



GST effect on closure of financial statements & preparation for GST Audit

- CA Ravi Kumar Somani

Coverage

**Systems &
Controls**

Balance Sheet

**Reporting &
GST Audit**

**Past Taxation &
Transitional**

**Income &
Expense
statement**

Procedural

Systems & Controls

- How GST was implemented
- Present GST compliance whether manual or automated
- Support of accounting software/ vendors - Validation of system generated reports
- GST compliance team & knowledge thereof
- Materiality/ risk to be determined based on ratio analysis
- Reco between Invoicing system and accounting system

Past Taxation & Transition to GST

Review of past taxation & Transition

- Filing of past tax returns upto June 2018 - Payment of taxes, interest, penalties, late fees etc.
- Review open past tax ledgers for ITC credits, liabilities etc.
- Closing of ledgers by passing set-off / utilisation entries
- Reco of past taxes books vs returns filed viz., - Output, RCM, taxes adjusted, credits availed/ reversed etc.
- Adjustment entries for past credits claimed in transition
- Reversal under rule 6(3) of CCR for FY 2016-17 and FY 17-18 (1st quarter)

Review of past taxation & Transition

- Filing status of TRAN 1 – Timing of availing TRAN credit
- Transfer of closing balance as per last returns service tax, excise, VAT returns in TRAN-1
- Verification of the expenses underlying transferred credits
- Tax treatment in case of Education cess, SHEC, KKC, SBC, NCCD, clean energy cess
- Transfer of un-availed credit on Capital Goods

Review of past taxation & Transition

- Adjustment for depreciation under Income Tax for capital goods credit taken for the past
- Proper documentation, certification, stock statement for credit taken on stocks
- Credit for stocks older than one year whether available?
- Verification of credits availed in TRAN 2
- Credits under Sec 140(5) for inputs, input services received after June 2017 - When accounted in books?

Review of past taxation & Transition

- Credits of taxes paid under RCM post June 2017
- Invoices for credit taken u/s 140(5) are proper, eligible and adequately documented
- Tax treatment for purchase returns after appointed date
- Debit note/ credit note for upward/downward revision in prices after the appointed day
- Correctness of computation of credit under sec 142(11)(c) claimed in TRAN 1

Review of past taxation & Transition

- Tax treatment for spill over transactions whether correct tax has been levied. Verify
 - Incomes (invoice),
 - Debit/credit notes issued/ received
 - RCM Expenses

- Duplication/ non-payment of taxes in both the regimes

- Adjustment entry for refund of the past taxes to be claimed

- Adjustment entries for refund rejected – t/d to TRAN 1

Anti-profiteering measure (Sec 171)

Why Anti-profiteering measure?

- To protect consumers from businesses “profiteering” by way of commensurate reduction in prices and
- To ensure inflation does not exceed expectations.



Anti-profiteering measure (Sec 171)

Example I



Tax rate reduced,
from 30% to
25%

Post-GST price
must be
48.1lacs

Pre-GST price
50lacs



Pass 1.9lacs to Customer

Anti-profiteering measure (Sec 171)

Example II



FMCG



Post-GST, Avails
Rs.20 ITC on Input.

Saves Rs.5 by
Operation
effectiveness

Nostalgic Ltd



Pass Rs. 20; ~~Rs.5~~

Balance Sheet

Balance Sheet - Liabilities

Standalone Balance Sheet as at 31st March 2016

(All amounts are in Indian rupees except share data and otherwise stated)

Particulars	Note No.	As at 31st March 2016	As at 31st March 2015
EQUITY AND LIABILITIES			
Shareholders' funds			
(a) Share capital	3	-	-
(b) Reserves and surplus	4	-	-
		-	-
Non-current liabilities			
(a) Long-term borrowings	5	-	-
(b) Deferred tax liabilities (net)	13	-	-
(c) Long-term provisions	6	-	-
		-	-
Current liabilities			
(a) Short-term borrowings	7	-	-
(b) Trade payables	8	-	-
(c) Other current liabilities	9	-	-
(d) Short-term provisions	10	-	-
		-	-
TOTAL		-	-

Impact on Equity

- Transactions purely in money do not have impact on GST;
- Implication due to change in equity (Mergers & Acquisitions)
- Notes to share capital provide details of the shareholders with more than 5%;
- Related Party supplies.
- Unsecured loans vis-à-vis taxation on advances

Impact on Liabilities

Other Long Term Liabilities:

- Security deposits are to be included in taxable value if adjusted against consideration.
- Mobilization advances whether in the nature of deposits – For goods/ services

Trade Payables:

- GST Reversal on long dues.
- Working capital blockage on long advances.
- Tax implication due to vendor non-compliances.

