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Impact of Goods & Service Tax (GST) on Books of Accounts & Financial Statements

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Impact of GST on Accounting Practices

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- Since July 2017, the One Nation One tax i.e. Goods and Services Tax (GST) was introduced.
  - Apparently, it looks **simplified**;
  - **however**, the entire accounting mechanism has been overhauled.

- With GST, accounting practices have **undergone major changes**.

- Businesses must maintain detailed records of all transactions under GST. This involves
  - sales, output tax, liabilities
  - purchases, input tax credits, and
  - Expenses and RCM Inputs / Payables.

- Proper record-keeping allows accurate GST calculation and claiming. Failing to maintain accurate records can lead to penalties and financial setbacks.

- Under GST, financial statements must reflect accurate GST amounts. This requires reconciliation of GST – sales, purchases, input credits.

- Accurate reporting helps assess tax liabilities. It helps understand cash flow, make informed decisions.

Accounting Obstacles in GST Rollout

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- A major hurdle is updating current systems to *incorporate GST. This involves modifying software, account charts, and tax codes to reflect new regulations accurately.* ***The Key elements of GST which has made this an ever evolving journey are : -***
  - *Always Changing Law & Regulations*
  - *New Circulars, Case Laws and Notices*
  - *Reported Issues / Departmental Notices*

- Staff training is vital after GST rollout. Accounting teams must know the new tax rules well. They should calculate GST amounts correctly. They must file returns on time. They need to keep accurate records.

Accounting Obstacles in GST Rollout

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- GST compliance is crucial to avoid legal issues.

- Businesses must understand and follow GST rules. GST may need changes in accounting processes.

- Businesses should review current procedures. They must make required adjustments for new tax rules.

- Proper documentation for transactions is a must.

- Under GST, firms can claim input tax credits. **But tracking and reconciling these credits can be tricky. – 180 Day Rule, Exempt Outputs, Inverted duty Structure, Block Credit, etc**

Best Practices for Accounting under GST

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- Maintain Proper Documentation.
- Utilize Appropriate Accounting Software.
- Stay Updated with GST Regulations.
- Reconcile GST Amounts.
- Seek Professional Guidance.

Accounting under the GST Regime

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Under GST, all these erstwhile indirect taxes such as excise, VAT, and service tax are subsumed into one account. The Taxpayer has to then maintain the following accounts (apart from accounts like purchase, sales, stock) for every GST Identification Number (GSTIN) as follows:

- Input CGST a/c
- Output CGST a/c
- Input SGST a/c
- Output SGST a/c
- Input IGST a/c
- Output IGST a/c
- Input Cess a/c
- Output Cess a/c
- Electronic Cash Ledger

Impact of GST on Accounting Standard & Financial Statement

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Revenue Recognition.

Entities preparing their Financial Statements following Generally Accepted Accounting Principles as applicable under Companies Act, 2013 may adopt revenue recognition policy which may vary from the provisions of the GST Act and Rules prescribed thereunder.

Revenue Recognition in Work Contract

Revenue from rendering of Work Contract services is recognized either on

(i) Completion of services basis or

(ii) Percentage of completion method.

However, for discharging the liability under GST, the value of outward supply must be disclosed.

(i) In the return for the month in which an advance, if any, is received **(under Table 11A of the GSTR-1)** or

(ii) In the return for the month in which an invoice/ progressive billing is raised as per the time frame stipulated in the Act **(under outward supplies of the GSTR-1)**

Revenue Recognition in case of Export

Recognizing revenue in a reporting currency having a functional currency other than Indian rupees. To elaborate, for the purpose of GST, sales will be accounted **at the exchange rate prevailing on the date of transaction notified under section 14 of the Customs Act (under 6A of the GSTR- 1)**.

Whereas in books it will generally be recorded at a **prefixed average rate**. This will result in differences, requiring reconciliation.

Revenue Recognition in case of Multi-location/ Multi-registration:

Financial Statements are prepared on a consolidated basis for an entity as a whole.

