PwC Reporting*InBrief*

Impact of GST on Ind AS reporting

In brief

The Government of India has introduced a single tax regime for both goods and services for the entire country with the roll out the Goods and Services Tax (GST) with effect from 1 July 2017. The GST is a comprehensive consumption based tax on supply of both goods and services and subsumes the majority of indirect taxes into a single tax. The motto of the GST regime is 'one tax one market', which aims at providing a cohesive tax approach across India.

In view of the majority of indirect taxes being merged into one tax, every business is expected to be impacted. From an accounting perspective under the GST regime, entities will have to make certain changes to their accounting systems and processes including chart of accounts.

Let's talk

The GST model is a dual model of tax i.e. all the transactions of supply of goods and services would be subject to two levies – one by the Union and the other by the State Government. The tax levied is shared between the central and the state governments in predefined ratios. There are four types of levies under the dual GST regime briefly explained below:

- Central Goods and Services Tax (CGST): CGST would replace the existing excise and service tax and would be applicable on intra-state transactions for supply of goods and/or services. The CGST payable can be set off from the CGST or IGST credit available. The CENVAT credit balance available to the manufacturer or service provider under the CENVAT Credit Rules as on the date of transition into GST, could be carried forward as CGST.

- State Goods and Services Tax (SGST)/Union Territory Goods and Services Tax (UTGST): SGST would replace State VAT, Entry tax, Octroi, Luxury tax, Entertainment tax etc. and would be applicable on intra-state transactions for supply of goods and/or services. The SGST payable can be set off from the SGST credit or the IGST credit available. SGST is replaced by UTGST, where goods are supplied in a Union Territory.

- Integrated Goods and Services Tax (IGST): IGST would be levied on all supplies of goods and/or services in the course of inter-state trade or commerce. IGST would also be applicable to import of goods or services from outside the country.

  > Where an entity supplies goods or services in course of an *intra-state* trade, both CGST and SGST shall be levied and collected from the customer. The share of such collection for the central and state governments is predefined and is to be collected by the respective governments.

  > Where an entity supplies goods or services in course of *inter-state* trade, IGST (instead of CGST and SGST) shall be levied and collected from the customer. This will also be shared between the central and state governments in predefined ratios. IGST shall also be payable in case of stock transfers from one state to another since inter-state stock transfer is deemed to be 'supplies liable to tax' under the GST law.

- Compensation Cess: The purpose of this levy is to provide for compensation to the States for the loss of revenue arising on account of implementation of the GST. It is governed by the Goods and Services Tax (Compensation to States) Act, 2017. It shall apply for the first five years (called the "transition period") from the date on which the State Goods and Services Tax Act of the concerned State comes into force (the "transition date").

  The following table summarises the provisions of adjustment of input tax credit against the liabilities :

		Input tax credit* in respect of			
		IGST[1]	CGST[1]	SGST/UTGST[1]	CESS
Can be utilised against liability for payment of	IGST	√(1)	√(2)	√(2)	
	CGST	√(2)	√(1)		
	SGST/UTGST	√(3)		√(1)	
	CESS				√

**The credit pool in respect of each tax would be available on State wise basis i.e. credit availed in one state cannot be utilised against tax payable in another State.*

[1]The numbers in brackets denote the sequence in which the input tax credit can be utilised against settlement of the liability. For example, the input tax credit in respect of IGST shall be first utilised for settlement of IGST liability, then CGST liability and then for SGST liability.

This *InBrief* discusses some frequently asked questions on accounting impact of GST on companies reporting their financial statements under Ind AS.

In detail

Q 1. As GST subsumes the majority of indirect taxes including excise duty, whether revenue is to be presented gross including GST?

Response:

Ind AS 18, *Revenue* para 8 states "revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue."

When an entity sells a product or service, GST that are collected on behalf of a government should be excluded from the revenue recognised. These taxes are remitted to the government in full and do not increase equity. Revenue should, therefore, be presented net of GST.