Impact on Liabilities

Other Current Liabilities:

- Customer Advances - Early payment of GST.
- Employees, debtors, creditors adjustment accounts
- Reimbursements not in the nature of pure agent knocked off in the balance sheet
- TDS Payable

Review of Liabilities

Duties and Taxes:

- Whether present accounting system allows to extract reports for each registration separately
- Matching of GST accounting CGST records with SGST
- Review of tax utilization entries passed in books of accounts vis a vis Electronic liability ledger
- Accounting of RCM entries
- Blocking/removal of redundant tax codes.
- Entry for advance received / paid

Balance Sheet - Assets

ASSETS				
Non-current assets				
(a)	Fixed assets			
	(i) Tangible assets	11	-	-
	(ii) Intangible Assets	-	-	-
	(iii) Capital work-in-progress	11	-	-
	(iv) Intangible Assets under development	11	-	-
			-	-
(b)	Non-Current Investments	12	-	-
(c)	Deferred tax assets (net)	13	-	-
(d)	Long-term loans and advances	14	-	-
(e)	Other non-current assets	15	-	-
			-	-
Current assets				
(a)	Inventories	16	-	-
(b)	Trade receivables	17	-	-
(c)	Cash and Bank Balances	18	-	-
(d)	Short-term loans and advances	19	-	-
(e)	Other current assets	20	-	-
			-	-
TOTAL			-	-

Impact on Fixed Assets

Fixed Assets:

- ITC on Motor vehicles – demo vehicles, leasing, repairs, insurance;
- GST payable on sales/removal/write off.
- If ITC is claimed, cannot be added in value for depreciation
- 50% depreciation on capital goods available for Banks
- Eligibility of ITC on Plant & Machinery, Furniture & Fixtures, electrical fitting, office equipments, computers

Review of Assets

Fixed Assets:

- ITC on works contract, construction - classification of capital expenses into building account or other assets account or expensing the same as repairs and maintenance

Intangible Assets:

- License purchased etc. treated as intangible asset

Illustration – Capitalize or No?

- Replacing interior walls of a building;
- Replacement of conveyor belts in a factory
- Electrical fittings & cables work
- Excavation/ earth work/ leveling etc.

GST on Sale of Fixed Assets

- Case 1 : where ITC is **taken**
- **GST Payable** = higher of
- GST payable on transaction value
- ITC taken less by five percentage points per quarter of a year or part thereof from the date of the invoice or such other documents

GST on Sale of Fixed Assets

- Case 2 : Where ITC is not taken & sold with consideration:
- Whether it is supply?
- (Sch II – Sales of business assets in the course or furtherance of business is supply of goods.)

GST on Sale of Vehicles

- No ITC is taken on purchase of vehicles – Section 17 (5)
- Whether it is supply?
- Maharashtra AAR, in case of CMS Info Systems Ltd – it is supply!

Rate of GST on Vehicles

- GST = same as that of new vehicle
- From 13th October 2017, Not No. 37/2017-Central Tax (Rate), a relief was given to exempt 35% of the GST payable on supply of used motor vehicles provided:
- Supply is undertaken before 1st July 2020.
- ✓ Registered person who has purchased the Motor Vehicle prior to 1st July, 2017 and has not availed credit of excise duty, VAT or any other taxes paid on such vehicles.

