



**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF INDIA
GST & INDIRECT TAXES COMMITTEE**

**Capacity Building Program for GST Officers
at
Rajkot, Gujarat
Date: 23rd June, 2026
By: CA CS Harshid Patel**





SESSION OVERVIEW

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This session covers 9 key sub-topics:

- How to Read / Analyze Profit & Loss Account and Balance Sheet
- Review of Ledgers, Trial Balance, Balance Sheet & P&L from GST Perspective
- Ratio Analysis
- Review of Directors Report, Audit Report, Notes to Accounts
- Year-End Adjustment Entries and Impact on GST
- Reconciliation between Books of Accounts and GST Records
- Review of Fixed Assets Register
- Review of Stock Register
- Review of Cost Audit Report & Income Tax Audit Report



SUBTOPIC 1: How to Read / Analyze P&L Account and Balance Sheet

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The P&L Account is the most critical document for a GST officer — it reveals income patterns, expense structures, and hidden GST obligations.

A systematic reading uncovers:

- Suppressed turnover not reported in GST returns
- Missed Reverse Charge Mechanism (RCM) liability on expenses
- Blocked Input Tax Credit (ITC) claims not reversed

THREE-STEP APPROACH:

- STEP 1 — Divide all income heads: Taxable vs Non-Taxable
- STEP 2 — Scan all expense heads for RCM liability
- STEP 3 — Check Balance Sheet items for advance receipts and GST ledger balances



INCOME SIDE ASSESSMENT – Taxable vs Non-Taxable (Part 1)

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Income Head	GST Status	Rate	Key Note
Sundry Creditors Written Off	TAXABLE	18%	Supply under Schedule II / Sec 7. GST payable.
Brokerage / Commission Income	TAXABLE	18%	Intermediary service — fully taxable.
Rent Income	TAXABLE (mostly)	18%	Commercial rental taxable. Residential to individual: exempt.
Sale of Scrap	TAXABLE	18% / per HSN	Scrap is a supply. HSN/rate depend on material. Often unreported.
Discount Income	EXAMINE	Varies	Post-sale financial discount may not be taxable.
Subsidy Income	EXAMINE	Case-specific	Govt subsidy not linked to sale price: NOT taxable. Private subsidy or price-linked: TAXABLE.



INCOME SIDE ASSESSMENT – Taxable vs Non-Taxable (Part 2)

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Income Head	GST Status	Rate	Key Note
Interest Income	EXEMPT	Nil	Exempt under Entry 27. May affect Rule 42 reversal (exempt supply ratio).
Insurance Claim Received	NOT SUPPLY	Nil	Not a supply; no GST. ITC reversal may arise if asset is destroyed.
Dividend Income	EXEMPT	Nil	Exempt from GST. Impacts Rule 42 reversal calculation.
Liquidated Damages / Penalty Received	TAXABLE	18%	Tolerating an act = Supply of service. (Union of India v. Exide Industries)
Foreign Exchange Gain / Export Income	ZERO RATED / EXAMINE	0% (IGST)	Export of goods/services: Zero rated. FOREX settlement gain: not a supply.

KEY: Any income that cannot be clearly classified as Exempt or Not a Supply must be treated as Taxable.



EXPENSE SIDE – RCM Applicability Check (Part 1)

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Expense Head	RCM?	Rate	Key Point
GTA — Goods Transport Agency	YES (specific cases)	5% / 12%	GTA on road transport to registered person attracts RCM.
Security / Manpower Services	YES (if unregistered supplier)	18%	If agency unregistered: full RCM on recipient.
Sponsorship Services	YES (always)	18%	Body corporate or partnership firm paying sponsorship: RCM applies.
Legal Fees (to Advocate)	YES (always)	18%	Fee to individual advocate or firm: RCM. Includes retainers.
Royalty Fees	YES	18%	Royalty to unregistered person / Govt for mining rights: RCM.



EXPENSE SIDE – RCM Applicability Check (Part 2)

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Expense Head	RCM?	Rate	Key Point
Development Charges / Lease Premium	YES (to Govt/Authority)	18%	Development charges to local authorities: RCM. Critical in real estate.
Director Remuneration (Sitting Fees)	YES (Non-executive)	18%	Non-executive director: Company pays RCM. Executive director in employment: Not supply.
Import of Services	YES (IGST)	As applicable	Services from foreign supplier for business: IGST under RCM. Check foreign currency in Notes.
Rent from Unregistered Landlord	YES (if Regd. recipient)	18%	Immovable property rented from unregistered person to registered business: RCM.

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FREE SAMPLES & FREE GIFTS – GST Implications

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A. FREE SAMPLES

Free samples are often clubbed under Marketing Expenses / Sales Promotion Expenses.

- Free samples = DEEMED SUPPLY under Schedule I, if ITC was availed on inputs.
- GST must be paid on free samples if ITC was taken on inputs used to make them.
- No ITC taken → No GST on samples. ITC taken → Reversal required under Rule 42 / Sec 17(5)(h).
- DETECT: Look for Sample / FOC goods / Demo material in expense ledgers. Cross-check stock qty issued.

B. FREE GIFTS — Diwali / Festival / Shareholder Gifts

- Gifts to employees: ITC blocked under Sec 17(5)(h) if value exceeds Rs. 50,000 per employee per year.
- Gifts to customers/dealers/shareholders: DEEMED SUPPLY if ITC was availed.
- Check: Staff Welfare, Guest Entertainment, Corporate Gifts, Directors Entertainment ledgers.

A free gift is not free from GST. Either pay GST or reverse the ITC. There is no third option.