While from the perspective of GST, an entity can have multiple GSTINs on account of following reasons:

a) Operations in multiple States.

b) Multiple registrations within the same State.

c) Registrations mandated within the same State i.e. SEZ/ DTA locations etc.

- The turnover of each registration shown in GST Returns are to be reconciled with the turnover disclosed in the Income Statement.
- Proper documentation is vital for compliance with GST laws.
- Maintaining records such as invoices, delivery challans, and e-way bills ensures transparency.
- Input Tax Credit poses various challenges when costs have to be split amongst multiple GSTINs

Matters in case of Related Party Transactions:

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In case of related party transactions check whether proper disclosures have been made in Financial Statement.

In GST, cross check and ensure that no transaction is missed out from verification for GST compliance like

i. Valuation Rules have been properly applied.

ii. Transactions have been correctly reported in GSTR-1

iii. Tax has been duly paid in GSTR-3B.

iv. E-way is properly generated if applicable.

It is important to further see

- Inter – State Transactions between Distinct Persons

Revenue Recognition in case of Interest Income:

- Interest Income being an exempt supply can be included **in GSTR-9** and as per explanation of rule 43 of CGST Rules, 2017 no reversal of common ITC required.
- As per AS -9, revenue is recognized on the time proportion basis after taking into account the amount outstanding and the rate applicable.
- For Example: If the interest on FD is due on 30th June and 31st Dec. On 31st March when the books will be closed, though the interest for the period of Jan-March will be received in June, still we have to recognize the revenue in March itself.
- ***What is important is appropriate reconciliation at time of filing GSTR9 between Financial Statements and auto-populated figure from GSTR3B must be done.***

Action needs to be taken if you have invoices in Books of Accounts but missed while filing GST Returns.

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In case you forgot or missed uploading your invoices in current GST returns then it is important to include those invoices in your upcoming filing of GST Returns and pay Tax along with interest accordingly, but not beyond Specified Period i.e. Earlier of:

- **30th November of Succeeding year, or**
- **Date of Filing of Annual Return**

Details of additions or amendments made up to specified period are required to be furnished **in Table 10 & 11of GSTR -9.**

- ***In case there are Invoices which on which GST is not paid till specified period this could lead to potential AI Generated Notices.***

Impact of GST on Purchases

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- ITC can be claimed if GST paid by a taxable person on any purchase of goods and/or services that are used or will be used for business.
- Input ITC can be reduced from the GST payable on the sales by the taxable person only after fulfilling some conditions stipulated under section 16(2)
- If any ITC booked in Financial Statement but not Claimed in GSTR 3B because of not reflecting in 2B then such ITC can be claimed Earlier of:
  - **30th November of Succeeding year**
  - **Date of Filing of Annual Return**
- In such case such ITC should be deferred in subsequent period in Books of Accounts and should be claimed in the period in which ITC is reflecting in 2B.

The following conditions stipulated under section 16(2) CGST Act for entitlement of Input Tax Credit by the recipient or buyers are as under:

Section	Condition
16(2)(a)	Tax Invoice or Debit Note or other notified tax paying document in possession of the Recipient
16(2)(aa)	Tax Invoice or Debit Note is appearing in GSTR-2B
16(2)(b)	Goods or services or both for which Tax Invoice issued had been received by the Recipient
16(2)(ba)	Input Tax Credit has not been restricted. Such restrictions may be prescribed according to provisions stated under section 38 CGST (GSTR 2B & GSTR 3B Filing by Supplier)
16(2)(c)	The tax charged in respect to the supply has been actually paid to the Government
16(2)(d)	The recipient has furnished the return

Impact of GST on Purchases

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A taxpayer can claim ITC only if the same appears in their **GSTR-2B.** Hence, no provisional ITC can be claimed **from 1st January 2022 onwards.** Hence, matching of the purchase register with the GSTR-2B is crucial for ITC claims. Sometimes there may be cases where ITC reflecting in Books of Accounts but not appearing in GSTR-2B

Following can be reasons for not appearing Invoices in 2B

- Supplier has not filed their GSTR-1 or late filed.
- Supplier has wrongly mentioned GST No. in their GSTR-1.
- Supplier has shown B2B supply as B2C.
- Supplier is filling quarterly Returns.
- Supplier has not disclosed your invoice in their return.

