SALES TAX BAR ASSOCIATION (REGD.)

Goods & Services Tax

Central Goods & Services Tax Act, 2017

"Audit, Annual Return & Reconciliations under GST"

Sales Tax Bar Association (Regd.), New Delhi

Saturday, 1st September, 2018

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Accounting & GST

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Accounts & Records by Registered Person

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Accounts & Records Sec.35(1)

Every registered person

shall keep and maintain	at his principal place of business	a true and correct account of—

Place of Business Sec.2(85)

- Sec.2(*85*) "place of business" includes—
- (*a*) a place from where the business is ordinarily carried on, and includes a warehouse, a godown or any other place where a taxable person stores his goods, supplies or receives goods or services or both; or
- (*b*) a place where a taxable person maintains his books of account; or
- (*c*) a place where a taxable person is engaged in business through an agent, by whatever name called;

Principal Place of Business Sec.2(89)

- Sec.2(*89*) “principal place of business”
- means the place of business specified as the principal place of business in the certificate of registration;

Accounts & Records Sec.35(1)

(a) production or manufacture of goods

(b) inward and outward supply of goods or services or both

(c) stock of goods

Accounts & Records Sec.35(1)

(d) input tax credit availed

(e) output tax payable and paid, and

(f) such other particulars as may be prescribed

Accounts & Records Sec.35(1)

Each Place of Business:-

- Provided that where more than one place of business is specified in the certificate of registration, the accounts relating to each place of business shall be kept at such places of business

Accounts in electronic form:-

- Provided further that the registered person may keep and maintain such accounts and other particulars in electronic form in such manner as may be prescribed

CGST Rules, 2017 Rule-56(1)

True & Correct Account	• In addition to particulars mentioned in Sec.35(1)
Import or Export	• Account of **Goods or Services** imported or exported
Supplies under Reverse Charge	• of supplies attracting payment of tax on reverse charge along with the relevant documents, including invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers and refund vouchers

Accounting for "Stock"

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CGST Rules, 2017 Rule-56(2)

Every registered person, other than a person paying tax under 'Composition'-

shall maintain the accounts of stock

in respect of goods received and supplied by him

CGST Rules, 2017 Rule-56(2)

- Opening Balance
- Receipt, Supplied
- Goods stolen, lost
- Closing balance
- Gifts, Free Samples
- Destroyed, written off
- Raw Material
- Finished Goods
- Scrap and wastage

CGST Rules, 2017
Rule-56(3)/(9)/(15)

Separate account of **advances** received, paid and adjustments made thereto

Each volume of books of account maintained **manually** by the registered person shall be serially numbered

The may be maintained in electronic form and shall be authenticated by means of a **digital signature**

Accounting Aspects & GST

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Ledgers to be Created for GST

- **For Inputs/ Purchases**
  - Input CGST/SGST A/c
  - Input IGST A/c
- **For Inputs/ Purchases- RCM**
  - Input CGST/SGST RCM A/c
  - Input IGST RCM A/c
- **For Inputs/ Purchases- URD**
  - Input CGST/SGST URD A/c
  - Input IGST URD A/c