The treatment of GST on sale of goods differs from that of excise duty, which is considered as a tax on manufacture/production and consequently treated as cost of goods manufactured.

Q 2. Whether GST would form part of cost of inventory for the purpose of measurement?

Response:

Ind AS 2, *Inventories* para 11 states "The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase."

Basis above, where an entity is eligible to recover GST paid on purchase of inventories (e.g. by way of a credit or refund), the same shall not be included as part of cost of inventories.

Q 3. Whether a liability for excise duty on manufactured inventory as on 30 June 2017 should be recorded for interim financial statements for the quarter ended 30 June 2017.

Response:

Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets* para 10 states "A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits." Excise duty is a duty on manufacture or production of excisable goods in India. In the given case, though the past event (production/manufacturing) has given rise to a present obligation, however, the settlement of the same is not expected to result in an outflow of resources embodying economic benefits from the entity as such excise duty would not be payable on removal of goods from factory subsequent to 30 June 2017 under the GST regime, instead the appropriate CGST, SGST, UTGST or IGST will be payable.

It is to be noted that the Central Board of Excise and Customs ("CBEC") has also come up with a notification no. 12/2017 – Central Excise (effective 1 July 2017) which exempts all excisable goods (except petroleum crude, high speed diesel, petrol, natural gas, aviation turbine fuel, tobacco and tobacco products) from the whole of excise duty leviable thereon under the Central Excise Act, subject to the following conditions:

(a) The goods should have been manufactured on or before 30 June 2017 but not cleared from the factory of production 1 July 2017;

(b) The appropriate CGST, SGST, UTGST or IGST, as the case maybe, shall be payable on such goods, if cleared on or after the 1 July 2017 as leviable on such goods under the respective acts.

Basis above, no liability for excise duty should be created in the books of account in respect of such inventory as at 30 June 2017 subject to fulfilment of the conditions stated in the above notification.

Q 4. How should GST input credit be presented in the financial statements?

Response:

Ind AS 32, *Financial Instruments: Presentation* para AG 12 states "Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments) are not financial liabilities or financial assets."

Basis above, GST input credit is an item that would not meet the definition of a financial instrument, as it is not based on contract between the entity and the tax authority, but arising from statute. Accordingly, GST input credit shall be presented as "other non-current/current assets" in the balance sheet.

Q 5. An entity has agreed to pay compensation to its dealers on transition to GST. This compensation is mainly to reimburse its dealers for additional tax burden arising because of the higher GST rate *vis-à-vis* the previous VAT rate in respect of unsold inventory with the dealers as at 30 June 2017. How should payment of such compensation be presented in the financial statements of the entity?

Response:

Revenue is measured at the fair value of the consideration received or receivable. This is normally the price specified in the contract taking into account the amount of any trade discounts and volume rebates allowed by the entity. [Ind AS 18 para 10]. Cash consideration given by a seller to a customer is a reduction of the revenue earned from the customer, unless the seller is purchasing separately identifiable goods or services from the customer. Where no separately identifiable goods are supplied or services provided by the customer in consideration for cash, the substance is that the payment of cash is linked to the sale to the customer. It is therefore treated as a discount on the purchase price and is reflected as a reduction in the revenue recognised.

Basis above, compensation paid/payable to dealers shall be presented as reduction from revenue in the financial statements of the entity.

Q 6. What could be the accounting implications on introduction of GST on existing indirect taxes incentive schemes?

Response:

Another important area that could get impacted under GST relates to the indirect tax incentives granted by state governments to entities to promote investments in their respective states. For example, manufacturers enjoy special benefits from state governments in the form of refund or deferment of VAT collected from customers. These incentives are generally accounted as government grants in accordance with Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance.*

With the introduction of GST, the incidence of state taxes (SGST) on the supply of goods would reduce. As a result, the quantum of GST incentives and the period of the incentive/schemes may undergo a change. We understand that the companies availing above tax incentives may need to engage with the tax authorities to fully understand the impact and future implications of GST on existing incentive schemes.

