


GST Repercussion on Financial Reporting under IND AS Regime

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Abstract

Indian economy witnessed the biggest reform ever seen since independence is the GST introduction and application of accounting standards converged with Global standards, namely, IND AS. Both GST and IND AS are scorching topics of the period, as taxing goods or services and accounting can be seen as dependent on each other as they go in tandem with each other. Changes can be witnessed in the field of business, finance, accounting and reporting due to the GST move in India along with changes in tax command. Financial information is the primary source of information to the users to know about the performance of the company, which is prepared by considering the guidelines of IND AS and the transaction value is determined by considering GST law. This paper intends to bring light to the area of impact of GST on reporting of financial performance under the IND AS regime by considering GST aspects like an input tax credit, revenue recognition, events treatment etc., for this purpose, both primary and secondary data has been used. Analysis is done by using some statistical tools, test, graphs, and tables. With GST introduction, every business has changed and do with accounting practices; an attempt has been made to trace such changes and their impact.

Keywords: GST, IND AS, ITC, Disclosure, Revenue Recognition, Financial reporting, PPE

Introduction

Financial reports are demanded by the investors, who are the prime virtue for getting information about its performance, financial position, and profitability. The corporates have to report their performance to both internal and external parties by following the guidelines of Indian Accounting Standards, which are converged with IFRS. Financial reports in our country should be prepared by considering IND AS, which has been significantly changed due to the introduction of GST, as it is a destination-based tax system that bring a paradigm shift in the old indirect tax regime by subsuming most of the indirect taxes. Financial Reporting is the movement of information from the private domain to the public domain. The information communicated to the external parties should be in a proper manner. Such a tool for communicating financial information is the financial statements; such financial statements need to be prepared by considering and following guidelines under Indian Accounting Standards, popularly known as IND AS. Due to enforcement of GST law in the Indian economy, its repercussion can be seen in accounting backed by IND AS.

Concepts

1. **GST:** It is an indirect tax that subsumed most of the indirect taxes in India and levied on the supply of goods or services or both. It is a destination-based value-added tax levied by the Govt. of India on all the stages of the production process, which is meant for a refund for all the parties involved in the stages of production except to the final consumer. The burden of the tax finally falls to the ultimate consumers.
2. **IND AS:** Indian Accounting Standards, abbreviated as IND AS, is the accounting standards adopted by the Companies in India issued under the supervision of the Accounting Standard Board. IND AS are the rules according to which accounting statements have to be prepared. They demand minimum levels of disclosure, establish fundamental principles, delineate the meanings of terms, and stipulate how numbers must be calculated.
3. **Financial Reporting:** Financial Reporting refers to the system of preparing and submitting the financial reports disclosing their financial position and performance with necessary details, notes, statements, and other information to different stakeholders.

Need for Study

Transition to GST in India brings not only changes in tax structure but certainly on complete business, finance, accounting, and reporting. Accounting is a language of business that communicates financial information, performance and position of a company to its stakeholders and shareholders, either existing or prospective. Such information is a tool to make financial and investment decisions. Financial reporting, which includes the financial statements, needs to be prepared as per IND AS, which are converged with IFRS to facilitate uniformity, transparency, comparison and meeting global standard requirements. With the primer of GST, the implication of it is not only restricted to taxation. Its implication goes beyond taxation and it fundamentally impacts various aspects of finance, accounting, and reporting and such changes have to be analyzed carefully.

Objectives of the Study

1. To understand the interplay of GST with IND AS accounting.
2. To highlight the repercussion of GST on IND AS financial reporting.
3. To analyze the perception of accountants towards GST implication on IND AS financial accounting.
4. To offer suggestions based on the findings of the study.

Study Hypothesis

H0: There is no significant impact of GST on IND AS Financial reporting

H1: There is a significant impact of GST on IND AS Financial and reporting

Research Methodology

Data Source: The present study is based on the information which is collected by both the type of data such as, Primary data which is collected by distributing a questionnaire to the respondents and by conducting a personal interview. Secondary data is collected from reviewing various articles, newspapers, magazines, books and different websites.

Sampling: For the purpose of achieving the objectives, the present study undertook a sample of 50 respondents, who are the accountants working in selected companies of Bangalore and a convenient sampling technique has been used.

Statistical Tools and Techniques: For the purpose of analyzing the data collected from various sources, certain statistical tools and techniques have been used, such as tables, percentages and Chi-square test. Results and Discussions: The data from the sources have been analysed and the major findings from the analysis are discussed as below. Hypothesis Testing the Chi-square test has been used to test the formulated hypothesis.

Table 1: Impact of GST on IND AS Financial Reporting

Particulars	Observed (O)	Expected (E)	O-E	(O-E) ²
Yes	45	37	08	64
No	05	13	-08	64

n=2	50	15		$\Sigma(O-E)^2$ = 128
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Source: (Field Survey)

Table 2: Test Statistics

Particulars	GST Implication on IND AS Financial Accounting
Chi-Square	5.12
Degree of Freedom	1
Significance level	0.05

The above test shows that the calculated value chi-square 5.12 but the table value of chi-square for the degree of freedom 1 at 95% confidence level is 3.84. So calculated value chi-square is greater than table value i.e. $5.12 > 3.84$. Hence this suggests rejecting the null hypothesis and accepting the alternative hypothesis.

