

# Certification, Reporting, Accounting and Reconciliation of Turnover” & “Determination of Turnover of Sales and Purchases- WIRC ICAI Cuffeparade

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# Matters to be covered

- ❖ Liability of VAT Audit
- ❖ Turnover of sales
- ❖ Determination of turnover
- ❖ Certification for Turnover
- ❖ Reporting of Turnover
- ❖ Reconciliation of Turnover



# Liability of Vat Audit

- ❖ Section 61 (1) states that: (a) if the,-  
Every dealer liable to pay tax shall,-
  - (i) aggregate of his turnover of sales and the value of goods transferred to any other place of his business or of his agent or principal, situated outside the State, not by reason of sale, or
  - (ii) turnover of purchases,  
exceeds rupees one crore in any year;



# Liability of Vat Audit



- ❖ get his accounts in respect of such year audited by a Chartered Accountant or a Cost Accountant within the prescribed period from the end of that year and furnish within that period the complete report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars and certificates as may be prescribed.
- ❖ Explanation-II.- For the purposes of this section, an audit report shall be deemed to be the “complete audit report” only if all the items, certification, tables, schedules and annexures are filled appropriately and are arithmetically self-consistent.

# Exclusion.....



- ❖ 61(3): Nothing in sub-sections (1) and (2) shall apply to Departments of the Union Government, any Department of any State Government, local authorities, the Railway Administration as defined under the Indian Railways Act, 1989 (24 of 1989), the Konkan Railway Corporation Limited and the Maharashtra State Road Transport Corporation constituted under the Road Transport Corporation Act, 1950 (64 of 1950).]

# Penalty for Noncompliance



- ❖ 61(2): If any dealer liable to get his accounts audited under sub-section (1) fails to furnish a copy of such report within the time as aforesaid, the Commissioner may, after giving the dealer a reasonable opportunity of being heard, impose on him, in addition to any tax payable, a sum by way of penalty equal to one tenth per cent. of the total sales

# Every Dealer.....



- ❖ 2(8): Dealer means any person who, for the purpose of or consequential to his engagement in or in connection with or incidental to or in the course of his business buys or sells goods in the state whether for commission, remuneration or otherwise and includes other dealers like agents, factor, broker etc
- ❖ Deemed Dealers like: custom department, government, charitable trusts, Railway, port, Road, shipping, Insurance etc

