



NEW DIMENSIONS TO GST ANNUAL REPORT & GST AUDIT

CMA Navneet Kumar Jain
Practicing Cost & Management Accountant

The article is an attempt to explore the untouched areas in the GST Audit arena. The companies have started the GST audit processes and are focusing on GSTR 9 (It will be given by the system later) and GSTR 9C but somehow companies are missing the vital links for the GST Audit.

The articles has touched upon the following areas:

- a) Revenue Mappings
- b) Quantitative mappings
- c) Alignment of GST data with Income tax returns, income tax audit reports, cost audit annexures (Cost records) and Annual return being filed under Companies Act (AOC-4)
- d) Valuation on cost plus basis

At the outset, the readers are requested to ponder as to which are the different returns/documents that are filed with any ministry periodically at HSN codes level. Most of the persons are aware that GST returns are filed on HSN code basis. Filing of Annual GST returns in GSTR 9 form and reconciliation format in GSTR 9C is likely to smoothen process for future filings under GST regime but it needs to be noted that all the relevant issues are ironed out before filing of GST Annual return and GST reconciliation format along with GST Audit report to avoid any problems at later stages.

It needs mention that GST data has been aligned with Cost Records data, Financial Data, Income Tax Data etc. The directors/concerned officers must ensure and ask the GST auditors to ensure alignment of the data being reported under different statutory returns. In case variances are detected at a later stage by the department, it may pose problems for GST Auditors and company.

Till date, the industry, the consultants and the GST officers have somehow forgotten the fact that HSN

codes wise Revenue and quantitative details are being reported in GST returns and Cost Records maintained under section 148 of the companies Act wherever applicable and the both must match or reconciliation must be ready. Not only this the quantitative details are required to be reported in Companies' Annual return AOC-4 in sheet QD. Also, in Income Tax Audit Form 3CD, the quantitative details are required to be mentioned. It needs to be seen that the data in GSTR 9, Income Tax return of companies (ITR 6) & Form 3CA CD and the Cost Records (Annexure B-1) are aligned. For the year 2017-18 some reconciliation will be required to be made.

The HSN code wise itemised level data is required to be prepared under section 148 of the Companies Cost Records and Audit Report Rules 2014 and is reported to MCA under different annexures mandated under section 148 of Companies Act through CCRAR 2014.

All the registered assesses are required to file GSTR 9 Annual Return.

Before filing of GSTR 9 & GSTR 9C one must ensure that data being reported in the following statutory document do match and in case of differences, proper reconciliations are made with each other.

- a) Revenue as per GSTR 3B
- b) Revenue as per GSTR 1
- c) Revenue as per financials for the respective period aligned with yearly figures
- d) Revenue as per Tax Return
- e) HSN code wise revenue as is being shown in the cost records in Annexure no A-4 and/or filed with Ministry of Corporate Affairs after approval from the Board of Directors

Not only the revenue but the quantitative details as are being reported in GSTR 9 in HSN sheet must match with the data being reported through cost records.

GSTR Annual return & GST Audit provisions

As per Section 44(1) of the CGST Act, 2017, every registered person, other than an Input Service Distributor, a person paying tax under Section 51 (TDS Collector) or Section 52 (TCS Collector), a casual taxable person and a non-resident taxable person, shall furnish an Annual Return for every financial year on or before the 31st day of December following the end of such financial year. The Government vide Notification No. 39/2018 – Central Tax dated September 4, 2018 has notified the format of Annual Return Form GSTR-9 (for normal taxpayers) and Form GSTR-9A (for composition taxpayers). The date for 2017-18 has been extended

Further, every registered person whose aggregate turnover during a financial year exceeds INR 2 crores shall get his accounts audited and furnish a copy of audited annual accounts and a reconciliation statement, duly certified, in FORM GSTR-9C, format of which is also notified vide Notification No. 49/2018 – Central Tax dated September 13, 2018.

Alignment of Cost Records and GST records for quantitative data

The companies manufacturing the products like Steel, copper, drugs, fertilizers etc or providing specific services like health care education are required maintain cost records as per the notification issued by MCA on 30th June 2014 as amended from time to time.

Recently on 3rd December, 2018 vide G.S.R. 1157(E), MCA brought in a far reaching change in the Companies Cost Records and Audit Report Rules, 2014 which mandated that the Unit of Measurement (UOM) for each Customs Tariff Act Heading, wherever applicable, shall be the same as provided for in the Customs Tariff Act, 1975 (51 of 1975) corresponding to that particular Customs Tariff Act Heading.”; This notification has paved the way for final integration of quantities as are being reported in the GST returns and quantitative annexures in the cost records. We can take the example of HSN code 7301 20 10 --- Steel slotted

angles the UQC must be mentioned in kgs and not in size and numbers.

