

Precautions to be taken under GST before Closure of Books of Accounts

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Systems & Controls

Balance Sheet

Income & Expense
Statement

Notes to Accounts



**Systems &
Controls**

- Flow of entry into the accounting systems – Manual vs. Automated;
- Walkthrough of a transaction from an accounting entry to GST returns filing;
- Documented SOP for various steps carried out in smooth compliances;
- Validation/ Authenticity of system generated reports;
- Whether accounting system allows to extract reports for each registration separately;
- Reconciliation between Invoicing system and accounting system;
- Back dated entries into the accounting system – Tax implications;



**Balance Sheet
Items**

- Related Party transactions and its implications thereof – Deemed Supply, Valuation, usage of trademarks without consideration, Guarantee commission by Directors/ Shareholders;
- Transactions purely in money do not have impact on GST;
- Implication due to change in equity (Mergers & Acquisitions);
 - Tax implication on transfer of assets/ slump sale – Going concern;
 - Transfer of Input tax credits – 2A mis-match;
 - Post transaction effects – Credit notes, filing of final return, GSTR 9C etc.

- Unsecured loans vis-à-vis advances;
- Mobilization advances whether in the nature of deposits – For goods/ services;
- Retention money held against payment for contracts;
- Security deposits are to be included in taxable value if adjusted against consideration;
- Long due creditors – 180 days, 2A payments held etc.;
- Working capital blockage on long advances;
- Tax implication due to vendor non-compliances;
- Customer Advances - Early payment of GST & adjustment at the time of invoicing;
- Employees, debtors, creditors adjustment accounts;
- Reimbursements not in the nature of pure agent knocked off in the balance sheet;
- TDS Payable – 195/ directors etc.

Duties and Taxes:

- Matching of GST accounting CGST records with SGST;
- Reconciliation of tax availing entries passed as per books with Electronic credit ledger;
- Reconciliation of ITC balances with the Electronic Credit ledgers;
- Review of tax utilization entries passed in the books vis a vis Electronic liability ledger;
- Accounting of RCM entries;
- Blocking/removal of redundant tax codes;
- Entry for advance received / paid;
- Accumulation of credits / particular type of credits.
- Status of refund claims filed.

Key Ratio's:

- Non-compliance vendors / Total vendors;
- Tax paid in cash / Total tax liability;
- Tax liability/ Turnover;
- Total Tax/ Total taxable value.

Fixed Assets:

- Review/ reconciliation with Fixed Assets register;
- ITC on Motor vehicles – Demo vehicles, leasing, repairs, insurance;
- GST payable on sales/removal/write off:
 - Transaction value vs. Dep value based on 5% points per quarter – collection of taxes??;
 - Sale of motor vehicles;
 - Removals to other branches/ FOC etc.
- If ITC is claimed, cannot be added in value for depreciation;
- 50% depreciation on capital goods available for Banks;

Fixed Assets:

- Eligibility of ITC on Plant & Machinery, Furniture & Fixtures, electrical fitting, office equipment's, computers.
- ITC on works contract, construction - classification of capital expenses into building account or other assets account or expensing the same as repairs and maintenance;
 - Excavation, Earthwork, Site-levelling etc.;
 - Tiling, flooring, waterproofing, plastering etc. completion & finishing works;
 - Scope of the term immovable property??
- Reporting of Capital goods vs. inputs/ input services:
 - License purchased etc. treated as intangible assets – CG or input services;
 - Eligibility of refunds on Capital goods.

Inventories:

- If written off/lost/stolen/gifted/removed as samples, etc. whether ITC is to be reversed – Sec. 17(5);
- Job work movement – return within the timelines, ITC 04, Documentation compliance;
- Movement of inventory o/s the state;
- FOC imports;

Trade Receivable:

- Customer Advances;
- Billing pattern – Delays
- Debtors ageing report;
- Tax implication on customers due to GST non-compliances;
- Review of customer masters.

Investments:

- Associated enterprises, group companies, valuation impact & impact on sale of investments;

Short Term Advances/ Other current assets:

- Review of other accounts receivables
- No ITC available unless goods / service are received – Sec. 16

Key Ratios:

- ITC availed / Total ITC;
- ITC availed/ ITC utilized;
- ITC/ Total tax liability;
- ITC as per 2A / ITC as per GSTR 3B



Income Items

- Taxability - Non-business, FOC removals, incentives, Actionable claim, Expat payments, Employees recoveries etc.;
- Exempt supply - Strict interpretation vs. Purposeful interpretation;
- Composite/ mixed supply - Schemes, Training & Coaching services, Logistics & warehousing contracts, Builder contracts, EPC Contracts etc.
- Classification and rate of tax for goods - Automobile parts/ components, Kombucha, Flavored Beverage etc.;
- Classification of services – Restaurant service, 3PL/ 4PL Warehousing;
- Time of Supply - Tax on advances and its adjustments, Vouchers, Billing at 1st of every month, Installation works, Warehousing JIT supplies, Software/ EPC contracts.
- Place of supply - Hybrid trainings/ events, Intermediary, Job work (performance based), Cross border warehousing contracts.