BALANCE SHEET — Key GST Red Flags

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1. ADVANCE RECEIVED — Deferred Tax Liability Risk

- Check: Advance from Customers, Customer Deposits in Current Liabilities.
- GST is payable on advance received for supply of SERVICES at time of receipt.
- Exception: No GST on advance for GOODS only (Notification 66/2017).
- Red flag: Advances parked for long periods without invoice = deliberate tax deferment.

2. GST LEDGERS — CGST / SGST / IGST Accounts

- Debit balance in GST payable ledger = ITC availed in excess of liability — scrutinize.
- Compare GST ledger balances with GSTR-3B closing cash/credit ledger balances.

3. REAL ESTATE — Advance from Members / Unsecured Loans

- GST on construction services payable at time of installment/advance receipt.
- Red flag: Amounts received as Unsecured Loans to avoid GST — if converted to member advance, GST arises from ORIGINAL receipt date.



CASE STUDY 1 – P&L Extract: Identify GST Issues

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CASE STUDY: P&L Extract — M/s. Raj Industries, FY 2023-24

Head	Amount (Rs.)	Treatment in Books
Sales — Finished Goods	4,50,00,000	GST Paid
Sale of Scrap	12,50,000	No GST Paid
Sundry Creditors Written Off	3,80,000	Other Income — No GST
Subsidy from State Government	8,00,000	Exempt — No GST
Rent from Letting Office Space	5,40,000	Treated as Exempt
Sponsorship Received for Event	2,00,000	No GST
GTA Charges (Unreg. GTA)	6,20,000	Paid — No RCM
Legal Fees to Advocates	1,80,000	No RCM Paid
Marketing Expenses (incl. Free Samples)	9,50,000	ITC claimed on inputs
Staff Diwali Gifts	2,10,000	ITC Claimed

QUESTION: As a GST Officer, what are your findings and what action would you take?

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CASE STUDY 1 – ANSWERS

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ANSWERS — M/s. Raj Industries GST Issues:

1. Sale of Scrap Rs. 12.5L: TAXABLE — GST not paid. Demand under Section 73/74.
2. Creditors Written Off Rs. 3.8L: TAXABLE — treated as supply of service. GST payable.
3. Rent Income Rs. 5.4L: Commercial property = TAXABLE @ 18%. Incorrectly treated as exempt.
4. Sponsorship Received Rs. 2L: Providing sponsorship service = TAXABLE @ 18%.
5. GTA to Unregistered Rs. 6.2L: RCM not paid. Demand + Interest + Penalty.
6. Legal Fees Rs. 1.8L: RCM mandatory under Section 9(3) — not paid.
7. Free Samples + ITC claimed: ITC reversal required OR GST to be paid on deemed supply.
8. Diwali Gifts Rs. 2.1L: ITC blocked under Section 17(5)(h) — reversal required.

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SUBTOPIC 2: Review of Ledgers, Trial Balance, Balance Sheet & P&L

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The Trial Balance is the MASTER DOCUMENT — it carries opening balance, all transactions during the year, and closing balance for every ledger.

THREE ANALYTICAL TOOLS:

- Trial Balance Format — Always ask for 5-column TB (Opening + Dr + Cr + Closing)
- Trend Analysis — Compare current year vs last year closing balances of key ledgers
- Sleeping Ledgers — Accounts that should have movement but show zero transactions

ALWAYS DEMAND 5-COLUMN FORMAT:

Ledger Name | Opening Balance | Total Debits | Total Credits | Closing Balance

A two-column TB hides the transaction flow. The 5-column format reveals the complete picture.



TRIAL BALANCE – 5-Column Format to Demand

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Ledger Name	Opening Balance	Total Debits	Total Credits	Closing Balance
Sales A/c	—	—	—	—
Purchase A/c	—	—	—	—
CGST Payable	—	—	—	—
SGST Payable	—	—	—	—
IGST Payable	—	—	—	—
ITC — CGST	—	—	—	—
ITC — SGST	—	—	—	—
ITC — IGST	—	—	—	—
GTA Charges	—	—	—	—
RCM Payable	—	—	—	—

KEY: Always demand Trial Balance in this 5-column format — Opening + Dr. transactions + Cr. transactions + Closing.



TREND ANALYSIS & SLEEPING LEDGERS – Red Flag Detection

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A. TREND ANALYSIS — Current Year vs Last Year

- Sales drop + High closing stock = Possible suppressed clearance
- Purchase jump without increase in production = Inflated purchase / fake invoices
- ITC balance growing without utilization = Possible excess ITC claim
- RCM payable showing debit balance = RCM paid but not availed as ITC or calculation error

B. SLEEPING LEDGERS — Accounts with No Movement

- GTA ledger shows Rs. 15L but RCM payable shows NIL = RCM not paid
- Security services expense Rs. 8L but no corresponding RCM entry
- Advance from customer ledger untouched for 2+ years = possible GST evasion on advance
- Scrap sales ledger at zero when production inherently generates scrap

A ledger that SHOULD show movement but does NOT is more suspicious than one that shows too much.

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CASE STUDY 2 – Trial Balance Extract: Spot GST Issues

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CASE STUDY: Trial Balance Extract — M/s. Shree Textiles, FY 2023-24

Ledger	Opening	Dr.	Cr.	Closing
Taxable Sales	0	0	2,40,00,000	2,40,00,000 Cr.
Scrap Sales	0	0	0	NIL
GTA Charges Paid	0	8,40,000	0	8,40,000 Dr.
RCM — GTA Payable	0	0	0	NIL
Legal Fees	0	2,20,000	0	2,20,000 Dr.
RCM — Legal Payable	0	0	0	NIL
Advance from Customer	14,00,000	0	0	14,00,000 Cr.
Finished Goods Stock	18,00,000	—	—	6,00,000 Dr.