MCA had issued another notification on 20th Dec 2017 which has paved the way for alignment of Cost Records with GST records after the implementation of GST. The **Companies Cost Records & Audit Rules 2014** (CCRAR) earlier referred to CETA whereas in the GST regime, presently most of the chapters of Central Excise Act do not exist except for few Chapters. Now with the issue of the notification on 20th Dec 2017, the CETA Headings have been replaced with Customs Tariff headings (Refer Extract 1)

It also needs mention that “heading”, in respect of goods, means a description in list of tariff provisions accompanied by a four-digit number and includes all sub-headings of **tariff items** the first four-digits of which correspond to that number and tariff item means a description of goods in the list of tariff provisions accompanying **eight-digit number**.

No of digits of HSN codes for reporting purposes:

Summary of supplies effected and received against a particular HSN code to be reported only in table No. 17 of GSTR 9. It will be optional for taxpayers having annual turnover upto ₹1.50 Cr. It will be mandatory to report HSN code at two digits level for taxpayers having annual turnover in the preceding year above ₹1.50 Cr but upto ₹5.00 Cr and at four digits’ level for taxpayers having annual turnover above ₹5.00 Cr. UQC details to be furnished only for supply of goods. Quantity is to be reported net of returns. The same details are required to be reported in GSTR 1 returns.

It needs mention that in B-1 of the Annexures to the cost audit report, the HSN codes wise quantitative details are required to be reported showing the same UQC (Unit Quantity Code) as is being shown in the GSTR 1 & GSTR 9.

A question is being raised by different quarters that whether the cost data is required to be maintained at four-digit level (heading) or at eight-digit level (tariff item). It needs mention that for the year 2016-17, the costing data was required to be maintained at eight-digit level of CETA. Also, the revised business rules for XBRL had mandated eight-digit codes. The concerned rule reads like “*The concatenated “CETA Code of Manufactured Product” and “Subheading of CETA Code” shall be a valid 8-digit CETA code*”. Under the GST regime also

the maintenance of cost records may be kept at eight-digit level and reporting at four-digit level.

For the 2017-18, the data to be reported to MCA will be from two different indirect tax regimes, April 2017 to June 2017 from Excise/VAT and from July 2017 to Mar 2018 from **GST regime**. The backup of the data need to be kept separately and then consolidated for the purpose of reporting to Ministry of Corporate Affairs under CCRAR 2014, wherever applicable.

One need not forget that any organization dealing in export or import is required to keep the data at eight-digit level as per the Customs Tariff Act.

Under GST for the sake of convenience initially, the government may have allowed the data to be maintained at four-digit level, but in future GST authorities may ask for the data at the eight-digit level as the reference to the Customs Tariff has been made in the GST notifications.

Suggestion: The companies which have to follow Companies Cost Records and Audit Rules 2014 are required to maintain the data at the product level and then at tariff heading level for reporting to MCA, these companies should keep maintaining the data at Eight Digit Level also.

GST regime also referred to Customs Tariff Act as given below (Extract 2) for the purpose of imposition of rates on various types of commodities. Though, the GST rates notification have shown four digits and GST rates have been mentioned at the four-digit levels i.e. headings but it needs mention that a reference to the “Tariff item”, “sub-heading” “heading” and “Chapter” has also been made in the same notification and

Extract 1

Extract of Notification no. G.S.R. 1526(E), dated 20th Dec 2017 issued by Ministry of Corporate Affairs is given below:

In the Companies (cost records and audit) Rules, 2014 (hereinafter referred to as the principal rules), in rule 2, for clause (aa) the following clause shall be substituted and shall be deemed to have been substituted with effect from the 1st day of July, 2017, namely: –

(aa) “Customs Tariff Act Heading” means the heading as referred to in the Additional Notes in the

First Schedule to the Customs Tariff Act, 1975 (51 of 1975).

In the principal rules, in rule 3, for the words “Central Excise Tariff Act Heading”, occurring at both the places, the words “Customs Tariff Act Heading” shall be substituted and shall be deemed to have been substituted with effect from the 1st day of July, 2017.

In the principal rules, in the Annexure, in Form CRA-2, Form CRA-3 and Form CRA-4, for the words “CETA Heading”, wherever it occurs, the words “CTA Heading” shall be substituted and shall be deemed to have been substituted with effect from the 1st day of July, 2017.

Extract 2

Extracts from Notification No.1/2017-Integrated Tax (Rate) New Delhi, the 28th June, 2017 & Notification No.1/2017-Central Tax (Rate) New Delhi, the 28th June, 2017

(iii) “Tariff item”, “sub-heading” “heading” and “Chapter” shall mean respectively a tariff item, sub-heading, heading and chapter as specified in the First Schedule to the Customs Tariff Act, 1975 (51 of 1975). (iv) The rules for the interpretation of the First Schedule to the Customs Tariff Act, 1975 (51 of 1975), including the Section and Chapter Notes and the General Explanatory Notes of the First Schedule shall, so far as may be, apply to the interpretation of this notification. 2. This notification shall come into force with effect from the 1st day of July, 2017.

