Impact of GST on Inventory Management and Inventory Valuation

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Introduction

GST is value added tax levied on supply of goods and services. GST offers comprehensive and continuous chain of tax credits from the producer's/service provider's point up to the retailers level/consumers level thereby taxing only the value added at each stage of supply chain. The present research paper would focus on one of the element in supply chain which is inventory management. Researcher is listing out the impact of GST on inventory management in India.

Objectives of the Study

1. To understand the concept of Inventory management.
2. To explain the concept of Inventory Valuation under GST.
3. To know the role of GST regarding Inventory Management.

Significance of the study

1. Present study gives the basic idea to the Inventory management and GST
2. The Study would be help to further research regarding role of GST in Inventory management.

Limitations of the study

1. The research is done with the help of secondary data collected and primary information is not collected.
2. The geographical area is not decided for study.

Research Methodology

The present study is explanatory cum descriptive in nature. It is based on secondary data, collected from various journals, websites, books and online articles.

Introduction to Inventory and Inventory Management

Inventory:

The term inventory means items of tangible assets:

1. Heldfor sale in the ordinary course of business.
2. In the process of production for such sale.
3. To be currently consumed in the production of goods and services to be available for sale. Thus inventory covers finished goods (saleable); work in process (convertible); and raw materials and supplies (consumable).

Inventory management

Inventory management is concerned with keeping enough product on hand to avoid running out while at the same time maintaining a small enough inventory balance to allow for a reasonable return on investment. Inventory is used for stock of goods kept in organization and meant either for sale or for being consumed in production process. Organization has tomaintain an adequate stock of goods or inventory in order to provide continuous production and sale of goods and services.Goods and service tax (GST) is an indirect tax throughout India to replace taxes levied by the central and state governments.

Objectives of Inventory Management:

The main objectives of Inventory Management are to:

1. Ensured that materials are available for use in Production and production services, as and when required.
2. Ensured that finished goods are available for delivery to customers to fulfil customers.
3. Minimise investments in inventories.
4. Protect the inventories against deterioration, obsolescence and unauthorised use.
5. Balance the requirements of two opposing and conflicting demands viz:

- To maintained a large quantity for smooth opeations and efficient customer service; and
- To maintained only a minimum possible inventories because of inventory holding costs and the opportunity cost of fund invested in inventory.

GST: Input tax credit limit on existing stock raised to support transition period sales

In a major relief to traders and businessman across the country, the GST council has increased the limit on

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input tax credit to60% against excise payments from 40% earlier on items with tax rates at 18% and above without excise payment receipts,bringing some respite on sale of inventories stocked up implementation of the new tax regime on July 1. The input tax creditrefund against excise on items with tax rates below 18% would remain at 40% of the total GST liability. Further, the councilalso ruled that entire 100% input tax credit against excise can be availed on high-value items above Rs.25000 with a chassisnumber. It must be noted that the input tax credit refund against is already at the full value in cases where the excise paymentreceipt is available. Distributors and dealer had begun cutting down on the stock of goods lying with theme ahead of theimplementation of GST, as the earlier proposed rules provided for them to claim tax credit for only up to 40% of their totalGST liability against the excise duty already paid on the goods purchased before July 1 without furnishing the original excisepayment receipt.Some of the best GST, system across the world like Singapore and New Zealand use single GST, but India has adopted adual GST model. The change in tax structure is expected to have a huge impact in supply chain in India.

GST- IMPACT IN INVENTORY MANAGEMENT

1. Planning before transition

There is a need to plan time of purchase during transition phase considering the factors such as credit eligibility, entry taxlevy, days of delivery etc. presently, the interstate purchases suffer 2% CST against form C with is non-creditable. Duringtransition phase, such purchases could be delayed by maintaining appropriate stock levels. In case entity has more interstatesales, then customers could also reduce purchase volume to save on CST cost. Therefore, stock requirements to be studiedwell in advanced to plan for stock levels. The absence of check post would reduce the transit times also.

2. Despatch of rejected inventory

Rejected inventory needs to be returned to suppliers especially when the VAT input credit/ CENVAT credit has been availedon such inventory. Otherwise the benefit of tax deduction or re-credit may not be eligible for the suppliers which ultimatelyburden the person returning the goods. Therefore, identification of inventory due for return to the suppliers is critical duringtransitional phase.

3. Demand for discount

There could arise a situation where there is a need to procure more goods before implementation of GST if such a scenarioarises, quantity/trade discounts could be demanded from the suppliers which would reduce the procurement cost of supplies.Comparing the tax rates as per the rates in indirect taxes and tax rate in GST could be necessary to decide on suchpurchases.

4. Stock transfer of goods

It is usual practise for most of the manufactures to open branches in different places either within the state or outside thestate for transport convenience or to avoid charging of CST which is non-creditable. Presently, transfer of excisable goods toother places including branches would be liable for applicable excise duties but not subject to VAT. In GST regime, allsupplies including branch transfers would be subject to GST. This would have impact on cash flow. Therefore, the need forbranches and level of inventory to be maintained at branches to be relooked during transitional phase.

Impact of GST on Inventory Valuation

The Goods and Services Tax (GST) introduced on 1st July, 2017. There are various impacts of GST on business activities, like change in invoicing process, change in accounting process, etc. It has impact on valuation of inventories also due to reverse charge mechanism on goods under GST. This document prescribes the accounting treatment of GST on inventories.

As per IndAS 2, inventories are assets held for sale in the ordinary course of business (trader), in the process of production for such sale or in the form of materials or supplies to be consumed in the production process (manufacturer) or in the rendering of services (service provider).

Valuation of Inventories under GST

According to accounting principles envisaged under Ind AS 2 , taxes paid on goods or raw materials should be included in the cost of inventories only when those taxes are not recoverable. So, the amount of GST should be included in the cost of inventories only when it is neither available for input credit nor refundable.

Conclusion

After the elimination of multiple state-level taxes in lieu of a uniform GST rate, the stock points have been optimised and channel inventories reduced. There will be fewer transit stays after GST, which will help in advancing lead times while also reducing inventory levels at stocking points. With more potential for consolidation, warehouse management can also become more efficient.

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