Rate of GST on Vehicles

- From 25th January 2018, Not No. 8/2018-Central Tax (Rate), margin based tax is introduced even for person other than second hand car dealers with reduced rates.
- Reduced rate of tax – 18% / 12%

Depreciation is claimed

• **Value = Consideration Received (-) Depreciated Value (WDV) as per Income Tax Act**

Depreciation is not claimed

• **Value = Selling Price (-) Purchase Price**

Impact on Current Assets

Inventories:

- If written off/lost/stolen/gifted/removed as samples, etc. whether ITC is to be reversed – Sec. 17(5)
- Classification of WIP whether inputs or capital goods

Trade Receivable:

- Customer Advances
- Debtors ageing report
- Tax implication on customers due to GST non-compliances,
- Review of customer master

Review of Current Assets

Short Term Advances/ Other current assets:

- Review of other accounts receivables, Employee travel and other receivables, PLA balances etc.
- No ITC available unless goods / service is received – Sec. 16
- Review of prepaid expenses
- Advances paid to vendors - RCM

Income & Expense Statement

Profit & Loss Account - Income

- Revenues to be verified for the following:
 - ✓ Taxability – FOC removals, samples, non-business, warranty replcmnts, incentives, liquidated damages.
 - ✓ Composite/ mixed supply – workshops, schemes etc.
 - ✓ Classification and rate of tax for goods – scrap, assets, RCM, Parts of motor vehicle, flushing cisterns
 - ✓ Classification of services – Training, outdoor catering, educational events.
 - ✓ Time of Supply - vouchers, installation works, 1st of every month, removal to ware house, delay 30 days
 - ✓ Place of supply – trainings, Intermediary, job work (performance based)

Profit & Loss Account - Income

- Revenues to be verified for the following:
 - ✓ Type of Tax – GTA, Installation of goods, Not always regn no. wise
 - ✓ Valuation – Taxes other than GST, moulds, tools etc., FIAT India, reimbursements, JDA agreements etc.
 - ✓ Procedural compliances – Issuing Tax invoice, E-way bill, Proper disclosure in returns
- Tax treatment in case of change in rate of tax – Paid on advances @ 28%
- Review of debit notes/ credit notes - who shall issue, Time³² of supply, rate of tax in case of change in rate

Reasons for reconciliation

- Transactions covered prior to GST regime
- GST filing is registration wise however financial statements are PAN wise;
- backdated entries passed in books of accounts;
- subsequent amendment of GSTR 1 returns;
- differences in the concepts under IND AS, AS and GST.

Illustration

As per
AS 9

Revenue should not be recognized until the goods are sold to a third party

As per
GST

It will constitute supply on the movement of goods from place of supply

Illustration

As per
AS 9

Revenue should not be recognized until the customer accepts delivery and installation and inspection are complete.

As per
GST

Invoice will be made at the time of removal of goods.

AS 11 – Construction Contracts

- Revenue for construction contract shall be recognized based on the percentage of completion of the construction.
- $\% \text{ completion} = \text{Expenses incurred} / \text{Total Estimated expenses}$

Reasons for reconciliations

- supplies to related parties without consideration,
- stock transfers/ cross billings,
- disposal of business assets without consideration,
- Bill To Ship To invoicing from vendors
- Pre-supply, post supply discounts on sales
- Distinction between financial debit notes/ credit notes and Tax debit notes/ credit notes
- employer-employee transactions,

Reasons for reconciliation

- Non-GST supplies – alcoholic liquor for human consumption, petroleum products;
- expense recoveries/ cost of goods sold adjustment
- spill over transactions – duplication/ missed out
- reimbursements – pure agent or not
- free supplies obligated through agreement
- over due job works,
- sale on approval or return basis,
- High sea sales

Profit & Loss Account - Income

- Two way reconciliation from Books to returns and vice-versa – Adequate data in returns;
- Outward supply reconciliation - Books vs computation sheets vs GSTR 3B;
- Reconciliation of outward supplies GSTR 3B and GSTR 1;
- Electronic cash ledger vs Tax paid as per returns/ books
- Reco of ERP reports to the Books of accounts

Review of GSTR 1

- Purchase return disclosed as deemed supplies;
- GSTR 1 gives the details of stock transfers / cross billings on the distinct persons
- HSN summary gives the details of other incomes such as sale of fixed assets, Debits/ penalties collected from the customers, Incomes credited to the expenses in TB, etc..
- It helps identifying duplicate sales made from the documents and reconciliation of the sales with books
- Debtors can be cross verified from the advances received.

AS 17 – Segment Reporting

- Segment Reporting is about reporting statements of various verticals.
- To analyse inter billing since section 25(4) – provisions of distinct persons to be checked.