Ledgers to be Created for GST

For ITC

- ITC CGST A/c
- ITC SGST A/c
- ITC IGST A/c

For Provisional ITC

- Provisional ITC CGST A/c
- Provisional ITC SGST A/c
- Provisional ITC IGST A/c

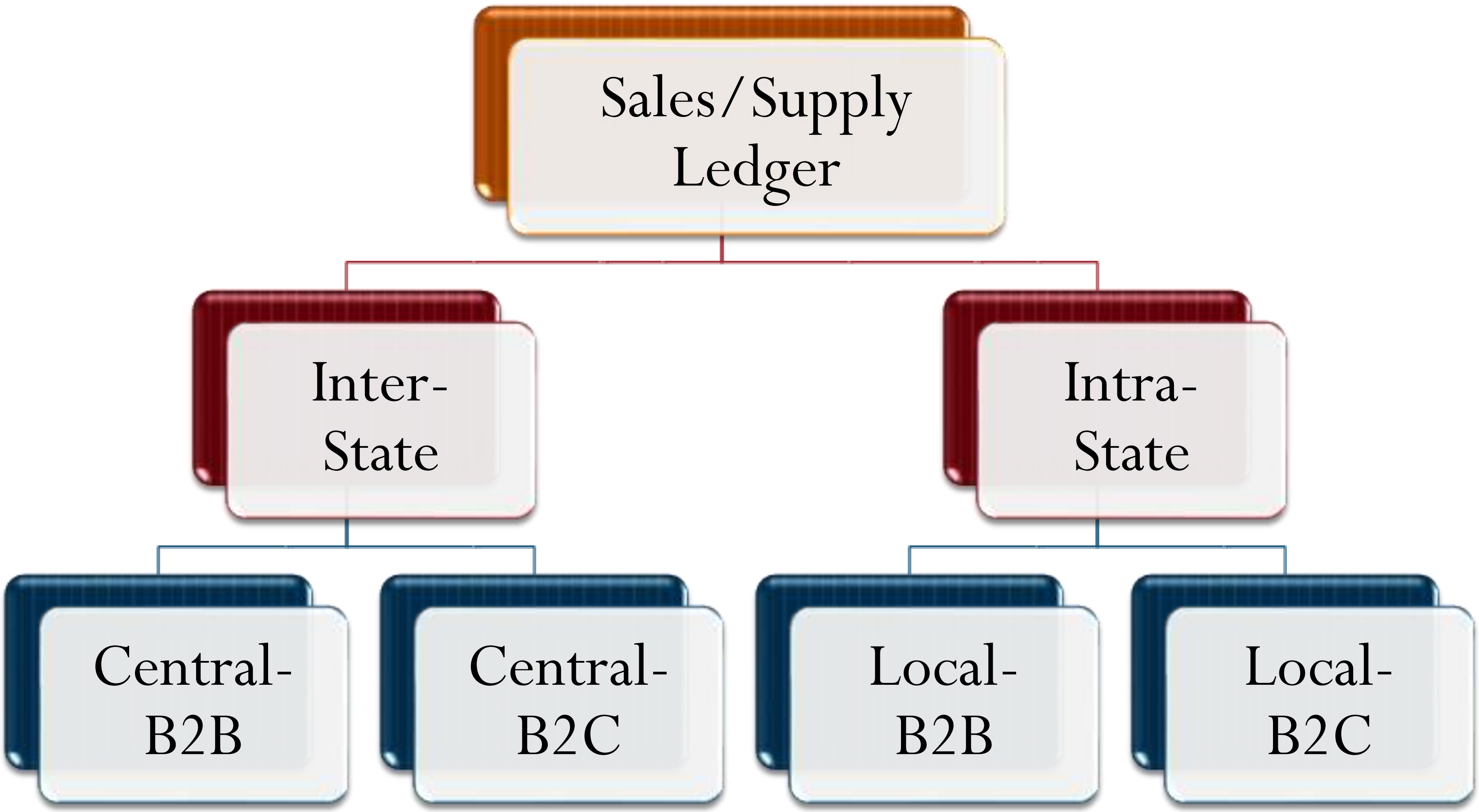
For E-Cash Ledger

- E-Cash CGST A/c
- E-Cash SGST A/c
- E-Cash IGST A/c

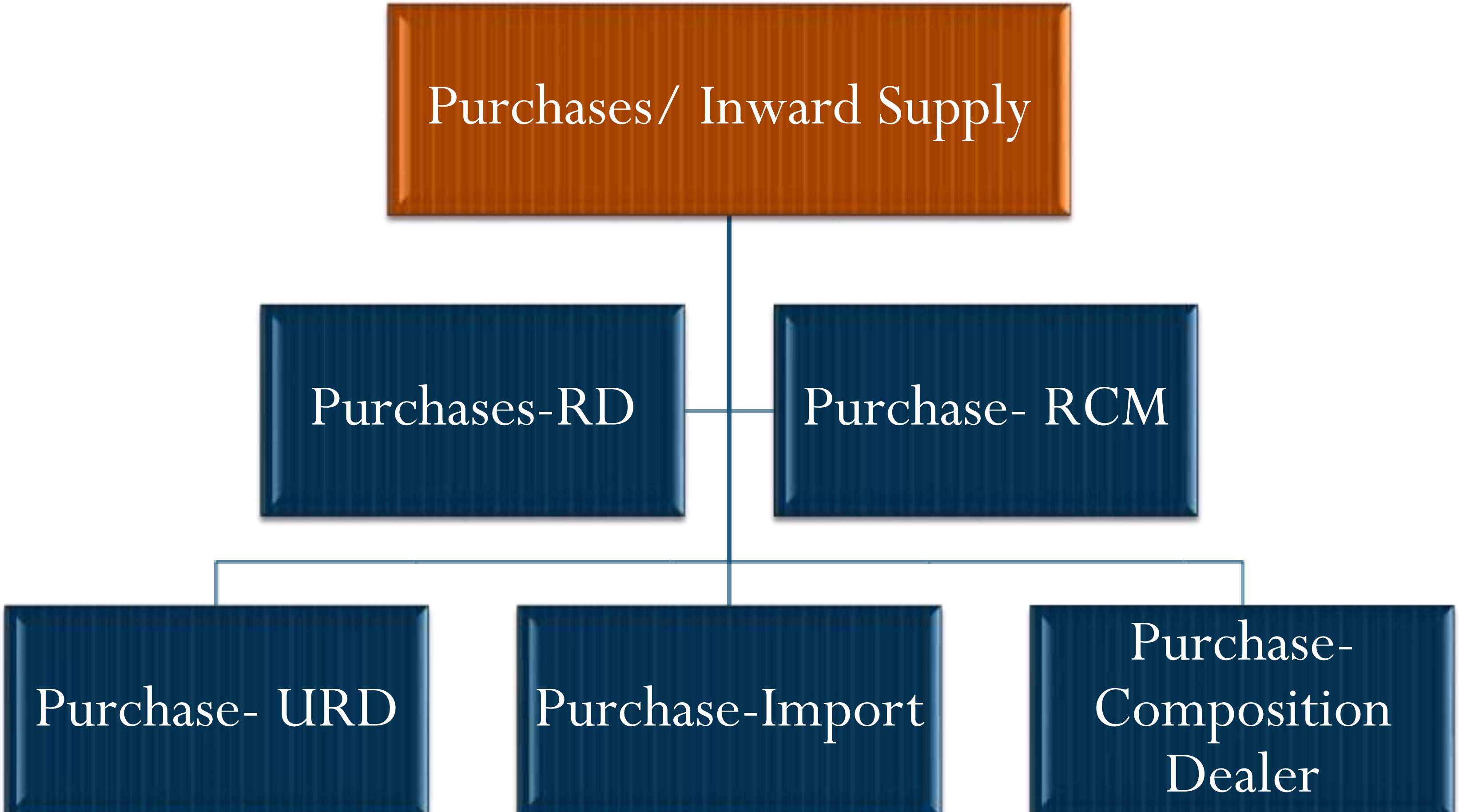
Ledgers to be Created for GST

- For Output Liability
  - Output CGST A/c
  - Output SGST A/c
  - Output IGST A/c
- For Output Liability on Advance
  - Output CGST (Advance) A/c
  - Output SGST (Advance) A/c
