GST – Impact on Inventory Management Function

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In addition to sales and procurement functions, inventory management would be crucial while transiting to new GST regime from existing indirect tax regime. Some of the aspects to be considered could be planning of purchases during transition, reconciliation of stock records etc. In this article, we have discussed few aspects having impact on inventory management function in GST. Professionals could take care of these aspects for guiding assesses in transition phase.

Planning before transition

There is a need to plan time of purchase during transition phase considering the factors such as credit eligibility, entry tax levy, days of delivery etc. Presently, the interstate purchases suffer 2% CST against Form C which is non-creditable. During transition phase, such purchases could be delayed by maintaining appropriate stock levels. In case entity has more interstate sales, then customers could also reduce purchase volume to save on CST cost. Therefore, stock requirements to be studied well in advance to plan for stock levels. The absence of check post would reduce the transit times also.

Despatch of rejected inventory

Rejected inventory needs to be returned to suppliers especially when the VAT input credit / Cenvat credit has been availed on such inventory. Otherwise the benefit of tax deduction or recredit may not be eligible for the supplier which ultimately burden the person returning the goods. Therefore, identification of inventory due for return to the suppliers is critical during transitional phase.

Meeting customers demand during transitional phase

There could be good demand for the goods which are presently liable for concessional rate of tax but subject to higher GST after introduction of GST. This demand could be from customers who would not be eligible for any credit or from final consumers. It is necessary to ascertain the level of finished goods to be maintained to meet customer's demand. Failing to meet demand of customers could lead to disappointment of customers and losing out on future orders. Appropriate planning could avoid losing out on any such orders.

Tracking of goods lying with job workers and agents

In the present indirect tax regime, inputs / capital goods can be removed outside the factory without paying any duties for carrying out any intermediary process, provided the goods are received back within 180 days in case of inputs and 2 years in case of capital goods. During transitional phase, the stock of goods lying in job work to be tracked and reconciled. Any deficiency in stock as per books of the entity and actual stock could lead to denial of credit. Early action during transition phase could avoid unnecessary demands in future.

The reconciliation exercise should be undertaken even for goods lying with agents. According to model GST law, the agents would be entitled to take credit on stock lying subject to condition that both principal and agents declare the details of stock appropriately. Reconciliation statements would help to ensure availing appropriate credits.

Demand for discount

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

Stock Transfer of goods

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

Conclusion

The model / revised GST law is not as simple as one expected and above aspects are only illustrative which could vary for each organisation. Lot of planning is required during transitional phase for every organisations. Professionals like chartered accountants could highlight the importance of proper planning in GST including inventory management for the clients to maximize the benefits.

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