

COMMON ERRORS EXPECTED IN K-VAT.

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The dealer or manufacturer or the professional either advising the client or conducting a management audit, internal audit, K-VAT audit, inputs/ capital goods set off audit, valuation audit, due diligence would be better equipped when he/ she is aware of the possible common errors by manufacturers and traders which could have an impact on the costs in case of errors.

The saying "forewarned is forearmed" is apt in this circumstance.

The errors have been bifurcated into the errors in understanding, errors in systems and others as under:-

Conceptual:

These are errors which are quite common which once committed continue to be practiced and become the norm for years till someone questions the same. The reasons for the same could be the ignorance of the officers responsible for K-VAT in the company and the fact that most other dealers / manufacturers internal departments want to maintain a distance from the department.

The errors could be as under:

1. Not raising an invoice for sales.
2. Non payment of net tax within 20th of subsequent month.
3. Non payment of K-VAT on unregistered dealer purchase.
4. Tax payments for URD purchases, set off not availed.
5. Tax payments for URD purchases, set off availed immediately rather than at the time of sale (dealer) or at the time of use in manufacture (manufacturer).
6. Exemptions claimed though items not specifically covered.
7. Exemptions claimed though the conditions are not fulfilled.
8. Stock transfer of goods without payment of CST where the buyer or consignee is known.
9. Principal paying the tax for sale by agent within the state.
10. Inputs set offs missed out due to lack of knowledge on admissibility/ or clarified by departmental officers.
11. Inputs set offs reversed for interstate sale/ exports by dealer / manufacturer.
12. Non deduction of 2% for stock transfer out of the state for manufacturer under the special rebating scheme.
13. Not working out the benefit of stock transfer as against CST sales from the customers and manufacturers point of view.

14. The delegation of powers and authority to debit/ reverse set off based on amounts involved is available for all financial matters except K-VAT. In fact it is required in this area more due to the general lack of transparency in the system today.
15. Inputs set offs reversed on oral instructions of departmental officers/ audit parties without validating the same with consultants.
16. Inputs set offs not proportionately reduced for rejection of inputs.
17. Set offs availed for inputs used to manufacture exempted items.(first schedule or specific exemption)
18. Inputs set off not availed for the inputs used commonly in taxable and no taxable items.
19. Input set off availed on Xerox copy of tax invoice.
20. Availing and utilizing the set off on defective input documents such as: no TIN No., K-VAT not clearly indicated, no consecutive serial number.
21. Availing KVAT set off on construction materials where the dealer does not deal in such goods
22. Input set offs on differential duty charged by the supplier by way of an invoice not being taken as inputs not received at that time.
23. Proportionate duty not reversed when both common inputs are used in manufacture of products, which are taxable and exempt, when no separate accounts are maintained to distinguish usage.
24. Utilisation for the payment of input set offs availed in respect of the goods received after the month end upto 20th. (Before the due date of payment.)
25. Removal of scrap without a tax invoice and without discharging the tax.
26. Not debiting tax when the materials on which set offs are availed are removed to the service wing of the factory or to the service unit.
27. Goods being classified under a wrong heading.
28. True apportionment of partial rebate in October and April for common inputs not done.
29. Calculation of value for discharging tax without considering the discount granted to customers.
30. Discharging tax on transaction value even in cases where the goods are removed under stock transfer.
31. Frequent delays in taking the input set off necessitating the payment of tax.
32. Inputs removed on payment of tax when actually the input set off has not been taken on the receipt of the same materials.

Systems:

The K-VAT law can be complied in full, if the procedures are followed and internal control principles are followed. The errors arising due to the improper system being followed or weakness in internal control not being detected or corrected are indicated. The compliance procedures as well as the record keeping aspects have also been covered as under:-

1. Not having a proper system of ensuring completeness of input set offs. Consequently no available set offs missed out.
2. The system of double check on set offs whether short / excess availed especially in case of higher amounts of set offs due to clerical errors.
3. The system of an analysis of the purchase cost when the goods are purchased from out of state persons (CST Sales).
4. Inquiry of instances of inordinate time gap between the receipt of materials as per security records and the raising of Goods Receipt Notes.
5. The registration no/ TIN no. not mentioned on the invoices.
6. The system of removal of goods and transfer of possession through a delivery challan and subsequently no invoice issued within 14 days.
7. The system of raising of invoices much prior to the removal of goods especially during end periods.
8. The system of cancellation of invoice where the VAT debits has already been done without a procedure for reversal.
9. The system of non-updation of sales registers for cancelled invoices.
10. The absence of a system of recording entry in the job work control register when the goods are sent for job work or when they are returned back along with recording the scrap returned.
11. The procedure required to avail set off (entry in stores ledger for the receipt, the consumption and inventory of the inputs) not being followed.
12. The system of reconciliation where the materials sent (kgs) are distinct from the materials being received back (nos) from the job worker with calculation of scrap / shortage etc.
13. The system of sending and receiving the materials without delivery challans/ documents.

Compliance Procedures- Omissions

1. The non-declaration by the assessee to the department about the records maintained by the assessee.
2. The systems to ensure returns are filed in time.

3. Failure to intimate the Department about the change in the constitution of the firm or company.
4. The system of replying to department letters seeking clarifications in a reasonable period of time not followed.
5. The system of acting on departmental views/ oral instructions, which are not provided in writing.

Records maintenance and others

1. The system of updating of the registers and records on a regular basis not done.
2. The system of reconciliation of sales as per excise returns to VAT returns not done.
3. The system of reconciliation of set off figures as per accounts and the figures as per VAT return not done.
4. The system of updation of the stores ledger and the bin cards for input receipts, disposal and issue.
5. In case of gross method of accounting purchases where tax portion is not shown separately, the method and accuracy of making monthly entries for the set off.
6. The system of value based authorizations in place for various transactions relating to excise not being in place.
7. The system of no authorisation for production documents / material requisition.
8. The system of transferring the unutilized balance in the input set off account to Expenses a/c.

This listing does not propose to be a full list but could be start point of a comprehensive one. As time goes the other errors of more complexity would also surface.