From Accounting Perspective

- Such ITC May be moved to ITC Mismatch Account till Stipulated Period (Earlier of 30th Nov / Annual Return)
- Consider requirement of Provision as on date of signing of Financial Statements
- Expense off permanent differences not rectified till end of stipulated tenure.

From Business Perspective

- Recovery / Legal Action may be taken as considered appropriate.

Impact of GST on Purchases

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There may be some cases where ITC reflecting in 2B but not booked in Books of Accounts, following can be reasons for ITC not booked in Books of Accounts:

- Goods/ Services are not actually received i.e. goods in transit.
- Tax Invoice or Debit Note or other notified tax paying document not in possession of the Recipient.
- ITC is blocked u/s 17(5).
- ITC is restricted section 16(4) and ITC restricted due to POS provisions.
- ITC is required to be reversed under rules 38, 42 and 43 of CGST Rules.

GST Perspective: In such cases the recipient should reverse such ITC while filling GSTR-3B in specified column i.e. **column (B) ITC Reversed mentioned in Table 4 - Eligible ITC Details of GSTR-3B**.	**From Accounting perspective such ITC should be** • Expensed off under the same head of expenses to which it relates. • Added to Cost of Inventory where applicable • Added to Capital Goods value where applicable.

Impact of GST on Purchases

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The Government vide **Notification No. 14/2022 – Central Tax dated 05th July, 2022** has notified few changes in **Table 4 of Form GSTR-3B** for enabling taxpayers to correctly report information regarding ITC availed, ITC reversal and ineligible ITC in Table 4 of GSTR-3B.

From the format of Table 4, following is noteworthy:

- All non-reclaimable reversal of ITC needs to be reported in table 4(B)(1)
- All reclaimable ITC reversals may be reported in table 4(B)(2). It should be noted that ITC reversed under 4(B)(2) can be reclaimed in table 4(A)(5) at appropriate time and the break-up detail of such reclaimed ITC should be provided in 4(D)(1) in the same return.
- The ITC not-available mentioned in GSTR-2B of the taxpayer has to be reported in 4(D)(2) of table 4.
- Any ITC availed inadvertently in Table 4(A) in previous tax periods due to clerical mistakes or some other inadvertent mistake maybe reversed in Table 4(B)2.

Impact of GST on Purchases

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Impact on Accounting: -

1. ITC Reversals which are expected to be re-availed in future. – To be retained in ITC Reversal / Input Ledger
2. Permanent Reversals
   1. Need to be expensed off under the head of primary input / input service it relates to, or
   2. Need to be capitalized in cases where it relates to capital goods.
3. ITC Reversals – which were done as Temporary (say due to GSTR2B), and turn out to permanent post elapse of specified period or otherwise due to department action.
   1. Are they Prior Period expense for accounting purposes ? – **NO**
   2. Should they be expensed off under respective head or shown separately as GST Expense ? – **Choice to be done on case-to-case basis.**

Issues & Challenges in ITC

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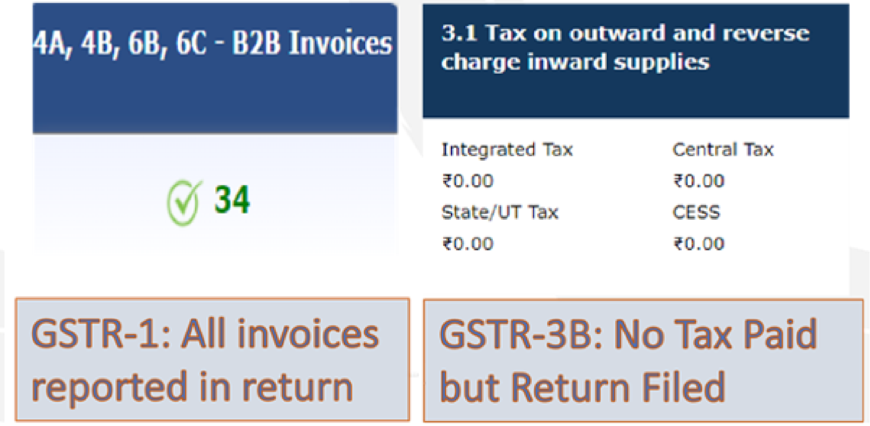
Genuine Buyer

