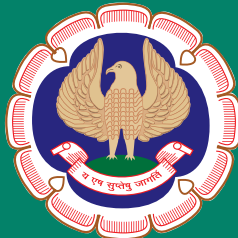


# **Handbook on Finalisation of Accounts with GST Perspective (June, 2026)**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

**Handbook on  
Finalisation of Accounts  
with  
GST Perspective**



**The Institute of Chartered Accountants of India**

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# Foreword

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The Goods and Services Tax (GST) has transformed India's indirect taxation landscape by replacing multiple Central and State levies with a comprehensive and harmonized tax structure. Its implementation has facilitated the creation of a common national market, enhanced the ease of doing business, and reduced the cascading effect of taxes through a seamless input tax credit mechanism. Over the years, the GST framework has matured, it has continuously evolved through legislative amendments, judicial pronouncements, technological advancements, and procedural reforms.

Within this dynamic tax environment, the Institute of Chartered Accountants of India (ICAI), through its GST & Indirect Taxes Committee, has been actively contributing to the growth and development of the GST ecosystem in India. The Institute has consistently provided constructive inputs to the Government while supporting capacity building and awareness through technical publications, newsletters, certificate courses, webcasts, e-learning initiatives, seminars, and other professional development programmes for members and stakeholders.

As GST has become an integral part of business transactions and financial reporting, its implications extend well beyond tax compliance and have a significant bearing on finalisation of accounts. I am pleased to note that the GST & Indirect Taxes Committee has revised its publication “**Finalisation of Accounts with GST Perspective**” to provide comprehensive guidance on the key GST-related considerations that should be addressed while finalising accounts. The publication has been updated to reflect the latest developments and presents the subject in a practical, lucid, and user-friendly manner.

I appreciate the dedicated efforts of CA. Umesh Sharma, Chairman; CA. Rajendra Kumar P, Vice-Chairman; and the members of the GST & Indirect Taxes Committee of ICAI in revising this publication. Their continued commitment towards enhanced knowledge dissemination and professional capacity building is truly commendable.

I am confident that this revised publication will prove to be a valuable resource for members in their professional practice and will contribute to strengthening compliance and promoting greater effectiveness of the GST framework.

**CA. Prasanna Kumar D**  
President, ICAI

Date: 11.06.2026

Place: New Delhi

# Preface

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As GST law continues to mature, the finalisation of accounts under the regime demands meticulous attention to a strong technology-driven framework governing returns and tax payments. Timely and precise reporting, coupled with proper discharge of tax liability, plays a pivotal role in promoting transparency, enabling the smooth flow of input tax credit and enhancing the overall effectiveness of tax administration. The GST ecosystem has steadily transitioned towards a system-oriented environment, where accuracy in reporting and reconciliation between suppliers and recipients has emerged as a cornerstone of sound accounting practice and regulatory compliance.

In view of the recent procedural and technological developments, the process of finalisation of accounts has assumed greater significance in the GST era, as businesses are required to ensure consistency between their books of accounts, GST returns, and other statutory records. Reconciliation of turnover, verification of input tax credit, identification of tax liabilities, treatment of reversals and adjustments, and evaluation of GST-related disclosures are some of the key areas that require careful attention during the financial closing process. Any gaps or inconsistencies may not only impact the accuracy of financial statements but may also lead to compliance risks under the GST law. Given the increasing integration of tax compliance with financial reporting, a comprehensive understanding of GST implications while finalising accounts is essential for professionals and stakeholders alike.

With this objective, we are pleased to present the revised edition of the **“Handbook on Finalisation of Accounts with GST Perspective”**, comprehensively updated up to 31-05-2026. The Handbook seeks to provide practical guidance on various GST-related aspects that should be examined while finalising accounts and aims to assist members and other stakeholders in identifying, addressing, and resolving issues that may arise during the course of financial reporting and GST compliance.

We express our sincere gratitude to CA. Prasanna Kumar D the President, ICAI and CA. Mangesh Kinare, the Vice-President, ICAI for the encouragement and support extended by them to the various initiatives of the GST & Indirect Taxes Committee. We express our gratitude for the efforts of CA Shankara Narayanan V in revising the Handbook. We would also like to

thank the members of our Committee who have always been part of all our endeavours. Last, but not the least, we commend the efforts of CA. Shikha Maurya from the Secretariat in providing the requisite technical and administrative assistance.

While every effort has been made to ensure the accuracy of the contents in accordance with the prevailing legal position, divergent views may exist on certain issues. We welcome feedback and suggestions from readers on any inadvertent errors or omissions at [gst@icai.in](mailto:gst@icai.in). Readers are also encouraged to visit the Committee's website at <https://idtc.icai.org/> for a wide range of technical and educational resources on GST.

We trust that this Handbook will serve as a useful reference for members, practitioners, industry professionals, and other stakeholders in effectively addressing GST-related considerations during the finalisation of accounts and ensuring robust compliance with the GST law.

**CA. Umesh Sharma**  
Chairman  
GST & Indirect Taxes Committee

**CA. Rajendra Kumar P**  
Vice-Chairman  
GST & Indirect Taxes Committee

Date:11.06.2026  
Place: New Delhi

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# Chapter 1

## Introduction

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### 1.0 Finalisation of Accounts

The term 'Finalisation of Accounts' refers to the process of planning and control of activities relating to the preparation of the Financial Statements of a business entity.

There must exist a well-defined system to ensure, (a) timely preparation of the Financial Statements, (b) compliance with the various statutes applicable to the entity, and (c) that the Financial Statements represent a true & fair view of the financial position of the entity.

The procedure must encompass all the financial activities conducted or entered into, during the financial year of the business entity.

### 1.1 Financial Statements

Financial Statements are formal written records of the financial activities and position of a business entity. These statements are the main source of information for various stakeholders regarding the profitability and financial position of a business. As major decisions by stakeholders having a financial impact are taken based on the Financial Statements, it is imperative that they must present a true and fair view of the financial position. To ensure the same, auditing of these Financial Statements has been largely mandated by various statutes.

Financial Statements normally comprise of-

- (a) The statement of financial position (also known as the Balance Sheet) presents the financial position of the entity as on a given date.
- (b) The income statement (also known as the Profit & Loss Account) discloses the entity's financial performance over a specified period.
- (c) The Cash Flow Statement depicts the movement of cash and bank balances over a specified period.

- (d) Statement of Changes in Equity (also known as the statement of retained earnings) depicts the movement of owners' equity over a period of time.

While the statements mentioned in (a) & (b) above are to be prepared by all business entities, the Cash Flow Statement and Statement of Changes in Equity are mandated only for specified organisations.

## 1.2 Notes to Financial Statements

Any explanatory note annexed to, or forming part of, any document referred to in (a) to (d) above will also form part of Financial Statements as per section 2(40) of the Companies Act, 2013.

Reference is invited to Paragraph 8 of SA 700 (Revised) – “Forming an Opinion and Reporting on Financial Statements”, set out below:

“Reference to “financial statements” in this SA means “a complete set of general purpose financial statements, including the related notes.” The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information and any other information required to be included as part of the financial statements by the laws and regulations governing the entity.”

Attention is also invited to the following paragraphs of the Preface to the Statements of Accounting Standards -

**“Para 3.4** The term ‘General Purpose Financial Statements’ includes balance sheet, statement of profit and loss, a cash flow statement (wherever applicable) and statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public. References to financial statements in this Preface and in the Standards issued from time to time will be construed to refer to General Purpose Financial Statements.”

**“Para 6.1** The Accounting Standards will be mandatory from the respective date(s) mentioned in the Accounting Standard(s). The mandatory status of an Accounting Standard implies that while discharging their attest functions, it will be the duty of the members of the Institute to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit.

In the event of any deviation from the Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviation”.

From a reading of the above-mentioned Paragraphs, it is clear that the requirement to include related notes as an integral part of Financial Statements extends to all business entities, whether corporate or non-corporate, as Accounting Standards apply to any enterprise engaged in commercial, industrial or business activities irrespective of its organisational form. The responsibility for preparation of Financial Statements, including the related notes and adequate disclosures therein, rests with the management of the entity. An auditor attesting Financial Statements must satisfy himself that explanatory notes form an integral part thereof, and where they are absent or incomplete, must make adequate disclosures in his audit report.

### **1.3 Audit of Financial Statements**

Audit is mandatory for all entities registered under the Companies Act, 2013. In the case of non-corporate entities, even if audit of their accounts has not been mandated by the statutes governing them, the taxation Acts such as the Income Tax Act, 1961 until financial year 2025-26 and the Income Tax Act, 2025 from Tax Year 2026-27 onwards have made audit mandatory for business entities having gross turnover/receipts beyond a specified limit. It may be noted that the mandatory requirement of audit under the Central Goods and Services Tax Act, 2017 was removed with effect from 1st August 2021, pursuant to the Finance Act, 2021, which omitted Section 35(5) thereof. Thus, Financial Statements are invariably audited by practising Chartered Accountants and/or the Comptroller and Auditor General of India to ensure accuracy and for tax, financing, or investment purposes.

