



The Chamber of
Tax Consultants

GST ISSUES IN ACCOUNT CLOSING AND RECONCILIATION

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ACCOUNT CLOSING

- Account closing necessitates making of provisions for expenses and liability and recording of incomes and assets at its correct and appropriate values.
- The process of account closing necessitates verification and reconciliation of various account heads to comply and arrive at correct liability provisions and recording of appropriate incomes.



RECONCILIATION

- **Reconciliation** is the process of ensuring that two sets of records are in agreement. **Reconciliation** is used to ensure that the money leaving an account matches the actual money spent.
- Reconciliation is an important part of GST.
- Reconciliation becomes obvious and necessary due to the inherent nature of GST, an indirect tax.
- Under GST all goods and services are covered irrespective of the manner in which they are accounted in the books of accounts.



LEGAL PROVISIONS

- ▶ As per **Section 44(2) of the CGST Act 2017**, Every registered person who is required to get his accounts audited in accordance with the provisions of sub-section (5) of section 35 shall furnish, electronically, **the annual return under section 44(1) of CGST Act 2017 along with a copy of the audited annual accounts and a reconciliation statement**, reconciling the value of supplies declared in the return furnished for the financial year with the audited annual financial statement, and such other particulars as may be prescribed.



LEGAL PROVISIONS

- ▶ Although a reconciliation statement is prescribed under the law, when the tax payer is covered under GST audit, the process of reconciliation will have to be conducted while filing the annual return even for non-audit tax payers.
- ▶ With the income tax return seeking details of turnover under GST the reconciliation of the turnovers is an obvious off shoot of the requirement. Thus the non GST audit tax payers also will have to do a reconciliation with the books of accounts.

Reconciliation....

- Section 2(13): “Audit” means:
 - the examination of **records, returns and other documents** maintained or furnished by the registered person under this Act or 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 this Act or the rules made thereunder.
- Audit is designed to reduce the possibility of a material misstatement in the financial statement of any entity not being detected.
- This the first time that any taxation enactment has defined the term “Audit”. It cast a great responsibility on the auditor who is doing the audit as per GST law as he has to be compliant to the audit definition.
- Whether Reconciliation is to be done simply of books and returns or the legality is to be considered while doing the reconciliation?



ISSUES OF RECONCILIATION

Turnover

- The books of accounts will consider annual turnover. The turnover for the purpose of GST and the turnover for the annual accounts will have to be reconciled.
- Whether the turnover in the books is calculated by net method or gross method?

TURNOVER

NET METHOD

- Tax collection and payment is shown separately
- The tax payable or refund is shown in the balance sheet.
- The above method is as per the guidance note issued by ICAI

GROSS METHOD

- Taxes collected is included as a part of turnover.
- Tax paid and ITC taken is shown as a part of profit and loss account.
- The above is as per sec 145A of the IT act and ICDS.

- For the purpose of GST the turnover shall not include the taxes.
- The turnover for Airline agent/Secondhand car dealer/Forex dealing agents will have to be calculated in a manner as laid down under the law for each of these above categories.
- Every taxpayer's reconciliation of turnover will be done according to the manner in which the accounts are maintained.



Accounts & Records under GST

- Production or Manufacture of Goods
- Inward or Outward Supply of Goods / Services
- Stock of Goods
- Input Tax Credit Availed
- Output Tax Payable / Paid
- Other Particulars like invoices, bill of supply, debit/credit notes, delivery challans, payment, receipt vouchers, e-waybills, etc. as may be prescribed–Rule 56 of GST (Accounts & Records)Rules
- Submit a copy of audited accounts
- Submit Reconciliation statement u/s 44