Default by Supplier



In this Case a Genuine Buyer, shall avail ITC without realizing default by Supplier

Action by Department

- Step 1 – Notice to Supplier for Mismatch in GSTR 1 and GSTR 3B
- Step 2 – Notice to Recipient for Reversal of ITC along with Interest and Penalty

Reversal of ITC on Non-payment within 180 days

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Treatment of Rule 37 in GST Returns

As Rule 37, in case of non-repayment of consideration value and taxes payable after 180 days of the invoice's issue date, this ITC will have to be reversed along with interest and reported in T**able 4B of form GSTR-3B.**

If the taxpayer subsequently makes the payment for the supply of goods and/or services and the tax payable on them to the supplier. In that case, he can reclaim the ITC that was initially reversed.

Moreover, the re-availing of ITC is not subject to any time limit. Thus, unlike the earlier provision where taxpayers had to mandatorily make tax payments within 180 days of the invoice's issue (per Section 16(4), ITC can be reclaimed whenever the tax is finally paid. Furthermore, the buyer will report the total amount of ITC reversed during the year in **Table 7A of the GSTR-9 form**.

Finally, taxpayers must reconcile **the ITC availed and reported in GSTR-9 with their audited financial statements by filing the GSTR-9C form**. In GSTR-9C, taxpayers must state the breakup of ineligible and eligible ITCs after accounting for ITC reversals.

Reversal of ITC on Non-payment within 180 days

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Treatment of Rule 37 in Books of Accounts

As per the 48th GST council, buyers must identify and reverse only that amount of ITC, which is proportional to the unpaid invoice amount.

For instance, if out of the total invoice value of Rs. 1,00,000, only Rs. 40,000 is unpaid. Then, ITC, in proportion to Rs. 40,000, will be reversed in the books of account.

Additionally, an entry will be made for the interest paid on the ITC whose claim was reversed in the GST return filed. If the taxpayer subsequently makes the payment to supplier in that case, he can reclaim the ITC that was initially reversed.

Reporting of Input Tax Credit in the GSTR-9

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Input tax credit (ITC) claims for a financial year must be reported in the GSTR-9 return under Tables 6, 7 and 8 as follows.

Table 6: ITC availed during the financial year

This section contains all details of ITC availed on:

- Regular inward supplies (bifurcation required into inputs, capital goods, and input services)
- Inward supplies liable to RCM (bifurcation required into inputs, capital goods, and input services)
- Import of goods (bifurcation required into inputs and capital goods)
- Import of services
- Common credit distributed by an Input Service Distributor (ISD)
- Amount of ITC reclaimed (not being reported in 6B)

Reporting of Input Tax Credit in the GSTR-9

Table 7: Details of ITC reversed and ineligible ITC for the financial year

Similar to Table 6, Table 7 also contains a break-down of ITC. However, this table contains details of ITC reversed under:

- Rule 37 - In the case of non-payment of consideration in 180 days as per CGST Section 16(2)
- Rule 39 - In the case of ITC distributed by an ISD
- Rule 42 - In the case of goods/services used **partly for business and partly for other purposes**
- Rule 43 - In the case of capital goods used **partly for effecting taxable supplies and partly for zero-rated or exempted goods**
- Section 17(5) - In the case of ineligible ITC under the GST law on certain goods and services
- Rule 38 - In the case of reversal of ITC by a banking company
- Rule 44 - In the case of reversal of ITC under special circumstances
- ITC 03 - In the case of taxable goods becoming exempted during the year