# Every Dealer.....

- ❖ **Are service industry persons dealers if they buy or sell**



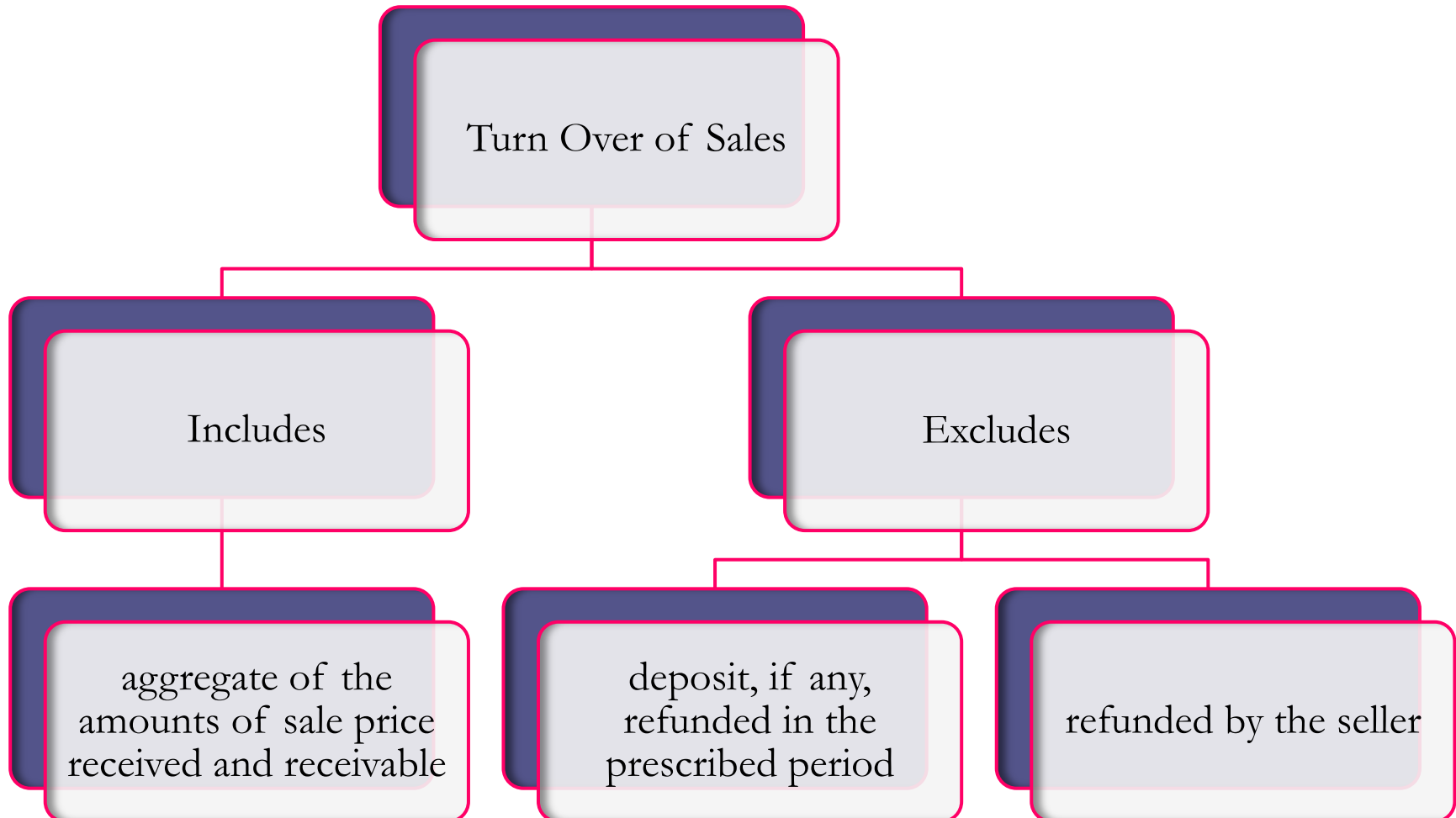


# Liable to pay tax.....



- ❖ A dealer is liable to pay tax if the turnover of sales or purchase exceeds the relevant limit u/s3(4) i.e
- ❖ Taxable goods sold or purchased  $\Rightarrow$  10,000/- plus
- ❖ For importer limit of Turnover = 1,00,000/-
- ❖ For other limit of turnover = 10,00,000
- ❖ Poser: A tax free dealer is liable to pay tax???
- ❖ Vat SA 22 of 2012 Burhani & Sons

# Turnover of Sales



# Sale Price....

Includes

```
graph TD; A[Includes] --> B[amount of valuable consideration paid or payable to a dealer for any sale]; A --> C[including any sum charged for anything done by the seller in respect of the goods at the time of or before delivery]; A --> D[amount of duties levied or leviable on goods under the Central Excise Act, 1944 (1 of 1944) or the Customs Act, 1962 (52 of 1962) or the Bombay Prohibition Act, 1949 (Bom. 25 of 1949),]; A --> E[deposit, whether refundable or not, which has been received];
```

amount of valuable consideration paid or payable to a dealer for any sale

including any sum charged for anything done by the seller in respect of the goods at the time of or before delivery

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deposit, whether refundable or not, which has been received

# Sale Price....

Excludes

```
graph TD; A[Excludes] --- B["cost of insurance for transit or of installation, when such cost is separately charged."]; A --- C["tax paid or payable to a seller in respect of such sale."]; A --- D["Amount of Service tax collected separately"];
```

cost of insurance for transit or of installation, when such cost is separately charged.

tax paid or payable to a seller in respect of such sale.