Analysis of Expenses

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
Employee benefits expenses			
Finance costs			
Bad Debts			
Freight Payments			
Discounts & Rebates			
Director's Salary			
Business Promotion			

Impact on Expenses

- Reconciliation of ITC & RCM between books vs computation sheets vs GSTR 3B
- Reco of GSTR 2A with GSTR 3B and books
 - ✓ Short reporting of expenses;
 - ✓ Identification of non-compliant vendors;
 - ✓ Comfort on the credits taken
- Vendor treating as B2C on the invoice
- Expensing off the compensation cess, ineligible credit accounts
- ₄₃ Provision for interest, late filing fee

Impact on Expenses

- Analysis of expenses:
 - ✓ Bank charges and processing fees,
 - ✓ Telephone & Internet expenses,
 - ✓ CSR expenses,
 - ✓ Personal expenses
 - ✓ CHA/ Travel agent expenses
 - ✓ Expense recoveries
 - ✓ Direct bank payments
 - ✓ Depreciation - to be calculated on inclusive basis where credit of capital goods is not eligible - Buildings etc.
 - ✓ Staff welfare, Office expenses
 - ✓ Insurance expenses
 - ✓ Subscription & renewals

RCM Impact – Unregistered 9(4)

- Analyse GST on Section 9(4) expenses.

- Law was applicable only upto 13th October 2017 –
 - ✓ Self Invoice.
 - ✓ Aggregate Rs.5,000/- in a day (accounting or invoicing or payment)
 - ✓ Time of Supply
 - ✓ Timing of ITC
 - ✓ rate of tax,
 - ✓ type of tax,
 - ✓ eligibility of credits

RCM Impact – 9(3)

Analyse GST on Section 9(3) expenses.

- ✓ Freight Payments – Type of tax
- ✓ Ocean Freight
- ✓ Advocate Payments
- ✓ Forex gain/ loss,
- ✓ Legal Expenses,
- ✓ Professional services,
- ✓ Advertisement & marketing,
- ✓ Fees & licences.

Impact on expenses

- Material received from customer on FOC basis
- CGST/ SGST availed as IGST.
- Credit availed onto the different GSTIN of the same assessee
- Credit of other states, RCM liability
- Timing of availing credit - receipt of goods/ service, RCM credits, credit on advances etc.

Impact on expenses

- Expenses used directly for exempted goods /services
- Common exp used for both taxable and exempted supplies
- Reversal of expenses used for regular scheme and scheme of concessional rate of tax with no ITC
- Provisional adjustments and year end final reversals
- Common expenses by HO for other branches
- Credit availed to the different GSTIN of the same assessee

Procedural verifications



Procedural verifications

- Reconciliation of interest, penalties as disclosed in GSTR 3B with the respective ledger in books of accounts;
- GST registration procedures - migration of all the numbers, details of additional place of business, authorised signatories etc.
- Display of registration details;
- Invoicing verification - outward, inward & RCM supplies

Procedural verifications

- Issue of delivery challan, Bill of supply, receipt voucher, payment voucher, refund voucher, e-way bill etc.
- Return filing status;
- Review calculations of interest, penalties paid;
- Taxes deposited but not off set.

Reporting & GST Audit



Notes to accounts

- Related Party Disclosures – whether GST paid.
- Foreign Expenses and Income Disclosures – Whether RCM paid.
- Contingent liability on account of Anti-profiteering.
- Departmental correspondence review, status of pending cases SCNs.
- Status of refund applications filed

CARO

- Disclosures on non payment of undisputed tax liability.
- Disclosures on disputed tax liabilities

Audit under GST



GST Audit Report

1	Financial Year	
2	GSTIN	
3A	Legal Name	< Auto >
3B	Trade Name (if any)	<Auto>
4	Are you liable to audit under any Act?	<<Please specify>>
		(Amount in ₹ in all tables)
Pt. II	Reconciliation of turnover declared in audited Annual Financial Statement with turnover declared in Annual Return (GSTR9)	
5	Reconciliation of Gross Turnover	
A	Turnover (including exports) as per audited financial statements for the State / UT (For multi-GSTIN units under same PAN the turnover shall be derived from the audited Annual Financial Statement)	
B	Unbilled revenue at the beginning of Financial Year	(+)
C	Unadjusted advances at the end of the Financial Year	(+)
D	Deemed Supply under Schedule I	(+)
E	Credit Notes issued after the end of the financial year but reflected in the annual return	(+)
F	Trade Discounts accounted for in the audited Annual	(+)