- Type of Tax - GTA, Installation of goods, Not always regn no. wise, Tooling supplies;
- Valuation – Related party transactions, Treatment of secondary discounts, sale of assets, Price is not the sole consideration, JDA agreements, Disposal of asset v/s scrap sale;
- Credit/ Debit notes – Tax rate, adjustment, time-limit;
- Tax treatment in case of change in rate of tax – Paid on advances @ 28%;
- Procedural compliances – Issuing Tax invoice, E-way bill, Proper disclosure in returns;
- Transaction structuring possibilities:
 - ✓ Manpower supply vs. Job work contracts,
 - ✓ Job work vs. deemed supplies,
 - ✓ Intermediary transactions vs. marketing support services etc.,
 - ✓ Contractors supply to developers etc.

- Computation of interest – Rate of interest, ITC availed/ utilised, refunds for the past, balance lying in the electronic cash ledger;
- Penalties and taxes paid on interception of vehicle due to e-way bill compliance;
- CGST & SGST incorrectly charged as IGST or vice-versa;
 - ✓ Payment of correct tax & claiming refund;
 - ✓ Tax to be paid upon being so held by the department;
 - ✓ Adjustment of excess tax paid against taxes short paid.
- Maintenance of job work records and filing of ITC – 04 – Waste/ scrap generated in the job work;
- Receipt of FIRC's for refund claims received;

- Two-way reconciliation from Books to returns and vice-versa - Adequate data in returns;
- Reconciliation of outward supplies GSTR 3B and GSTR 1;
- Electronic cash ledger v/s Tax paid as per returns/ books
- Reconciliation of ERP reports to the Books of accounts
- Reconciliation with E-way bill & E-invoicing reports;
- Reconciliation of job work movements & its returns;
- Reconciliation of exports with shipping bill data;
- Reconciliations of refunds eligible, claimed, rejected and sanctioned.



Expense items

- Analysis of Key Expense ledgers:
 - Direct Procurements & COGS,
 - Direct wages & labour contractor payments,
 - Salaries & Employee benefit expenses,
 - Bank charges and processing fees, Telephone & Internet expenses,
 - CSR expenses,
 - CHA/ Travel agent expenses,
 - Repairs & maintenance expenses – building, motor vehicles etc.
 - Business promotion, marketing & advertisement,
 - Duties & Taxes – GST, interest, penalties, duties etc.,
 - Depreciation,
 - Staff welfare, Office expenses,
 - Travelling & Accommodation expenses,
 - Insurance expenses,
 - Subscription & renewals.

Analyse GST on expenses that could be possibly liable to tax under RCM:

- Freight Payments – Reco, Type of tax, exemptions, forward charge etc.,
- Ocean Freight – Mohit Minerals Guj HC,
- Legal Expenses – Advocates, reimbursements,
- Professional expenses – Directors, Foreign payments etc.,
- Security services – Body corporate etc.,
- Travelling & conveyances - Body corporates, Employees reimbursements etc.,
- Forex gain/ loss,
- Advertisement & marketing – Sponsorships & Donations,
- Duties & Taxes Fees & licences – Exemptions,
- Expenses in Builders industry - Procurement less than 80% from unregistered person in case of builders, Cement, Procurement of TDR's etc.,
- Cashew Nuts (not shelled or peeled), bidi wrapper leaves (tendu), tobacco leaves & raw cotton, Silk Yarn procured from Agriculturist.

- Critical review of the blocked credits:
 - ✓ Demo Motor vehicles,
 - ✓ Food, Catering expenses,
 - ✓ Life/ Health Insurance,
 - ✓ Works contracts,
 - ✓ Goods lost, stolen, destroyed etc.
- Procurement structuring – Composition/ regular dealers;
- Reco of GSTR 2B with books of accounts;
 - ✓ Short reporting of expenses;
 - ✓ Identification of non-compliant vendors;
 - ✓ Comfort on the credits taken
 - ✓ Impact of Credit notes reflected online

- Non-reversal of proportionate common input tax credit in respect of exempted supplies and non-business use – Monthly & Annual basis;
- Methodology of bifurcating the inputs used for taxable/ exempt supplies;
- Credit on Capital Goods to be allocated over 60 months – Value add where exempt supplies later become taxable – Proportionate ITC eligibility;
- Incorrect type of ITC availed i.e., CGST & SGST availed in place of IGST or vice-versa;
- IGST credit with PoS of other states
- ITC not being availed on RCM transactions considering the same to be beyond the due date;

- Blockage of ITC in one GSTIN and cash outflow of taxes in other – Transaction structuring;
- Blockage of a particular type of ITC and cash payments in other i.e., CGST/ SGST or IGST – Timing of taking credit to be optimized;
- Reconciling the balances in the ITC as per books with the Electronic Credit ledger vs. Computation sheets vs. GSTR 2B;
- Reverse charge as per books with returns;
- RCM Tax paid v/s ITC availed;
- Time-limit for claiming of ITC u/s 16(4);
- Correctness of interest paid on account of reversal of credits



**Notes to
Accounts**

- Business understanding:
 - Business verticals,
 - Places of business – Principal place, additional places, registration requirement etc.,
 - Directors/ Business information
 - Future expansion plans,
 - Procurement mix, type – Indigenous/ Imports etc.,
 - Sales mix – local/ exports, List of products, product categories etc.
- Related Party Disclosures – Group companies/ Associated enterprises, Deemed supply, RCM liabilities, Export refunds, Distinct persons etc.,
- Foreign Expenses and Income Disclosures – Whether RCM paid,
- Pending cases under dispute - Departmental correspondences, status of pending cases SCNs,
- Contingent liability.

Questions??



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THANK YOU

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