Explanatory/Additional Notes of the First Schedule of The Customs Tariff Act

The Additional Notes in the First Schedule of The Customs Tariff Act 1975, explains the different terms as follows:

- a) “heading”, in respect of goods, means a description in list of tariff provisions accompanied by a four-digit number and includes all sub-headings of tariff items the first four-digits of which correspond to that number;
- b) “sub-heading”, in respect of goods, means a description in the list of tariff provisions accompanied by a six-digit number and includes all tariff items the first six-digits of which correspond to that number;

- c) "tariff item" means a description of goods in the list of tariff provisions accompanying eight-digit number and the rate of customs duty;

The maintenance of records especially financial and statistical records under any statute is of utmost importance. The records provide an insight into the functioning of the organisation and ensure the various stake holders about the health of the organisation.

Whether records relating to manufacturing are required to be maintained in GST era

The duty liability under Excise Act arose on the manufacture of goods whereas under GST the liability to pay GST arises primarily on supply of goods or services. As the point of liability of taxation under GST has shifted from Manufacture to Supply, some persons were of the view that there is no requirement to keep separate records for manufacturing and Trading, however, one needs to go through the various provisions/forms under various Acts to check whether records pertaining to manufactured goods are required to be maintained separately or not.

The implementation of GST has brought to the fore many questions for companies having trading as well as manufacturing activities like

- a) whether a company is required to maintain records of Raw materials separately or can it be merged with the other records like records of trading items etc. and no separate records for raw materials and trading goods are required to be maintained as was required under erstwhile Excise regime.
- b) whether a company is required to maintain records of manufactured/Finished goods separately or can it be merged with the other records like records of trading items etc. and no separate records for manufacturing are required to be maintained as was required under erstwhile Excise regime.
- c) Whether there is reporting of manufacturing goods separately under GST or any other Act.

With the implementation of GST, the assesses are required to map the HSN code wise data as per GST (Trading and/or manufacturing) with the HSN Code

wise costing data which is being reported to Ministry of Corporate Affairs (Primarily with regard to manufactured goods).

It needs mention that HSN code wise data is being reported to CGST (Central Government) & UTGST/SGST (State Governments) authorities through GST returns and the HSN code wise data will be reported to Ministry of Corporate Affairs, Government of India.

CGST Act has specifically defined "manufacture", the definition is given below"

Definition of Manufacture under Section 2(72) CGST Act states

"manufacture" means processing of raw material or inputs in any manner that results in emergence of a new product having a distinct name, character and use and the term "manufacturer" shall be construed accordingly.

ACCOUNTS AND RECORDS:

Please refer to the section 35 of CGST Act that specifically mandates the maintenance of data with regard to the production and manufacture of goods & inward and outward supply of goods separately.

(1) Every registered person shall keep and maintain, at his principal place of business, as mentioned in the certificate of registration, a true and correct account of—

- **production or manufacture of goods;**
- inward and outward supply of goods or services or both;
- stock of goods;
- input tax credit availed;
- output tax payable and paid; and
- such other particulars as may be prescribed:

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:

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.

Sec 147 of the CGST Act specifically mandates the importance of keeping the data with regard to the manufacturing separately if the sale of the product is required to be considered as deemed export. The Government may, on the recommendations of the Council, notify certain supplies of goods as deemed exports, where goods supplied do not leave India, and payment for such supplies is received either in Indian rupees or in convertible foreign exchange, if such goods are manufactured in India.

Monthly Production Accounts

Rule 56(12) of CGST Rules states that every registered person manufacturing goods shall maintain monthly production accounts showing quantitative details of raw materials or services used in the manufacture and quantitative details of the goods so manufactured including the waste and by products thereof.

Rule 56(13) rule state that every registered person supplying services shall maintain the accounts showing quantitative details of goods used in the provision of services, details of input services utilised and the services supplied.

GST registration forms and other forms specifically ask the assesses to register themselves as manufacturer and/or trader etc.

Valuation: Value of supply of goods or services or both based on cost

Though CGST Act and CGST rules have provided the specific provisions with regard to the valuation of supplies based on transaction value/Transaction value primarily yet Rule 30 of CGST rules states that Where the value of a supply of goods or services or both is not determinable by any of the preceding valuation rules the value shall be one hundred and ten percent of the cost of production or manufacture or the cost of acquisition of such goods or the cost of provision of such services.

Documents to be made available to the Audit Teams under GST

Cost Audit Report is one of the documents which will be required to be submitted to the Special Auditor under GST Act or to the

As per section 71(2) every person in charge of place referred to in sub-section (1) shall, on demand, make available to the officer authorized under sub-

section (1) or the audit party deputed by the proper officer or a cost accountant or chartered accountant nominated under section 66 - such records as prepared or maintained by the registered person and declared to the proper officer in such manner as may be prescribed;

trial balance or its equivalent;

statements of annual financial accounts, duly audited, wherever required;

cost audit report, if any, under section 148 of the Companies Act, 2013;

the income-tax audit report, if any, under section 44AB of the Income-tax Act, 1961; and

any other relevant record,

for the scrutiny by the officer or audit party or the chartered accountant or cost accountant within a period not exceeding fifteen working days from the day when such demand is made, or such further period as may be allowed by the said officer or the audit party or the chartered accountant or cost accountant.