GST Audit Report

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	Financial Statement but are not permissible under GST		
G	Turnover from April 2017 to June 2017	(-)	
H	Unbilled revenue at the end of Financial Year	(-)	
I	Unadjusted Advances at the beginning of the Financial Year	(-)	
J	Credit notes accounted for in the audited Annual Financial Statement but are not permissible under GST	(-)	
K	Adjustments on account of supply of goods by SEZ units to DTA Units	(-)	
L	Turnover for the period under composition scheme	(-)	
M	Adjustments in turnover under section 15 and rules thereunder	(+/-)	
N	Adjustments in turnover due to foreign exchange fluctuations	(+/-)	
O	Adjustments in turnover due to reasons not listed above	(+/-)	
P	Annual turnover after adjustments as above		<Auto>
Q	Turnover as declared in Annual Return (GSTR9)		
R	Un-Reconciled turnover (Q - P)		AT1
6	Reasons for Un - Reconciled difference in Annual Gross Turnover		
A	Reason 1		<Text>

GST Audit Report

6	Reasons for Un - Reconciled difference in Annual Gross Turnover	
A	Reason 1	<<Text>>
B	Reason 2	<<Text>>
C	Reason 3	<<Text>>
7	Reconciliation of Taxable Turnover	
A	Annual turnover after adjustments (from 5P above)	<Auto> >
B	Value of Exempted, Nil Rated, Non-GST supplies, No-Supply turnover	
C	Zero rated supplies without payment of tax	
D	Supplies on which tax is to be paid by the recipient on reverse charge basis	
E	Taxable turnover as per adjustments above (A-B-C-D)	<Auto>
F	Taxable turnover as per liability declared in Annual Return (GSTR9)	
G	Unreconciled taxable turnover (F-E)	AT 2
8	Reasons for Un - Reconciled difference in taxable turnover	
A	Reason 1	<<Text>>
B	Reason 2	<<Text>>
C	Reason 3	<<Text>>

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III	Reconciliation of tax paid					
9	Reconciliation of rate wise liability and amount payable thereon					
			Tax payable			
	Description	Taxable Value	Central tax	State tax / UT tax	Integrated Tax	Cess, if applicable
	1	2	3	4	5	6

A	5%					
B	5% (RC)					
C	12%					

GST Audit Report

E	18%					
F	18% (RC)					
G	28%					
H	28% (RC)					
I	3%					
J	0.25%					
K	0.10%					
L	Interest					
M	Late Fee					
N	Penalty					
O	Others					
P	Total amount to be paid as per tables above		<Auto>	<Auto>	<Auto>	<Auto>
Q	Total amount paid as declared in Annual Return (GSTR 9)					
R	Un-reconciled payment of amount					PT 1
10	Reasons for un-reconciled payment of amount					
A	Reason 1		<<Text>>			
B	Reason 2		<<Text>>			
C	Reason 3		<<Text>>			

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Reason 5		To be paid through Cash				
Additional amount payable but not paid (due to reasons specified under Tables 6,8 and 10 above)						
11	Description	Taxable Value	Central tax	State tax / UT tax	Integrated tax	Cess, if applicable
			3	4	5	6
	5%					
	12%					
	18%					
	28%					
	3%					
	0.25%					
	0.10%					
	Interest					
	Late Fee					
	Penalty					
	Others (please					

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12	Reconciliation of Net Input Tax Credit (ITC)		
A	ITC availed as per audited Annual Financial Statement for the State/ UT (For multi-GSTIN units under same PAN this should be derived from books of accounts)		
B	ITC booked in earlier Financial Years claimed in current Financial Year	(+)	
C	ITC booked in current Financial Year to be claimed in subsequent Financial Years	(-)	
D	ITC availed as per audited financial statements or books of account		<Auto>
E	ITC claimed in Annual Return (GSTR9)		
F	Un-reconciled ITC		ITC 1
13	Reasons for un-reconciled difference in ITC		
A	Reason 1	<<Text>>	
B	Reason 2	<<Text>>	
C	Reason 3	<<Text>>	
14	Reconciliation of ITC declared in Annual Return (GSTR9) with ITC availed on expenses as per audited Annual Financial Statement or books of account		
	Description	Value	Amount of Total ITC
			Amount of eligible ITC availed

