Western India Regional Council of ICAI

Event : Seminar on GST Audit and Annual Return

Subject : Interplay of Ind AS Accounting and GST Reconciliation

Venue : ICAI Tower, 'G' Block,
Bandra Kurla Complex, Bandra East,
Mumbai 400051

Date & Day : Saturday, 27th October,2018

Panelist : CA Naresh Sheth and CA Sandeep Shah

Preamble

➢ Applicability of IND AS :

Phase	Date from which IND AS is effective	Applicable To
Phase I	1st April, 2016	• Listed Company • Unlisted Company Net worth greater than or equal to Rs. 500 crores
Phase II	1st April, 2017	• 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	1st April, 2018	• NBFC- having net worth greater than or equal to Rs. 500 crore
Phase IV	1st April, 2019	• NBFC -having net worth greater than or equal to Rs. 250 crore but less than Rs. 500 crore • Banks
Phase V	1st April 2020	• Insurance companies

Preamble

- GST audit is mandatory u/s 35(5) of the Act wherein turnover exceeds Rs. 2 crores:
  - Assessee needs to reconcile revenue as per audited financial statements and annual return under GST for FY 2017-18
  - Auditor is mandated under GST law to certify such reconciliation.
  - GST audit report/ reconciliation is to be submitted on or before 31st December, 2018
- IND AS and GST are major recent developments requiring in-depth deliberations amongst corporates, tax professionals and auditors
- It is incumbent for Auditors / Accountants to understand GST and also for GST professionals to understand IND AS as both may impact each other
- Faculties intend to cover subject in "jugalbandi" style by taking practical case studies on:

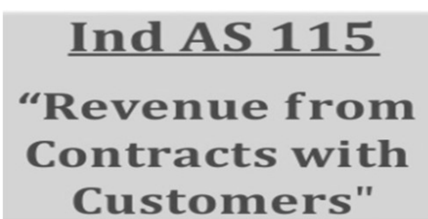
Revenue Recognition	**Notional or Fair Valuation**	**Barter Transactions**
Business Combination	**Prior Period Income**	**Other Comprehensive Income**

Basics

- Revenue as per financial statements could be materially different from revenue declared in GST returns mainly on account of :
  - GST is pre-dominantly a tax on transaction value whereas IND AS recognizes transaction at its fair value;
  - IND AS may require accounting of notional income or expenditure whereas GST may not be payable on such notional income or expenditure booked in accounts (except for related parties transactions)
  - IND AS may require early recognition of revenue or deferment of revenue while GST is payable on time of supply as stipulated in GST Act
- Need for reconciliation of financial statement with GST returns arise mainly due to difference in :
  - Accounting treatment of transaction as per IND AS and taxability of same under GST
  - Timing difference in revenue recognition in Accounts and in GST Returns
  - Difference in value of transaction as per accounts and value as per GST legislation

Basics

- Form No. GSTR 9C is notified on 13.09.2018 vide notification no. 49/2018 – Central Tax;
  - Auditor needs to reconcile annual audited financial statements and annual return ; and
  - Reconciliation is to be prepared in Form GSTR 9C and is to be certified by auditor.
- 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 is independent of accounting treatment



Revenue Recognition

Case study 1: Risk-Reward and Control - Ind AS 115

- XYZ Limited ('the Company') raised sales invoices of Rs. 100 Lakhs in FY 2017-18.
- On implementation of Ind AS 115, the Company is required to reverse revenue of Rs. 50 Lakhs as effective control was not transferred/ performance obligation criteria was not met
- The revenue was reversed and impact thereof is adjusted to opening reserve as per transitional provision
- In current FY 18-19, the Company has recognized revenue of Rs. 50 Lakhs on transferring effective control to the customer
- This results into disclosure of same revenue twice in different financial years
- What are the GST implications of these IND AS adjustments?
- How the difference (if any) is to be reported in Form GSTR 9C?

Case study 2: Sale with differential credit terms

- XYZ Limited enters into a contract with Mr. A and Mr. B on 1st January 2018 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?
- What are the GST implications of above transactions?
- How the difference (if any) is to be reported in Form GSTR 9C?

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?
- What are the GST implications of above transactions?
- Implications in case of non payment of Rs. 50 lakhs (2^{nd} scenario) for some reasons
- How the difference (if any) is to be reported in Form GSTR 9C?