Amount of Service tax collected separately

# Determination of turnover

- ❖ Amount charged for anything done on or before delivery of goods:
- ❖ Freight
- ❖ Packaging & Forwarding
- ❖ Processing Charges
- ❖ Octroi
- ❖ Weighing Charges
- ❖ Postage
- ❖ Loading & Unloading Charges

Other  
Charges



# Determination of turnover



- ❖ Sales effected by other than dealer.....
- ❖ All sales of goods effected by agent on behalf of principal whether disclosed or not
- ❖ Receipt of the price of the goods auctioned by auctioneer irrespective of acceptance of offer by him or by his principle or his nominee
- ❖ In case of agent of any non-resident dealer, any sale effected by non-resident dealer in the state,

# Determination of turnover

- ❖ Deemed Sales Like.....
- ❖ Transfer of rights to use any goods
- ❖ Transfer of property in goods involved in the execution of works contract,
- ❖ Delivery of goods on hire purchase or any system of payment by instalments,
- ❖ Supply of foods & drinks for Human consumption
- ❖ supply of goods by any association or club to its members



# Determination of turnover

- ❖ Turnover of Sales will exclude
- ❖ Pure Labour & Service charges
- ❖ Any Sales effected outside the State (out to out sales)
- ❖ Discounts or reduction in prices
- ❖ Any amount collected subsequent to the delivery of goods
- ❖ Goods Return





# Determination of turnover



- ❖ Turnover of Purchases includes:
- ❖ Purchases of Fixed Assets,
- ❖ Trading Material, Raw Material, Packing Material,
- ❖ And other goods purchased which are debited to the profit & loss A/c, whether or not ITC is available,
- ❖ Purchase of goods by way of execution of Works Contract, under Hire Purchase agreement, Lease Transactions etc....

# Determination of turnover

- ❖ Turnover of Purchases excludes:
- ❖ Purchases of goods effected in the course of Import or Inter State Trade
- ❖ Branch Transfer,
- ❖ Labour Charges,
- ❖ Tax Charged in the bill, freight, octroi paid by the purchaser etc....

**EXCLUDED**

# Difference between Gross Turnover and Turnover

## Gross Turnover

- ❖ Goods Return
- ❖ Taxes
- ❖ Non Sales Transactions like labour charges, job work charges

## Turnover

- ❖ Net Value
- ❖ Only excise & Custom duty
- ❖ Freight, Loading & Unloading, etc incurred prior to delivery

# Illustration....

## ❖ Sales Bill

Sales Value

Rs. 95,00,000/-

Excise Duty @ 8.24%

Rs. 7,82,800/-

Rs. 1,02,82,800/-

VAT 12.5%

Rs. 12,85,350/-

Consideration receivable

Rs. 1,15,68,150/-



# Illustration....

## ❖ Accounting Entry

	Dr.	Cr.
Debtors A/c	<u>1,15,68,150</u> /-	
To Excise Duty A/c		<u>7,82,800</u> /-
To Output VAT A/c		<u>12,85,350</u> /-
To Sales A/c		<u>95,00,000</u> /-

## Illustration....



- ❖ Therefore, in the P&L A/c the amount of Sales would reflect as Rs. 95,00,000/- & Same would be reflected in P/L account for the purpose of IT and Cos Act. As less than One Crore so out of IT Audit.
- ❖ However, under the MVAT Act, the Gross Turnover of Sales would be Rs. 1,15,68,150/- & Turnover of Sales would be Rs. 1,02,82,800/- Hence under MVAT  
Audit

## Illustration....



- ❖ Dhara Developers undertook a Redevelopment project. Developer gives extra area for the existing area to the existing members in turn for the rights to use the TDR for redevelopment of society. Developer then sales the extra saleable area which is constructed in lieu of the TDR rights to outsiders. How is the turnover determined?

## Illustration....

- ❖ Flat sold and registered for Rs.1,95,00,000/- in January 2016 to an outsider. What will be the turnover of sales for the Developer if it follows Rule 58?

Consideration received as follows:

April 2015      Rs. 3500000/-

August 2015      Rs. 3500000/-

Dec 2015      Rs 3500000/-



## Illustration....

- ❖ Is VAT payable on the TDR rights? Will it be included in the turnover of sales?
- ❖ Is Sumer Corporation judgement applicable? [(VAT 2nd appeal No.335 & 26 of 2015,)]
- ❖ How is the whole transaction be taxed?