  - Output IGST (Advance) A/c
- For Output Liability on RCM
  - Output CGST (RCM) A/c
  - Output SGST (RCM) A/c
  - Output IGST (RCM) A/c

Ledgers to be Created for GST



Ledgers to be Created for GST



Ledgers to be Created for GST

- Direct Expenses
  - RD-Direct Expenses
  - URD- Direct Expenses
- Indirect Expenses
  - RD- Indirect Expenses
  - URD- Indirect Expenses

Reconciliation of GST Returns with Financial Records

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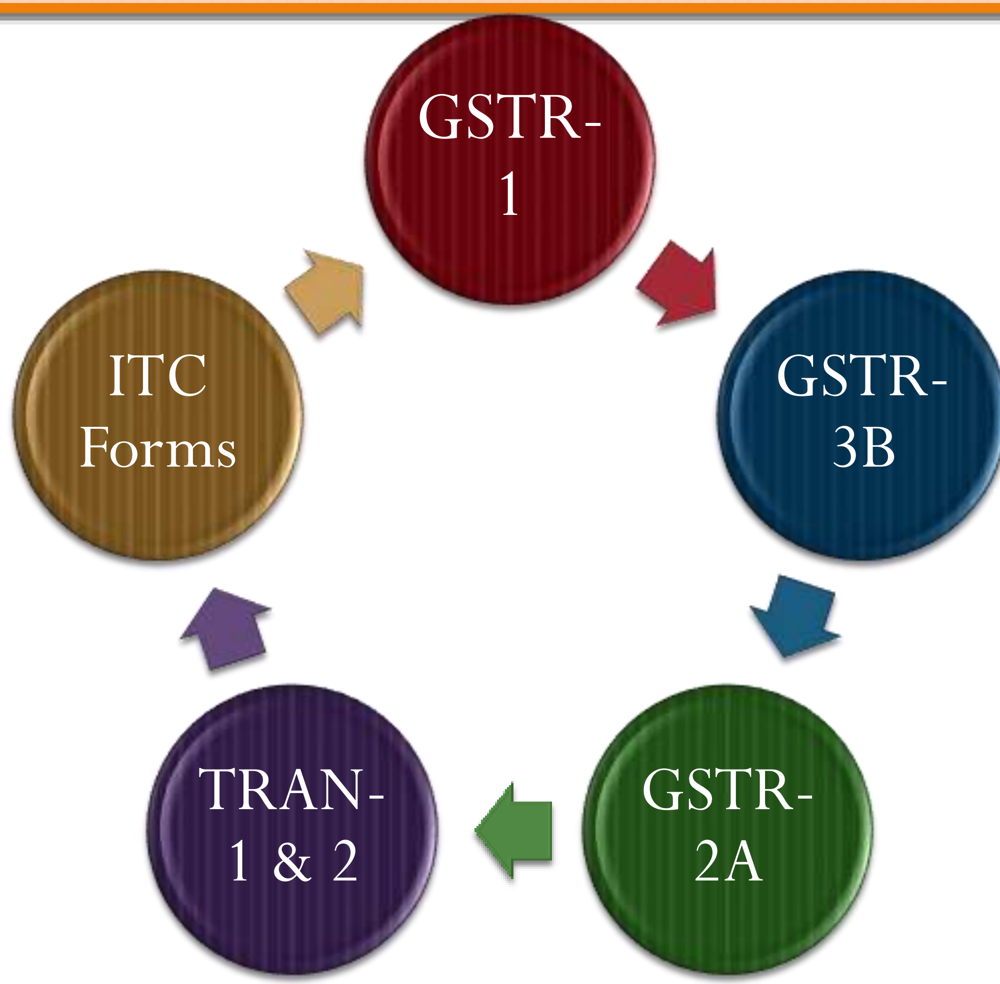
GST Returns Vs Books of Accounts



