

The Chamber of Tax Consultants

Event : Panel Discussion

Subject : Ind AS Accounting and GST Implications

Date & Day : Saturday, 25th August 2018

Panelist : CA Sandeep Shah and CA Naresh Sheth



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Preamble

- 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 Tax professionals to understand IND AS as both may impact each other
- 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

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Preamble

- 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.
- GST audit is mandatory u/s 35(5) of the Act wherein:
 - Company need to reconcile revenue as per audited financial statements and annual returns under GST
 - Auditor is mandated under GST law to certify such reconciliation
- 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

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Coverage

Case Studies on



Revenue
Recognition

Notional or fair
valuation

Barter
transactions

Business
combination

Prior period
income

Other
comprehensive
income

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Ind AS 115
**"Revenue from
Contracts with
Customers"**



GST

Revenue
Recognition

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

- In FY 2017-18, XYZ Limited ('the Company') raised sales invoices of Rs. 100 Lakhs
- 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 financial year 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?

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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?

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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 (2nd scenario) for some reasons

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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?

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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?

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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?

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Notional or fair
valuation

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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?

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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 not charged any Guarantee Commission to subsidiary
- What is IND AS implication of above transaction?
- What is the GST implication of above transaction?

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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?

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Barter transactions

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Case study 10: Barter transactions

Case Study A:

- 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

Case Study B:

- 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

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Business
combination

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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 its 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

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Prior period
income

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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
- Will your answer differ if such mistake happened in July, 2017 and same rectified in F.Y. 2018-19?

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Other
Comprehensive
Income

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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?

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Case study 14: Statement of Profit and Loss

- Statement of Profit and Loss is described under Schedule III- Division II of the Companies Act 2013 shall include:
 - (1) Profit or loss for the period;
 - (2) Other Comprehensive Income for the period.
- The sum of (1) and (2) above is 'Total Comprehensive Income'.

Please advise if this presentation has any GST implications.

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Conclusion

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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?

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THANK YOU

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