Reporting of Input Tax Credit in the GSTR-9

Table 8: Other ITC-related information: Table 8 contains ITC-related information that has not been reported in Table 6 or 7, such as:

- ITC on inward supplies, excluding imports and RCM supplies, received in the previous financial year, but availed in the current financial year
- ITC available but not availed
- ITC available but ineligible, and
- IGST paid on the import of goods

Further, Tables 12 and 13 are used for reporting ITC related to the Current FY but reversed/availed in other financial years as follows:

- **Table 12:** ITC related to Current FY but reversed in GSTR-3B returns filed for Subsequent FY from April to October or the date of filing the annual return, whichever is earlier.
- **Table 13:** ITC related to Current FY but availed in GSTR-3B returns filed Subsequent FY from April to October or the date of filing the annual return, whichever is earlier.

Impact of GST on Employee benefit expenses

As per Schedule III of the CGST Act Services provided by an employee to the employer in relation to his employment is outside the scope of GST.

On the other hand, CGST **Circular No: 140/10/2020 –** GST explained that the remuneration to independent directors, or other non-executive directors not being employees of that company, is taxable under GST in the hands of the company, under the **reverse charge mechanism (RCM)**.

Further, if an employer provides any service to the employees, it shall be considered as a taxable service. This will be covered by **Schedule I read with the GST Valuation Rules**, except for gifts up to a value of Rs.50,000. For instance, cafeteria, recreation, sports facilities to employees will attract GST.

Impact of GST on Employee benefit expenses

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On the following goods or services ITC can be claimed by employer as per Sec. 17(5)(b)

- Input tax credit is available on telephone bills and broadband that is reimbursed in the course of business.
- Input tax credit can be claimed on air travel fares expensed on directors or employees for business purposes.
- Input tax credit is available for claims where GST is paid on the premium incurred for employee accident insurance.
- ITC is available for renting out cabs for employee commute if there is any law or rule defining such requirement by the employer.
- ITC is allowed where buses (more than 13 seats) are rented by employers for employee pick-up and drop.
- ITC can be claimed for expenses towards boarding or lodging of employees incurred for business purposes.
- ITC is available on refreshments or canteen services provided to employees if laid down as per the Factories Act, 1948 or any similar labour law is in force.

Impact of GST on GTA Services

Under GST regime, recipients of Goods Transport Agency (GTA) services can avail input tax credit (ITC) subject to condition that whether GTA is paying Tax under Forward Charge Mechanism (FCM) or Reverse Charge Mechanism (RCM):

- **If GTA paying tax under Forward Charge Mechanism (FCM):** If GTA is paying tax under FCM than GTA is required to pay at the rates applicable GTA services **depend on the nature of the goods being transported**
    - For the transportation of goods other than petroleum products, the GST rate for GTA services is 12%.
    - For the transportation of petroleum products, the GST rate for GTA services is 5%.

In this recipient of Goods Transport Agency (GTA) services can avail input tax credit (ITC) on subject to condition as specified in Sec. 16(2) of CGST Act and claim the ITC through GSTR 3B if it is reflecting in GSTR-2B.

Impact of GST on GTA Services

- **If GTA paying tax under Reverse Charge Mechanism (RCM):** If GTA is paying tax under RCM then **recipient** of Goods Transport Agency (GTA) services required to pay Tax under RCM and can claim the ITC in the same month.

- **The recipient has to report in Table 3.1 (D) of GSTR-3B (inward supplies liable to reverse charge).** The recipient has to discharge the liability through electronic cash ledger while filing his GSTR-3B. The recipient can utilise ITC under Table 4(A)(4) of GSTR-3B (Inward supplies liable to reverse charge).

Impact of GST on GTA Services

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Treatment of RCM in Books of Accounts:

Accounting of GST under Reverse Charge Mechanism (RCM) involves specific considerations.