QUESTION: What does this Trial Balance reveal? List your GST findings.

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CASE STUDY 2 – ANSWERS

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ANSWERS — M/s. Shree Textiles Trial Balance:

1. Scrap Sales NIL despite Rs. 2.4 Cr. textile production — Scrap/waste = TAXABLE. Hidden scrap income.
Demand at applicable rate.
2. GTA Rs. 8.4L paid, RCM NIL — Complete non-payment of RCM. Demand + 18% + Interest + Penalty.
3. Legal Fees Rs. 2.2L, RCM NIL — RCM on advocates mandatory under Section 9(3) — not paid.
4. Advance Rs. 14L since opening — if for services, GST should have been paid at receipt. Age of advance must be examined.
5. Finished goods stock dropped from Rs. 18L to Rs. 6L — Cross-check with production records for possible suppressed clearance.



SUBTOPIC 3: Ratio Analysis – GST Risk Radar

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Financial ratios are powerful tools for a GST officer — they convert raw numbers into SIGNALS.
Think of Ratio Analysis as a GST RISK RADAR — each ratio lights up a different risk area.

10 KEY RATIOS FOR GST RISK DETECTION:

1. Taxable Turnover Ratio
2. ITC Utilization Ratio
3. RCM Compliance Ratio
4. Scrap Sale Ratio
5. Power / Fuel Consumption Ratio
6. Gross Profit Trend
7. Credit Note Ratio
8. Exempt Supply Ratio
9. Stock Shortage Ratio
10. Raw Material Consumption Ratio

A single adverse ratio is a SIGNAL. Two are a PATTERN. Three are EVIDENCE.



RATIO ANALYSIS – Part 1 (Ratios 1 to 5)

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Ratio	Formula	GST Risk	Action
Taxable Turnover Ratio	$\text{Taxable Turnover} / \text{Total Turnover}$	Exempt / mis-classification risk	If dropped: check for artificial exemption claims or mis-classification.
ITC Utilization Ratio	$\text{ITC Availed} / \text{Purchases} + \text{Expenses}$	Excess ITC	Ratio > 1: ITC exceeds purchases — inflated or ineligible ITC.
RCM Compliance Ratio	$\text{RCM Paid} / \text{RCM-liable Expenses}$	Missed RCM	Ratio < 1: RCM short paid. Identify gap and apply 18%.
Scrap Sale Ratio	$\text{Scrap Sale} / \text{Production Quantity}$	Unreported scrap	Industry norm 2-5%. If NIL or very low: scrap is hidden.
Power/Fuel Ratio	$\text{Power} + \text{Fuel} / \text{Production Units}$	Suppressed production	High power vs low production: verify actual production vs records.

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RATIO ANALYSIS – Part 2 (Ratios 6 to 10)

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Ratio	Formula	GST Risk	Action
Gross Profit Trend	Gross Profit / Net Sales (%)	Undervaluation or unaccounted sales	GP declining year-on-year without reason = possible under-reporting.
Credit Note Ratio	Total Credit Notes / Total Sales	Artificial reduction of tax	High credit note ratio: verify genuineness. Artificial notes reduce GST.
Exempt Supply Ratio	Exempt Supply / Total Supply	Rule 42/43 reversal risk	Higher exempt ratio = more ITC reversal required. Was it done?
Stock Shortage Ratio	Stock Shortage / Closing Stock	ITC reversal / deemed supply	Shortage % > process loss norms: check destruction certificate.
RM Consumption Ratio	RM Consumed / Production Units	Inflated purchases	If ratio too high vs industry norms: inflated purchases suspected.

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RATIO ANALYSIS – Red / Amber / Green Interpretation Guide

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Signal	Interpretation	Action
GREEN	Within expected range	No further action needed on this ratio
AMBER	Borderline — needs explanation	Call for supporting documents; seek explanation from taxpayer
RED	Clear deviation from norm	Issue notice; call for ledger extracts, stock register, production records

KEY: A single adverse ratio is a SIGNAL. Two are a PATTERN. Three are EVIDENCE of systemic non-compliance.

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CASE STUDY 3 – Ratio Analysis: M/s. Gujarat Chemicals Ltd.

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CASE STUDY: Ratio Analysis — M/s. Gujarat Chemicals Ltd., FY 2023-24 vs FY 2022-23

Ratio	FY 2022-23	FY 2023-24	Observation
Taxable Turnover / Total Turnover	92%	74%	DROP of 18% — sudden exempt claim
ITC Availed / Purchases	0.82	1.21	ITC EXCEEDS purchases — ALERT
Scrap Sale / Production	3.2%	0.1%	Scrap nearly disappeared
Power vs Production Units	0.8 kWh/unit	1.4 kWh/unit	High power / low production — suppressed output
GP Ratio	28%	19%	GP dropped 9% — undervaluation risk
Credit Notes / Sales	1.2%	8.4%	Credit notes jumped 7x — artificial reduction?

QUESTION: What is your assessment? What would you do next?

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CASE STUDY 3 – ANSWERS

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ANSWERS — RED flags across 5 of 6 ratios — HIGH RISK PROFILE:

1. ITC exceeds purchases: Issue SCN under CGST Section 74 (fraud suspected). Demand reversal of excess ITC.
2. Taxable turnover drop 18%: Demand explanation. Verify if genuine exemption applies or artificial classification.
3. Scrap sale near zero: Call for production records, physical stock verification. Demand scrap reconciliation.
4. Power vs Production: Cross-verify with electricity bills. High power + low output = suppressed production.
5. Credit notes 8.4%: Call for all credit notes party-wise. Verify against GSTR-1 and books.
6. GP Drop 9%: Cross-check with cost records. Possible undervaluation of supply.