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Reconciliation of Inter-GST Returns

Outward Supplies as per GSTR-1

Outward Supplies as GSTR-3B

Reconciliation of Inter-GST Returns

Inward Supplies & ITC as per GSTR-2A

Inward Supplies & ITC as GSTR-3B

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Reconciliation of Output Tax & ITC- Reflection in Balance Sheet

Liabilities	Assets
ITC Reversible (Non eligible ITC claimed or excess ITC claimed up to 31st March)	Input Tax Credit (E-Credit Ledger as per PMT-2 of GSTN Portal)
GST Payable (GST due but not paid as per returns filed up to 31st March)	ITC Claimable (Eligible credit not claimed up to 31st March)
Excess GST Payable (GST due but not paid up to 31st March)	Excess GST Paid (Output Tax paid up to 31st March)
	GST E-Cash Ledger (As per PMT-5 of GST Portal)

Reconciliation of Books of Accounts with GST Returns

Books of Accounts, Balance Sheet, Profit & Loss A/c

GSTR-1, 3B, 2A, ITC forms, Comp Forms, Tran-1,2 etc.

Method of Accounting followed:

Accounting Standards, Mercantile System and Cash System

GST- Time of Supply, definition of Supply

Revenue Recognition

AS-9, Revenue Receipts, Credits in P & L A/c

Supply may include revenue as well as capital Transactions

Revenue Recognition

Transaction between distinct persons

Capital account Transactions

State Wise Turnover

Revenue Recognition

Advance Received on which GST paid

Transitional Credit

Reimbursement of Expenses treated as Supply

Advance received- Accounting Aspects

Journal Entries	Amount (Dr)	Amount (Cr)
Bank/Cash Dr	100000	
Party A/c Cr (Sundry Debtors)		100000
(On Receipt of Advance)		
GST on Advances Dr (Current Assets)	15254	
IGST/CGST/SGST payable Cr (18%)		15254
(GST payable on Advance)		
Party A/c Dr	177000	
Sales (Outward Supply) Cr		150000
GST on Advances Cr		15254
IGST/CGST/SGST payable Cr (18%) (Total-27000 minus 15254 paid on advance)		11746
(Sales Invoice Raised)		

Accounting Entry for Transitional Credit on Stock-Trading Account

Direct Expenses	Direct Incomes
Opening Stock as on 1st July 2017 (Value inclusive of the eligible transitional credit)	Transitional Credit (Amount of credit as per TRAN-1 or TRAN-2) Closing Stock as on 31st March 2018 (Value excluding the Transitional Credit, if stock remains)

Journal Entry

ITC-CGST A/c Dr.
(Current Asset)
Transitional Credit A/c Cr.
(Direct Income)

Reconciliation with Financial Books

ITC eligibility	• ITC as per GSTR-2A to be reconciled with ITC as per books of Accounts
E-Cash Ledger	• Balance of e-cash ledger PMT-5 to be reconciled with Balance in books of Accounts
E-Credit Ledger	• Balance of e-credit ledger PMT-2 to be reconciled with balance in books of account.

Reconciliation of Taxable Outward Supply

- **Amount as per financials (Profit & Loss Account)**
- Revenue from operations (Sales, Service Charges, Job Work etc.)
- Other Income (Interest, Discounts, Misc Income, etc.)