## Illustration....

- ❖ The definition of sale under the MVAT Act as defined in sec 2(24), where in till now the word “other Valuable consideration” was considered to be anything in terms of money or cash. There are various judgments favoring that and hence any consideration received in kind was escaping the levy of tax. Now recently the word 'other valuable consideration' would include

## Illustration....

- ❖ anything that directly or indirectly fetches some element of money or any other consideration which can be converted into money. TDR can be converted into money and therefore, TDR would be a valuable consideration. Hence the construction contract of a SRA project is treated as Works Contract and the value saleable TDR at reckoner value is taken as the value of the whole contract and tax is to be levied accordingly.

## Rules for Vat Audit

- ❖ Rules 65 : The report of Audit under section 61 shall be in Form 704, which is to be E-filed.
- ❖ Rule 66 : Due date to file VAT Audit Report is 9 months & 15 days from the end of the financial year to which the Report relates, i.e. 15<sup>th</sup> January.
- ❖ Unless dealer submits physical documents by 25th January, it will be deemed as report not filed. (Inst # 30)

# Certification



- ❖ Point c in part-1 of Form 704: “The books of account and other sales tax related records and register maintained by the dealer along with sales and purchase invoices as cash memos and other necessary documents are sufficient for computation of tax liability under the MVAT Act & CST Act and the gross turnover of sales and purchase determined by us includes all the transactions of sales and purchases concluded in the period under Audit”

# Issues



- ❖ Is it practically possible to check hundred percent sales and purchase invoices while doing Audit?
- ❖ While auditing the books of Ankita Jewellers, auditor found that gold purchased worth Rs. 50,00,000/- is not supported by Invoices but recorded in books as “old gold Purchased”. Will you certify?

# Issues



- ❖ The gold purchased was melted and used in the making of ornaments, which were then sold. Some of the gold was lost during the making of ornaments. Dealer has not maintain proper records of the stock of gold used in the making. How will you certify?



# Issues

- ❖ J M Wood trading sale and purchase of timber. They had sold scrap of timber for which there are no invoices raised. But recorded in books as scrap sale. How will you certify?
- ❖ Auditing of general stores where in there are no sales invoice. How will you certify? [Dealer is not under composition]



## Issues

- ❖ Shah Oil Mills purchased Oil in Bulk. Sold to 10 different Buyers. One Tanker carries Goods for more than one Buyer. When will the sale be complete? For eg if the Tanker is dispatched from the factory or Godown on 30th March but reaches Buyer on 2nd April. They record as sales in March. Are they justified? How will you as an auditor view this transaction.

# Issues



- ❖ Jethalal Sales agency from Mumbai sold goods to Babita Trading Co from Kolkatta on 29<sup>th</sup> march. Transport was arranged by Jethalal as he cannot give any trouble to Babitaji. He records the sale in March. While Babitaji receives the goods in April. Is he justified? Will you as an auditor certify? And how?

# Certification

- ❖ Point e in part-1 of Form 704: “The adjustments to turnover of sales and purchases is based on entries made in the books of account during the period under Audit and same are supported by necessary documents”



# Issues



- ❖ Adjustments like:
- ❖ WCT TDS in works contract supported by tax challans and returns filed
- ❖ TCS on scrap sale supported by TCS return filed and tax paid challans
- ❖ Period in which the entries of rate difference or other adjustments are made in books of account and whether they match with the returns filed for that period.

# Certification

- Point f in part-1 of Form 704: “The deductions claimed form the gross turnover of sales and other adjustments there to including deductions on account of goods return, adjustments on account of discounts as also debit/credit notes issued or received on account of other reasons are supported by necessary documents and are in confirmity with the provisions of relevant Act”

# Issues

- ❖ Buyer returns goods found defective before 6 months. Goods are received but recoded after 7 months. Is the deduction available. Is the Auditor suppose to certify the report as it effects the tax liability.
- ❖ For Medical retail shops practical difficulty to keep track of goods returned/ replaced as generally Credit/ Debit notes are issued in hundreds or thousands for the whole month per day.

## Issues

- ❖ Mobile Dealer offered incentive scheme by Samsung to sell the high end mobiles with exchange offers. Purchases recorded at full price say 30000/- and set off on that claimed 3750/- but sold at 24000/- as told by the Mfr. So vat is paid 3000/- Hence refund of Rs. 750/-
- ❖ Poser. The Mfr gives incentive to the dealers. Which are not sales or purchases but Indirect Income. Will u claim as deduction from sales or Purchase? Will you certify?