SUBTOPIC 4: Review of Directors Report, Audit Report, Notes to Accounts

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Annual Report documents contain **VOLUNTARY** and **MANDATORY** disclosures — goldmines for a GST officer.

Read between the lines.

KEY DOCUMENTS TO REVIEW:

- Auditor Qualification — non-provision, wrong revenue recognition, inventory issues
- CARO Remarks — Clause 3(ii) inventory, 3(ix) statutory dues, 3(xiii) related parties
- Notes on Revenue Recognition — timing of supply, unbilled revenue, advances
- Contingent Liabilities — GST disputes not disclosed in returns
- Related Party Disclosures — valuation, Schedule I, cross-charge compliance
- Segment Reporting — state-wise turnover vs registration status
- Foreign Currency Expenditure — import of services, RCM obligations
- CSR Expenditure — ITC eligibility (blocked under Section 17(5))

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ANNUAL REPORT – GST Red Flags (Part 1)

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Report Area	GST Relevance	What to Look For
Auditor Qualification	Revenue recognition, inventory	Qualification on revenue timing = supply timing issue. Inventory qualification = stock discrepancy = ITC reversal angle.
CARO Remarks	Inventory, statutory dues, related parties	Clause 3(ii): Physical verification discrepancy = ITC reversal. Clause 3(ix): GST arrears. Clause 3(xiii): Related party transactions.
Notes on Revenue Recognition	Timing of supply, unbilled revenue	GST time of supply \neq always invoice date. If service completed before March 31 \rightarrow GST due in that period.
Contingent Liabilities	GST disputes	Any GST demand as contingent liability = dispute exists. Cross-check with GSTR-9/9C disclosures.
Related Party Disclosures	Valuation / Schedule I / Cross Charge	Transactions between related parties: Rule 28/29 valuation. Cross-charges between HO and branches.

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ANNUAL REPORT – GST Red Flags (Part 2)

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Report Area	GST Relevance	What to Look For
Segment Reporting	State-wise turnover clue	Segment-wise revenue vs GST filing in each state. Identify unregistered states where supply is happening.
Foreign Currency Expenditure	Import of services / RCM	Any foreign currency outflow for services (software, consultancy, royalty): RCM under IGST. Mandatory disclosure.
CSR Expenditure	ITC eligibility	CSR not furtherance of business. ITC on CSR blocked under Section 17(5). If ITC claimed on CSR: demand reversal.
Exceptional Items	Compensation, insurance, asset sale	Exceptional income: check if it is a supply. Compensation received = tolerating an act = service = taxable.

KEY: Notes to Accounts contain what the company is FORCED to disclose by law. Cross-map every disclosure with the GST return filed — the gap is the audit opportunity.

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CASE STUDY 4 – Audit Report: Identify GST Actions

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CASE STUDY: Audit Report Extract — M/s. Apex Engineering Ltd., FY 2023-24

Audit / Notes Extract	GST Issue
CARO 3(ii): Physical verification of inventory — Material discrepancy of Rs. 8.2 lakhs in finished goods. Management says: Normal process loss.	?
Note 27 (Contingent Liability): GST demand of Rs. 42 lakhs pending before Appellate Authority. Company confident of favorable outcome.	?
Note 31 (Foreign Currency): Outflow of USD 1,20,000 towards technical consultancy received from USA-based firm.	?
Note 33 (Related Parties): Services worth Rs. 18 lakhs provided to subsidiary without consideration for shared services.	?
Note 35 (CSR): Rs. 5.4 lakhs spent on CSR. ITC of Rs. 97,200 availed on the same.	?

QUESTION: What GST actions would you initiate for each item above?



CASE STUDY 4 – ANSWERS

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ANSWERS — M/s. Apex Engineering Ltd.:

1. Stock discrepancy Rs. 8.2L: Process loss must be substantiated by technical norms. If not: ITC reversal on proportionate inputs. Sec 17(5)(h).
2. GST demand Rs. 42L pending: Cross-verify with GSTR-9C. If not disclosed: auditor compliance issue. Issue SCN for recovery if appeal dismissed.
3. USD 1.2L technical consultancy: IGST under RCM on import of services. Check GSTR-3B for RCM payment.
4. Shared services to subsidiary without consideration: Schedule I supply — GST must be paid even without consideration between related persons.
5. CSR ITC Rs. 97,200: ITC on CSR blocked under Section 17(5). Demand: Reverse ITC + Interest + Penalty.



SUBTOPIC 5: Year-End Adjustment Entries and Impact on GST

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The last quarter — especially MARCH — is when companies make bulk accounting adjustments. These often have GST implications that are overlooked.

March entries are accounting entries — but many have GST CONSEQUENCES.

COMMON MARCH ENTRIES WITH GST IMPACT:

- Provision for Expenses (GTA, Security, Rent) — RCM may arise on accrual
- Accrued Income / Unbilled Revenue — supply may have occurred without invoice
- Sales Return / Credit Note — must be within time limit
- Purchase Provision — ITC without actual invoice is NOT eligible
- Stock Adjustment / Write-off — ITC reversal on written-off stock
- Branch Transfer Entry — different GSTIN = deemed supply, invoice required
- Reversal of Old Creditors — taxable as deemed income



YEAR-END ADJUSTMENT ENTRIES – GST Impact (Part 1)

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Adjustment Entry	GST Impact	What to Check
Provision for Expenses (Freight, Security, Rent)	RCM liability may arise on provision	If RCM applicable (GTA, advocate, security): has RCM been paid on accrual basis?
Accrued Income / Unbilled Revenue	Supply may have occurred without invoice	Under GST, time of supply \neq invoice date. Service completed before March 31 \rightarrow GST due in that period.
Sales Return / Credit Note	Reduction in tax liability — must be within time	Credit note must be issued by November 30 of next FY or filing of annual return, whichever is earlier.
Purchase Provision	ITC eligibility — entry without invoice	ITC can be availed only if tax invoice exists. Provision without invoice = ITC not eligible.
Discount and Incentive Provision	Credit note / ITC reversal by recipient	Post-supply credit note: recipient must reverse ITC proportionately. Check Rule 37A compliance.