(-) Negative Adjustments

- Revenue/Other Income pertaining to other registered/distinct persons

Revenue items on which output GST is not payable

- Zero rated without payment of tax (Export and supplies to SEZ)
- Supplies Liable to tax under reverse charge mechanism by the recipient
- Wholly Exempt Supplies
- Partly Exempt Supplies (exempt portion)
- Non-GST supplies
- Not a supply as per Schedule III or the definition of supply

Reconciliation of Taxable Outward Supply

- **Taxable Outward Supplies as per financials- P & L A/c (in the State)**

(+) Positive Additions

- Sale of capital assets
- Unearned revenue (advances)
- (Section-15) Taxes, duties, cess etc levied under other laws charged by supplier
- Amount incurred by recipient but liable to be paid by supplier
- Interest, late fee or penalty for delayed payment of consideration
- Incidental expenses charged by the supplier

Reconciliation of Taxable Outward Supply

- **Schedule I (Supplies without consideration)**
- Write off and disposal of business assets without consideration, if GST credit was availed
- Supply of goods / services by Supplier to related persons / distinct persons:
- (i) To employees (excluding gifts per employee upto Rs.50,000)
- (ii) To distinct persons having same PAN
- (iii) To other related persons
- Goods dispatched by Supplier to agents to the extent sale is not made / recognised in the Profit & Loss Account
- Any other (please specify)

Reconciliation of Taxable Outward Supply

- **(-) Negative Adjustments**
- Unbilled revenue *(Credited to P & L A/c but GST paid in earlier as per provisions of Time of Supply))*
- Revenue by way of supplies made through agents where tax paid in P/Y upon initial dispatch (Supply made by agent in C/Y)
- Revenue omitted to be declared in the Annual Return
- Revenue against which Time of Supply has occurred in the previous year
- Any other (please specify)

Taxable Outward Supplies as per Annual Return (in a State)

Correction Entries after Reconciliation

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Circular No.26 dated 29th December 2017

Amendment /corrections /rectification of errors

- It is clarified that as return in FORM GSTR-3B do not contain provisions for reporting of differential figures for past month(s)

Where to reflect deferential figures of past periods

- The said figures may be reported on net basis along with the values for current month itself

Circular No.26 dated 29th December 2017

Negative entries not possible in GSTR-2B

- The amount remaining for adjustment, if any, may be adjusted in the return(s) in FORM GSTR-3B of subsequent month(s) and, in cases where such adjustment is not feasible, refund may be claimed.

Corresponding adjustment in GSTR-1 also required

- Where adjustments have been made in FORM GSTR-3B of multiple months, corresponding adjustments in FORM GSTR-1 should also preferably be made in the corresponding months

Circular No.26 dated 29th December 2017

Reconciliation of GSTR-3B with GSTR-1

- It is further clarified that the information furnished by the registered person in the return in FORM GSTR-3B would be reconciled by the departments system with the information furnished in FORM GSTR-1 and discrepancies, if any, shall be dealt with in accordance with the relevant provisions of the CGST Act, 2017 and rules made thereunder.

Instructions for reconciliation of returns

- Detailed instructions regarding reconciliation of information furnished in FORM GSTR-3B with that contained in FORM GSTR-2 and FORM GSTR-3 will be issued in due course of time.

GST Annual Return

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Features of Annual Return as per available Draft

- Consolidated Summary of Returns for a Financial Year
- Consolidated Statements for Income & Expenditure
- Return Reconciliation Statement for making payment of additional tax liability

Features of Annual Return as per available Draft

- **<u>Details of Expenditure:</u>**
- a) Total value of purchases on which ITC availed (inter-State)
- b) Total value of purchases on which ITC availed (intra-State)
- c) Total value of purchases on which ITC availed (Imports)
- d) Other Purchases on which no ITC availed
- e) Sales Return
- f) Other Expenditure (Expenditure other than purchases)

Features of Annual Return as per available Draft

- **<u>Details of income:</u>**
- a) Total value of supplies on which GST paid (inter-State Supplies)
- b) Total value of supplies on which GST Paid (intra-State Supplies)
- c) Total value of supplies on which GST Paid (Exports)
- d) Total value of supplies on which no GST Paid (Exports)
- e) Value of Other Supplies on which no GST paid
- f) Purchase Returns
- g) Other Income (Income other than from supplies)

GST Annual Audit

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GST Annual Audit

If turnover (aggregate turnover) during Financial Year

Exceeds 2 Crores Rupees

GST Audit- Statutory Provisions

Section 35(5)

- Every registered person whose **turnover** during a financial year exceeds the prescribed limit shall get his accounts audited by a chartered accountant or a cost accountant and shall submit a copy of the audited annual accounts, the reconciliation statement under sub-section (2) of section 44 and such other documents in such form and manner as may be prescribed.