# Reporting





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AUDIT REPORT						
PART-3			SCHEDULE-I		Applicable	YES
TIN	27741047335V	PERIOD	01/04/14	TO	31/03/15	
1)	Computation of Net Turn-Over of Sales liable to tax					
	Particulars	As per return	As per Audit	Difference		
		(Rs.)	(Rs.)	(Rs.)		
1	2	3	4	5		
a)	Gross Turn-Over of Sales, including taxes as well as Turn-over of Non-Sales Transactions like Value of Branch Transfers/ Consignment Transfers and job work charges	186938492	186938492	0		
b)	Less: - Turn-Over of Sales (including taxes thereon) including inter-State Consignment Transfers and Branch Transfers Covered under Schedule II, III, IV or V	0	0	0		
c)	Balance:- Turn-Over Considered under this Schedule (a-b)	186938492	186938492	0		
d)	Less:- Value of Goods Return (inclusive of tax), including reduction of sale price on account of rate difference and discount.	0	0	0		
e)	Less:- Net Tax amount (Tax included in sales shown in (a) above less Tax included in (b) and (d) above)	8901843	8901843	0		
f)	Less:- Value of Branch Transfers/ Consignment Transfers within the State if tax is to be paid by an Agent.	0	0	0		
g)	Less:- Sales u/s 8 (1) i.e. Interstate Sales including Central Sales Tax, Sales in the course of Imports, Exports and value of Branch Transfers/	0	0	0		

Enter Amount of any other credit available as per returns.

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	A	B	C	D	E	F	G	I	J	K	L	M
14	g)	Less:-Sales u/s 8 (1) i.e. Interstate Sales including Central Sales Tax, Sales in the course of Imports, Exports and value of Branch Transfers/ Consignment transfers outside the State. (Turn-Over covered under Schedule-VI)			0	0	0					
15	h)	Less:-Sales of tax-free goods specified in Schedule "A" of MVAT Act			0	0	0					
16	i)	Less:-Sales of taxable goods fully exempted u/s. 8 and u/s 41 other than sales under section 8(1) and covered in Box 1(g) above			0	0	0					
17	j)	Less:- Job work Charges or Labour charges.			0	0	0					
18	k)	Less:-Other allowable deductions, OTHER DEDUCTION (LOCAL), if any (Please specify)			19	19	0					
19	l)	Balance: - Net Turn-Over of Sales liable to tax (c) - (d+e+f+g+h+i+j+k)			178036630	178036630	0					

**Amount(RS)**  
Enter Amount of sales price out of Box 1(l) { net of goods returned }, taxable

Sno	Rate of Tax %	As per Returns		As per Audit		Difference in Tax Amount
		Turn-Over of Sales liable to tax (Rs.)	Tax Amount (Rs.)	Turn-Over of Sales liable to tax (Rs.)	Tax Amount (Rs.)	
1	2	3	4	5	6	7
24	a)		0		0	0
25	b)		0		0	0
26	c)		0		0	0
	d)		0		0	0

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	A	B	C	D	E	F	G	I	J	K	L	M
			Turn-Over of Sales liable to tax (Rs.)	Tax Amount (Rs.)	Turn-Over of Sales liable to tax (Rs.)	Tax Amount (Rs.)						
22												
23	1	2	3	4	5	6	7					
24	a)			0		0	0					
25	b)			0		0	0					
26	c)			0		0	0					
27	d)			0		0	0					
28	e)			0		0	0					
29	f)	5	178036630	8901832	178036630	8901832	0					
30	g)			0		0	0					
31	h)			0		0	0					
32	i)			0		0	0					
33	j)			0		0	0					
34	TOTAL		178036630	8901832	178036630	8901832	0					
35	2A)	Sales Tax collected in Excess of the Amount Tax payable			As per Returns	As per Audit	Difference (Rs.)					
36					11	0	-11					
37	3)	Computation of Purchases Eligible for Set-off										
38		Particulars			As per Returns (Rs.)	As per Audit (Rs.)	Difference (Rs.)					
39	a)	Total Turn-Over of Purchases including taxes, value of Branch Transfers / consignment transfers received and Labour/ job work charges.			206370031	207524386	1154355					
40	b)	Less:- Turn-Over of Purchases Covered under Schedule II, III, IV or V			0	0	0					

