit & loss account.
  
- For entities following IND AS, having lease rental payables for long term lease (> 1 year), there will not be a line item in P&L as “Lease charge”, as the same is accounted under Financial cost. This will form a line item in reconciliation of expenses debited vis a vis ITC claimed.

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## Review of Financial Statements 11

- Analysis of **Expenditure** heads for RCM liability accounting and payment thereof.
- Accounting for TDS (GST) receivable (Check whether entries uploaded by deductor has been accepted online and the return filed)
- Has claims for refund been lodged in time and as per the laid down guidelines.

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## Review of Financial Statements 12

- Analyse payables to ensure that all invoices on which ITC has been claimed have been paid within 180 days. Else ITC to be reversed and liability plus interest to be provided.
- Analyse export receivables on account of supply of service, to check for amounts outstanding for more than a year from the date of export. In such cases, GST is payable on amounts not realised and the liability is to be provided for along with interest.

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## Review of Financial Statements 13

- Status of long pending refund claims
  
- Disclosure of GST related figures in financials
  - Net off GST liability & ITC/ TDS/ excess cash paid.
  - Resultant balance to be disclosed under Other Current Assets/Liabilities

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## Purchase of Goods/services 14

- Check whether the goods/services & have been received.
- Check whether the taxable invoice/debit note issued by the supplier is available
  
- Claiming of ITC without satisfying both the conditions will result in incorrect ITC claim.
  
- This is a common problem especially in an non ERP environment, some MSME entities and in transactions between HO & branches

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## Audit of PPE (Fixed Assets)

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- Check the accounting policy on PPE.
  - *Property, plant and equipment are stated at **cost of acquisition** or construction less accumulated depreciation less accumulated impairment, if any. Freehold land is measured at cost and is not depreciated. (Maruti Suzuki India Limited)*
  - *Property, plant and equipment are stated at **cost of acquisition** or construction less accumulated depreciation less accumulated impairment, if any..... **Cost includes purchase price, taxes and duties, labour cost and direct overheads for self-constructed assets and other direct costs incurred up to the date the asset is ready for its intended use. (Tata Motors Limited)***
  - *Property, plant and equipment is stated at **acquisition cost net of GST credits** as reduced by accumulated depreciation and accumulated impairment losses, if any. (Wheels India Limited)*

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## Audit of PPE (Fixes Assets)

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- Check the accounting policy on PPE.
- ITC **generally not available** on motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver).
- ITC **generally not available** on works contract services when supplied for construction of an immovable property (other than plant and machinery).
- ITC **not available on** goods or services or both received by a taxable person for construction of an **immovable property** (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business.

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## ITC on Vehicles

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ITC is generally **not available** on the following expenditure incurred on account of **motor vehicles, Vessels or aircrafts**

- General Insurance
- Servicing
- Repairs & Maintenance

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## Employee Benefit Expenses

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ITC **not available** on the following supply of goods or services or both

- Travel benefits extended to employees on vacation such as leave or home travel concession
- Food & beverages supplied to the employees (includes outdoor catering also). Sweets & gifts distributed during Pooja.
- Health services, beauty treatment, cosmetic & plastic surgery
- Life Insurance & Health insurance
- Membership of a club, health and fitness centre

*Provided that the input tax credit in respect of such goods or services or both shall be available, where it is obligatory for an employer to provide the same to its employees under any law for the time being in force*

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## Conveyance expenses 19

ITC not available on renting or hiring of motor vehicles, unless it is a statutory obligation

When auditing corporates (Public ltd cos, Pvt ltd cos, corporations set up by a separate statute) private companies and check whether Rent-a-cab services have been availed. If yes check

- If it was from individuals (proprietorship concern), partnership firm or HUF.
- Whether the above service providers are unregistered or are charging only 5% without availing ITC

If both the conditions are satisfied, then the liability GST liability is to be discharged by the recipient.

*ITC credit cannot be availed on the liability discharged under RCM*

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## Travel & hotel Accommodation expenses 20

- Check whether the GST charged on rail and air fare is either IGST or CGST & SGST of the state in which the business entity is registered.
- GST charged on room rent by hotels located in a state other than the state where the business is located cannot be claimed as ITC
- Watch out for cases where other state CGST & SGST have been accounted as IGST due to ignorance.