1. Under RCM, the liability to pay GST is shifted from the supplier to the recipient. Therefore, the journal entry along with GST component will be passed on the books of account of recipient.
2. The supplier must issue a tax invoice indicating that tax is payable under RCM in case of goods or services on which RCM applies.
3. The recipient needs to prepare a self-invoice for the goods or services received. This self-invoice should include the necessary details such as the recipient's and supplier's GSTIN (Goods and Services Tax Identification Number), invoice number, description of goods or services, and applicable tax rates.
4. The recipient should record the self-invoiced transaction in their books of accounts on the date of supply.
5. The recipient would need to book both inward tax and outward tax on the same entry as the GST paid under RCM would be
6. Another entry must be passed on the date on which Tax is deposited.

Impact of GST on finalisation of Financial Statements

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To ensure that there are no major/ material misstatements, it is imperative that an auditor checks compliance with GST laws and rules even during the finalisation and audit of the Financial Statement under other statutes.

The auditor should broadly review the reconciliation items for differences between books of accounts and GST returns before issuing his audit report to ensure that there are no major differences.

An illustrative list of reconciliations is set out below:

- Balance of Electronic Credit ledger with ITC in books
- Balance of Electronic Cash ledger with excess cash paid in books
- GST paid in cash in March return, with payables as per books
- Refund claimed in GST portal with GST ITC refund receivable in books
- Refund rejected in GST portal with Rates and taxes in books
- Turnover and output liability in GST returns and books
- ITC claimed in GST returns and books
- ITC reversed in GST returns and books
- Ineligible ITC in GST returns and books
- SCN/ ASMT 10/ Demand order with contingent liability/ liabilities
- Adjustments of previous year, done in subsequent GST returns
- Observations of internal auditors relating to GST matters
- Ratio analysis across branches like GP/ NP rates (on quarterly basis)
- RCM, TDS and TCS compliances
- Reconciliation of GTO in books v. in FORM GSTR-1
- Reconciliation of GTO in books v. in e-Way Bills
- Reconciliation of GTO in Form GSTR-3B v. in FORM GSTR-1
- ITC Reconciliation in FORM GSTR-2A v. FORM GSTR-3B
- ITC Reconciliation in FORM GSTR-2A v. in Books
- Reconciliation of accounts of the suppliers and vendors
- Issuance of proper CN/ DN and their treatment in the Books and Returns
- Whether cross-charge of certain incomes and expenditures are made.

Impact of GST on Accounting Standard

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Entities preparing their Financial Statements following Generally Accepted Accounting Principles as applicable under Companies Act, 2013 may adopt revenue recognition policy which may vary from the provisions of the GST Act and Rules prescribed thereunder.

Here are some examples of policies which can have impact on GST liability:

(a) Transfer of Goods but risk and reward later: In case of supply of goods, transfer of risk and reward may not happen at the year end, However, the entity will raise a bill for the goods once the same is sent out of factory. The revenue will be accounted only in the subsequent year's income statement, when the risk and rewards pass to the buyer. For GST purpose, the same will form part of outward supply and liability to be discharged accordingly.

(b) Revenue Recognition in Work Contract: Revenue from rendering of services is recognised either on completion of services basis or on percentage of completion method. However, for discharging the liability under GST, the value of outward supply must be disclosed

- (i) in the return for the month in which an advance, if any, is received or
- (ii) in the return for the month in which an invoice/ progressive billing is raised as per the time frame stipulated in the Act.

This will invariably lead to a difference between turnover as per books and the value of outward supply disclosed in the GST returns and will be a line item in the reconciliation statement.

(c) **Revenue Recognition in case of Export:** Recognizing revenue in a reporting currency having a functional currency other than Indian rupees. To elaborate, for the purpose of GST, sales will be accounted at the exchange rate prevailing on the date of transaction (notified under section 14 of the Customs Act), whereas in books it will generally be recorded at a prefixed average rate. This will result in differences, requiring reconciliation.