### **1.4 Impact of GST Law on Finalisation of Financial Statements**

The primary objectives of an auditor are to (a) obtain reasonable assurance as to whether the Financial Statements, as a whole are free from material misstatement, whether due to fraud or error; and (b) to ensure that the Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the entity as at end of the reporting period, of its profit/ loss and other comprehensive income, consolidated changes in equity (if applicable) and cash flows for the year/ period then ended.

To achieve the above stated objective, it is imperative that an auditor should check for compliance with GST law and regulations.

For the first 3 financial years post implementation of GST viz., FY 2017-18, 2018-19 & 2019-20, Section 35(5) of CGST Act, 2017 stated that every registered person whose turnover during a financial year exceeds the prescribed limit, shall get his accounts audited by a Chartered Accountant or a Cost Accountant and shall submit a copy of the audited annual accounts, the reconciliation statement under sub-section (2) of section 44 and such other documents in such form and manner as may be prescribed.

With effect from 1st August 2021, Section 35(5) of the CGST Act, 2017 was omitted by the Finance Act, 2021, thereby abolishing the mandatory requirement of GST audit by a Chartered Accountant or a Cost Accountant. However, the requirement to file the reconciliation statement in FORM GSTR-9C was retained, albeit in a modified form. GSTR-9C was reconstituted as a self-certified reconciliation statement, to be certified by the taxpayer itself rather than by an external auditor. This change was effected by incorporating the requirement of GSTR-9C within Section 44 of the CGST Act, 2017, which governs the filing of Annual Returns. Accordingly, every registered taxpayer whose aggregate turnover exceeds Rs. 5 crores in a financial year is now required to file GSTR-9C as a self-certified reconciliation statement along with the Annual Return in FORM GSTR-9.

The Proviso to Section 44(1) excludes from the purview of audit, any Department of the Central Government or a State Government or a local authority, whose books of accounts are subject to audit by the C&AG of India or by an auditor appointed for auditing the accounts of local authorities under any law for the time being in force.

Rule 80 (1) of CGST Rules, 2017 states that every registered person, other than an Input Service Distributor, a person paying tax under section 51 or section 52, a casual taxable person and a non-resident taxable person, shall furnish an annual return for every financial year electronically in such form and manner as may be prescribed on or before the thirty-first day of December following the end of such financial year.

Rule 80 (3) of CGST Rules, 2017 states that every registered person with aggregate annual turnover above the prescribed limit of Rs. 5 crores shall, furnish electronically, the annual return under sub-rule (1) along with a copy of the audited annual accounts and a reconciliation statement, reconciling

the value of supplies declared in the return furnished for the financial year with the audited annual Financial Statement, and such other particulars as may be prescribed.

The prescribed forms for Annual Return and the Reconciliation Statement are FORM GSTR-9 and FORM GSTR-9C, respectively.

It is evident from the above that the statutory due date for filing of FORM GSTR-9 and FORM GSTR-9C is 31st December, following the end of the financial year. The due dates prescribed for submission of audited accounts under various other statutes, such as the Companies Act, 2013, the Income Tax Act, 1961 and the Income Tax Act, 2025, are earlier than the due date prescribed under the GST Act. Consequently, business entities and their auditors generally finalise the Financial Statements and file the same with the Registrar of Companies (in the case of corporates) and the Income Tax authorities, before commencing the process of preparing the Annual Return and self-certified reconciliation statement under the GST Act. This approach may not be entirely appropriate, as errors of omission and commission identified during the preparation and filing of GST Annual Returns may result in material misstatements in the Financial Statements, thereby affecting the 'True and Fair' view presented therein.

To ensure that there are no major/ material misstatements, it is imperative that an auditor checks compliance with GST laws and rules even during the finalisation and audit of the Financial Statement under other statutes. It will not be out of place to state that the auditor should broadly review the reconciliation items for differences between books of accounts and GST returns before issuing his audit report to ensure that there are no major surprises during GST audit.

An illustrative list of reconciliations is set out below:

- Balance of Electronic Credit ledger with ITC in books
- Balance of Electronic Cash ledger with GST paid in cash as per books
- GST paid in cash in March return, with payables as per books
- Refund claimed in GST portal with GST ITC refund receivable in books
- Refund rejected in GST portal with Rates and taxes in books
- Turnover and output liability in GST returns and books
- ITC claimed in GST returns and books

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- ITC reversed in GST returns and books
- Ineligible ITC in GST returns and books
- SCN/ ASMT 10/ Demand order with contingent liability/ liabilities
- Adjustments of previous year, done in subsequent GST returns
- Observations of internal auditors relating to GST matters
- Ratio analysis across branches like GP/ NP rates (on quarterly basis)
- RCM, TDS and TCS compliances
- Reconciliation of GTO in books v. in FORM GSTR-1
- Reconciliation of GTO in books v. in e-Way Bills
- Reconciliation of GTO in Form GSTR-3B v. in FORM GSTR-1
- ITC Reconciliation in FORM GSTR-2A/2B v. FORM GSTR-3B
- ITC Reconciliation in FORM GSTR-2A/2B v. in Books
- Reconciliation of accounts of the suppliers and vendors
- Issuance of proper CN/ DN and their treatment in the Books and Returns
- Whether cross-charge of certain incomes and expenditures are made.

# Audit Approach to GST Compliances

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The GST law is a combination of various erstwhile tax regimes such as Excise Duty, State Value Added Tax, Service Tax, etc. As the GST law has evolved on the underlying principle of self-assessment, it is the responsibility of every registered person to self-evaluate and self-comply with the various requirements of the said law.

## 2.1 Taxpayer's Responsibility

The major requirements of the GST law, post registration can be summarised as follows:

### **Outward supply of goods and services**

- Testing the scope of supply (Section 7).
- Identifying and applying relevant exemptions.
- Determining the point of taxation in terms of the 'Time of Supply' provisions.
- Determining the tax liability in terms of the 'Value of Supply' provisions.
- Determining the 'Place of Supply' to accurately discharge tax to either the Central or State Government.
- Ensuring the correct classification of goods and services as per HSN/SAC.
- Applying the correct rate of tax.
- Accounting for TDS (Tax Deducted at Source) and TCS (Tax Collected at Source), where applicable.
- Strict adherence to statutory due dates for tax payments, return filings, and appellate proceedings.

### **Inward supply of goods and services**

- Testing the eligibility for claiming Input Tax Credit (ITC) and promptly reversing any ineligible credit.

- Discharging GST liability on notified goods and services under the Reverse Charge Mechanism (RCM).
- Reversing ITC, along with applicable interest, for the non-payment of consideration to vendors within the stipulated 180-day timeframe.

### **Set off and payment of tax**

- Utilizing eligible ITC to set off output tax liability, and discharging the balance liability in cash.
- GST liability under RCM cannot be set off using ITC; it must be discharged exclusively in cash (via the Electronic Cash Ledger).
- Once the RCM liability is paid in cash, the corresponding ITC can be claimed in the same month (subject to eligibility) and utilized to set off outward tax liability.
- Treatment of TDS/TCS: Amounts deducted as TDS or collected as TCS are credited directly to the taxpayer's Electronic Cash Ledger. Once credited, these funds can be utilized to discharge any tax liability (including forward charge and RCM), interest, penalty, or fees.
- Payment of interest, late fees, and penalties in cases of delayed compliance or defaults.

## **2.2 Audit under GST**

The GST Act, mandates filing of an Annual Return by every registered tax payer (with a few exceptions) in such form as may be prescribed, before the thirty-first day of December, following the end of the financial year.

A reconciliation statement has also been mandated for registered taxpayers whose turnover exceeds the prescribed limit. Such registered taxpayers should file along with the Annual Return, a self-certified Reconciliation Statement (Form GSTR-9C) .

A Reconciliation Statement is one which reconciles, among others, the value of supplies declared in the Annual Return furnished for the financial year with the audited annual Financial Statement. It sets out the following:

- Reconciliation of turnover declared in audited annual Financial Statement with turnover declared in Annual Return
- Reconciliation of tax paid
- Reconciliation of Input Tax Credit (ITC) claimed

It is clear from the reading of the above that the objective of the reconciliation statement under GST law is to reconcile the figures disclosed in the returns filed with those in the Financial Statements and in case of discrepancies, list out the reasons for the same. In the event the discrepancies result in additional liability, the same must be quantified along with interest and disclosed in the Reconciliation Statement. The liability must be provided for in the books and disclosed in the Financial Statements of the entity. Failure to do so will affect the 'True & Fair' view of the Financial Statements.

Often, the Financial Statements are audited and certified as 'True & Fair', well in advance of the time stipulated for filing of Annual Returns and the Reconciliation Statements and without carrying out the audit prescribed under the GST law. This may result in understatement of liability or overstatement of assets due to various reasons such as liability not discharged under RCM, ineligible ITC not reversed, etc. There may also be instances where the revenue and expenses may be under or overstated.

To avoid such mistakes creeping into the audited Financial Statements, it is imperative that the auditor carries out the GST reconciliation simultaneously with the audit of the Financial Statements. In case the same is not practically possible, due to time constraint and professional work pressure, the auditor must ensure compliance with GST Act and Rules have been adhered to and chances of misstatements in the Financial Statements are not likely to be material.