GST Audit- Statutory Provisions

Section 42(2)

- 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 sub-section (1) ***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.

GST Audit- Statutory Provisions

Rule 80(3)

- Every registered person whose **aggregate turnover** during a financial year exceeds two crore rupees shall get his accounts audited as specified under sub-section (5) of section 35 and he shall furnish a copy of audited annual accounts and a reconciliation statement, duly certified, in FORM GSTR-9C, electronically through the common portal either directly or through a Facilitation Centre notified by the Commissioner.

Draft Audit Report submitted by ICAI

Main GST Audit Report - GSTR-9C

Statement of Particulars (Attachment of GSTR-9C) – GSTR-9D

Draft Audit Report submitted by ICAI

Main GST Audit Report - GSTR-9C

Tax Audit Report under Income Tax Act- Form-3CA/3CB

Draft Audit Report submitted by ICAI

Statement of Particulars (Attachment of GSTR-9C) – GSTR-9D

Tax Audit Report under Income Tax Act- Form- 3CD

GST Audit Report (GSTR-9C)

Contains 4 para's of Main Audit Report

Para-5: Contains 14 certification/qualifications para's commenting on various issues

Para-6: Summary of additional tax liability or additional tax payment (With 8 Annexures for reconciliation, A to H)

Para-7: Advise to registered person to pay differential tax, interest & penalty, reversal of ITC and claim of refund

Four statement para of Main Audit Report

GSTR-9C

- Audit Statement Para
- Responsibility Statement Para
- Audit Standards (SA) Statement Para
- Statutory Auditor Reference Para

Fourteen (14) Certification/Qualifications Statements

Necessary Information's

- (a) I / we have obtained all the information and explanations, which to the best of my / our knowledge and belief, are necessary for the purposes of audit, including computation of tax liability under the GST Laws.

Verification of Returns & Statements

- (b) For the purposes of this audit, I / we have verified the relevant returns and statements under the GST Laws;

Fourteen (14) Certification/Qualifications Statements

Maintenance of Books of Accounts

- (c) the books of account and other related records and registers maintained by the registered person are sufficient for the verification of the correctness, completeness and accuracy of the returns filed for the year;

True & Correct Annual Return

- (d) the annual return filed by the registered person reflects a true and correct state of affairs of all the transactions effected during the year that need to be reported;

Fourteen (14) Certification/Qualifications Statements

Correctness of Outward Supplies

- (e) the aggregate of outward supplies declared in the returns for the year include all the outward supplies effected during the year;

Correctness of Inward Supplies

- (f) the aggregate of inward supplies declared in the returns for the year include all the inwards supplies effected during the year;

Fourteen (14) Certification/Qualifications Statements

Correctness of Valuation

- (g) the transactions included / excluded from the value of supply are in accordance with the provisions of the law;

Credit Notes

- (h) the adjustments to the outward supplies and taxes are based on the entries made in the books of account maintained for the year;

Fourteen (14) Certification/Qualifications Statements

Debit Notes

- (i) the adjustments to the inward supplies and taxes are based on the entries made in the books of account maintained for the year;

Exemptions Claimed

- (j) the exemptions and abatements claimed in the annual return are in conformity with the provisions of the law;

Fourteen (14) Certification/Qualifications Statements

Correctness of Ineligible ITC

- (k) the amount of credits determined as ineligible in accordance with the provisions of the law have been dealt appropriately in the return during the year;

Correctness of Classification

- (l) the classification of outward supplies, rate of tax applicable and computation of output tax (including that of inward supplies liable to tax on reverse charge basis) re in conformity with the GST;

Fourteen (14) Certification/Qualifications Statements

Correctness of ITC

- (m) the amount of input tax paid on inward supplies and deductions of input tax credit claimed are in conformity with the provisions of law;

Correctness of Form-9D

- (n) other information given in the relevant Form 9D and annexures there to are correct and complete.