Impact of GST on Companies Auditor's Report Order (CARO)

a) **Inventory [Clause 3(ii)]**: While reporting under this clause, the auditor should ensure that ITC availed on the inventory destroyed, damaged, lost, etc. have been reversed in the books of accounts.

b) **Undisputed statutory dues [Clause 3(vii)(a)]:** The auditor must review whether the dues paid and returns filed by the entity are within the time limits prescribed.

c) **Disputed Statutory Dues [Clause 3(vii)(b)]:** The auditor should review the status of past assessments. The auditor should obtain a confirmation and representation from management and review the probability of the issues being decided in favour of the entity depending on the facts of the case.

Impact of GST on Tax Audit Report

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Tax audit report has a considerable amount of disclosure to be made in relation to GST.
Following disclosures are to be made under tax audit report:

GST registration details under Part A Clause 4.
Actions points: The auditor should ensure proper disclosure of registrations under Part A clause 4 i.e. all registrations taken by an entity across all States including input service distributor registration.

Reconciliation of GST on opening stock, purchases, sales and closing stock as part of section 145A of Income Tax Act under Clause 14.
Actions points: The auditor should have a reconciliation of GST on the various items mentioned as part of inclusive accounting under Income Tax Act.

Particulars of depreciation allowable as per the Income Tax Act, in respect of each asset or block of assets as the case may be under Clause 18.
Actions points: The auditor should verify whether the cost of addition to asset has been properly disclosed in the tax audit report. The cost of the asset disclosed in the tax audit report should be in line with the capitalisation policy followed for tangible and intangible assets, in the books.

Impact of GST on Tax Audit Report (Contd.)

Any expenditure by way of penalty or fine for violation of any law for the time being force under Clause 21(a).

Actions points: Review FORM GST DRC-07, FORM GST PMT-06 and FORM GST DRC-03 forms/ chalans from the GST portal to ascertain if any penalties/ demands had been paid by the entity

Details of GST paid on sales as part of section 43B under Clause 26.

Actions points: The auditor should review the payments made after the year end to ascertain if the liability at the end of the year is discharged completely.

Impact of GST on Advances received

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While finalizing the books of accounts, the auditor should review the impact of GST liability on advances received and whether the said liability has been discharged as per the provisions of the GST Act.

Generally, advances can be classified as set out below:

(a) **Security Deposits:** These are utilised by the supplier only on occurrence of a contingent event. In case such even does not occur, then the security deposit will be refundable to the customer on completion or according to the terms and conditions of contract agreement. Generally, such deposits are not taxed under GST. However, in case of happening of the contingent event and consequent adjustment of security deposits, the same shall be taxable under GST.

(b) **Retention Money:** Retention money is the sum of money (generally a percentage of the contract value) held back by the customer as a safeguard for any defective or non-conforming work by the contractor. As per the GST law, the contractor is required to discharge his GST liability on the whole invoice value, which also includes retention money kept by the customer. **(To Consider: ~180 Days reversal)**

(c) **Advances for materials to be supplied:** These are not subject to GST liability at the time of receipt of the advance.

(d) **Advances for services to be rendered in future:** Any advance received for services to be rendered in future, is liable to GST on the date of receipt of the same. Thus, the receiver of the advance has to discharge the GST liability on the advances received by him. **(To Consider: GST Payment + Advance Disclosure Net of Payment)**

Action Points: The various types of advances listed above, will have different impact on GST. The auditor should carefully investigate every type of advance and review its standpoint from the perspective of GST and conclude before finalizing the financial statements.

Some Common Issues in GST which may Impact on Financial Statement

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Q.1 How are interests and penalty on late payment of GST treated in finalisation of accounts from a GST perspective?

Ans. Penalty on late payment and interest are to be shown as part of rates and taxes in the other expenses and charged to statement of profit and loss.

Q.2. If GST audit is finished after final audit of financial accounts is completed and audit report is received, should the audited accounts be revised?