This booklet sets out in the subsequent Chapters some common non-compliance with GST law and how to spot and rectify the same. The approach is to review the various line items in the asset and liabilities in the balance sheet and the likely impact that GST law has on them. Similarly the revenue and expense line items in the profit and loss account is to be reviewed for compliances such as, correct rate of tax charged on outward supply, discharge of tax on advance received for services to be rendered and for receipt of certain services or goods under RCM, reversal of ineligible credits, reversal of even eligible credits due to non-fulfilment of conditions stipulated, etc.

## Chapter 3

# Review of Balance Sheet

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## ASSETS

### 3.1 Property, Plant and Equipment (commonly known as Fixed/ Tangible Assets)

Property, plant and equipment are commonly classified as land, land and building, plant and machinery, furniture and fixtures, office equipment, computers and related equipment and vehicles, etc.

During finalisation of accounts, the following points are to be considered while auditing such assets -

- (i) In general, all assets purchased will have a GST component which can be taken as input tax credit.
- (ii) There are certain categories of assets for which input tax credit is not available and in certain cases input tax credit is available with restrictions, more commonly known as blocked/ ineligible credits.
- (iii) Ineligible credits, if any, as stated in point (ii) above are to be considered as part of cost of an asset and cannot be treated as input tax credit.
- (iv) Assets in the custody of third parties.
- (v) Impact of GST on disposal of assets on which input tax credit may or may not be already taken.
- (vi) Transfer of assets to related parties/ distinct persons.
- (vii) Impact of GST on retention of assets at the time of closure of units.

#### 3.1.1 Blocked/ Ineligible credits

As per section 17(5) of CGST Act, input tax credit is not available in respect of the following categories of assets-

##### (a) Motor vehicles

Input tax credit shall not be available in respect of motor vehicles for

transportation of persons having approved seating capacity of not more than 13 persons (including the driver), except when they are used for making the following taxable supplies-

- (i) Further supply of such vehicles; or
- (ii) Transportation of passengers; or
- (iii) Imparting training on driving such motor vehicles.

**(b) Vessels and aircraft**

Input tax credit shall not be available on vessels and aircraft except when they are used-

- (i) For making the following taxable supplies-
  - (a) Further supply of such vessels or aircraft; or
  - (b) Transportation of passengers; or
  - (c) Imparting training on navigating such vessels; or
  - (d) Imparting training on flying such aircraft;
- (ii) For transportation of goods.

**(c) Leasing, Renting, Insurance, and Repairs**

ITC is blocked on the leasing, renting, general insurance, servicing, and repair of the restricted vehicles, vessels, or aircraft mentioned above.

Allowed if the asset is used for the eligible purposes stated above, or if the services are received by a manufacturer or general insurance provider of such vehicles.

**(d) Construction of immovable property**

ITC is blocked on works contract services for constructing immovable property, except when received by a sub-contractor for the further supply of works contract services.

ITC is blocked on goods/services used for constructing immovable property on the taxpayer's own account, even if used for business.

"Construction" applies only to the extent the expenditure is capitalized in the books.

The restriction does not apply to "Plant and Machinery", which is defined to exclude land, buildings, civil structures, and telecom towers.

### **Action Points :**

- Ensure ITC is not claimed on motor vehicles  $\leq 13$  persons or their related insurance/renting, unless meeting a specific exception.
- For building repairs/renovations, verify if the expense was capitalized (ITC blocked) or charged to the P&L as revenue expenditure (ITC may be eligible).
- Ensure civil structures are not wrongly classified as 'Plant and Machinery' to claim ITC.
- Verify that the GST paid on ineligible items is capitalized into the asset's cost and not routed through the Electronic Credit Ledger.

### **3.1.2 Assets in the custody of third parties**

Capital assets like moulds, dies, jigs, fixtures and tools can be held by third parties (job workers) for an indefinite period of time as may be decided by the principal. This will not have any impact under GST law. However, the auditor should ensure that the principal maintains all relevant data in terms of location of the third party, nature of asset held etc.

Capital assets other than moulds, dies etc. with a job worker are to be returned within a period of 3 years or as extended from time to time by the appropriate authority. This must be reviewed on a regular basis to avoid any legal consequences.

### **Action Points**

The auditor should verify whether the capital assets sent to job workers, if any, have been returned within the specified timeline. If the same is not returned the auditor has to ensure that the same has been declared as deemed supply and relevant tax discharged on the said assets.

### **3.1.3 RCM on import of services**

Several services such as erection and commissioning, technical consulting services, architect's services, etc. are capitalised as part of the cost of an asset as per AS-10/IND AS-16. These services qualify as import of services under Section 2(11) of the IGST Act when (i) the supplier is located outside India, (ii) the recipient is located in India, and (iii) the place of supply is in India. In such cases, the recipient is liable to discharge GST on a reverse charge basis.



### **Action Points**

- Verify whether any capital goods / plant and machinery on which ITC was availed were sold, transferred, scrapped or otherwise disposed of during the year, by reconciling the fixed-asset register / asset retirement schedule with the books and GST returns (including transactions covered by Schedule I, i.e. without consideration).
- For refractory bricks, moulds and dies, jigs and fixtures disposed of as scrap, confirm that tax was paid on the transaction value.
- Confirm that capital goods lost / stolen / destroyed / written off were dealt with under Section 17(5)(h) (full reversal) and not erroneously treated under Section 18(6).
- Verify that the method of reduction adopted is consistently applied and documented in the working papers.

### **3.1.5 Right of Use of Assets under IND AS**

In the case of companies where IND AS is followed, right to use of assets would be created in the books of accounts. There will not be any impact in relation to GST as the ITC can be taken only on the basis of actual invoices without considering any factors like time value, discounting etc.

#### **Action Points**

The auditor, in those cases, should take additional care if any input tax credit has been availed by the entity.

## **3.2 Inventories**

Inventories consist of raw materials, work-in-progress, finished goods and stock-in-trade.

In terms of the finalisation of accounts with reference to GST, following points are to be considered:

- (a) Inventories purchased generally carry a GST component that is eligible for input tax credit, subject to the conditions of Section 16 and the blocked-credit restrictions under Section 17(5).
- (b) Particular caution is required for goods-in-transit, goods sent to job workers, and goods sent to agents.

### 3.2.1 Goods in Transit

Receipt of goods is a primary condition for availing ITC under Section 16(2)(b).

**Door-delivery contracts (supply including delivery at the recipient's premises):** ITC on the supplier's invoice is available only when the goods are actually received by the entity.

**Ex-Works contracts:** ITC becomes eligible the moment delivery is taken by the person authorised by the recipient (e.g. the transporter), even before physical receipt at the recipient's premises. This is supported by the Explanation to Section 16(2)(b), under which goods are deemed to be received by the recipient where they are delivered to a third person on the recipient's direction.

**Goods received in lots/instalments against a single invoice:** under the first proviso to Section 16(2), ITC is available only on receipt of the last lot/instalment.

This gives rise to a timing/cut-off difference between the period in which the supplier's invoice (and GSTR-2B reflection) is available and the period in which ITC may validly be availed — typically surfacing at year-end where goods are invoiced in March but received in April.

#### Action Points

- Verify, with reference to the nature of the contract (door-delivery vs. Ex-Works), not merely on the date of the invoice or its appearance in GSTR-2B.
- At the year-end cut-off, scrutinise goods-in-transit / in-transit closing stock to ensure ITC on March-dated invoices for goods received in April has not been availed prematurely (for door-delivery contracts).
- Where goods are received in lots, confirm ITC was deferred to receipt of the last instalment.

### 3.2.2 Goods at third party site-Job worker

A job worker is a person who carries out a process or a treatment on goods belonging to another registered person. A job worker need not be a registered person.

A registered person (principal) sends goods to a job worker / sub-contractor for activities such as finishing or polishing. In such cases, the entity should maintain a record of inventories sent and received back, and should have proper documentation in the form of a delivery challan as required under Rule 45 of the CGST Rules. In addition, the details of goods sent to and received from the job worker are to be furnished in FORM GST ITC-04 within the applicable periodicity.

Similarly, there can be cases where the raw materials are directly sent to job workers premises from the vendors' location, without passing through the principal. In this situation the principal can claim ITC only when the goods are physically received by the job worker. There can also be cases where the goods move to multiple job workers e.g. textile industry for various stages of production.

It must be noted that the goods sent to the job worker must be received back by the principal within the prescribed time limits, which differ by nature of goods. Inputs are to be received back within 1 year, and capital goods within 3 years, each extendable, with the prior approval of the appropriate authority, by a further 1 year and 2 years respectively. No such time limit applies to moulds, dies, jigs, fixtures and tools.

### **Action Points**

The auditor, while finalizing the accounts of an entity, should verify whether the goods lying at third party are returned within the prescribed time limits. If the inputs or capital goods are not received back within the prescribed period, it shall be deemed that the principal had supplied such goods to the job worker on the day when the said goods were originally sent out. Accordingly, the transaction is treated as a deemed supply, and tax along with applicable interest becomes payable with reference to that original date of despatch.