YEAR-END ADJUSTMENT ENTRIES – GST Impact (Part 2)

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Adjustment Entry	GST Impact	What to Check
Stock Adjustment / Write-off	ITC reversal mandatory	Goods written off: ITC attributable to such goods must be reversed under Section 17(5)(h).
Write-off of Damaged / Obsolete Goods	ITC reversal mandatory	If goods damaged/destroyed: ITC reversal required unless insurance claim received for full value.
Asset Sale or Asset Discarded	GST on sale / ITC reversal on discard	Sale of capital goods: GST on transaction value or WDV-based tax, whichever higher. Discard: ITC reversal for balance useful life.
Branch Transfer Entry	GST invoice required (deemed supply)	Transfer between distinct persons (different GSTINs) = Supply. Tax invoice mandatory.
Reversal of Old Creditors	Taxable as deemed income	Written-off creditors = Other income = Taxable supply under Schedule II. GST must be paid.

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CASE STUDY 5 – March Journal Entries: GST Consequences

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CASE STUDY: March Journal Entries — M/s. Sunrise Services Ltd., March 2024

#	Journal Entry	Amount (Rs.)	GST Consequence
1	Freight Expense Dr. To Freight Payable Cr. (GTA provision)	4,20,000	?
2	Sundry Creditors Dr. To Creditors Written Off Cr.	2,80,000	?
3	Loss on Stock Write-off Dr. To Closing Stock Cr. (Damaged goods)	1,50,000	?
4	Branch Stock Transfer Dr. To Sales A/c Cr. (Transfer to Gujarat branch — same GSTIN)	8,00,000	?
5	Unbilled Revenue Dr. To Revenue A/c Cr. (Services completed in March, invoice not yet raised)	6,40,000	?

QUESTION: What are the GST consequences of each of these five March journal entries?

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CASE STUDY 5 – ANSWERS

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ANSWERS — GST Consequences:

1. GTA Provision Rs. 4.2L: RCM @ 5% due = Rs. 21,000. Pay by 20th of next month. Interest if delayed.
2. Creditors Written Off Rs. 2.8L: Taxable supply @ 18% = GST Rs. 50,400. Must be paid in that return period.
3. Stock Write-off Rs. 1.5L: ITC reversal required on inputs consumed for these goods. Sec 17(5)(h).
4. Branch Transfer — SAME GSTIN: No GST invoice required. But if different GSTIN (different state, same legal entity): GST invoice mandatory.
5. Unbilled Revenue Rs. 6.4L: Time of supply = earlier of invoice or service completion. Service completed in March = GST due in March return. Invoice in April = late payment + interest under Section 50.

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SUBTOPIC 6: Reconciliation Between Books of Accounts and GST Records

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Reconciliation is the BRIDGE between accounting and GST compliance.

Differences between books and GST returns may indicate suppression, excess ITC, or timing differences.

6-WAY RECONCILIATION MATRIX:

- GSTR-2A vs Books — ITC as per GSTR-2A vs ITC booked in purchase ledger
- GSTR-1 vs GSTR-3B — Outward supply declared vs tax paid
- GSTR-1 vs Books — Sales as per GSTR-1 vs sales in books of accounts
- E-Invoice vs Books — Invoice details as per IRP portal vs books
- E-Way Bill vs Books — Goods movement as per EWB portal vs sales/transfer entries
- GSTR-9 / 9C vs Books — Annual return vs books

**GSTR-9C is a sworn statement by auditor. If books differ from 9C — audit trigger.
Any unreconciled difference is TAXABLE.**



RECONCILIATION MATRIX – 6-Way Cross Check

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Match	Common Difference	GST Risk
GSTR-2A vs Books	Supplier not filed return / wrong GSTIN	ITC availed without GSTR-2B support: Demand under Section 16(2)(aa).
GSTR-1 vs GSTR-3B	GSTR-3B tax paid < GSTR-1 declared	Short payment of tax. Interest under Section 50 from due date.
GSTR-1 vs Books	Sales in books not in GSTR-1	Suppressed turnover. Sec 73 (normal) or Sec 74 (fraud).
E-Invoice vs Books	Amount mismatch, GSTIN mismatch	Possible dual-invoicing or tampering. Verify IRN and QR code.
E-Way Bill vs Books	EWB without matching sale invoice	EWB without sale = Off-book supply. EWB missing = goods moved without GST.
GSTR-9 / 9C vs Books	Turnover difference, ITC mismatch	GSTR-9C diff with books = audit trigger. Unreconciled difference = taxable.



CLASSIFICATION OF DIFFERENCES & CASE STUDY 6

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Difference Type	Nature	GST Action
Timing	Invoice in one period, payment/receipt in another	Verify if tax was paid in correct period. If not: Interest under Section 50.
Classification	Item classified differently in books vs GST return	Examine correct HSN and rate. If under-classified: demand difference.
Suppression	Turnover in books but not in GST return	Invoke Section 73 (normal) or Section 74 (fraud). Demand + Interest + Penalty.