STOCK RECORD

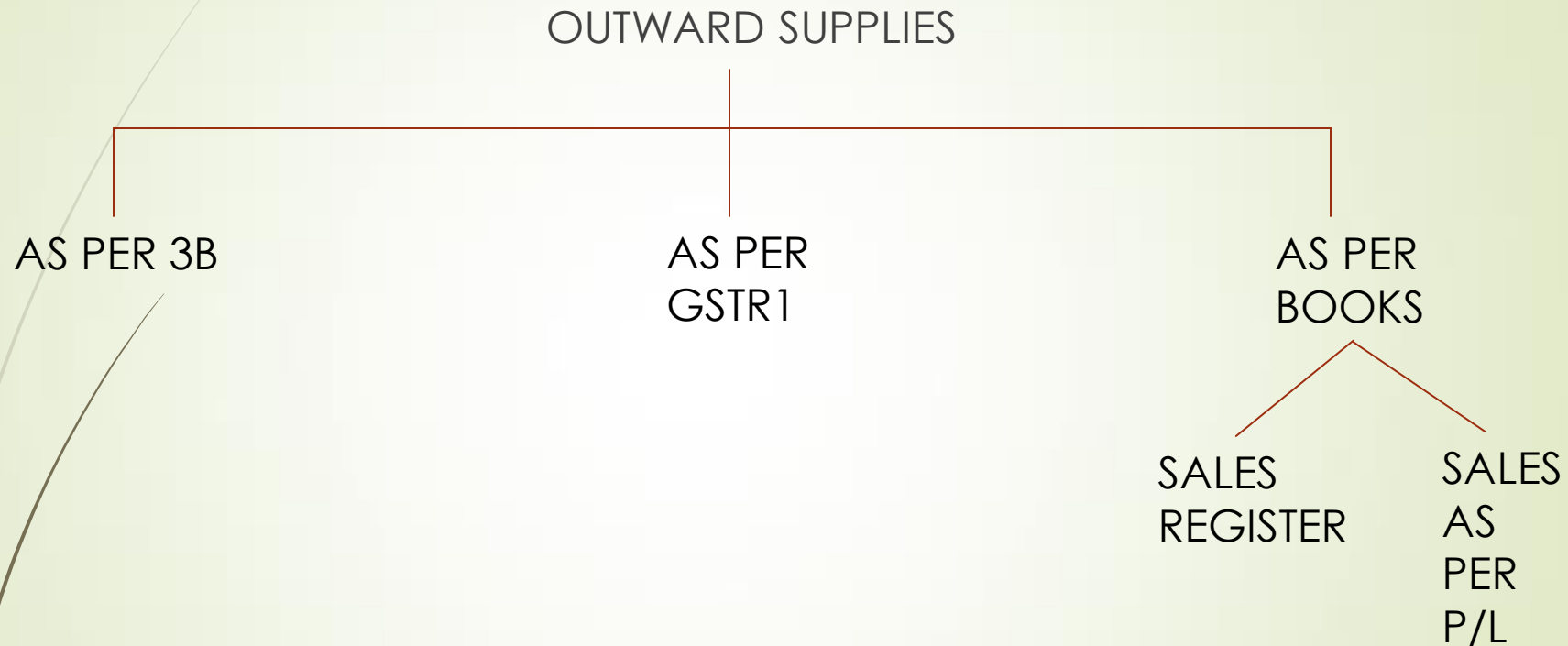
- Rule 56(2) states as under;

(2) Every registered person, other than a person paying tax under section 10, *shall maintain the accounts of stock* in respect of goods received and supplied by him, and such accounts shall contain particulars of the **opening balance, receipt, supply**, goods lost, stolen, destroyed, written off or disposed of by way of gift or free sample and the **balance of stock** including raw materials, finished goods, scrap and wastage thereof.
- **Whether Stock Records are to be maintained compulsorily or still an option is there to say day to day stock records not maintained?**

OUTWARD SUPPLIES



RECONCILIATION OF 3B AND GSTR1



Return Reconciliation

- ▶ vide Circular no. 26/26/2017 Dtd. 29/12/2017.
- ▶ Errors to be rectified in subsequent returns:

Nature of Error

Liability under Reported in 3B

Liability Over Reported in 3B

Liability wrongly reported in 3B

Add the missing entries in subsequent GST R 1 with original dates

Correct the incorrect entries in subsequent R1 in Table No. 9




Return Reconciliation

- Credit notes for rectification billed TO A INSTEAD OF B
- Dealer booked higher value – Purchaser booked lower value due to transit loss/ Goods Return.,-- credit note needs to be passed on or before 31st March' 18. The rectification in 3B/GSTR1 may be done till September' 18
- Rectifications in 3B and GSTR1 done post March all adjustment in accounts to be done by March 2018.