### **3.2.3 Goods at third party site - Sale on Approval Basis**

In the case of goods sent on sale or approval basis, the supply shall be deemed, either at the time of supply or six months from the date of removal, whichever is earlier.

### **Action Points**

In case goods are sent on "Sale on approval basis", the auditor should verify the compliance in terms of GST provisions. If the goods are not returned

within 6 months, it should be treated as deemed supply and creation of liability and payment of tax would be warranted on the said goods.

### **3.2.4 Adjustments to inventory on account of physical verification**

Discrepancies noticed on physical verification of inventory between book stock and physical stock must be examined and suitable action taken. These differences may arise due to expired goods (beyond shelf life), theft, damage, distribution of free samples, return to vendors and non-accounting of purchases in the financial records, etc. Some of these differences must be written off or written back.

#### **Action Points**

The auditor must ensure that ITC must be reversed when goods are written off.

## **3.3 Trade Receivables**

In case of export of services, the GST mandates various conditions like location of supplier in India, location of recipient of services outside India, place of supply outside India, the receipt of sale proceeds should be in convertible foreign exchange or Indian rupees wherever permitted by RBI, and the supplier and recipient are not merely establishments of a distinct person. Further, if the exports are made under Letter of Undertaking (LUT) without payment of any duty under GST, rule 96A stipulates that convertible foreign currency or Indian rupees are to be received before the expiry of one year, or such further period as may be allowed by the Commissioner, from the date of issue of the invoice for export. In the event of non-realization of the proceeds from export of services within the stipulated time as mentioned above, GST is payable on the same.

In export of services, there can be sub-contracting of some services outside India. In cases where such sub-contracting is involved to any other person outside India, then the impact of sub-contracting will lead to import of services in India and accordingly liability is to be discharged under the Reverse Charge Mechanism (RCM) by the Indian entity.

In case of export of goods, with payment of IGST or without payment of IGST, in terms of Rule 96B of the CGST Rules, 2017, if the export proceeds are not realized within the period allowed under the Foreign Exchange

Management Act, 1999, any refund taken shall be paid back to the government with interest as an erroneous refund. Once the forex payment is subsequently realized, then the exporter can re-claim the refunded amount.

### **Action Points**

An auditor before finalizing the audit, must look into various aspects in relation to exports of services or goods from the perspective of GST and should ensure whether the liability and input credits are properly accounted for.

From a finalisation perspective, the auditor is expected to verify whether the export of services or goods meet the criteria in terms of receivables in foreign currency and whether the same is received within the stipulated period. In case the same is not done and if the tax payable is material, it may affect the 'True & Fair View' of the Financial Statements. Due care must be exercised during finalisation and audit of the Financial Statements.

## **3.4 Other Current Assets**

During the course of verification of the current assets balances in the balance sheet, the auditor should necessarily map the input tax credit ledgers as per books with the GST credit ledgers. The input tax credit ledgers disclosed in the financial statements should normally tally with the GST credit ledgers as per the portal. However, invariably there will be differences and it is incumbent for an auditor to reconcile the differences as per GST return with the books of accounts and ensure there are no material or unexplained differences.

The following items would generally form part of reconciliation between books and GST returns:

- (a) Input tax credits taken in a subsequent period in the GST returns whereas the same is accounted in a different accounting period.
- (b) Input tax credits disclosed in books not available in the GST portal on account of (a) non-filing of forms in cases of merger/ acquisition of companies and (b) transitional input credit taken before registration etc.
- (c) Reversal of ITC made in the portal not reversed in the books of accounts.

- (d) Refunds rejected/ short received not adjusted in the books of accounts.
- (e) Refunds filed without transferring ITC to 'Refund receivable account' in the books, which are pending for approval.
- (f) ITC would have been accounted in full in the books of accounts but either it does not fully or partially appear in the GSTR-2B for the year.

Further, the auditor should also reconcile FORM GSTR-2B balances with the input credit taken as per returns. Material differences may affect the availability of input credit and consequently increasing the GST payable.

The following items would generally form part of reconciliation between FORM GSTR-2B and GST returns:

- (a) Non-filing/ late filing of FORM GSTR-1 by the vendors for the supplies made by them.
- (b) Supplies filed in FORM GSTR-1 by the vendors not related to the entity.
- (c) Ineligible ITC.
- (d) Reversal of ITC on account of non-payment to vendors.
- (e) Goods-in-transit at the end of the period.
- (f) ITC taken in subsequent periods.

### **Action Points**

The auditor should verify the two-way reconciliation i.e. books v. GST returns and FORM GSTR-3B returns v. FORM GSTR-2B to ensure completeness of the credits availed. The auditor should ensure that the balances of the input tax credit as per the Financial Statements comprise of eligible credits as per the relevant provisions of the CGST Act. Ineligible credits, if any, must be either capitalized or expensed off depending on the nature of the ITC. The differences in the reconciling of items or in case of ineligible credits, if material, will affect the true and fair view of the Financial Statements.

## **3.5 GST Cash Balances**

GST cash balances as provided in the books of accounts are to be reconciled with the electronic cash balances before finalisation of accounts.

Differences arise between GST cash ledger and the books of accounts in the following cases:

- (a) TDS/ TCS credits received from customers not accounted properly in the books of accounts.
- (b) Cash paid on account of any demand of self-assessment during annual return filing, but payment not properly dealt with in the books of accounts.
- (c) Amount paid on account of any demand which has been properly dealt with in the books of accounts (debited to rates and taxes) but relevant form has not been filed in the GST portal to offset the liability.

### 3.6 Disclosure of GST liability/ GST asset in the Financial Statements

The GST input credit balances and output liability shall be allowed to be off-set when the entity has legally enforceable right to set-off the recognized amounts. The excess of input credit over output payables shall be disclosed as part of other current assets and excess of output liability over input credits shall be disclosed as other current liabilities. If the right to off-set is not statutorily available, then the same shall be disclosed as gross numbers i.e. output liabilities will be shown as current liabilities and input credit shall be shown as other current assets.

**Example:** If a company has CGST input credit and SGST payable then the same are to be disclosed separately as they are not allowed to be set-off under GST laws.

## LIABILITIES

### 3.7 Trade Payables

During verification of trade payables, balances in the balance sheet, the auditor should necessarily verify the GST provisions for the purpose of allowability of input tax credit. The auditor should verify the following from GST perspective for finalisation of accounts.

- (a) In case of foreign creditors, particularly service vendors, the auditor should verify the impact of import of services and where applicable should review whether RCM has been properly discharged.
- (b) For domestic creditors, review of payment is *sine qua non* as ITC claimed must be reversed in case payment to the creditor is not made within a period of 180 days from the date of invoice and necessary interest to be provided on such reversal. Auditor must also ensure that ITC so reversed is reclaimed when the payment is made to the creditor.
- (c) In case of e-commerce companies, provisions relating to TCS have to closely monitored and discharging of liability should be done on a periodic basis as envisaged by the GST Act read along with relevant rules.

# Statement of Profit and Loss

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## REVENUE

### 4.1 Revenue

During the course of verification of the credit items in the statement of profit and loss, the auditor should necessarily map the revenue as per books with the GST returns. The turnover or outward supply disclosed in the statement of profit and loss should normally tally with the turnover reported in FORM GSTR-3B and FORM GSTR-1. However, invariably there will be differences and it is incumbent for an auditor to reconcile the differences as per GST returns with the books of accounts and ensure that there are no material or unexplained differences.

The following items would generally form part of reconciliation between books and GST returns:

- (a) Turnover of each registration in case of multiple registrations.
- (b) Supply between GSTIN under same PAN (stock transfers / Cross Invoicing).
- (c) Activities treated as supply even if made without consideration (deemed supplies).
- (d) Classification of supply under various Chapters (HSN Classification).
- (e) Impact of discounts on GST.
- (f) Impact of GST on advance received.
- (g) Exchange rate impact on turnover.
- (h) Non-GST supplies (e.g. High sea sales) – [Refer Schedule III of CGST Act.].
- (i) Sales promotion schemes: Free supplies (FOC) and buy one get one offer.
- (j) Recovery/ reimbursements of expenses incurred.
- (k) Adjustments required as per Accounting Standards.
- (l) Adjustments required as per Indian Accounting Standards.

### **4.1.1 Turnover of each registration in case of multi-location/ multi-registration**

Financial Statements are prepared on a consolidated basis for an entity as a whole. From the perspective of GST, an entity can have multiple GSTINs on account of following reasons:

- (a) Operations in multiple States.
- (b) Multiple registrations within the same State.
- (c) Registrations mandated within the same State i.e. SEZ/ DTA locations etc.

The turnover of each registration is to be consolidated and compared with the turnover disclosed in the Income Statement. The collation of data from the books of accounts maintained by the taxpayer in the case of pan India service contracts may be a complex exercise, if the percentage of completion method is applied to the contract as a whole and not to the services rendered by individual units with distinct GSTINs. The auditor should review the data provided for each registration to ensure proper disclosure in registration-wise returns as this may lead to penal consequences in case of any material discrepancies in the disclosures made.

