

Impact of Accounting and Auditing Standards on Indirect Taxes

AS number	Name of the standard	Examples, Links to SA and links to other AS
AS 5	Net profit or loss and prior period items	<p>This standard requires:</p> <ol style="list-style-type: none"> 1. Classification & disclosure of extraordinary items 2. Classification & disclosure of prior period items 3. Disclosure of certain items within profit or loss from ordinary activities. <p>Standard specifies:</p> <ol style="list-style-type: none"> 1. Accounting treatment for changes in accounting estimates 2. Disclosures to be made in the financial statements regarding changes in accounting policies <ul style="list-style-type: none"> • Impact of indirect tax on the extra ordinary activities.
Example		<ul style="list-style-type: none"> ➤ Included under Excise duty an amount of Rs.2 lakhs representing demands received pertaining to earlier years. The company has charged off the same as expenditure for the year. ➤ AS -5 defines prior period items as those material changes or credits which arise in the current period as a result of errors or omissions in the preparation of Financial Statements in one or more periods. ➤ The demand received by the company in respect of excise duty, though pertains to previous years, does not constitute a prior period item. Therefore, the treatment followed by the company of charging the amount as expenditure for the current financial year is proper.

		<ul style="list-style-type: none"> ➤ Where cenvat credit for the all input received and input services eligible in the previous year is availed in the subsequent year. Time period of 1 year shall be considered to avail credit. ➤ The reversal of credits related to exempted goods or services as per Rule – 6 of Cenvat credit Rules. ➤ Where duty has been debited for sales but the goods are removed in the subsequent year
Links	A. Auditing Std	SA 580 – The auditor shall obtain a specific written representation regarding any prior period item that is separately disclosed in the current year’s statement of profit and loss.
	B. Accounting Std	Disclosure requirement for all other Accounting standards.
AS 6	Depreciation	<p>Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes.</p> <p>As per Section 32 of the Income tax Act, 1961, depreciation cannot be claimed on the portion of Cenvat credit availed.</p> <p>Where depreciation claimed on the duty component under Income Tax, the duty credit would not be eligible as per Cenvat credit Rules.</p>
Example		Basic Customs duty being an ineligible duty needs to be included in the Cost of the asset for calculating depreciation. If CVD amount is claimed as credit, then the same need not be considered for depreciation.
Links	A. Auditing Std	<ul style="list-style-type: none"> • SA 200 –It is the duty of the auditor to check if all

		<p>the Accounting Standards have been complied with.</p> <ul style="list-style-type: none"> • SA 250 – Non compliance of any AS should be highlighted and brought to the notice of the management/board • SA 260 – The financial impact on account of non-compliance with any AS should be communicated to those charged with governance
	B. Accounting Std	<p>Link of AS 6 to AS 1 :</p> <p>Individual items below Rs. 5000 but total of such items are material Eg: LPG cylinders: When total of such items is less than 10% of the total actual cost of Plant and Machinery, 100% depreciation is permissible. Otherwise the rate as per Schedule XIV should be adopted. The accounting policy in this regard should be disclosed as per AS – 1.</p>
AS 7	Construction contract	<ul style="list-style-type: none"> • Standard prescribe the accounting treatment of revenue and costs associated with construction contracts. • With respect to construction contract because the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods.
Example		<ul style="list-style-type: none"> ➤ Material contracts: A contract that is mainly for the supply of materials with a negligent element of service, component should not be considered under AS 7. AS 9 will be applicable for the supply and service components. ➤ Consultancy fees: Consultancy fees received

		<p>only for design engineering and project management directly related to Construction of an asset should be recognised as per AS 7. If such revenue is not directly related to the construction of an asset, AS 9 would be applicable.</p> <ul style="list-style-type: none"> ➤ This would be applicable as far as manufacturer for supply of labour for some construction activity exists in respect of which some materials has also sold a contract. ➤ The materials with job worker should be shown as such in the stock account maintained of the same. The turnkey contracts and contracts for erection, installation and commissioning would be impacted, as some components would be required to be duty paid.
Links	A. Auditing Std	<ul style="list-style-type: none"> • SA 200 –It is the duty of the auditor to check if all the Accounting Standards have been complied with. • SA 250 – Non compliance of any AS should be highlighted and brought to the notice of the management/board
	B. Accounting Std	<p>Link to AS 9:</p> <p>A contract provided that the actual payment made to the employees, including additional cost, if any, incurred due to retrospective revision of pay scales, is billable to the client. If a reasonable estimate of the amount of additional cost can be made, there would be no insignificant uncertainty in determining the amount to be recovered from the client. Hence, the contract revenue should be recognized from the client since it would not be unreasonable to expect ultimate collection.</p>
AS 9	Revenue recognition	<ul style="list-style-type: none"> • Standard is concerned with the recognition of

		<p>revenue arising in the course of the ordinary activities of the enterprise from:</p> <ol style="list-style-type: none"> 1. sale of goods 2. rendering of services 3. use by others of enterprise resources yielding interest, royalties and dividends <ul style="list-style-type: none"> • All incomes received or receivable by a concern should be seen in the light of the concept of “transaction value. • Any income, which arises as a result of or in relation to sales, could fall under “transaction value” concept where receipts in future related to the sale might also require duty discharge. • A classic example of this could be a price rise, which is granted subsequent to the removal for which a supplementary invoice might have to be raised on the customer. • Verification of the accumulated credits if any, whether utilizable /refundable under law as also whether in the near future would be relevant.
Example		<p>Revenue Recognition principle for specified services:</p> <ul style="list-style-type: none"> ➤ Installation fees - When installation fee is other than incidental to the sale of the product, they should be recognized as revenue only when the equipment is installed and accepted by the customer. ➤ Excise duty related to the difference between the Closing stock and the opening stock should be recognized separately in the statement of profit and loss, with an explanatory note in the notes to

		<p>accounts, to explain the nature of the two amounts of excise duty.</p> <ul style="list-style-type: none"> ➤ Revenue recognition in high sea sale contract: Sale should be recognized as per AS 9. Where there is a difference between the time of transfer of significant risks and rewards of ownership and the time of transfer of legal ownership, revenue should be recognized at the date of transfer of significant risks and rewards of ownership to the buyer. Mere availability of separate value in the Purchase Order, endorsement of document of title etc., is not sufficient for recognizing revenue. ➤ When the risk and ownership of the material vests with the sub-contractor, then the products manufactured using his material would represent the sale revenue for the sub-contractor. Otherwise, only the job work charges receivable from the principal manufacturer should be recognized as revenue
Links	A. Auditing Std	<ul style="list-style-type: none"> • SA 200 –It is the duty of the auditor to check if all the Accounting Standards have been complied with. • SA 250 – Non compliance of any AS should be highlighted and brought to the notice of the management/board
	B. Accounting Std	<p>Link of AS 9 to AS 11, 30 and 32: Revenue recognition if sale value in Foreign Currency is covered by a Forward contract: Sale should be recorded at the rate on the date of transaction and not at the rate of Forward Exchange Contract. Revenue recognition at the forward rate</p>

		means non-compliance of AS 9, 11, 30 and 32.
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