Statement of Particulars (GSTR-9D)

Part-A for General Information (5 Segments)

Part-B for Reporting (13 Segments with 24 Annexures)

Statement of Particulars (GSTR-9D/PART-A-Basic Information)

I
- Background of the registered person

II
- GST Profile of the registered person

III
- Registration and Place of Business (under the same PAN)

IV
- General Information

V
- Changes during the year (if any)

Statement of Particulars (GSTR-9D/PART-B- Reporting)

I- Levy & Collection of tax

Annexure-1

- Supplies effected by the registered person not considered in return

Annexure-2

- Value of non-taxable supplies which have not been considered in the return

Annexure-3

- Transactions reported in GST returns though they are covered under Schedule III or excluded from the definition of supplies

Statement of Particulars (GSTR-9D/PART-B- Reporting)

Annexure-4

- Details of composite and mixed supplies not determined in accordance with Section 8 of the CGST Act 2017

Annexure-5

- Details of inward supplies on which tax payable under reverse charge mechanism (RCM) has not been remitted

Annexure-6

- Summary of exempted supplies, non-compliance with condition for exemption, foregone benefit of exemption and incorrect classification

Statement of Particulars (GSTR-9D/PART-B- Reporting)

Segment II- Time of supply (verification of compliance with Section 12, 13 and 14 of the Act)

Annexure-7

- Details of transactions where tax has not been paid in accordance with the provisions of time of supply

Annexure-8

- Details of transactions on which the effect of change in rate of tax has not been provided

Statement of Particulars (GSTR-9D/PART-B- Reporting)

Annexure-9

- Details of outward supply of services where services ceases prior to completion but not taxes discharged

Annexure-10

- Details of supply of goods on 'sale on approval basis' exceeding the time limit of 6 months and not offered to tax

Statement of Particulars (GSTR-9D/PART-B- Reporting)

Segment-III

- Place of supply

Annexure-11

- Instances where place of supply has not been determined under Section 10 - 13 of the CGST Act 2017

Statement of Particulars (GSTR-9D/PART-B- Reporting)

Segment IV- Value of Supply

Annexure-12

- Details of transactions where transaction value is not accepted and value of supply is based on Rule 27 - 31 of CGST Rules 2017

Annexure-13

- Details of transactions where value of supply is based on transaction value although the value ought to have been determined under Rule 27 - 31 of the CGST Rules 2017

Annexure-14

- Details of transactions wherein the value of supply has been incorrectly determined u/s 15(2) of the CGST Act 2017

Statement of Particulars (GSTR-9D/PART-B- Reporting)

Annexure-15

- Details of discounts adjusted in contravention with Section 15(3) of the CGST Act 2017

Annexure-16

- Details of transactions wherein the value of supply has been incorrectly determined u/r 31A/32 of the CGST Rules 2017

Annexure-17

- Details of supplies where the provisions of Rule 33 of CGST Rules 2017 in respect of pure agent have been contravened

Statement of Particulars (GSTR-9D/PART-B- Reporting)

Segment V- Input Tax Credit

Annexure-18	• Details of ineligible input tax credit availed during the year
Annexure-19 (PART-A)	• ITC reversal u/s 16(2)- Reclaim of Tax credit without full/part payment to the supplier

Statement of Particulars (GSTR-9D/PART-B- Reporting)

Annexure-19 (PART-B)	• ITC reversal u/s 16(2)- Details of transactions where the credit has not been reversed u/s 16(2) of the Act read with Rule 37 on account of non payment of consideration and tax
Annexure-20	• Details where apportionment of credit has not effected in terms of section 17(2) of the CGST Act 2017 read with Rule 42 and 43 of the CGST Rules 2017
Annexure-21	• Cases where inputs and capital goods have not been received within the prescribed time limit and no tax has been offerred on them

Statement of Particulars (GSTR-9D/PART-B- Reporting)

Segment-VI

- Returns

Annexure-22

- Date of filing of returns / forms

Statement of Particulars (GSTR-9D/PART-B- Reporting)

Segment-VII	• Payments
Annexure-23	• Details of interest on delayed payment of taxes which have not been remitted
Annexure-24	• Details of tax collected but not deposited with the Government

Statement of Particulars (GSTR-9D/PART-B- Reporting)

VIII
- Refunds

IX
- Documentation

X
- Advance ruling

Statement of Particulars (GSTR-9D/PART-B- Reporting)

XI

- Adjudication, appeals and revision

XII

- Ratios

XIII

- Any other issues considered to be relevant for the purpose of Audit to be given by way of a separate annexure to this report