Return Reco....Unmatched 3B and GSTR1

- **Not all errors in 3B and GSTR1 can be rectified on the basis of circular.**
- Consider a situation... A taxpayer normally has intra state sales and it has huge carried forward Credit (ITC)also.
- In 3B of one month, one bill instead of showing CG+SG was wrongly shown as IGST. The system adjusted the payability of IGST against credit of CGST.
- While rectification since there is no IGST sales in the subsequent months the Reversal of IGST in 3B cannot be done and system will show short credit in CGST to the extent of IGST reversal not shown in return.
- Thus in respect of negative figures not being taken in 3B there can be un reconciled difference in books , 3B and GSTR1
- This has another impact.....



Return Reco...Unmatched 3B and GSTR1

- In the above case the excel sheet wrongly showed CG + SG as IGST and hence error occurred.
- In the books the error is not there.
- Even if, in subsequent month if there is a supply of IGST, then to, we shall have to pass a credit note to adjust the wrong entry for which there shall be no entry in the books..?

RECONCILIATIONS

► Treatment of discounts reduction in sale price

Consider a situation where a distributor of mobiles receives a credit note for rate difference without GST

Whether GST will be payable on such credit notes treating it as a separate supply? Since in accounts on credit side of P/L there is an amount shown as rate difference.

GST WITH CREDIT NOTE AND WITHOUT CREDIT NOTE.IMPACT ON LIABILITY IN ACCOUNTS

RECONCILIATIONS

► Treatment of free supplies....?

Say, Pharma companies gives ten strip free for every 100 strips sold or FMCG scheme 'Buy 1 Get 1 free'

Liability will depend squarely on the basis of manner in which the transactions are recorded

TAX INVOICE		TAX INVOICE	
QTY X PRICE		QTY X PRICE	
110 X 10 =	1100	100 X 10 =	1000
(-) DISCOUNT	(100)	FREE 10 STRIPS	0
TAXABLE VALUE	1000	TAXABLE VALUE	1000

TREATMENT OF FREE SUPPLIES

- ▶ If a token amount of Rupee one is charged on the invoice whether the assessing officer can reject the transaction value even when the transaction is between unrelated person?
- ▶ Sec 15(1)--The value of a supply of goods or services or both shall be the transaction value, which is the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply.

RECONCILIATIONS

- Treatment of **Warranty supplies**...in books.
- Recovery of expenses from employees/Reimbursement of expenses to employees shown credit to Salaries & Wages (in respect of items covered by Section 17(5)(b) only)
- Tax Impact due to accounting treatment for consequences of changes in rates from time to time where the implementation of the rate reduction is done from a prior date. (In some cases, from the date of press release)
- Book Printing –Content provided is Service not sale of book..rate of tax..? Liability on transactions prior to clarification....?
- Sale of used motor car....rate changes from time to time.



RECONCILIATIONS OF LIABILITY FOR RCM

- Determination of liability in respect of specified category of inward supply of goods or services or both where RCM payable by recipient
- Determination of liability on foreign payment of services read with point of taxation.
- Ocean freight and insurance..... Reverse charge applicable for FOB as well as CIF...?
- LAW:Sec 9(3) /9(4) of CGST and 5(4) of IGST read with notification no. 8/2017- Central tax (rate) w.e.f from 01.07.2017 and 38/2017 date 13.10.2017

RECONCILIATIONS

- ▶ Verification of time of supply especially with respect to continuous service like works contract as to whether invoicing done as specified in the agreement
- ▶ Reconciling expenses carried forward as WIP following accounting standard for matching expenses and revenue
- ▶ Similarly, sale on approval basis whether the time period for accepting the supply has come to an end
- ▶ Liability for advances received against Services to be rendered and for advance against goods for the period prior to 15/11/2017(notification no.66/2017 and 40/2017).
Reconciling liability paid on advances prior to 31st March and billing done thereafter
- ▶ Provision of liability for Return of goods purchased under old regime. Sec 142(1) proviso.

RECONCILIATIONS

- Receivable income e.g. Rent receivable for the month March.
- Miscellaneous/other income.. Liability...
- Export Refund/PLA Credit-Consequence on Accounts if refund rejected or reduced....?
- Sec 142 of the CGST act provides for various situations for obtaining *refund of taxes paid under the old law* and subsequently not payable
- a) Revision of Contract price and Credit note issued
- b) Advance Received , service tax paid and contract cancelled in GST before rendering of Service.

In the above cases, whether the books of accounts should show the refund claimable from the government?, if yes, in P/L or B/S.

