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# Western India Regional Council of ICAI

- Event** : Refresher Course on GST Annual Return & GST Audit
- Subject** : GST Audit vs Ind AS vs ICDS
- Date & Day** : Saturday, 8<sup>th</sup> August, 2020
- Panelists** : CA Naresh Sheth, CA Sandeep Shah and CA Gopal Bohra

# Overview

## Ind AS

- Phased applicability and Limited carve outs from IFRS
- Applicable to Listed entities and unlisted entities based on Net Worth Criteria

## ICDS

- Applicable for Business income or IFOS and no impact on MAT
- Mercantile accounting system and not for cash system of accounting
- In case of conflict, IT Act will prevail

## GST Audit

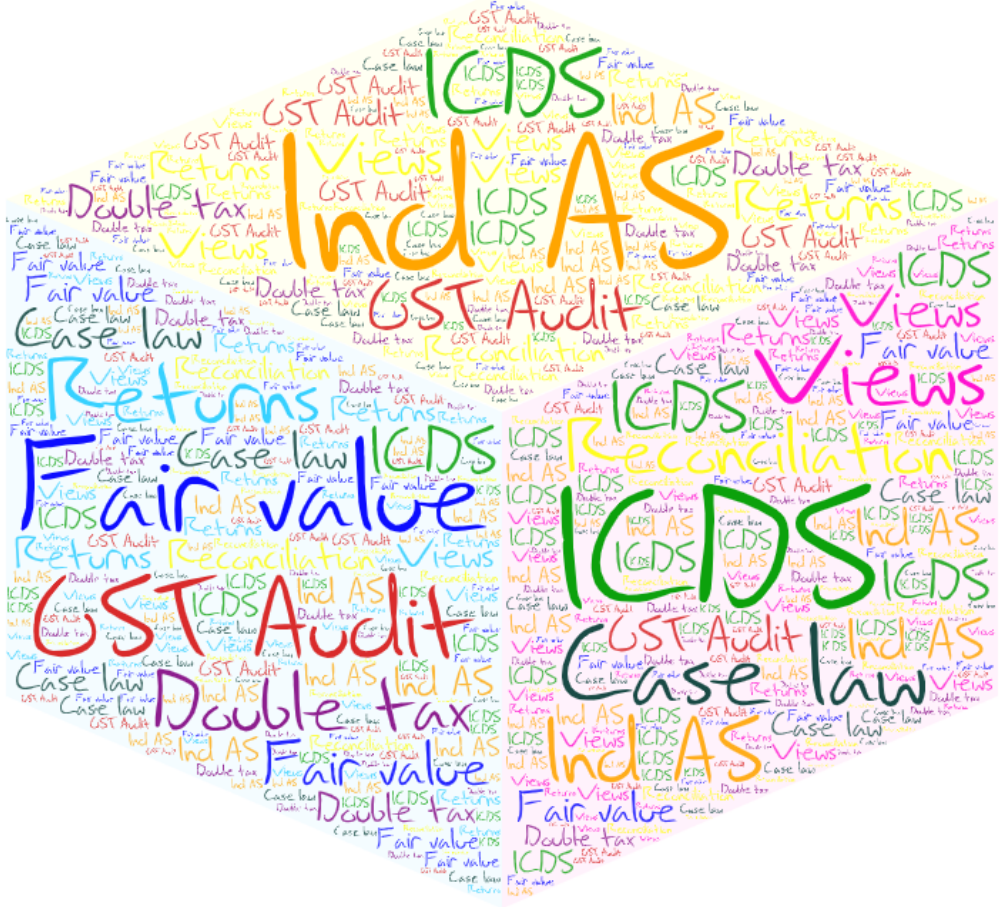
- Prescribed Threshold limit and due date
- Reconciliation with Accounts
- Relaxations in transitional years