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## Reconciliations-GST Outward Supplies 21

- Month wise for broad summary and drill down in case of discrepancies
  - GSTR 3B & GSTR 1 with Books of Accounts
- Parameters for verification
- Liability of the particular FY discharged in the same FY
  - Liability of the particular FY discharged in the next FY (April to Sep returns or through DRC challans)
  - Liability not yet discharged
  - Liability discharged under wrong head

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## Reconciliations-GST Inward Supplies 22

- Month wise for broad summary and drill down in case of discrepancies
  - GSTR 3B & GSTR 2A with Books of Accounts
- Parameters for verification
- ITC of the particular FY claimed in the same FY
  - ITC of the particular FY claimed in the next FY (April to Sep returns)
  - ITC not yet claimed – deferred
  - ITC not yet claimed – lapsed

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## RCM 23

Sl.No	Ledger Account / Line item	Services rendered by	Recipient of Service
1	Transport charges/Freight	Goods Transport Agency	Factory\Society\Co-op society\person regd under GST\Body corporate\Partnership firm\AoP\casual taxable person located in the taxable territory.
2	Legal charges	Legal services rendered by an Advocate/ Sr. Advocate/ firm of Advocates	Any business entity located in the taxable territory
3	Arbitration fees	Services rendered by an arbitral tribunal	Any business entity located in the taxable territory
4	Sponsorship expenses	Any person	Body corporate & partnership firms located in the taxable territory
5	Project expenses – Transfer of development rights	Any person	Promoter of the project

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## RCM 24

Sl.No	Ledger Account / Line item	Services rendered by	Recipient of Service
6	Lease rentals Payment made for long term lease of land(>30 years) for construction of a project	Any person	Promoter of the project
7	Payments to Directors	A Director of the company making the payment	Corporate
8	Security services	Any person other than a body corporate	A registered person located in the taxable territory
9	Conveyance expenses Renting of motor vehicle	Any person	A body corporate located in the taxable territory

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## ITC on Job Workers

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- Section 19 of the CGST Act, 2017 provides that the principal (a person supplying taxable goods to the job worker) shall be entitled to take the credit of input tax paid on inputs sent to the job- worker for the job work.
- Further, the proviso also provides that the principal can take the credit even when the goods have been directly supplied to the job worker without bringing into the premise of the principal. The principal need not wait till the inputs are first brought to his place of business

### **Time limit for returning the goods of principal**

Inputs and Capital Goods after processing shall be returned back to principal within one year or three years respectively of their being sent out.

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## Directors Report

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- Expenditure in foreign currency - Paid for services - GST on RCM
- Earnings in foreign currency – Check whether LUT filed
- GST on remuneration to directors (other than salary) - RCM
- GST on sitting fees – RCM

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## Directors Report 27

- CSR activities - Whether GST paid if any has been claimed as ITC
- Correctness of any reference in the report to GST paid (under contributions to exchequer) if any
- Response to Auditor's comments (EoM or Qualification)

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## Audit Report 28

- To Qualify or mention in Emphasis of Matter paragraph, **Material** impact on the financials due to the following:
  - Unreconciled/unexplained difference between turnover as per books & as per GST.
  - Under booking of GST liability due to wrong rate
  - Claiming of ineligible ITC
  - Export of goods & services without filing LUT

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## CARO 29

### ➤ **Inventory** [Paragraph 3(ii)]

*Whether physical verification of inventory has been conducted at reasonable intervals by the management and **whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account;***

- The discrepancies noticed on verification between the physical stocks and the book records were not material and have been properly dealt with in the books of account. (Tata Motors Ltd)
- The discrepancies noticed on verification between the physical stocks and the book records which were not material, have been properly dealt with in the books of account. (Wheels India Ltd)
- The discrepancies noted on physical verification of inventories as compared to book records were not material and have been properly dealt with in the books of account. (Maruti Suzuki India Ltd)

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## CARO 30

### ➤ **Statutory Dues** [Paragraph 3(vii)(a)]

*Whether the company is **regular** in depositing **undisputed statutory dues** including Provident Fund, employees' State Insurance, Income-tax, Sales-tax, Service Tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and*

***if not**, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated*

**Disputed vs Undisputed** - Need positive evidence or action on the part of the company to show that it has not accepted the demand for payment of tax or duty

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## CARO 31

**Statutory Dues**

- “Dues” include taxes, interest & penalty
- a) Regular Payment
- b) Generally Regular but slight delay in a few months
- c) Not regular but delay not serious
- d) Not regular and serious delay

*As per ICAI GN on CARO, the above four situations warrants different disclosure.*

*The concept of Materiality to be kept in mind*

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## CARO 32

**Statutory Dues**

1. **Regular Payments** through the year
  - “undisputed statutory dues including..... and GST have **been regularly deposited** by the company with the appropriate authorities in all cases during the year”.
2. Generally Regular but **slight delay** in a few months
  - “undisputed statutory dues including..... and GST have been regularly deposited by the company with the appropriate authorities **though there has been a slight delay** in a few cases”.