Basis above, under the GST regime, the amount and timing of such indirect tax benefits/incentives may change significantly and could have consequential accounting implications. For example, entities may have made investments after considering the net present value of the cash inflows from such incentives. Changes in the amount or timing of such incentives could have an impact on impairment assessment and determination of recoverable amount of the underlying cash-generating unit under Ind AS 36, *Impairment of Assets*. Similarly, the above changes could also impact the measurement of government grant income/balances under Ind AS 20.

The takeaway

Entities should continue to monitor the impact of GST and consider its impact on financial reporting. It will be our endeavor to keep you updated as we become aware of additional areas of impact.

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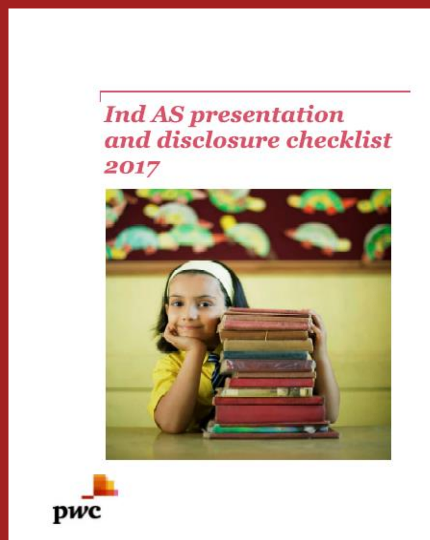

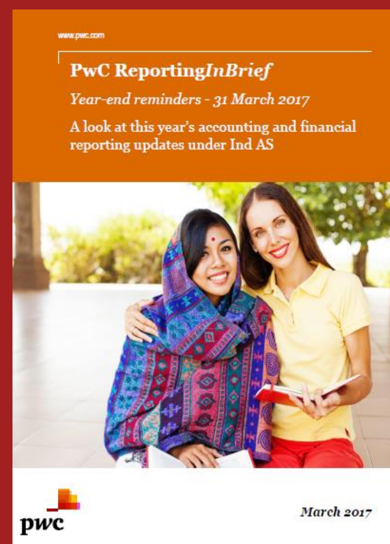

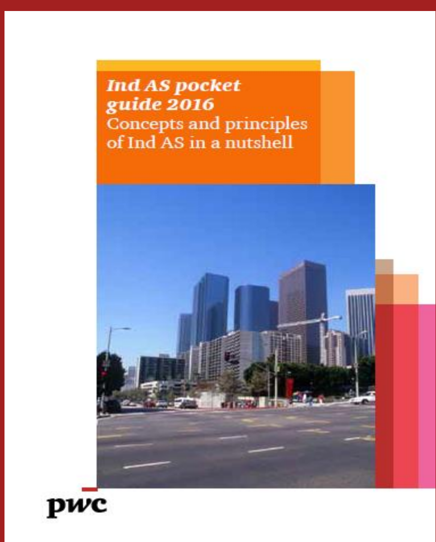

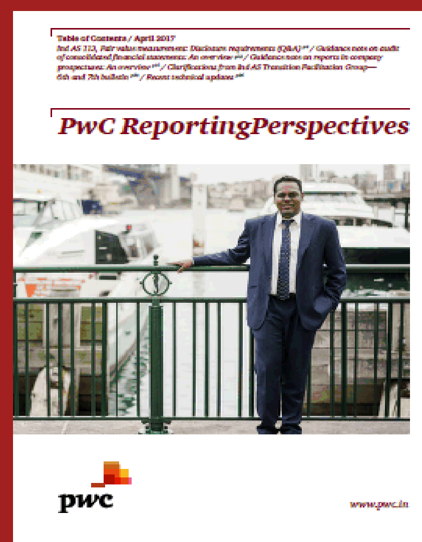

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