# Background

- Ind AS, ICDS and GST are recent developments requiring in-depth deliberations amongst corporates, tax professionals and auditors
- Revenue as declared in financial statements could be materially different from revenue declared in GST / Income Tax returns mainly on account of:
  - GST and Income Tax is pre-dominantly a tax on transaction value whereas Ind AS recognizes transaction at its fair value
  - Timing difference in revenue recognition under Ind AS, Income Tax and GST
  - Ind AS requires accounting for expenses / losses on provisional basis while one needs to assess its allowability under Income Tax

# Background

- Need for reconciliation of financial statement, tax returns and GST returns arise mainly due to difference in :
  - Accounting treatment of transaction as per Ind AS and Taxability as per ICDS and GST Act
  - Timing difference in revenue recognition in Accounts , Income Tax returns and GST Returns
  - Difference in value of transaction as per Accounts, ICDS and GST
- **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



# Case Studies

# Case study 1: Risk-Reward and Control

- XYZ Limited ('the Company') raised sales invoices of Rs. 100 Lakhs in FY 2017-18
- 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 FY 2018-19, the Company has recognized revenue of Rs. 50 Lakhs on transferring effective control to the customer
- This results into recognition of same revenue twice in different financial years
- How does ICDS deal with these Ind AS adjustments?
- What are the GST implications of these Ind AS adjustments?

# Case study 2: Sale with differential credit terms

- XYZ Limited enters into a contract with Mr. A and Mr. B on 1<sup>st</sup> January 2019 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?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?



# 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?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?
- GST implications in case of non-payment of amount receivable

# Case study 4: Provision for sales return

- M/s Sellkart Ltd sells goods with the term that customer can return goods within one year
- In FY 2018-19, 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?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

# Case study 5: 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?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

# Case study 6: Unbilled revenue

- Company enters into an agreement on 15<sup>th</sup> January 2019 with one customer for providing consultancy services on monthly basis. Consideration to be charged is based on number of hours spent by the Company on each 15<sup>th</sup> of the month for the cycle from 16<sup>th</sup> to 15<sup>th</sup>. Payment for each month is due on 21<sup>st</sup> of the next month.
- The Company has Rs. 20 Lakhs of income which is not billed to customer for the period from 16<sup>th</sup> March 2019 to 31<sup>st</sup> March 2019.
- What are Ind AS implications of above transactions?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

# Case study 7: Lease rent income on SLM basis

- Malik Limited is a lessor who earns rent income on property given for 5 years on lease
- Agreement for lease (effective from 1<sup>st</sup> April 2019) includes rent escalation of 10% each year with a clause for lock-in period upto 3 years. This agreement can be further renewed at the option of lessee for 2 more years
- What are Ind AS implications of above transactions?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

# Case study 8 : Effective Interest rate

- Malamal 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?
- How does ICDS deal with above transaction?
- What are the GST implications of above transactions?

# Case study 9: 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 either not charged or charged very nominal Guarantee Commission to subsidiary
- What is Ind AS implication of above transaction?
- How does ICDS deal with the above transaction?
- What is the GST implication of above transaction?

# Case study 10: Interest-free security deposit

- X Ltd leased out its commercial property to Y Ltd on following terms:
  - Y Ltd to occupy premises from 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2021
  - Y Ltd to give interest free security deposit of Rs. 100 lakhs on the date of execution of rent agreement i.e. 1<sup>st</sup> April 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 ICDS implications of above transactions for X Ltd & Y Ltd?
- What are the GST implications of above transactions for X Ltd & Y Ltd?



# Case study 11: Prior period income

- Advertising Company received advance of Rs.50 Lakhs from client in F.Y. 2016-17
- The advertising campaign was over in F.Y. 2016-17 itself
- The Company missed to raise invoice on it's client in F.Y. 2016-17
- Mistake detected in F.Y. 2018-19 and company intends to rectify it
- Please advise about IND AS, ICDS and GST implications for this rectification
- Will GST implications differ if such mistake happened in July, 2017 and was rectified in F.Y. 2018-19?



# Conclusion

# Conclusion

- Additional responsibility on Accountant, Auditor and GST Consultant to align and reconcile GST returns, Financial Statements and Income Tax returns
- 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 auditor and tax professionals will be better post Ind AS and ICDS or otherwise?

**THANK YOU**

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