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## CARO

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**Statutory Dues****3. Not Regular but delay not serious**

- “undisputed statutory dues including..... and GST have **not generally been regularly deposited** with the appropriate authorities though the **delay in deposit have not been serious.**

**4. Not Regular and serious delay**

- “undisputed statutory dues including..... and **GST have not been regularly deposited** with the appropriate authorities though there **have been serious delays** in a large number of cases”.

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## CARO

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**Statutory Dues**

*The details of arrears of Undisputed Statutory Dues Outstanding for More than Six Months from the date they became payable to be presented in the format set out below*

*Statement of Arrears of Statutory Dues Outstanding for More than Six Months*

<i>Name of the Statute</i>	<i>Nature of the Dues</i>	<i>Amount (Rs.)</i>	<i>Period to which the amount relates</i>	<i>Due Date</i>	<i>Date of Payment</i>	<i>Remarks, if any</i>
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## CARO 35

### ➤ **Statutory Dues** [Paragraph 3(vii)(b)]

***Where dues of income Tax or sales Tax or service Tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. {A mere representation to the concerned Department shall not be treated as a dispute.}***

The information required by the clause may be reported in the following format:

#### **Statement of Disputed Dues**

<i>Name of the Statute</i>	<i>Nature of the Dues</i>	<i>Amount (Rs.)</i>	<i>Period to which the amount relates</i>	<i>Forum where dispute is pending</i>	<i>Remarks, if any</i>

**Check for disclosure of Contingent Liability**

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## Notes to Accounts 36

### **Related Party Disclosures**

- Check for Reimbursement of expenses to related parties – RCM liability
- Payment made to Foreign holding / Subsidiary companies / Associate concerns. Check if they are liable to GST and if yes, has the same been discharged
- Check for any extraordinary note or item and examine whether the same attracts the provisions of GST

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## Review – Internal Audit Report 37

Check for observations/comments on: a) accounting for GST liability

b) Frequent claim of ineligible ITC

c) Claim of ITC based on 2A without actual receipt of goods or services.

d) Comments on efficacy of controls in accounting for Input & output GST.

Consider the impact of IA report while drafting Audit report & Internal Financial Control Report

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## Tax Audit Report 38

Tax Auditor's report -3CD

Q 4. Whether the assessee is liable to pay indirect tax like excise duty, service tax, sales tax, goods and service tax, customs duty, etc. if yes, please furnish the registration number or GST number or any other identification number allotted for the same

- Includes liability on RCM
- Mention all GSTINs across the country

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## Tax Audit Report 39

### Clauses in Tax Auditor's report -3CD

#### 18. Depreciation Schedule

■ Ensure that assets included are exclusive of GST if ITC has been claimed. Also check accounting policy on PPE

21(a) Amounts debited to the profit and loss account, being in the nature of capital, personal....

■ Check that on amounts disclosed under this clause, ITC has not been claimed.

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## Year end adjustment entries 40

- Ensure provision is made for **services availed** from domestic vendors exclusive of GST, as ITC cannot be claimed without the invoice.
- Ensure provision is made for services availed from overseas Associated Enterprises inclusive of RCM-GST.
- Ensure provision is made for GST short paid during the year due to inadvertent errors in rate/classification/calculation along with interest thereon
- Ensure reversal of ineligible ITC and creation of liability & interest

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## Conclusion 41

- Knowledge of GST law & Rules is a sine qua non for conducting audit of any enterprise.
- Reconciliation between figures as per books of accounts and GST returns to be done as far as practically possible before finalization of accounts.
- Auditing standards to be followed
- Cross verify figures disclosed in various reports (Financials/Tax audit report/GST annual returns) to ensure accuracy & consistency

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# Thank You

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