Decision: Null Hypothesis is rejected and the alternative hypothesis is accepted. So the result showed that there is a significant impact of GST on IND AS Financial accounting and reporting.

Analysis of GST Impact on IND AS Financial Accounting and Reporting

- 1. Revenue Recognition:** According to IND AS 18- Revenue Para 8 "Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value-added taxes are not economic benefits that flow to the entity and do not increase equity. Therefore, they are excluded from revenue". Under the pre-GST regime, revenue is the inclusion of excise duty as it is a production-based tax and has considered a cost of goods sold where GST is consumption-based tax excluded from revenue. Revenue will not be presented inclusion of GST significantly bring volatility in the reporting amount of revenue in financial reports.
- 2. Inventory Valuation:** According to IND AS 2, Inventories Para 11.'The cost of purchase of inventories comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition

of finished goods materials, and services. Trade discounts, rebates, and other similar items are deducted in determining the cost of purchase. Under the pre-GST regime, the duties and taxes payable on purchases will be no input tax credit except on VAT. Still, now as GST subsumed majority of indirect taxes, namely, octroy, basic excise, additional excise, service tax, central surcharges, and cesses, and GST on purchases of materials can be recoverable in the form of an input tax credit; hence all other subsumed taxes under GST are recoverable hence do not fall to the category of cost of purchase of inventory. Hence the cost of inventory will be comparatively low, which benefits the organization in reporting more profit.

- 3. Input Tax Credit:** ITC is a refund of GST paid in the supply chain until the final purchase for consumption occurs. Due to the enforcement of GST in the Indian economy majority of indirect taxes have been subsumed over which there is no credit available. Still, now on, such subsumed indirect taxes i.e. GST refund is available in the form of the input tax credit if it meets the eligibility criteria. According to IND, According to IND AS 32, Financial Instruments, Para 12, "Liabilities or Assets that are not contractual (Such as income taxes that are created as a result of a statutory requirement imposed by Government) are not financial liabilities or financial assets". Hence such input tax credit of GST should be recorded in the financial statement as other noncurrent/current assets. By this, the value of assets and the financial position of a company will improve.
- 4. Property Plant and Equipment:** According to IND AS 16 Property plant and equipment, the cost of an item of PPE includes the purchase price, including the import duties and any other non-refundable taxes on such purchase after deducting rebates and trade discounts. Earlier, certain taxes like octroy (entry tax), basic excise, additional excise, service tax, central surcharges, and cesses, are non-refundable and considered as a part of the purchase price of PPE. Hence, the capitalizable value of such PPE will be more in the financial statement. Now with the

subsuming of the majority of these indirect tax with GST provides refundable scope leads to exclusion from the purchase price of PPE, hence the capitalizable value of such PPE will be shown less.

5. **GST Disclosure:** Prior GST, indirect tax such as VAT, Excise, etc., a paid on goods can be treated as an expense and charged to profit or loss account, but now GST paid on goods can't be treated as an expense and can't be charged to profit or loss account unless there is no ITC on such paid GST. By this, the amount of profit reporting in the financial statement will be more than earlier.

Findings of the Study

1. Out of 50 respondents who have been surveyed, 90% of them know GST impact on IND AS financial reporting.
2. Accountants who have surveyed having IND AS and GST knowledge opined that GST does have a significant impact on IND AS financial reporting.
3. Revenue will not be presented inclusion of GST this significantly brings volatility in the reporting amount of revenue in financial reports.
4. The inventory cost will be comparatively low, which benefits the organization in reporting more profit.
5. Capitalizable value of PPE will be shown at less.
6. The value of assets and financial position of a company will improve due to availing of the input tax credit as it is treated as non-current/current assets.
7. Revenue will not be presented inclusion of GST this significantly brings volatility in the reporting amount of revenue in financial reports.

Suggestions

1. The accountants who have surveyed, all of them won't have complete knowledge of GST impact on IND AS financial reporting, so an attempt should be made by the corporate in making them aware of it by conducting some training program.
2. Corporates should give sufficient time and strategy for impact assessment of GST on IND AS financial reporting.
3. The accountants have to undertake careful

analysis on the implication of GST from all aspects.

4. As the capitalizable value of PPE is shown exclusive of GST it should be disclosed so that investors can know the actual reason behind the low capitalizable value of PPE.

Conclusion

Transition to GST impacts many of the aspects of financial accounting and reporting under IND AS. For the economic development of a country, how much business is important in the same manner accounting and reporting is also important as it influences the quality of financial information; such financial reporting is practiced with the help of guidelines provided in IND AS. We are already witnessing the IND AS applicability in accounting focus should be needed to comply with GST. Due to GST implementation, some aspects of financial reporting face some changes, which should be analyzed reported properly. It is critical to address the deviations arising out of these two codes of practice in a synergetic manner to reduce the cost of changeover and minimize business interruption. However, being a global economy, our country should comply with IND AS-based accounting and reporting and, at the same time, do consider GST impact on such financial reports.

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