RECONCILIATIONS IN RESPECT OF EXPORTS

- Exports done without LUT and without IGST (CIRCULAR NO 37/11/2018-GST MAR 18) Exports billed in March- EGM in april.
- Export of Services done , money **not** received in convertible Foreign Exchange whether IGST leviable..? Whether provision to be made in books of accounts
- When will be the IGST leviable ? whether interest will be applicable ?(..RBI allows up to 180 days?...)
- Supply to export house @ 0.1% satisfaction of conditions..Consequence of failure to comply with conditions
- Supply to SEZ with IGST and without IGST, Supply to Deemed Exporters and consequential refund
- Supply from Bonded Warehouses of Customs

Circular no. 46/2017 dated 24-11-2017 vs. Circular no. 3/1/2018-IGST dated 25-5-2018 and provision of taxes and classification of Supply



RECONCILIATIONS IN RESPECT OF EXPORTS

- ▶ Deemed export is not an export covered u/s 16 as zero rated... necessary verification and reconciliation of liability with books.

TAX RECONCILIATION

- **Separate reconciliation of GST tax ledger with liability as shown in the returns need to be done. Including inter tax adjustment fro e.g. IGST paid instead of CGST AND SGST and vice versa.**
- **Reco with Supplies as per book and as per return shall also have to be done. Therefore, returns till september 2018 will have to be verified and reconciled for entries pertaining to the books as on 31st March 2018**

CLASSIFICATION OF SUPPLY

TAXABLE
SUPPLY

NON TAXABLE
SUPPLY

ZERO RATED
SUPPLY

EXEMPT
SUPPLY

COMPOSITE
SUPPLY

MIXED SUPPLY

DEEMED
SUPPLY

**HIGH SEA SUPPLY / Supply from Bonded Warehouse
/Warranty Supply /Exports to Nepal and Bhutan CAN
BE CLASSIFIED UNDER WHICH OF THE ABOVE HEAD?**



RECONCILIATIONS FOR BRANCH TRANSFER

- Whether the transfers to the branch are at market rate or market value not applicable in view proviso to valuation Rule 28 “Where the recipient is eligible for full Input Tax Credit, the value declared in Invoices shall be deemed to be Open Market Value.”
- Reconciliation of value as shown in the books of accounts for branch transfers and related parties whether at Comparable uncontrolled price (CUP Method). Liability if not done so?



RECONCILIATIONS

- ▶ Items treated as reimbursements as pure agents in the books v/s sec 15(2) inclusion of items in the value of supply
- ▶ Verification of barter entries whether possible? For eg. Tv shows inviting film actors before release of their film.... Determination and valuation in the books of accounts.

FINAL RECONCILIATION OF OUTWARDS....

- Transactions of supply recorded as WIP/other transactions where liability to pay tax arises later due to point of taxation.
- Transactions where supply has not taken place but liability to pay tax arises due to point of taxation..... advance for services
- Transactions where tax paid but not recorded/does not appear in final accounts..... Cash system of accounting for professional, branch transfers/cross billings between branches and HO
- Transactions where supply has happened but payment of liability deferred as per law..... Supply of Development rights as per notification no.04/2018.
- Credit notes not in books but passed only to show correct liability in return as per books eg. Slide 15

FINAL RECONCILIATION OF OUTWARDS....

- ▶ Transactions where tax paid as per valuation rules whereas recorded at different value in books of accounts..... branch transfers where branch is not eligible for full credit.
- ▶ Transactions recorded at value of rupee one/ Barter transactions nor recorded in Books of Accounts.
- ▶ Credit notes issued without tax impact.
- ▶ Reduction of GST taxes/ cess if gross method of accounting followed by tax payer.

INWARD SUPPLIES

TRANSITIONAL CREDITS

- Credits c/f in GST, such credits disallowed in service tax regime
- Credits c/f in GST, payments not made within prescribed time period (90 DAYS)
- Credits c/f in GST, goods subsequently destroyed (medicines)
- Trans-1 credit taken in 3b in July 2017 reversed subsequently on filing of trans-1
- KKC credit taken..... reversed subsequently/not reversed subsequently..... impact
- Credit taken in books but trans-1 could not be filed due to technical glitches



INWARD SUPPLIES

- ▶ Trans-1 credit taken as per sec 140(3) by a trader.... Impact in accounts.
- ▶ Trans-2 filed and credit taken....effect in books
- ▶ Trans-2 could not be filed due to technical glitches.... Credit taken in books of accounts

INWARD SUPPLIES

2A VS. INPUT REGISTER

CREDIT DOES NOT
APPEAR IN 2A

CREDIT DOES
NOT APPEAR IN
INPUT REGISTER.

