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GST AUDIT CONSIDERATIONS FOR KEY DIFFERENCES BETWEEN ACCOUNTING STANDARDS AND GST

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Introduction

1. As per section 2(13) of the CGST Act, 2017 GST audit means an examination of records, returns and other documents maintained or furnished by the registered person under the GST Acts or the rules made thereunder or under any other law for the time being in force to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of the GST Acts or the rules made thereunder. Section 35(5) of the CGST Act, *inter alia*, requires every registered person whose turnover exceeds the prescribed threshold of Rs. 2 crores, to get his accounts audited, submit a copy of the audited annual accounts along with a reconciliation statement (reconciling the value of supplies declared in return with audited annual financial statements).

Therefore, the reconciliation of the value of supplies declared in return with audited annual financial statements is one of key aspects of GST audit. The GST auditor has to submit, amongst others, a reconciliation statement, reconciling the value of supplies declared in the return furnished for the year with the audited annual financial statement in Form GSTR-9C.

There could be differences in the manner of accounting treatment of certain transactions as per Accounting Standard in the financial statements *vis-à-vis* the treatment under GST. In this article, we shall take a closer look at the key differences between GST regulations and accounting standards that need careful consideration during the course of GST audit.

Valuation of Inventory

2. As per AS-2 *Valuation of Inventories* and Ind AS 2 *Inventories* the costs of purchase of inventories comprise of the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

However, the CGST Act and the corresponding SGST/UTGST Act provides for availment of input tax credit or refund of input tax credit in specified situations. Thus, to the extent credit is availed or refund is claimed, it will not form part of cost of inventory. Input tax credit is not available. For example, when:

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- (a) Input/input services/capital goods are used for personal purposes;
- (b) Tax paid under section 10 (inward supplies from composition registrations);
- (c) Restricted credits u/s. 17(5) of the CGST Act;
- (d) Depreciation claimed on tax portion/element;
- (e) Input/input services/capital goods used for exempted supply

Thus, a systematic evaluation and process is required to determine “what” credit is claimed and “what is” part of cost of inventory as per AS 2 and Ind AS2.

Revenue recognition under Accounting Standards

3. Revenue recognition under accounting standards may not coincide with turnover for the purpose of GST. For example, in case of multiple element contracts under Ind AS 115 *Revenue from Contracts with Customers*, total consideration will be allocated to each component based on fair value of each element. However, the same methodology may not work for GST purpose. Moreover, GST payments and return filings are expected to be State-wise (GSTIN-wise). Accordingly, entities will need to devise a proper system in place, for timely State-wise (GSTIN-wise) reconciliations of periodic GST filings in various States, with the amount recorded in the books of account.

Also, there would be a broad difference of point of revenue recognition

As per Ind AS 115, revenue is to be recognized either at a point in time (when the customer obtains control over the promised service) or over a period of time (as the customer obtains control over the promised service).

Under GST, the time of supply is triggered when the invoice is raised or payment is made, whichever is earlier. This might lead to a situation wherein GST would be paid on the contract as per the date of invoice, but the revenue would not be recognized in the books because the customer may not have obtained necessary benefits from the contract. E.g., AMC contracts, deferred and advance payments and export sales for which the company has not received bill of lading and is in the process of customs clearance at the balance sheet date.

Even under Indian GAAP, i.e., under AS 9 *Revenue recognition*, the time of sale (construed as supply for our understanding purposes) shall be when the seller has transferred the property in the goods to the buyer for a consideration. The transfer of property in goods, in most of cases the, results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. However, there may be situations where transfer of property in goods does not coincide with the transfer of significant risks and rewards of ownership. Revenue in such situations is recognized at the time of transfer of significant risks and rewards of ownership to the buyer.

Under Ind AS, excise duty was required to be included in revenue, since it is a (manufacture) production-based tax. GST is not included in revenue, since it is