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14 Reconciliation of ITC declared in Annual Return (GSTR9) with ITC availed on expenses as per audited Annual Financial Statement or books of account

	Description	Value	Amount of Total ITC	Amount of eligible ITC availed
	1	2	3	4
A	Purchases			
B	Freight / Carriage			
C	Power and Fuel			
D	Imported goods (Including received from SEZs)			
E	Rent and Insurance			
F	Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples			
G	Royalties			
H	Employees' Cost (Salaries, wages, Bonus etc.)			

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P	Any other expense 1			
Q	Any other expense 2			
R	Total amount of eligible ITC availed		<<Auto>>	
S	ITC claimed in Annual Return (GSTR9)			
T	Un-reconciled ITC		ITC 2	
15	Reasons for un - reconciled difference in ITC			
A	Reason 1	<<Text>>		
B	Reason 2	<<Text>>		
C	Reason 3	<<Text>>		
16	Tax payable on un-reconciled difference in ITC (due to reasons specified in 13 and 15 above)			
	Description	Amount Payable		
	Central Tax			
	State/UT Tax			
	Integrated Tax			
	Cess			
	Interest			
	Penalty			

GST Audit Report

V	Auditor's recommendation on additional Liability due to non-reconciliation				
	To be paid through Cash				
Description	Value	Central tax	State tax / UT tax	Integrated tax	Cess, if applicable
1	2	3	4	5	6
5%					
12%					
18%					
28%					
3%					
0.25%					
0.10%					
Input Tax Credit					
Interest					
Late Fee					
Penalty					
Any other amount paid					

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Erroneous refund to be paid back						
	Outstanding demands to be settled					
	Other (Pl. specify)					

Verification:

I hereby solemnly affirm and declare that the information given herein above is true and correct to the best of my knowledge and belief and nothing has been concealed there from.

** (Signature and stamp/Seal of the Auditor)

Place:

Name of the signatory

Membership No.....

Date:

Statutory requirements under GST

Section 44(2) provides to furnish,

- annual return
- copy of the audited annual accounts and
- reconciliation statement,
- and such other particulars as may be prescribed.

Section 35 (5) read with rule 80(3) provides that every registered person whose turnover during a financial year exceeds Rs. 2 cr shall get his accounts audited by a chartered accountant or a cost accountant

Annual Return

- To be submitted in form GSTR 9 on or before the 31ST day of Dec following the end of each FY;
- Form GSTR 9A for persons covered under the composition scheme;
- Merely a summary/ summation of various periodic returns filed
- It provides department with the 360 degree view of the entities various tax implications

Annual Return

- failure to submit the annual return within the specified time, a late fee shall be leviable @ Rs. 100 per day during which such failure continues subject to a maximum of a quarter percent of the turnover in the State/UT

Reconciliation Statement

- To be submitted in Form GSTR 9C along with the Annual return;
- Reconciling the value of supplies declared in the return furnished for the financial year with the audited annual financial statements, and such other particulars as may be prescribed;
- Forms have recently been prescribed.

GST Audit – Key points

- Computation of aggregate turnover of 2 crores to include taxable supplies, exempt supplies, zero rated supplies and non-taxable supplies on PAN India basis
- To exclude turnover of tax paid under RCM
- Applicability of Turnover Limit for the period 01.07.2017 to 31.03.2018
- Whether aggregate turnover of 2 crores to be considered state wise..?

GST Audit – Best Practices

- Internal Control questionnaire must be designed and used in the course of audit;
- Higher reliance can be placed over systems, processes and controls by performing a detailed Information system audit or a GST reviews on periodic basis
- Proper audit plan/ programme must be designed and implemented for smooth conduct of audit
- Use of generalised audit software/ tools can be a very effective aid to the GST audit which can crash the time

THANK YOU



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