Ans. As of now there is no option to revise the accounts already finalized and adopted in case of companies and accounts filed under income tax law for non-corporates. Any adjustments on account of GST audit shall be adjusted in the subsequent period only.

Q.3. How to compute GST liability on import of service and what exchange rate to consider? What is the due date to discharge GST liability?

Ans. The rate of exchange for determination of value of taxable services shall be the applicable rate of exchange determined as per the generally accepted accounting principles for the date of time of supply of such services.

Some Common Issues in GST which may Impact on Financial Statement (Contd.)

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Q.4. GST bills raised in one financial year and GST TDS made by the debtors in the next (another) financial year. When should the GST TDS be accounted?

Ans. GST TDS must be accounted only when the same is received in the GST portal i.e. when the supplier files FORM GSTR-7. The due date for FORM GSTR-7 is generally 10th of the subsequent month of payments made to customers.

Q.5. E-way bill was generated wrongly, and penalty has been paid through cash ledger to get the vehicle released from detention. However, FORM GST DRC-03 has not been filed due to dispute and the dealer has made an appeal against such penalty. Whether is it proper to show such disputed payments in current assets?

Ans. The penalty paid on account of dispute shall be shown separately as loans and advances or other current assets. This may also warrant a disclosure as part of contingent liability as the said amount is not provided in the books of accounts.

Q.6.An entity has not received goods as on 31st March for which invoice from the vendors are dated before 31st March. Whether input tax can be taken in the present scenario?

Ans. Section 16(2)(b) of the CGST Act, mandates that input tax credit in respect of any supply of goods/ services shall be available to the registered person, after he has received such goods/ services. Therefore, input tax credit cannot be taken in the present scenario.

Q.7. What type of ledger should be maintained by the entity for the reversal of ITC?

Ans. There is no specific ledger account for reversal of ITC. The reversal will either be classified as rates and taxes or in case of ineligible credits or it will be added as part of the expenses debited to the statement of profit and loss.

Q.8. The credit period agreed between parties is more than 180 days. Whether ITC must be reversed even in case of increased credit period, if not paid within 180 days?

Ans. An entity should reverse the input tax credit taken if the vendor is not paid within 180 days of invoice even if the credit period agreed between the parties are more than 180 days.

As per section 16 of the GST Act, where a recipient fails to pay to the supplier of goods or services or both, other than the supplies on which tax is payable on reverse charge basis, the amount towards the value of supply along with tax payable thereon within a period of 180 days from the date of issue of invoice by the supplier, an amount equal to the input tax credit availed by the recipient, shall be added to his output tax liability.

Hence, it is clear that even in cases where the agreed credit period is more than 180 days, the input credit availed should be reversed as per section 16 of GST Act.

Some Common Issues in GST which may Impact on Financial Statement (Contd.)

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Q.9. While accounting year end provisions for services like rent, audit fee, retainer fees, etc,. should it be inclusive or exclusive of GST component?

Ans. Section 16 of the GST Act, stipulates conditions for claiming input tax credit. As per the provisions unless the goods or services are received by the entity along with the tax invoice or any other tax documents input tax credit is not available to an entity. Input tax credit should not be accounted in case of year end entries as there are no valid tax invoice / documents. However, in case of services were RCM is attracted (eg import of services, legal fees, GTA, etc.,) the provision should include GST.

Q.10. Whether ITC can be claimed on GST paid under RCM?

Ans. Any tax paid under RCM can be taken as an input tax credit as long as the same is not explicitly blocked under section 17 of the GST Act.

Q.11. While concluding statutory and tax audit of corporate, is it the responsibility of statutory auditor to examine all direct and indirect tax related compliance including verification and reconciliation of GST input credit availed as per books and as per monthly FORM GSTR-1?

Ans. As per Standards on Auditing (SA) – 315, the auditor should assess the risk of material misstatement through understanding the entity and its environment. The auditor should also investigate the compliance of other laws and regulations which impact the entity and should consider the impact in his audit report.

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