#### **Action Points**

The auditor should review the GSTIN-wise returns filed with GST authorities in FORM GSTR-1 and ensure that the data presented are appropriate. The auditor should also understand the methods, processes and controls around preparation of data obtained for different registrations.

### **4.1.2 Supply between GSTIN of same PAN**

The auditor should verify the supplies made between various registrations outside the State to evaluate, if the supplies made are subjected to GST and whether liability has been discharged for the same.

#### **Action Points**

Such supplies will not get reflected in the turnover as per financial statements. The auditor can verify the completeness of the same by cross verifying the supplies with the e-way bills generated by the entity. The auditor should also verify the sales/ stock transfer registers generated out of the ERP to review the completeness and to provide for the actual liability (if any)

on these supplies. Perform a cross-reconciliation between the outward supplies declared in FORM GSTR-1 of the supplying branch and the inward credits reflecting in FORM GSTR-2B of the receiving branch to review completeness and ensure correct tax discharge.

### **4.1.3 Activities treated as supply, even if, made without consideration**

The auditor should verify whether GST liability has been discharged and proper disclosure been made in the books of accounts. Activities treated as supplies without consideration can be verified from the various Notes/ Schedules and also during the course of audit, which may not form part of financial statements. The following are generally considered as deemed supplies under GST Act.

#### **(a) Supply of services between related persons**

The supply of goods or services or both between related persons or distinct persons, as well as the import of services by a taxable person from a related person or from any of his other establishments outside India, when made in the course or furtherance of business, without any consideration will be treated as a supply. In the case of such imports, it will attract GST liability under the Reverse Charge Mechanism (RCM).

**Example:** ABC Inc. incorporated in the US is the holding company of B Ltd. (subsidiary) in India. Services/ recharges (IT Implementation etc.) are imported by B Ltd. from ABC Inc. without any consideration. GST should be paid by B Ltd. on reverse charge basis.

#### **(b) Permanent Transfer of Business Assets where ITC has been availed on such assets**

Permanent transfer or sale of business assets on which input tax credit has been availed will also be treated as supply, even if, no consideration is received. GST is applicable on sale of business assets only. It does not apply to the sale of personal land/ building and other personal assets.

“Permanent transfer” means transfer without any intention of receiving the goods back.

### Action Points

Generally, transactions between related persons without any considerations do not reflect in the Financial Statements of the entity. However, the auditor has to satisfy himself based on the discussion with management, understanding of the organisation during the course of audit that there are no transactions of such nature.

The auditor should verify the transactions during the year to understand, if any such deemed supplies have taken place during the year. The auditor may also consider the disclosure made under Accounting Standard 18 or Ind AS 24 – “Related Party Disclosure” to cross check and to ensure that no transaction is missed out from verification for GST compliance. In case such supply had taken place, the auditor should ensure that the GST liability on the said transactions along with interest, if any, are accounted and discharged as per the provisions of the GST Act. In case the same is not done and if the tax payable is material, it may affect the ‘True & Fair’ view of the Financial Statements. Due care must be exercised during finalisation and audit of the Financial Statements.

#### 4.1.4 Classification of Supply under various Chapters (HSN Classification)

In case of an entity operating in multiple products, the entity must discharge its tax liability based on the Chapter heading under which such goods are classified. There can be cases where the goods can be defined under multiple Chapters. Similarly, there can be goods which can have different duty structure within the same Chapter. The entity may inadvertently choose a lower rate which will result in short recovery and payment of GST.

**Example** – All items under Chapter 64 (Footwear, gaiters and the like: parts of such articles) are taxed at 18% IGST or 9% CGST + 9% SGST, except,

Footwear with retail sale price not exceeding Rs.2500 per pair which is subject to 5% IGST or 2.5% CGST + 2.5% SGST, if such sale price is marked or embossed on the footwear itself.

This difference in rate must be properly captured in the stock item master and the auditor must ensure that footwear taxable at 18% have not been taxed at 5%.

**Action Points**

The auditor must satisfy himself that the entity has classified according to the relevant Chapter the goods dealt by it. In case there is a difference in the Chapter heading, GST liability may vary and, if material, would affect the true and fair view of the Financial Statements.

**4.1.5 Impact of Discounts on GST**

The Finance Act, 2026 has introduced an amendment to substitute Section 15(3)(b) of the CGST Act, significantly simplifying the treatment of post-supply discounts. Under the amended Section 15(3), the value of supply shall not include any discount given:

- (a) before or at the time of supply, if such discount has been duly recorded in the invoice issued in respect of such supply; and
- (b) after supply, if a valid credit note has been issued under Section 34 of the CGST Act and the input tax credit attributable to the discount has been reversed by the recipient.

The amended provision completely removes the earlier requirements of establishing a pre-existing agreement and linking the post-supply discount to specific invoices. The deductibility of a post-supply discount is now contingent solely on the issuance of a credit note under Section 34 and the corresponding ITC reversal by the recipient, making compliance considerably simpler for trade discount schemes, volume-linked rebates and year-end settlement arrangements.

The position under the amended provisions can be summarised as follows:

<b>Discount offered</b>	<b>Whether discount can be reduced from taxable value of supply</b>
At the time of or before the supply and the fact is recorded in the invoice.	Yes; S.15(3)(a)
After supply, with a valid credit note issued under Section 34 and ITC reversal by recipient	Yes; S.15(3)(b) as amended
After supply, without a credit note or without ITC reversal by recipient.	No

The auditor should review the nature of discounts provided by the entity and assess their impact on GST liability in light of the above provisions. Where post-supply discounts have been claimed as deductions from taxable value, the auditor should verify that a valid credit note under Section 34 has been issued and that the recipient has reversed the corresponding ITC.

**Note on operative law:** The enforcement date for the Finance Act, 2026 amendment to Section 15(3)(b) has not yet been notified. Until officially notified and made effective, the pre-amended provision — which requires a pre-existing agreement entered into at or before the time of supply and specific invoice-level linking in addition to ITC reversal by the recipient — continues to remain operative. Auditors must therefore apply the pre-amended provision for all periods prior to the notified date of the amendment.

### Action Points

The auditor must verify the nature of discounts provided by the entity to its customers and review the corresponding impact on the GST liability. In case, there are material discrepancies, then the auditor may have to record the same in his report, if the entity does not pass necessary rectification entries during finalisation of Financial Statements.

### 4.1.6 Impact of GST on Advances received

While finalizing the books of accounts, the auditor should review the impact of GST liability on advances received and whether the said liability has been discharged as per the provisions of the GST Act.

Generally, advances can be classified as set out below:

- (a) **Security Deposits:** These are utilised by the supplier only on occurrence of a contingent event. In case such even does not occur, then the security deposit will be refundable to the customer on completion or according to the terms and conditions of contract agreement. Generally, such deposits are not taxed under GST. However, in case of happening of the contingent event and consequent adjustment of security deposits, the same shall be taxable under GST.
- (b) **Retention Money:** Retention money is the sum of money (generally a percentage of the contract value) held back by the customer as a safeguard for any defective or non-conforming work by the contractor.

As per the GST law, the contractor is required to discharge his GST liability on the whole invoice value, which also includes retention money kept by the customer.

- (c) **Advances for materials to be supplied:** These are not subject to GST liability at the time of receipt of the advance.
- (d) **Advances for services to be rendered in future:** Any advance received for services to be rendered in future, is liable to GST on the date of receipt of the same. Thus, the receiver of the advance has to discharge the GST liability on the advances received by him.

### Action Points

The various types of advances listed above, will have different impact on GST. The auditor should carefully investigate every type of advance and review its standpoint from the perspective of GST and conclude before finalizing the financial statements.

### 4.1.7 Exchange rate impact on turnover

Supplies of goods and services invoiced in foreign currency are recorded in the books of accounts at the exchange rate prevailing on the date of supply. Accounting Standard 11 or Ind As 21 – “The Effects of Changes in Foreign Exchange Rates” also allows the use of an average rate (say for a week or month) that approximates the actual rate on the date of the transaction.

As per GST, the exchange rate to be adopted is the rate notified under section 14 of the Customs Act in case of goods. This will lead to difference between books and GST returns.

The auditor must reconcile the turnover as per books with the figures reported in FORM GSTR-1 and ensure that there are valid reasons/ explanations for the various line items in the Reconciliation Statement.

It must be noted that as per GST Rules for export services, the rate to be adopted is as per generally accepted accounting principles (GAAP), which effectively means one can adopt the same rate as recorded in the books of accounts, provided there is no significant variation.

### Action Points

An auditor must review the reconciliation for revenue as per the Financial Statements with that of the amounts declared in GST, on account of using

different exchange rates before forming his opinion on the financial statements.

### 4.1.8 Non-GST supplies

An auditor while finalising the books of accounts of an entity, has to review if any supplies are made outside the purview of GST law and if so has to review the completeness of the said transactions by various auditing approaches to conclude on the Financial Statements.

