



Contract Management- Works & Supply

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What is contract?

- A voluntary, deliberate, and legally binding agreement between two or more competent parties. Contracts are usually written but may be spoken or implied, and generally have to do with employment, sale or lease, or tenancy.
- A contractual relationship is evidenced by (1) an offer, (2) acceptance of the offer, and a (3) valid (legal and valuable) consideration.
- Each party to a contract acquires rights and duties relative to the rights and duties of the other parties.
- However, while all parties may expect a fair benefit from the contract (otherwise courts may set it aside as inequitable) it does not follow that each party will benefit to an equal extent.

(reference: business dictionary)



What is contract?

- As per Sec 2(h) of the Indian Contract Act,1872 'a contract is an agreement enforceable by law'.

Thus a contract is an agreement made between two or more parties which the law will enforce.



What is “Contract Management”

- Contract management is the process of managing contract creation, execution and analysis to maximize operational and financial performance at an organization, all while reducing financial risk.
- Organizations encounter an ever-increasing amount of pressure to reduce costs and improve company performance.
- Contract management is the most important element of business, which facilitates the need for effective and automated contract management system.

Fundamentals of Contract Management



- When two companies wish to do business with each other, a contract specifies the activities entered into by both organizations and the terms through which they will each fulfill their parts of the agreement.
- Contracts affect business profitability in a very large way due to the emphasis on revenue and expenses.
- When a contract is phrased poorly, one organization might lose countless thousands of rupees over a simple technicality they lacked the resources to identify.
- Effective contract management can ultimately create a powerful business relationship and pave the road to greater profitability over the long-term, but only when managed correctly.

Elements of successful contract management



When a contract management strategy is successfully implemented, organizations can expect to see:

- The expected business benefits and financial returns are being realized
- The supplier is cooperative and responsive to the organization's needs
- The organization encounters no contract disputes or surprises
- The delivery of services is satisfactory to both parties

Activities that make up good contract management



- The foundation for contract management relies on the implementation of successful post-award and upstream activities. During the pre-award stage, management should focus on the reason for establishing the contract and if the supplier can fulfill the terms of the agreement. Additional consideration is needed to understand how the contract will work once awarded.
- Avoiding unwanted surprises requires careful research and clarity of purpose in the actual contract.

Contract Management- GST purview



- Determination of Contract for supply of goods or services or goods and services.
- **Composite Supply:-** means a supply made by a taxable person to a recipient consisting of two or more taxable supplies of goods or services or both, or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply;
Illustration.— Where goods are packed and transported with insurance, the supply of goods, packing materials, transport and insurance is a composite supply and supply of goods is a principal supply
(refer Sec.2 (30) and Sec. 9 of CGST Act, 2017)

Contract Management- GST purview



- **Mixed Supply:-** “mixed supply” means two or more individual supplies of goods or services, or any combination thereof, made in conjunction with each other by a taxable person for a single price where such supply does not constitute a composite supply

Illustration. – A supply of a package consisting of canned foods, sweets, chocolates, cakes, dry fruits, aerated drinks and fruit juices when supplied for a single price is a mixed supply. Each of these items can be supplied separately and is not dependent on any other. It shall not be a mixed supply if these items are supplied separately;

Contract Management- GST purview



- “Works contract” means a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in goods (whether as goods or in some other form) is involved in the execution of such contract;
(refer Clause 119 of Sec. 2 of CGST Act, 2017)



Contract Management-GST purview

- Nature of supply
- Specific provisions in case of continuous supply of goods and services
- Determination of place of supply and Applicability of correct taxes
- Valuation - transaction value/additional consideration/free supplies
- GST rate
- Input tax credit
- Conditions for availment of ITC- proper documentation and payment by supplier

Terms and conditions of contract- Drafting is skill



Supplier's perspective:-

- Place of delivery
- Discount policies
- Mode of transport
- Payment terms
- Additional benefits
- Documentations- tax invoice and e-way bill
- GST impact on non-fulfillment of conditions or terms of contracts-
Tolerance an act, agreeing to do an act or refrain from doing an act
- Termination of contract
- Escalation clause.

Terms and conditions of contract- Drafting is skill



Recipient's perspective:-

- Place and mode Delivery of goods
- Time limit for completion of services
- Terms for acceptance or rejection
- Formats of tax invoices or other ITC document-
- Matching concept.
- GSTN/GST rating of vendor-correctness of taxes
- Valuation /reimbursement of expenses/free supply



Anti Profiteering

- Reduction in Tax rates. (more important in contract value inclusive of taxes).
- Scope of ITC is extended. - Additional ITC in case of following:-
 - ✓ Interstate purchases of goods (CST)
 - ✓ ITC on inputs used in execution of works contract.
 - ✓ Entry Tax, Octroi, Local Body Tax (LBT)
 - ✓ Non reversal of proportionate Cenvat Credit u/r 6(3) of CCR, 2004 in case of sale of exempt goods and trading and provision of exempted services is not required .
 - ✓ No Disallowance of proportionate set off under composite contracts.
 - ✓ ITC on opening stock of cement/steel etc.
 - ✓ ITC on office equipments
- Benefit on account of ITC / GST rate should result in price reduction from vendors and such benefit should be passed on to the end users .



Thank You

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