CASE STUDY 6: Reconciliation — M/s. Krishna Enterprises, FY 2023-24

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QUESTION: What are the GST implications of each reconciliation difference above?

Reconciliation Head	As per Books	As per GST Returns	Difference
Total Taxable Turnover	Rs. 3,20,00,000	Rs. 2,95,00,000	Rs. 25,00,000 (Books Higher)
ITC Availed on Purchases	Rs. 18,40,000	Rs. 23,60,000	Rs. 5,20,000 (GST Returns Higher)
GSTR-1 vs GSTR-3B Tax Paid	GSTR-1: Rs. 47,50,000	3B Paid: Rs. 44,20,000	Rs. 3,30,000 Short Paid
E-Way Bills Generated	220 Bills	Sales invoices: 195	25 EWBs without matching sale invoice

QUESTION: What are the GST implications of each reconciliation difference above?

ANSWERS — M/s. Krishna Enterprises:

1. Turnover: Rs. 25L in books not in GSTR-1 — Suppressed turnover. Demand at applicable rate + Interest + Penalty.
2. ITC: Rs. 5.2L excess in GST returns vs books — ITC claimed without purchase. Reversal + 24% interest (Rule 86-A).
3. GSTR-1 vs 3B: Rs. 3.3L short paid — Interest under Section 50 from due date.
4. 25 EWBs without invoice: Goods moved without invoice = off-book clearance suspected. Call for reconciliation; if unexplained: demand tax on deemed supply.



SUBTOPIC 7: Review of Fixed Assets Register (FAR)

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The Fixed Assets Register (FAR) tracks every asset purchase, transfer, disposal, and write-off — each with a GST angle.

The life of an asset is a GST journey from purchase to disposal.

KEY FAR EVENTS WITH GST IMPLICATIONS:

- Capital Goods for Exempt/Non-Business Use — ITC blocked or Rule 43 reversal
- Sale of Car, Machinery, Furniture, Computer — GST on sale of capital goods
- Transfer to Branch / Distinct Person — deemed supply, tax invoice required
- Capital Goods Written Off / Discarded — ITC reversal for balance useful life
- Depreciation on GST Component — ITC + Depreciation = DOUBLE BENEFIT (not allowed)
- Civil Construction Capitalised — ITC restricted under Section 17(5)(c)/(d)
- Rule 43 Reversal — Common Capital Goods for taxable AND exempt supply



FIXED ASSETS REGISTER – GST Events (Part 1)

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FAR Event	GST Issue	Detail
Capital Goods for Exempt / Non-Business Use	ITC blocked or Rule 43 reversal	ITC on exclusive exempt supply: Fully blocked. Common capital goods: Rule 43 proportionate reversal over remaining useful life.
Sale of Car, Machinery, Furniture, Computer	GST on sale of capital goods	Sale of any capital good = Supply. GST at applicable rate on transaction value.
Transfer to Branch / Distinct Person	Deemed supply — tax invoice required	Transfer to branch in another state = Distinct persons = Supply. Tax invoice at fair value mandatory.
Capital Goods Written Off / Discarded	ITC reversal for balance useful life	ITC Reversed = ITC Availed × Remaining Life / Total Life. For 5-year assets: 5% per quarter reversal rule.
Depreciation Claimed on GST Component	ITC + Depreciation = Double benefit	If depreciation on total cost including GST AND ITC claimed: Double benefit — NOT ALLOWED. Must choose one.



FIXED ASSETS REGISTER – GST Events (Part 2)

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FAR Event	GST Issue	Detail
Civil Construction Capitalised	ITC on construction: Restricted	Section 17(5)(c)/(d): ITC not available on construction of immovable property except plant and machinery.
Repair Wrongly Capitalised / Capital Item Expensed	ITC treatment changes with classification	Capital item expensed to avoid asset disclosure: Scrutinize for manipulation.
Rule 43 Reversal — Common Capital Goods	Proportionate reversal of ITC	If asset used for taxable AND exempt supply: Monthly reversal = $(\text{ITC for month} / 60) \times \text{Exempt ratio}$.

KEY: The FAR reveals what was bought, when, at what cost, and what happened to it. Every disposal, transfer, or write-off is a GST event.



CASE STUDY 7 – Fixed Assets Register: GST Issues

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CASE STUDY: Fixed Assets Register — M/s. Bhavesh Industries, FY 2023-24

Asset	Cost (Rs.)	GST Paid	ITC Claimed	FY 2023-24 Event
Factory Building Extension	28,00,000	5,04,000	YES — Rs. 5,04,000	Capitalised as building (civil construction)
Toyota Innova (Car)	18,50,000	3,33,000	NO	Sold for Rs. 9,00,000. No GST charged on sale.
Computer Server	4,20,000	75,600	YES	Depreciation claimed on Rs. 4,95,600 (cost + GST). ITC also claimed.
Old CNC Machine	12,00,000	2,16,000	YES — Full	Written off / scrapped. Remaining useful life 2 of 5 years.
Weighbridge	6,80,000	1,22,400	YES	Transferred to Rajasthan branch (separate GSTIN). No invoice raised.

QUESTION: Identify GST issues in each asset above and state the applicable provision.