Audit Trails

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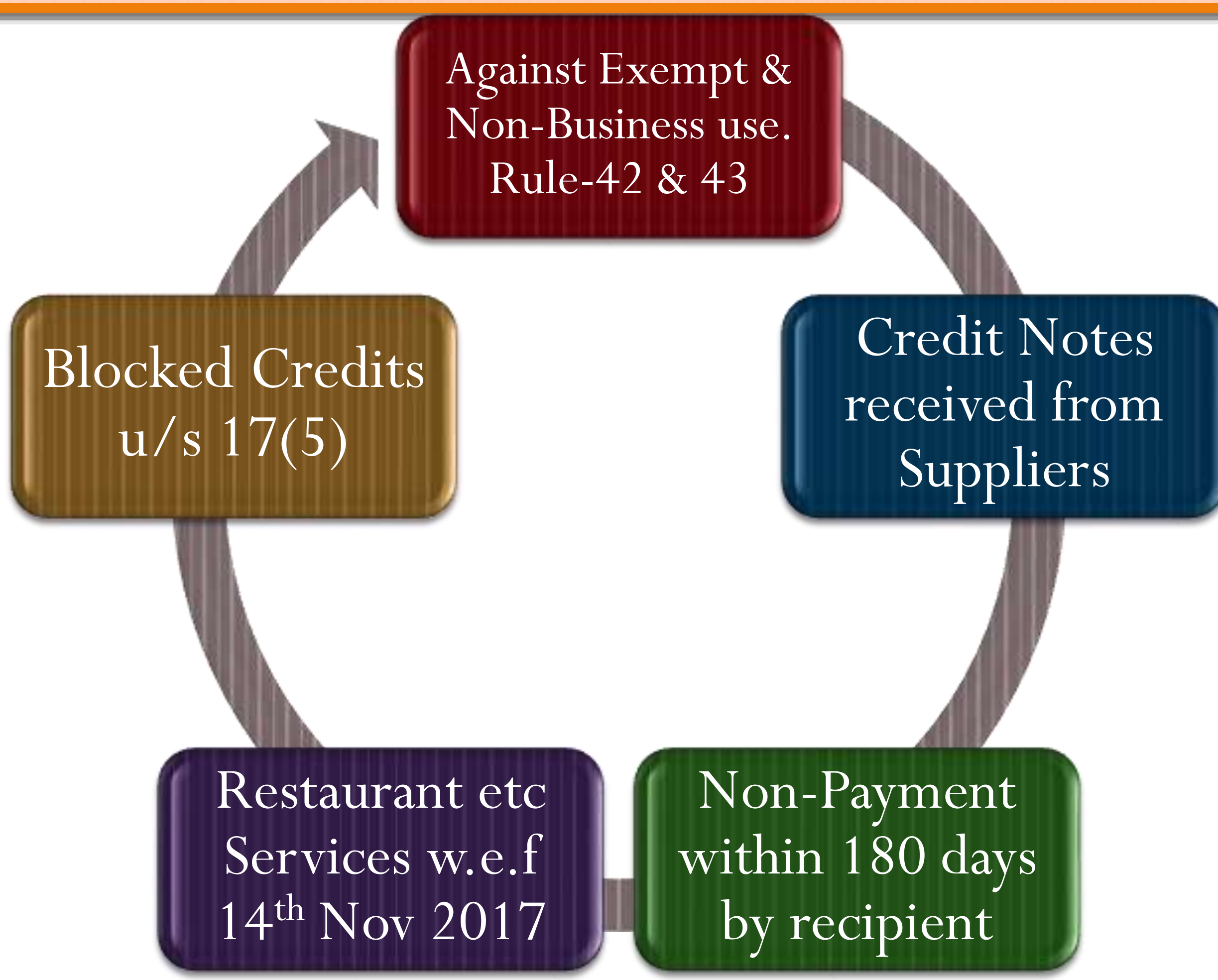
Reversal of ITC- When required ?



Audit Trails

Payment against GST invoices within 180 Days

- ITC credit to be checked with payment to suppliers within 180 days from the date of invoice. Reclaim of credit thereof on payment made.

ITC reversal due to non-business use.

- ITC reversal on account of non-business use out of common credits. Adhoc reversal of 5% may be opted

Audit Trails

Impact on GP Rate

- There may be major impact of Gross Profit rate of any business concern. Impact analysis may be required to justify the variations.

Classification of Supply and rate of Tax

- Very important area is to identify the correct tariff heading and correct rate of tax of supplies made during the period.

Audit Trails

Record of generation of e-way bills

- To reconcile the e-way bill with stock records and with inward and outward supply or movement of goods for due diligence of transactions.

Eligibility Conditions of Composite Scheme

- If supplier has availed composition scheme than to check whether conditions as per Sec.10 read with rules are fulfilled.

Audit Trails

Date of filing of GST returns

- To check if all the returns, statements and forms have been filed within due dates as extended from time to time. To check late fees and interest also.

IGST under RCM on sea freight

- To check whether IGST paid under RCM on sea freight as per Not.10/2017 IT (Rate). If import is on CIF value and freight is paid by foreign party.

Disclaimer

- The views expressed, presentation made, charts made here are for educational purpose only and may not represent legal provisions of the act, rules or any other provisions of GST law and are personal views of the presenter/author. And presenter/ author shall not be liable for any damages of whatsoever nature due to any action taken on the basis of this presentation.

Thank You

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