Case study 4: Loyalty points

- Apparels Ltd ('the Company') is a multi-brand retail outlet
- It has promotional scheme wherein customers get loyalty points which can be redeemed within one year on their future purchases
- Total sales of the Company in FY 17-18 is Rs. 102 crores
- Loyalty points distributed to customers (unexpired as at year end) aggregating to Rs. 2 crores
- What will be revenue of the Company in FY 17-18 under IND AS?
- What accounting adjustment is required on redemption of loyalty points under IND AS?
- What is an accounting treatment under IND AS on lapsing of loyalty points?
- What are the GST implications of above transactions?
- How the difference (if any) is to be reported in Form GSTR 9C

Case study 5: Provision for sales return

- M/s Sellkart Ltd sells goods with the term that customer can return goods within one year
- In FY 2017-18, 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?
- What are the GST implications of above transactions?
- How the difference (if any) is to be reported in Form GSTR 9C?

Case study 6: 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?
- What are the GST implications of above transactions?
- How the difference (if any) is to be reported in Form GSTR 9C?

Notional or fair valuation

Case study 7: Effective Interest rate

- Malamal Bank 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?
- What are the GST implications of above transactions?
- How the difference (if any) is to be reported in Form GSTR 9C?

Case study 8: 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?
- What is the GST implication of above transaction?
- How the difference (if any) is to be reported in Form GSTR 9C?

Case study 9: Interest-free security deposit

- X Ltd leased out its commercial property to Y Ltd on following terms:
  - Y Ltd to occupy premises from 01/04/2018 to 31/03/2021
  - Y ltd to give interest free security deposit of Rs. 100 lakhs on the date of execution of rent agreement i.e. 01/04/2018
  - Said deposit is refundable on vacating the premises
  - Monthly rent from April, 2018 onwards will be Rs. 5,000/-
- What are IND AS implications of above transactions for X Ltd & Y Ltd?
- What are the GST implications of above transactions for X Ltd & Y Ltd?
- How the difference (if any) is to be reported in Form GSTR 9C?

Barter transactions

Case study 10: Barter transactions

<u>Case Study A:</u>

- Company A has given two floors of its corporate house to Company B
- Company B provided management consultancy service
- Both the Companies contends that they have provided free services to each other
- None of the companies have raised any invoice on each other

<u>Case Study B:</u>

- MTV Media Company Limited invited film star Arman Khan (representing film production house) to promote his upcoming movie
- MTV has not charged for time slot to production house
- Film production house also did not charged MTV for promoting TV show and enhancing its TRP

Please examine IND AS and GST Implications of above transactions

Business combination

Case study 11: Business combination

- XYZ Limited ('the Company') owns and run Mall
- Rent and CAM charged to tenants as business income in its Income Tax return
- The Company has a subsidiary company engaged in property management services
- Subsidiary also manages the Mall owned by the Company
- Company transferred it's Mall under Business Transfer Agreement (BTA) to BCD Ltd ('the Buyer) in F.Y. 2017-18
- The Buyer may or may not purchase business of subsidiary Company
- Please advise about IND AS implications and GST implications for above case
- How the difference (if any) is to be reported in Form GSTR 9C?

Prior period income

Case study 12: Prior period income

- Advertising Company received Rs.50 Lakhs from client in F.Y. 2015-16
- The advertising campaign was over in F.Y. 2015-16 itself
- The Company missed to raise invoice on it's client in F.Y. 2015-16
- Mistake detected in F.Y. 2017-18 and company intends to rectify it
- Please advise about IND AS implications and GST implications for this rectification
- How the difference (if any) is to be reported in Form GSTR 9C?
- Will your answer differ if such mistake happened in July, 2017 and same rectified in F.Y. 2018-19?

Other Comprehensive Income

Case study 13: Fair valuation of investments / assets

- On implementation of IND AS in F.Y. 2017-18, XYZ Limited ('the Company') has fair valued its investments in equity shares of listed companies
- It elected to present subsequent changes in fair value through Other Comprehensive Income under Ind AS 109
- During F.Y. 2018-19, the Company has sold certain equity shares having fair value of Rs. 10 lakhs (Purchase price Rs. 8 lakhs) for 11 lakhs
- What are the Ind AS implications vis a vis GST implication of above transactions?
- How the difference (if any) is to be reported in Form GSTR 9C?

Conclusion

Conclusion

- Additional responsibility on Accountant, Auditor and GST Consultant to align and reconcile GST returns and Financial Statements
- 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
- Whether life of audit and tax professionals will be better post IND AS or otherwise?

THANK YOU

naresh.sheth@nashah.com
sandeep.shah@nashah.com