CASE STUDY 7 – ANSWERS

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ANSWERS — M/s. Bhavesh Industries FAR:

1. Factory Building ITC Rs. 5.04L: BLOCKED under Section 17(5)(c) — construction of immovable property. ITC must be reversed.
2. Toyota Innova sold Rs. 9L: GST payable under Section 18(6) read with Rule 40(2): higher of transaction value or (ITC availed \times remaining life). Calculate and demand.
3. Computer Server: Depreciation on Rs. 4.95L + ITC claimed = DOUBLE BENEFIT. Demand: ITC reversal of Rs. 75,600 OR forgo depreciation on GST component.
4. CNC Machine written off: Rule 43 reversal. Remaining life = $2/5 = 40\%$. ITC reversal = Rs. 2,16,000 \times 40% = Rs. 86,400.
5. Weighbridge to Rajasthan — different GSTIN: Distinct persons = Supply. Tax invoice mandatory. Not raised = Non-compliance. Demand at applicable rate on Rs. 6.8L.

Prepared by: CA CS Harshid Patel



SUBTOPIC 8: Review of Stock Register

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The Stock Register tracks every receipt, issue, transfer, and closing balance. It never lies — it just waits for the right question.

PRODUCTION RECONCILIATION FORMULA:

$$\text{Opening Stock} + \text{Production} = \text{Sales} + \text{Closing Stock} + \text{Process Loss} + \text{Scrap} + \text{Samples}$$

If this equation does NOT BALANCE: The difference = Unaccounted clearance.

KEY STOCK REGISTER RED FLAGS:

- Shortage in Physical Verification — ITC reversal under Section 17(5)(h)
- Goods Destroyed / Lost — ITC reversal mandatory
- Job Work Material Not Received Back — deemed supply if not returned in time
- Scrap Generation — verify scrap quantity vs scrap invoices raised



STOCK REGISTER – Key GST Findings & Actions

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Finding	GST Question	Provision	Action Required
Shortage in Physical Verification	ITC reversal required?	Section 17(5)(h) / Rule 42	If shortage > normal process loss: ITC on inputs for shortage qty must be reversed.
Goods Destroyed / Lost in Fire, Flood	ITC reversal done?	Section 17(5)(h)	ITC on destroyed goods: Must be reversed. Exception: Full insurance claim received.
Free Samples Issued	ITC blocked / reversed?	Sec 17(5)(h) / Schedule I	Free samples: ITC reversal mandatory if ITC was availed on inputs.
Branch Transfer (Different State)	GST invoice raised?	Schedule I / Section 7	Transfer between distinct persons = Supply. GST invoice at market value mandatory.
Job Work — Not Received Back	Deemed supply arises?	Section 143 / Section 19	Inputs: return within 1 year; Capital goods: 3 years. If not returned: Deemed supply + Interest + Tax.
Scrap Generation	Scrap sale reported?	Taxable supply	Scrap is taxable supply. Verify qty in stock register vs scrap invoices. Gap = unreported supply.
Abnormal Process Loss	Genuine or suppression?	Sec 17(5) / Sec 73/74	Loss beyond industry norms: Obtain technical justification. If unjustified: ITC reversal.
Production vs Sale Mismatch	Unaccounted clearance?	Section 73/74	Production > Sales + Closing Stock: Missing qty = Unaccounted clearance. Demand at applicable rate.



CASE STUDY 8 – Stock Register: Inventory Reconciliation

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CASE STUDY: Stock Register — M/s. Mehta Pharmaceuticals, FY 2023-24

Item	Quantity (Units)
Opening Stock	12,000
Production during the year	1,80,000
Sales as per invoices	1,55,000
Closing Stock as per records	18,000
Declared process loss	8,000
Free samples issued	1,500
Industry standard process loss norm	3% of production

QUESTION: Apply the inventory equation. Is there unaccounted clearance? What are the GST implications?



CASE STUDY 8 – ANSWERS

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ANSWERS — M/s. Mehta Pharmaceuticals:

TOTAL AVAILABLE: Opening (12,000) + Production (1,80,000) = 1,92,000 units

ACCOUNTED FOR: Sales (1,55,000) + Closing (18,000) + Loss (8,000) + Samples (1,500) = 1,82,500 units

UNACCOUNTED: 1,92,000 - 1,82,500 = 9,500 units MISSING

PROCESS LOSS CHECK:

Declared loss: 8,000 units. Industry norm: 3% of 1,80,000 = 5,400 units.

• Excess declared loss: 8,000 - 5,400 = 2,600 units → treated as suppressed clearance.

TOTAL SUSPECT QUANTITY: 9,500 + 2,600 = 12,100 units — GST demand at applicable rate.

• Free samples 1,500 units — ITC reversal also required. Check if already done.



SUBTOPIC 9A: Review of Cost Audit Report – GST Applications

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Cost Audit Report and IT Audit Report are INDEPENDENT STATUTORY REPORTS providing external, verified business data.

Cost Audit Report is the witness. GST return is the accused.

Cost Audit Data Point	GST Cross-Check	Risk Identified
Production Quantity	Compare with E-Way Bills and GSTR-1 invoices	Production > Billed qty: Unaccounted clearance. Demand on difference.
Consumption of Raw Materials	Match with purchase invoices and GSTR-2A	Consumption high vs declared purchases: Unregistered purchases or inflated claims.
Wastage / Process Loss	Compare with declared loss and industry norms	Excess loss beyond norms: Get technical certificate or treat as suppressed production.
Scrap Generation	Compare with scrap sales invoices in GSTR-1	Scrap generated (Cost Audit) > Scrap sold (GSTR-1): Hidden scrap income.
Installed Capacity vs Actual Production	Use power consumption to validate	Low actual production vs capacity + Power consumed: Possible suppressed production.
Cost of Production vs Declared Sale Value	Compare cost vs invoice value	Sale value persistently below cost: Undervaluation. Rule 27/28 — demand at fair market value.
Captive Consumption	Self-supply within entity — valuation	To related/distinct persons: GST at cost + 10% (Rule 28). Same GSTIN: No GST.