Generally, the following items are considered to be out of the scope of GST:

- (a) Services by an employee to the employer in the course of or in relation to his employment.
- (b) Supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering India.
- (c) Supply of warehoused goods (warehoused goods as defined in the Customs Act) to any person before clearance for home-consumption.
- (d) Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption.

For the exhaustive statutory list of entries (including employee-employer services, court/tribunal functions, actionable claims, and high sea sales/merchant trading), reference may be made directly to Schedule III of the CGST Act, 2017.

Although the above items do not have any impact on GST liabilities, input tax credit availed, if any, must be reviewed for allowability and if not allowable should be transferred to the profit and loss account.

While Schedule III transactions do not attract output GST, their impact on common Input Tax Credit (ITC) reversal under Section 17(3) varies: a mandatory proportionate reversal under Rule 42 and 43 is required only for Paragraph 5 (Sale of land/completed building) and Paragraph 8(a) (Supply of customs warehoused goods before home consumption) as they are deemed "exempt supplies" for credit allocation, whereas all other items (such as employee services, high sea sales, and merchant trading) are explicitly excluded and require no ITC reversal.

### Action Points

The auditor should conclude on the completeness of the above transactions by reviewing various agreements with the customers and related parties and significant transactions, if any. If any transactions are present, then the impact on the said transactions on input tax credit/ liability discharged are to be accounted appropriately.

### 4.1.9 Sales Promotion Schemes: Free supplies/ samples (FOC) and buy one get one offer

Promotional activities taken by the entity must be reviewed as part of finalisation of accounts. Following types of activities are covered under sales promotions schemes:

- (a) Free samples and gifts.
- (b) Buy one get one offer.
- (a) **Free samples and gifts:** It is a general practice in certain businesses to distribute free samples and gifts to customers as part of sales promotion activities. These free samples or gifts, which are supplied free of cost, are not treated as a supply under GST when made without consideration to unrelated persons. However, in terms of Section 17(5)(h) of the CGST Act, 2017, the input tax credit (ITC) availed on the inward supply of these items cannot be claimed and must be reversed.
- (b) **Buy one get one offer:** Similar to free gifts, it is an accepted business practice in the case of retail and wholesale entities to offer marketing schemes – buy one get one free; buy a product “x” get product “y” for free. This must be distinguished from the free samples/gifts mentioned above. As clarified vide Circular No. 92/11/2019-GST, this is not a free supply of an individual item but rather a supply of two or more goods for a single combined price. Its taxability is determined based on whether the rate satisfies the criteria of a Composite Supply or a Mixed Supply under Section 8, and no reversal of ITC is required on the inputs used.

### Action Points

The auditor should review the nature of these transactions by examining marketing expense ledgers and sample dispatch logs. For free samples and

gifts, the auditor must check whether the corresponding input tax credit has been appropriately reversed and dealt with in the books of accounts. For buy one get one offers, the auditor should review the invoicing pattern to ensure the combined transaction value is appropriately taxed under composite/mixed supply rules, while ensuring that the entity has not mistakenly reversed any eligible ITC.

### **4.1.10 Expenses reimbursement**

Some entities seek reimbursement of expenses incurred (at actuals) for supply of services, by raising a debit note and not charging GST on the same. This is an incorrect practice. The logic that there is no element of profit and the expenses are backed by proper supporting documents, does not make the claim free from the applicability of GST. The auditor must exercise due caution while checking the same and ensure that a liability is created in case GST has not been charged on the amount claimed as reimbursement. However, when reimbursement is sought for payments mandated by law, the same will not be subject to GST. For instance in case of audit firms, out of pocket expenses like travelling/ conveyance incurred and claimed are liable to GST, whereas reimbursement sought for payment to MCA towards filing fees, will not be subject to GST.

#### **Action Points**

The auditor should verify, if any transaction falls under reimbursement category and should review the GST implication on the same. Generally, all reimbursement will attract GST unless the reimbursement is on account of pure agents as defined in Rule 33 of CGST Rules.

### **4.1.11 Accounting Standard adjustments**

Entities preparing their Financial Statements following Generally Accepted Accounting Principles as applicable under Companies Act, 2013 may adopt revenue recognition policy which may vary from the provisions of the GST Act and Rules prescribed thereunder.

Here are some examples of policies which can have impact on GST liability:

- (a) In case of supply of goods, transfer of risk and reward may not happen at the year end, However, the entity will raise a bill for the goods once the same is sent out of factory. The revenue will be accounted only in the subsequent year's income statement, when the risk and rewards

pass to the buyer. For GST purpose, the same will form part of outward supply and liability to be discharged accordingly.

- (b) Revenue from rendering of services is recognised either on completion of services basis or on percentage of completion method. However, for discharging the liability under GST, the value of outward supply must be disclosed (i) in the return for the month in which an advance, if any, is received or (ii) in the return for the month in which an invoice/ progressive billing is raised as per the time frame stipulated in the Act. This will invariably lead to a difference between turnover as per books and the value of outward supply disclosed in the GST returns and will be a line item in the reconciliation statement.
- (c) Revenue from construction contracts are accounted in the Financial Statements based on percentage of completion whereas the same is not the case under GST Act and Rules.

### Action Points

The auditor should review the accounting policies adopted by the entities. If there are any adjustments on account of accounting policies/ Standards which are not directly relatable to the GST rules, then auditor should ensure that the adjustments are properly kept on record as part of reconciliation. Any liability on account of the said adjustments are to be discharged at the appropriate time as prescribed under the GST Act.

### 4.1.12 IND AS Adjustments

The company preparing its Financial Statements following IND AS principles as applicable under Companies Act, 2013 may adopt accounting policies which may not map with the provisions of the GST Act and Rules made thereunder.

Here are some examples of policies which can have impact on GST liability:

- (a) An entity may determine its functional currency to be a foreign currency while presenting its financial statements in Indian Rupees (INR). For the purpose of GST, outward supplies must be valued using the CBIC exchange rates notified under Section 14 of the Customs Act, 1962, in force on the date of the time of supply. Conversely, in the books of accounts, transactions may be translated using average or spot exchange rates in terms of Ind AS 21. This variation in translation

methods results in a permanent valuation difference between book revenue and GST returns.

- (b) Revenue recognition as per IND AS-115 states that revenue shall be postponed to subsequent periods, if the stipulated conditions are not satisfied within the same year. Eg. If the goods are sold along with a warranty clause, then revenue in relation to the warranty period cannot be accounted immediately and has to be postponed to the subsequent period. However, as per the provisions of GST Act for goods sold, invoices are to be raised within the timeline prescribed by the Rules and tax discharged in the subsequent month.

### Action Points

The auditor should review the accounting policy adopted by the entity. In cases where the accounting treatment mandated by the Accounting Standards is not in consonance with those dictated by the GST Act/ Rules, then the auditor should ensure that the adjustments are meticulously kept on record as part of reconciliation. Any liability on account of the said adjustments are to be discharged at the appropriate time as prescribed under the GST Act.

## EXPENSES

### 4.2. Expenses

During verification of the debit items in the statement of profit and loss, the auditor should review the impact of GST on various expenses and ensure that the same have been properly accounted for. This will ensure that the Financial Statements are not materially misstated for ineligible or wrong credits availed. An entity should follow a robust system of maintaining the vendor masters along with the GSTIN of the vendor to ensure that the input tax credit is taken only on eligible items. The entities should also satisfy the following criteria to take input credits:

- (a) The entity should be in possession of the tax invoice or debit note, or any other document issued by the supplier.
- (b) It should have received the goods or services or both.
- (c) The tax charged in respect of supply has been paid to the Government by the vendor.

- (d) The entity should have furnished the returns under section 39.
- (e) Such ITC must appear in their GSTR-2B.

Claim of ITC without fulfilling the above conditions can result in disputes and in turn lead to penalties and interest which may affect the Financial Statement at large.

The auditor needs to look into the following matters for the purpose of review of expenses with reference to GST Act and Rules made thereunder:

- (a) Blocked Credits.
- (b) Expenses on which GST is payable of reverse charge basis.
- (c) Import of Services.
- (d) Recoveries from employees.

### 4.2.1 Blocked Credits

Following are the list of blocked credits under section 17(5) of the GST Act in relation to statement of profit and loss:

- (a) Supply of food and beverages, outdoor catering, health services, life insurance and health insurance.

GST on supply of food and beverages is not allowed as input tax credit as the same is for personal consumption and not in furtherance of business or subsequent taxable supply.

**Example:** ABC Ltd. arranges refreshments/ tea/ coffee as part of staff welfare to its employees. It will not be able to claim ITC on the same.

**Exception:** ITC would be available when inward supply of goods or services or both of a particular category is used by a registered person for making an outward taxable supply of the same category of goods or services or both or as an element of a taxable composite or mixed supply.

- (b) Membership Fees of a club, health and fitness centre, travel benefits for employees.

GST on membership fees is not allowed as input tax credit as the same is in the nature of personal consumption and not in the furtherance of the business or subsequent taxable supply.

**Example:** Mr. A, a Managing Director has taken membership of a club and the company pays the membership fees, ITC will not be available to the company or Mr. A.