Enter Amount of GROSS TURNOVER OF PURCHASES .Equal to Total of GTO of purchases in all the returns filed.as per returns

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	A	B	C	D	E	F	G	I	J	K	L	M	
37	3)	<b>Computation of Purchases Eligible for Set-off</b>											
38		<b>Particulars</b>			<b>As per Returns (Rs.)</b>	<b>As per Audit(Rs.)</b>	<b>Difference(Rs.)</b>						
39	a)	Total Turn-Over of Purchases including taxes, value of Branch Transfers / consignment transfers received and Labour/ job work charges.			206370031	207524386	1154355						
40	b)	Less:- Turn-Over of Purchases Covered under Schedule II, III, IV or V			0	0	0						
41	c)	Balance:- Turn-Over of Purchases Considered under this Schedule (a-b)			206370031	207524386	1154355						
42	d)	Less:-Value of Goods Return (inclusive of tax), including reduction of purchase price on account of rate difference and discount.			0	0	0						
43	e)	Less:-Imports (Direct imports)			0	0	0						
44	f)	Less:-Imports (High seas purchases)			0	0	0						
45	g)	Less:-Inter-State purchases			0	0	0						
46	h)	Less:-Inter-State Branch Transfers/ Consignment Transfers received			0	0	0						
47	i)	Less:-Within the State Branch Transfers / Consignment Transfers received where tax is to be paid by an Agent			0	0	0						
48	j)	Less:-Within the State purchases of taxable goods from un-registered dealers(excluding purchases liable for purchase tax)			0	0	0						
49	k)	Less:-Purchases of the taxable goods from registered dealers under MVAT Act, 2002 and which are not eligible for set-off			0	0	0						
50	l)	Less:-Within the state purchases of taxable goods which are fully exempted from tax u/s 8 and u/s. 41 but not covered under section 8(1).			0	0	0						

Enter Amount of  
LOCAL --EXEMPTED  
PURCHASE net of  
Purchases Returns as  
per return

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	A	B	C	D	E	F	G	I	J	K	L	M
51	m)	Less:- Within the State purchases of tax-free goods specified in Schedule "A"			0	0	0					
52	n)	Less:- Other allowable deductions /reductions, if any. (Please Specify)		Round off	10	0	-10					
53	o)	Balance: Within the State purchases of taxable goods eligible for set-off (c) - (d+e+f+g+h+i+j+k+l+m+n)			206370021	207524386	1154365					
54	4)	<b>Tax rate wise break-up of Purchases eligible for set-off as per Box 3(o) above</b>										
55		<b>Rate of Tax %</b>	<b>As per Returns</b>		<b>As per Audit</b>							
56			<b>Net Turn-Over of Purchases Eligible for Set -Off (Rs.)</b>	<b>Tax Amount (Rs.)</b>	<b>Net Turn-Over of Purchases Eligible for Set - Off (Rs.)</b>	<b>Tax Amount (Rs.)</b>	<b>Difference in Tax amount</b>					
57		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>				
58	a)							0				
59	b)							0				
60	c)		5.00	196542865	9827156	197641869	9882517	55361				
61	d)							0				
62	e)							0				
63	f)							0				
64	g)							0				
65	h)							0				

Enter Amount of enter net purchases taxable Audit

# Recociliation

- ❖ Reconciliation of turnover of sales and purchase as per VAT Audit needs to be made in Annexure K.
- ❖ There are transactions included in Gross turnover of sales but not included in Profit & Loss A/c and hence deducted from the gross turnover.
- ❖ Similarly there are transactions which are included in P/L a/c but not included in Gross TO and hence added back to arrive at TO figures of P/L a/c.

# Reconciliation of Gross Turnover

## Deduction

- ❖ Branch transfer
- ❖ Fixed Assets
- ❖ Expenses
- ❖ Duties & Taxes
- ❖ Labour & other charges
- ❖ Goods Return & discounts
- ❖ Goods in transit

## Addition

- ❖ Transaction by agent
- ❖ Turnover of other  
Branches
- ❖ Commission received





# Happy Learning