MISMATCH IN
FIGURES OF CREDIT

RECONCILIATION WITH GST SITE

Books of Accounts
Must tally with the
ledgers maintained
with GSTN on real
time basis

Electronic Cash Ledger
[GST PMT - 05]

Electronic Credit Ledger
[GST PMT - 02]

Electronic Tax Liability
Ledger [GST PMT - 01]

CLASSIFICATION OF CREDIT

FULLY ALLOWABLE

FULLY DISALLOWABLE

COMMON
CREDIT

SEC 17(5)
BLOCKED
CREDIT

EXEMPT SUPPLY

- Proportionate Credit working per Rule 42 and Rule 43
- 5% for non-business purpose...

VERIFICATION OF CREDITS

- ▶ IGST paid on imported goods to be verified from icegate Portal (Identification of IGST from payment made to custom authorities).
- ▶ Verification for fulfillment of sec 16(2)--
 1. payment to be made within 180 days from the date of issue of invoice by the supplier... recredit when paid as per rule 37(4)
 2. Goods received in lots/installments credit to be taken on the last lot/installment.
- ▶ ITC on provisions and prepaid expenses
 - a) Flight ticket for June 2018 booked in March 2018
 - b) Prepaid Insurance...

VERIFICATION OF CREDITS

- ▶ Inward supplies capitalized in books of accounts needs to be verified to ensure ITC taken does not form part of capital value and no depreciation has been claimed on the ITC amount.
- ▶ As per sec 16(4) ITC credits pertaining to period 17-18 can be claimed on or before the due date of furnishing of the return under section 39 for the month of September following the end of financial year.
- ▶ ITC on CSR expenses – deemed to be non-business as per CSR Rules
- ▶ Supply to Nepal and Bhutan for consideration in Indian Rupees whether covered u/s 16 of IGST as zero rated or exempt supply.
- ▶ **Notification no. 42/2017-IGST (RATE)**
Exemption granted to supply of services having place of supply in Nepal or Bhutan, Even against payment in Indian Rupees.
- ▶ Clarification issued from 15th November 2017 stating that exempt supply not to include interest except in case of banking company/NBFC whether therefore prior to November to be included or clarification is retrospective in nature.

VERIFICATION OF CREDITS

- ▶ Verification of exempt values pertaining to sale of investments and sale of land & building explanation to chapter V-- ITC.
- ▶ Verification of reversal on capital goods as per rule 44....capital goods includes plant and machinery as defined in sec 17.
- ▶ Site auto reverses credit of SGST when figure inserted in CGST now rectified...Impact on Accounts to be verified and amendment to this error done on portal.
- ▶ At times to avail refund of exports ITC booked in one month is reversed and taken in the subsequent month only on the site.....impact of the same in accounts.
- ▶ ITC of bank charges without tax invoice...

VERIFICATION OF CREDITS

- ▶ Exempt supply” means supply of any goods or services or both which attracts *nil rate of tax* or which may be wholly exempt from tax under section 11, or under section 6 of the Integrated Goods and Services Tax Act, and includes non-taxable supply
- ▶ Resident welfare association(RWA) paying GST after deduction up to Rs.7500. whether proportionate credit for deduction of Rs.7500 to be reduced considering above definition.



Final Inward Reconciliation

- Total Credit as per books as on 31-3-2018
- Less: Blocked Credit
- Less: Proportionate Credit
- Less: Credit taken in Returns for period ended March 2018
- Balance Credit taken in Returns for the period April 2018 to September 2018.

A WORD OF CAUTION.....

GST Section 74(Exp 2)- Suppression

Explanation 2- For the purposes of this Act, the expression “suppression” shall mean non-declararion of facts or information which a taxable person is required to declare

- In the return,
 - Statement,
 - Report or
 - Any other document furnished uner this Act or the rules made thereunder, or
- failure to furnish any information on being asked for, in writing, by the proper officer.



*Thank
You!*

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