Checklist for Unadjusted advances at the end of financial year (Clause 5C of GSTR-9C)

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Unadjusted advances means advances against which GST has been paid but supply has not been made and same has not been recognized as revenue in the audited financial statement.

Value of all advances for which GST has been paid but the same has not been recognized, as revenue in the audited Annual Financial Statement shall be declared here.

Analysis

When an advance is received but supply has not been made it means revenue is not yet earned, so this advance amount will be recorded as liability in balance sheet (either as current liability or as long term liability) at the end of financial year.

Notification regarding advance received

The Government have issued Notification No. 40/2017-CT dated 13th October 2017 in terms of Section 148 of CGST Act to permit Registered Persons having aggregate turnover less than

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Rs. 1.5 crores from paying tax on such advances.

This facility was extended to all Registered Persons without threshold limit vide Notification No 66/2017-Central tax, dated 15th Nov 2017 but only in the case of supply of goods.

In terms of the above notifications, an Auditor has to examine whether the Registered Person has paid tax on advances till 15th Nov 2017.

Reporting in GST
Calculate tax on the Advance Received:

One has calculated tax on advance and paid tax while filing the return for that month. The advance received (if exclusive of tax) would be considered as cum-tax. Two important points to note:

(a) Whenever the rate of tax cannot be determined during receipt of advance, GST @ 18% has to be charged.
(b) Whenever the nature of supply cannot be ascertained, the advance is considered as inter-State supply and IGST has to be paid.

For Example:

Mr. A enters into a works contract for Rs. 10, 00,000 on 15th March 2018. He receives Mobilization advance of Rs.5 lacs without any GST component on the same date. Now, as on 31st March 2018, GST has to be discharged for this Rs. 5 lacs as follows:

Taxable value: 118/100*100 423729
GST: 118/100*18 76271
Transaction value: 118 500000

Reporting from Accounting Prospective

From the accounting perspective, advances received would be considered Income received in advance and would be carried as a Liability in the Balance Sheet. This becomes Revenue onlyafter supply.

Adjustment in GSTR-9C regarding unadjusted advances:

a. Turnover of Financial year 2017-18 as per balance sheet would not include advances received

b. Annual return GSTR-9 would include the same in turnover

c. For reconciliation of both unadjusted advances at the end of financial year 2017-18 shall be added to the turnover of the financial year 2017-18 as taken in clause 5A (Turnover as per audited financial statement) to nullify the effect and to arrive at the turnover of GST.

Important point is business receives advances for many purposes but advances on which GST is liable would be considered for adjustment.

Examples of Advances that needs adjustment

• Advances received for services as on 31st March 2018 (Reason- Revenue not recognized in books but offered to tax for GST).
• Advance received for Goods before 15th Nov2017 and the supply of goods not complete as on 31st March 2018(Reason- Revenue not recognized in books but offered to tax for GST).

Examples of Advances that needs no adjustment

• Advance received for EXEMPTED services as on 31st March 2018 (Reason-GST is not applicable)
• Advance received for Goods after 15th Nov2017(Reason-GST is not applicable)
• Financial Advances received (loan) (Reason-Not a GST Transaction)
• Deposits received (Reason-GST is not applicable)

AS 9 and Ind AS 18 defines various methods for Goods and services to recognize revenue in the books of accounts for example proportionate completion method or completed service contract method.

During audit, it is very important to auditor to take note of the revenue recognition policy of registered person for calculating the values to be disclosed under this heading.

The following are the control checks that an Auditor should perform for validation of the amounts reported under this head:

(a) Unadjusted advances as per GSTR-1 (difference of table 11A and 11B) should be computed

(b) Balances as per books of accounts to be computed as per applicable revenue recognition method of registered person

(c) If the amount mentioned in Clause No. a above does not match with Clause No. b, a GST Auditor should adopt advances received as per books.

(d) Generally, a Trial Balance is prepared entity wise and thereafter the financials are segregated for the profit and loss account and the Balance sheet items GSTIN wise.

Suitable Management representation letter has to be obtained since this information is not available on the face of financial statements.

Some of the common errors might be

(a) Considering the total advances irrespective of the fact that it is for exempted supply;
(b) Ignoring the advances for goods for the period up to 15th October 2017 which is remaining to be supplied in this computation;

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Notes to consider

(a) Amendments made to GSTR 1 Table 11 in the subsequent financial years

(b) Advances received from customer could be credited to Sundry Debtors account or separately under Current Liabilities,

(c) Advances where GST is not payable need to be identified and excluded (for example Advances for exempted services)

(d) Advances, which are in the nature of Financial Transactions (loan), are to be ignored.

Conclusion:

Reporting of Unadjusted Advances is an important aspect of the audit. The Auditor may have to examine the trial balance and financial statements in order to ascertain such advances.

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