GST – Impact on accounting function

- CA Madhukar N Hiregange

& CA Mahadev.R

The Government of India is keen on implementing the GST law from 01.04.2017. In previous two articles, we wrote on impact of GST on sales and procurement function in case of manufacturers. Though these are the two main functions having big impact under GST, the accounting function cannot be ignored. It is accounting function which has to take care of compliances such as tax payment, return filing, registration etc. In this article, we have discussed few aspects having impact on accounting function in GST. Professionals could take care of these aspects for guiding assesses.

Passing of accounting entries for present IDT compliance

Accounting of transactions is the main activity in accounting function. In case of indirect taxes such as VAT / Central Excise / Service tax, it may so happen that assessee may be paying all taxes promptly and utilizing the credits according to law. However, the necessary accounting entries with respect to availment of credit, utilization of credit and payment of taxes might have been missed out. In such cases, it is important to ascertain the existing system of passing of entries and suggest for passing necessary entries. This could be very critical with respect to identification of eligible credits for disclosure in the return and carry forward in GST regime.

Ascertain level of compliance under present IDT law

a. Compliance under present law to be reviewed to ensure that there is smooth transition to GST. Following points to be considered for this purpose:
b. Check if all IDT payments are paid.
c. Check if all eligible credits have been claiming within stipulated time.
d. Check if all returns are filed within the due date with appropriate disclosure of credits and liabilities.
e. Check if all export benefits are claimed within due date.
f. Check if goods with job workers are reconciled with appropriate treatment for credits
g. Check if all liabilities are recognized including RCM / JC payments

Reconciliation of VAT / Cenvat credits and liabilities

Reconciliation of records would be very critical during transition phase. The financial statements reconciliation with statutory returns (ER-1, VAT returns, ST-3 return) should be started to ensure that the credits and liabilities are matching. This exercise could help the entity to identify the short / excess / non availment of credits and short /excess / non-payment of indirect taxes if any. The time limit for availment of excise duty credit on inputs and service tax credit on input services is one year from the date of invoice. All eligible credits have to be identified and disclosed in the statutory returns.

Issue and collection of all statutory forms

The assessment under present IDT law could be faster during the transitional phase as department would try to clear all pending audits and issues. The finance team should ensure that following compliances are taken care:

a. Collection of all pending Forms from customers such as Form C , Form H, Form, Form F and Form I
b. Issue of all pending Forms to vendors such as Form C , Form H, Form, Form F and Form I
c. Compliance with respect to present reverse charge service tax payments and TDS requirements.
d. Ascertain status of pending litigations with consultants and tax departments.
e. Team should be ready for quick assessments by VAT / ST / Excise authorities.

Suggest on new ledgers to be created

The existing tax related ledgers may no longer be relevant in GST regime as we would be stepping into different tax regime. New ledgers for CGST, SGST, IGST on purchases and sales have to be created in addition to ledgers for interest and penalty payments. Few ledgers have to be created for compliance under reverse charge compliance, keeping track of advance payments etc. Accounts team should be aware of these requirements and should get the ledgers created in the accounting software. All irrelevant ledgers created which no longer in use even in present IDT law should be identified and removed.

Planning for cash flow impact

Introduction of GST certainly would have impact on cash flow (increase or decrease). The flow could be more or less depending on the impact on sales and procurements. Some of the factors which would influence cash flows are increase in rate of GST on services, levy of GST on stock transfer to branches, savings on account of seamless credit, lower taxes on purchases, no levy of entry tax, non requirement of input VAT credit reversal on stock transfers etc. The finance / accounts function should analyze the impact and prepare to address the impact.

Training on compliance under GST law

GST law could involve lot of effort at least in the initial phase due to number of different returns introduced. A regular assessee has to file 3 returns (Inwards / Outwards / Consolidated) every month. Annual return is also mandatory for all assessee. Service providers having centralized registration covering offices in other States may have to obtain separate registration in other States. This would also warrant filing of separate returns. Presently, such service providers may be filing only two half yearly returns in Form ST-3 every year.

The proposed GST returns are automated requiring matching of information of sales and purchases with information submitted by vendors and customers. The team involved in compliance should take appropriate training to ensure that the returns are filed in appropriate manner. The concept of TCS / TDS is also proposed to be introduced in GST which could pose challenge to accounts team. Non awareness could result in additional cost to entity in form of interest and penalties.

Revision of SOP

The standard operating procedures (SOP) would have been prepared based on existing IDT laws. As GST is all together a new concept, the SOP needs to be revised considering the impact of GST on operations and process of the entity. Lot of importance has to be given for compliance procedures. Professionals need to play vital role in development of SOPs.

Changes in formats and reports such as tax registers, tax invoices etc.

GST would bring paradigm shift in IDT laws. The accounts team should be aware of changes and in addition, the changes required in all relevant registers, invoices and forms should be undertaken. The manual registers and reports to the extent possible should be done away with as most of the information in GST would be automated.

Registration requirements

Assessee registered under any of the present indirect tax laws would get automatic GST registration for all registered locations which would be state specific. Before introduction of GST, there is a need to ascertain the requirement of multiple business locations and registration for the same. In case of service providers with multiple locations having centralized registration, there is a need for obtaining registration for each of the states having presence.

Agreement modifications with vendors / customers

With introduction of proposed GST, all major indirect taxes would discontinue and therefore, all major agreements entered with vendors and customers would have to be looked into for carrying out necessary changes for compliance with GST. The important points to be noted in this regard are as follows:

a. All existing agreements where reference have been made for service tax, VAT/CST or excise duty needs to be replaced by GST.
b. Purchase orders issued to vendors would require modifications on introduction of GST. During transition time also, care should be taken to ensure that the vendors are passing on all tax benefits with break up on the invoices.
c. All new agreements proposed to be entered into may have a specific clause that tax clause would be revisited / amended in case GST is introduced during validity of agreements.

Conclusion

There is a need for better preparation for GST implementation by all functions of an organisation. It may be ideal for the organisation to seek assistance from professionals in this process. Professionals should also make efforts to make their clients aware of importance of preparing for GST at the early stage.

Authors could be reached at madhukar@hiregange.com or mahadev@hiregange.com for suggestions and feedback.