**Example:** A Ltd. offers a travel package to its employees for personal holidays. ITC on GST paid by A Ltd. for the holiday package will not be allowed.

- (c) ITC on personal use of assets/ goods/ services

ITC will not be available for the goods and services used for personal purposes.

- (d) Maintenance of vehicles used for transportation of passengers.

GST paid on servicing and maintenance of such motor vehicles and aircraft will not be allowed as input tax credit as the same are explicitly blocked under section 17(5) except in case of vehicles with a seating capacity of more than 13 persons (including driver) or in cases of exclusions provided in the said section.

### Action Points

The auditor while reviewing the expenditure lines must ensure that the entity has not inadvertently absorbed blocked tax credits into its asset ledgers or expense buckets. If any ineligible credits are identified as availed in FORM GSTR-3B, the auditor must ensure they are properly reversed along with applicable interest under Section 50, and the tax cost is correctly expensed off to the Statement of Profit and Loss to present a true and fair view of the financial finalisation.

### 4.2.2 Expenses on which GST is payable on reverse charge basis

As per Section 9(3) of the CGST Act, the Government has notified specific categories of goods and services on which GST is to be paid by the recipient on a reverse charge basis, irrespective of whether the supplier is registered or not. Additionally, under Section 9(4) of the CGST Act, certain categories of supplies received by specified registered persons from unregistered suppliers are also subject to GST on reverse charge basis.

The following is an illustrative list of goods and services on which GST is payable under reverse charge:

## Handbook on Finalisation of Accounts with GST Perspective

S No	Nature of Supply	Supplier	Recipient
1	Supply of used vehicles, seized and confiscated goods, old and used goods, waste and scrap	Central Government, State Government, Union Territory or a local authority	Any registered person
2	Supply of cement (from unregistered supplier)	Any unregistered person	Promoter in Real Estate
3	Services of Goods Transport Agency (GTA)	Goods Transport Agency (GTA)	Any factory, society, co-operative society, registered person, body corporate, partnership firm, casual taxable person located in the taxable territory
4	Legal Services by advocates	An individual advocate including a senior advocate or firm of advocates	Any business entity located in the taxable territory
5	Services supplied by a director of a company or body corporate	A director of a company or a body corporate	The company or a body corporate located in the taxable territory
6	Services by way of transfer of development rights or Floor Space Index (FSI) (including additional FSI) for construction of a project	Any person	Promoter in real estate

## Statement of Profit and Loss

7	Security services (supply of security personnel)	Any person other than a body corporate	Any registered person located in the taxable territory
8	Renting of immovable property by Government or local authority	Central Government, State Government, UT or local authority	Any registered person
9	Renting of immovable property (residential or otherwise) by an unregistered person	property (residential or otherwise) by an unregistered person Any unregistered person	Any registered person

**Note:** The above list is illustrative and not exhaustive. Reference may be made to Notification No. 4/2017-Central Tax (Rate) dated 28.06.2017 (as amended) for notified goods and Notification No. 13/2017-Central Tax (Rate) dated 28.06.2017 (as amended) for notified services under Section 9(3). Entries under Section 9(4) are governed by separate notifications issued from time to time.

### 4.2.3 Import of Services

As per the GST provisions import of service in the course or furtherance of business will be subject to GST on reverse charge basis.

For a transaction to be considered as import of services, the following criteria have been prescribed by the IGST Act:

- (a) Supplier of service is located outside.
- (b) Recipient of service is located in India.
- (c) Place of supply of service is in India.

**Example:** ABC & Co., an architecture consultancy firm based in the USA, provided services to XYZ & Associates, a Chartered Accountant firm in India, for designing its office at Bangalore for a consideration of ₹ 10,00,000. Since

all three conditions above are satisfied, this constitutes an import of services and XYZ & Associates is liable to pay GST on reverse charge basis.

### Action Points

The auditor should scrutinise the statement of profit and loss and review all expense heads for services which may be liable to GST under reverse charge — both in respect of notified domestic supplies under Sections 9(3) and 9(4) of the CGST Act, and in respect of import of services under the IGST Act. The auditor should further review the reconciliation between RCM liabilities and import of services disclosed in FORM GSTR-3B and the figures appearing in the financial statements, to ensure completeness and accuracy of the data submitted.

### 4.2.4 Recoveries from employees and perquisites to employees -Free Gifts

It is a common practice in trade and industry for entities to provide certain facilities and benefits to their employees, and to recover a part of the cost thereof from them. These typically include subsidised food/canteen facility, sponsorship or membership fees, medi-claim expenses, uniforms, shoes, equipment, subsidised cab services, guest house facilities, etc.

Where recoveries are made from employees for the provision of such facilities, the same are liable to GST, as the recovery of consideration from the employee gives rise to a taxable supply from the employer to the employee. Reference may be made to CBIC Circular No. 172/04/2022-GST dated 06.07.2022, which provides detailed guidance on the taxability of various employer-employee transactions.

However, where the provision of a particular service is mandated by a statute and the employer makes a recovery from the employee, the same shall not attract GST. For instance, canteen services provided by a factory to its workers, which are mandated under the Factories Act, 1948, will not be subject to GST even if partial recovery is made from the employees.

**Perquisites under employment contract:** As clarified by CBIC Circular No. 172/04/2022-GST dated 06.07.2022, perquisites provided by an employer to its employees in terms of the contractual agreement or the offer letter — such as rent-free accommodation, company car, etc. — are treated as a part of the employee-employer relationship and are generally not subject to GST, irrespective of their value.

**Gifts to employees:** As per the proviso to Schedule I Entry 2 of the CGST Act, gifts made by an employer to an employee not exceeding ₹ 50,000 in value per employee per financial year are not treated as a supply and accordingly are outside the ambit of GST. However, where the value of gifts exceeds ₹ 50,000 per employee per financial year, the entire value (not merely the excess) becomes subject to GST. In such cases, the entity must also reverse the input tax credit availed on such goods or services used for gifting purposes, as per Section 17(5)(h) of the CGST Act.

### **Action Points**

The auditor should verify the statement of profit and loss for recoveries made from employees and assess the GST liability thereon, distinguishing between statutorily mandated facilities and voluntary or contractual ones. The auditor should also confirm that perquisites provided under the employment contract have been correctly treated as outside the scope of GST, verify whether gifts to any employee have exceeded ₹ 50,000 in the year and GST has accordingly been discharged, and check that input tax credit has been reversed under Section 17(5)(h) wherever applicable.

### **4.2.5 Input Service Distributor - mandatory requirement for multi-GSTIN organisations**

From financial year 2025-26 onwards, the distribution of common input tax credit on input services through the Input Service Distributor (ISD) mechanism has become mandatory, pursuant to the substitution of Section 20 of the CGST Act by the Finance Act, 2024 (notified w.e.f. 01.04.2025). Prior to this amendment, the ISD mechanism was optional and many multi-GSTIN organisations were distributing common input service credits informally through a cross-charge arrangement. With the mandatory ISD regime now in force, cross-charge can no longer be used as a substitute for distributing common input service credits across GSTINs.

All organisations with multiple GST registrations are accordingly required to obtain ISD registration and distribute common ITC on input services only through the ISD mechanism in accordance with Rule 39 of the CGST Rules, 2017.

Where common ITC is not distributed through ISD and is instead availed entirely in one GSTIN, such credit is legally susceptible to disallowance — either in full or at least to the extent of the undistributed portion pertaining to

other GSTINs. This would result in a tax liability along with interest and could have a material impact on the true and fair view of the financial statements.

### **Action Points**

The auditor should verify whether the entity has multiple GST registrations and, if so, confirm that ISD registration has been obtained and that common input tax credit on input services has been identified and distributed through the ISD mechanism in accordance with Section 20 of the CGST Act read with Rule 39 of the CGST Rules. The auditor should also check that any prior cross-charge arrangement for common credits has been discontinued from FY 2025-26 and that the distribution formula and timelines prescribed under Rule 39 have been duly complied with.

# Companies Auditor's Report Order (CARO) 2020 and Tax Audit Report

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GST has a critical and far reaching impact on various items of Financial Statements as discussed in the earlier Chapters. In addition to the balance sheet and statement of profit and loss account, it has impact on CARO and tax audit reports.

## 5.1 Companies Auditor's Report Order

### 5.1.1 Inventory [Clause 3(ii)]

While reporting under this clause, the auditor should ensure that ITC availed on the inventory destroyed, damaged, lost, etc. have been reversed in the books of accounts.

### 5.1.2 Undisputed statutory dues [Clause 3(vii)(a)]

Whether the company is regular in depositing undisputed statutory dues including provident fund, Employees' State Insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated.

As per ICAI Guidance Note on Companies Auditor's Report Order (2020) the following are examples of the wordings which can be used in relevant situations:

- (i) "undisputed statutory dues including provident fund, or employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, goods and service tax cess have been regularly deposited by the company with the appropriate authorities in all cases during the year".
- (ii) "undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of

excise, value added tax, goods and service tax, cess have generally been regularly deposited with the appropriate authorities though there has been a slight delay in a few cases”.