SUBTOPIC 9B: Income Tax Audit Report (Form 3CD) – GST Applications

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B. INCOME TAX AUDIT REPORT (Form 3CD) — GST Applications:

3CD Clause	What It Discloses	GST Cross-Check
Clause 14 (GSTIN)	GSTIN details	Verify all GSTINs filing correctly. Multiple GSTINs = Verify cross-charge compliance.
Clause 18 (Fixed Assets)	Depreciation, additions, deletions	Cross-check additions with ITC on capital goods. Deletions with GST paid on disposal.
Clause 35 (Quantitative Details)	Opening stock, purchases, production, sales, closing stock — qty-wise	Gold standard for qty reconciliation. Cross-match with EWBs, GSTR-1, stock register.
Clause 26 (Statutory Dues)	Outstanding dues including GST	If GST dues outstanding: cross-check whether reflected in GST records.
Clause 34 (TDS on Payments)	Payments with TDS deducted	Payments to unregistered persons: RCM under Sec 9(4) may apply.
Clause 44 (Expenditure — GST Breakup)	Expenditure split between registered and unregistered suppliers	KEY CLAUSE: Expenditure from unregistered suppliers = Potential RCM. Clause 44 gives exact amount.
Clause 19 (Amounts Debited to P&L)	Capital expenditure debited to P&L	Capital items expensed wrongly: ITC may have been claimed incorrectly.

KEY: Clause 44 of Form 3CD is a ready-made RCM audit tool handed to you by the Income Tax Department. USE IT.



CASE STUDY 9 – Cost Audit vs GST Return Cross-Examination

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CASE STUDY: Cost Audit vs GST Return — M/s. Virat Steel Ltd., FY 2023-24

Parameter	Cost Audit Report	GSTR-1 / GST Records	Difference
Total Production (MT)	4,850 MT	3,920 MT (via EWBs)	930 MT unaccounted
Scrap Generated	320 MT	GSTR-1 Scrap: 80 MT	240 MT hidden
Raw Material Purchased	1,420 MT	Purchase invoices: 1,420 MT	Matches
Process Loss Declared	9.8% of input	Industry norm: 4-5%	Excess ~5% — 71 MT
Sale Value (Average per MT)	Rs. 62,000/MT (cost report)	Rs. 48,000/MT (GSTR-1)	Undervaluation Rs. 14,000/MT
3CD Clause	Amount	GST Issue	
Clause 44: Purchases from Unregistered	Rs. 28,40,000	RCM under Sec 9(4) not paid	
Clause 35: Closing Stock (Qty)	210 MT (records)	Physical: 180 MT — 30 MT missing	
Clause 26: GST Dues Outstanding	Rs. 8,20,000	Not in GSTR-9 — non-disclosure	

QUESTION: What is your complete GST audit finding for M/s. Virat Steel Ltd.?



CASE STUDY 9 – ANSWERS

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ANSWERS — M/s. Virat Steel Ltd.:

1. 930 MT unaccounted production: Demand on 930 MT \times Rs. 48,000 = Rs. 4.46 Cr. at applicable rate. Section 74 — suppression.
2. Scrap: 240 MT hidden. Demand on market rate of steel scrap \times 240 MT.
3. Process loss excess 71 MT: ITC reversal on proportionate inputs attributable to 71 MT excess loss.
4. Undervaluation Rs. 14,000/MT: Rule 27 — open market value to be applied. Demand differential GST on 3,920 MT \times Rs. 14,000 = Rs. 5.49 Cr.
5. Clause 44 unregistered purchases Rs. 28.4L: RCM demand @ 18% = Rs. 5,11,200 + Interest.
6. 30 MT stock shortage: ITC reversal + Further investigation.
7. GST dues Rs. 8.2L not in GSTR-9: Recovery + Penalty for non-disclosure.



MASTER GST AUDIT CHECKLIST – Part 1 (Items 1 to 8)

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#	Checklist Item	Document / Source	GST Risk
1	All income heads — taxable or not?	P&L Account	Suppressed taxable income
2	RCM applicability on all expense heads	P&L Account	Missed RCM liability
3	Free samples and gifts — ITC reversal?	P&L / Stock Register	Blocked ITC not reversed
4	Advances received — GST paid?	Balance Sheet	Tax deferred illegally
5	GST ledger vs GSTR-3B closing balance	Trial Balance	Excess ITC / short payment
6	Sleeping ledgers — RCM unpaid?	Trial Balance	Systematic non-compliance
7	9 Ratios — Red / Amber / Green	P&L / Balance Sheet	Multiple risk indicators
8	Contingent liabilities — GST disputes?	Notes to Accounts	Hidden demands



MASTER GST AUDIT CHECKLIST – Part 2 (Items 9 to 15)

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#	Checklist Item	Document / Source	GST Risk
9	CARO remarks — inventory, dues, related party	Audit Report	ITC reversal, RCM, Schedule I
10	March journal entries — GST impact?	Journal Register	Year-end manipulation
11	6-way reconciliation — all matches?	GSTR-1, 3B, 2A, 9, 9C	Suppression / excess ITC
12	FAR — additions, deletions, transfers	Fixed Assets Register	ITC reversal, GST on disposal
13	Inventory equation — balanced?	Stock Register	Unaccounted clearance
14	Cost Audit vs GSTR-1 production/scrap	Cost Audit Report	Hidden production, scrap
15	Clause 44 of 3CD — unregistered purchases	Form 3CD	RCM liability quantum

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Thank You

With Heartfelt Gratitude to:

**GST & Indirect Taxes
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**SGST Department,
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**Rajkot Branch
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