- (iii) “undisputed statutory dues including provident fund, employees’ state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, goods and service tax, cess have not generally been regularly deposited with the appropriate authorities though the delays in deposit have not been serious”.
- (iv) “undisputed statutory dues including provident fund, employees’ state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise , value added tax, goods and service tax, cess have not been regularly deposited with the appropriate authorities and there have been serious delays in a large number of cases”.

### **Action Points**

The auditor must review whether the dues paid and returns filed by the entity are within the time limits prescribed.

### **5.1.3 Disputed Statutory Dues [Clause 3(vii)(b)]**

Where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax, goods and service tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.

This Clause requires that in case of disputed statutory dues, the amounts involved should be stated along with the forum where the dispute is pending. Therefore, even minor amounts would be required to be reported under this Clause. The amount should be reported in a manner so that the reader is able to understand the dispute and the amount involved therein.

### **Action Points**

The auditor should review the status of past assessments. The auditor should obtain a confirmation and representation from management and review the probability of the issues being decided in favour of the entity depending on the facts of the case.

## Chapter 6

### FAQs

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**Q.1. During GST Annual Returns there were adjustments in relation to ITC, output tax, debit notes and credit notes. These adjustments were not part of the audited financial statements. Whether such adjustment can be taken in next year accounts?**

**Ans.** The finalisation of accounts with respect to GST perspective is to avoid/ reduce any material differences arising on account of GST audit/ adjustments. After finalizing Financial Statements, if material differences on account of GST Annual Returns are identified, then the same should be properly adjusted or incorporated in the subsequent year's Financial Statements. The same would warrant a separate disclosure as prior period item, if considered material.

**Q.2. How are interests and penalty on late payment of GST treated in finalisation of accounts from a GST perspective?**

**Ans.** Penalty on late payment and interest are to be shown as part of rates and taxes in the other expenses and charged to statement of profit and loss.

**Q.3. If GST audit annual return is finished after final audit of financial accounts is completed and audit report is received, should the audited accounts be revised?**

**Ans.** As of now there is no option to revise the accounts already finalized and adopted in case of companies and accounts filed under income tax law for non-corporates. Any adjustments on account of GST annual returns shall be adjusted in the subsequent period only.

**Q.4. How to compute GST liability on import of service and what exchange rate to consider? What is the due date to discharge GST liability?**

**Ans.** The rate of exchange for determination of value of taxable services shall be the applicable rate of exchange determined as per the generally accepted accounting principles for the date of time of supply of such services. The liability is to be disclosed in FORM GSTR-3B

and discharged with other liabilities. The due date for the same is 20<sup>th</sup> or 22<sup>nd</sup> of the subsequent month.

**Q.5. GST bills raised in one financial year and GST TDS made by the debtors in the next (another) financial year. When should the GST TDS be accounted?**

**Ans.** GST TDS must be accounted only when the same is received in the GST portal i.e. when the recipient/deductor files FORM GSTR-7. The due date for FORM GSTR-7 is generally 10<sup>th</sup> of the subsequent month of payments made to suppliers.

**Q.6. What kind of note or provision is required in case of export of services at zero rate GST?**

**Ans.** No note is required if Letter of Undertaking (LUT) has been filed prior to export of services. However, if export has taken place without filing LUT, the GST authorities may direct the entity to discharge GST liability on the same. The entity can claim back the same as refund by preferring an application in this regard. The auditor must ensure that a provision is made for the same along with interest. In case the entity fails to make a provision, the auditor must exercise professional judgement to modify his opinion.

**Q.7. Can a supplier of renting of motor vehicle service who is charging GST @ 18% avail ITC on purchase of motor vehicles? Whether ITC is available when the supplier purchases motor vehicles and uses it in his renting of motor vehicle business?**

**Ans.** Yes. In terms of section 17, as an exception to ineligible ITC, any GST paid on motor vehicles will be allowed as ITC, when the output tax charged is 18%, if the same is used for making further taxable supply i.e. for renting of motor vehicles.

**Q.8. Whether refund of input tax credit on capital goods is allowed in case of export of services without payment of tax?**

**Ans.** Input tax credit on capital goods is not allowed as a refund as per the GST provisions.

**Q.9. E-way bill was generated wrongly, and penalty has been paid through cash ledger to get the vehicle released from detention. However, FORM GST DRC-03 has not been filed due to dispute**

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**and the dealer has made an appeal against such penalty. Whether is it proper to show such disputed payments in current assets?**

**Ans.** The penalty paid on account of dispute shall be shown separately as loans and advances or other current assets. This may also warrant a disclosure as part of contingent liability as the said amount is not provided in the books of accounts.

**Q.10. An entity has not received goods as on 31<sup>st</sup> March for which invoice from the vendors are dated before 31<sup>st</sup> March. Whether input tax can be taken in the present scenario?**

**Ans.** Section 16(2)(b) of the CGST Act, mandates that input tax credit in respect of any supply of goods/ services shall be available to the registered person, after he has received such goods/ services. Therefore, input tax credit cannot be taken in the present scenario.

**Q.11. While concluding statutory and tax audit of corporate, is it the responsibility of statutory auditor to examine all direct and indirect tax related compliance including verification and reconciliation of GST input credit availed as per books and as per monthly FORM GSTR-2B?**

**Ans.** As per Standards on Auditing (SA) – 315, the auditor should assess the risk of material misstatement through understanding the entity and its environment. The auditor should also review the compliance of other laws and regulations which impact the entity and should consider the impact in his audit report.

**Q.12. Can an entity utilise the GST TDS to pay the RCM liability, late fees or interest?**

**Ans.** GST (TDS) deducted at source by the recipient is credited into electronic cash ledger, which can be used for payment of liabilities on account of RCM, late fees or interest.

**Q.13. The credit period agreed between parties is more than 180 days. Whether ITC must be reversed even in case of increased credit period, if not paid within 180 days?**

**Ans.** An entity should reverse the input tax credit taken if the vendor is not paid within 180 days of invoice even if the credit period agreed between the parties are more than 180 days.

As per section 16 of the GST Act, where a recipient fails to pay to the supplier of goods or services or both, other than the supplies on which tax is payable on reverse charge basis, the amount towards the value of supply along with tax payable thereon within a period of one hundred and eighty days from the date of issue of invoice by the supplier, an amount equal to the input tax credit availed by the recipient shall be paid by him along with interest payable under section 50, in such manner as may be prescribed.

Hence, it is clear that even in cases where the agreed credit period is more than 180 days, the input credit availed should be reversed as per section 16 of GST Act.

**Q.14. Whether deduction from employee's salary towards penalty for causing deliberate damages due to wrong handling of machinery, is liable for GST levy?**

**Ans.** The recoveries on account of default by the employee shall not be considered as supplies under GST as the employer-employee relationship subsist and hence it will not attract GST levy.

**Q.15. Whether ITC is available on repairs and maintenance of building?**

**Ans.** As per section 17 of CGST Act, goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business is not allowed as part of input tax credit. As an exception to the above, construction including re-construction, renovation, additions or alterations or repairs to the extent not capitalised can be taken as input.

**Q.16. While accounting year end provisions for services like rent, audit fee, retainer fees, etc., should it be inclusive or exclusive of GST component?**

**Ans.** Section 16 of the GST Act, stipulates conditions for claiming input tax credit. As per the provisions unless the goods or services are received by the entity along with the tax invoice or any other tax documents input tax credit is not available to an entity.

Input tax credit should not be accounted in case of year end entries as there are no valid tax invoice / documents.

**Q.17. Whether ITC can be claimed on GST paid under RCM?**

**Ans.** Any tax paid under RCM can be taken as an input tax credit as long as the same is not explicitly blocked under section 17 of the GST Act.

**Q.18. Whether RCM is attracted on transactions of Cost Sharing (Reimbursement of Expenses) between HO foreign entity and subsidiary in India?**

**Ans.** RCM is payable on cost sharing transactions, as the same would be considered as import of services.

**Q.19. Whether GST is to be included in the calculation of closing stock?**

**Ans.** GST should not be included as part of closing stock as GST paid on purchases lying in closing inventory. The GST component is considered as input tax credit. As per AS-2: "Valuation of Inventories" any recovered/ recoverable duties will not be considered as part of cost of inventory.

**Q.20. What type of ledger should be maintained by the entity for the reversal of ITC?**

**Ans.** There is no specific ledger account for reversal of ITC. The reversal will either be classified as rates and taxes or in case of ineligible credits or it will be added as part of the expenses debited to the statement of profit and loss.

**Q.21. Whether audited Financial Statements are required for the purpose of doing GST Annual Returns & Reconciliation Statements? Whether there can be a case where audit under income tax would not be applicable, but GST Annual Returns & Reconciliation would be applicable?**

**Ans.** Generally, this would not be a case as both tax audit limits and GST annual return limits are on similar lines. However, there may be stray cases where GST may be applicable, e.g. an individual taxpayer receiving the rental income from commercial premises say Rs. 10 crores, such tax payer may not be subject to tax audit.

**Q.22. Is sitting fees paid to directors liable to GST?**

**Ans.** Yes; the company has to pay GST on reverse charge basis on sitting fees paid to directors.





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