

VERIFICATIONS OF TRANSACTIONS UNDER CST ACT AND REPORTING IN FORM 704

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1. SALES TRANSACTIONS:-

Concept of inter-State Sales:- The gamut of inter-State sales centres around the physical movement of goods from one state to another. Therefore, as an auditor one has to verify, whether the goods have really moved from one state to another in pursuance to a contract of sale. It is to be noted that the locations of the buyer or the seller is not at all relevant in determining whether a transaction of sale is an inter-State sales or not. Similarly, the place of passing of property in goods does not have much relevance. The property may pass in either the originating state i.e. from where the movement has commenced or in the state of destination. Similarly, property may pass either before the movement has commenced or it may pass during the movement or after the cessation of the movement.

1.1 The Central Sales Tax Act, 1956 governs the inter-State movement of goods. As per the Central Sales Tax Act, 1956 the physical movement of goods from one state to another can be classified in two broad categories--

- A. Movement of goods from one state to another as a result of sale.
- B. Movement of goods from one state to another otherwise then as a result of sale.

2. Movement of goods as a result of sale:-

Inter-State sale (Section 3 of CST Act):-

- (a) A sale which occasions the movement of goods from one state to another.
- (b) A sale effected by transfer of documents of title to the goods during their movement from one state to another.

Expl 1: Commencement\ termination of movement passing through the territory of another state.

Expl 2: In this category all inter-State movements of goods from one person to another for a consideration get covered and it may be any of the following:-

- (a) Sale in the course of export,
- (b) sales in the course of import
- (c) Penultimate sale in the course of export
- (d) Transit Sales/out and out sales/subsequent sales
- (e) Sales to SEZ units and developer of SEZ.

3. Movement of goods from one state to another otherwise then by way of sale:-

- (a) Transfer from Head office to branch or branch to head office (branch transfer)/from Factory to Sales Depot.
- (b) Transfer from Consignor to consignee (consignment transfer) or vice-versa.
- (c) Transfer from principal to job workers and from job workers to principal.

4. **VERIFICATION OF INTER-STATE SALES:-**

To verify whether a transaction is of an inter-State sale or not an auditor has to verify.

- (a) Purchase order from the buyer giving instruction of delivery which envisages movement of goods from one State to another.
- (b) Copies of lorry receipts/railway receipts showing the transportation of goods from one state to another.
- (c) The delivery memos and the LR's, the sale bills and the 'C' Forms received so as to establish that they all pertain to the transfer of same goods.
- (d) Whether the amount of bill matches with the amount shown in the 'C' Form.
- (e) Make a reconciliation of value of invoices and the value of declaration, note the difference and reasons for difference.

5. **VERIFICATION OF EXPORT (DIRECT EXPORT):-**

I. **To verify whether a transaction is of direct export an auditor has to verify the following:-**

- (a) Purchase order from the foreign buyer giving particulars of goods sought to be purchased by him from the auditee.
- (b) Details of letter of credit etc. for payments to be received in consideration of goods sold.
- (c) Copies of excise documents like ARE-1 showing that the goods are moving for export.
- (d) Copy of bill of export.
- (e) Copy of bill of lading, packing list, transit insurance etc.
- (f) The particulars mentioned in the purchase order, excise documents, sales invoice, bill of lading etc. match with each other so as to establish that they all pertain to the transfer of same goods.

6. **VERIFICATION OF PENULTIMATE EXPORT:-**

- (a) Verify the purchase order received from the buyer mentioned that the goods purchased by him are meant for export.
- (b) Verify the “H” Form received and the particulars mentioned therein.
- (c) In case of sale against Form ‘H’ please see that the foreign buyers purchase order date is prior to the date of sale by the auditee.
- (d) If possible, ask the party to obtain proof of actual export from the Merchant Exporter if available.

Find out that the same goods have been exported or not. However, if that is not the case then also you cannot calculate the liability by disallowing the same as in that case the contravention will arise in the hands of the Merchant Exporter. As an auditor one can only mention this fact in Column No.5 of Part II of Form 704 ‘Qualification or remarks having impact on the tax liability’.

7. **VERIFICATION OF SALES IN THE COURSE OF IMPORT (HIGH-SEAS SALES):-**

- (a) Verify the purchase order placed on the foreign vendor to know the description quantity etc. of the goods imported.
- (b) Import license issued by Government of India relating to goods imported.
- (c) Invoice of sales issued by the foreign supplier for sales made to the importer.
- (d) Letter by the importer to the High Seas buyer forwarding bill of lading etc.
- (e) Letter by the importer to the Custom Authorities intimating that the goods will be cleared by the High Seas Buyer.
- (f) Letter by the High Seas Buyer to the Custom Authorities intimating that being a purchaser he will be clearing the goods.
- (g) Verify the high-seas sale agreement entered with the buyer to find out the description of the goods sold and see the Sales Tax payment clause and Payment of Import duty also. The agreement should be of a date prior to the date of endorsement of bill of lading etc.
- (h) Verify the endorsed copy of bill of lading and the date of endorsement.
- (i) Verify whether the custom duty has been paid by high seas buyer and its delivery was taken by him from the Custom Authorities. Also verify that the custom duty etc. is borne by the high-seas buyers.

8. **VERIFICATION OF OUT & OUT SALES/TRANSIT SALES:-**

- (a) Verify the purchase order placed by the auditee on his vendors to find out that it pertains to the same goods which are being bought/sold in transit.
- (b) Verify the LR under which the goods are being transported from the place of first vendor to the auditee to know the commencement of movement of goods.
- (c) Verify the Xerox copies of endorsed LR's if available.
- (d) Verify that the purchase order from the subsequent buyer is after the date of commencement of movement from the place of the vendor to the auditee.
- (e) Verify the declarations in Form 'C' received from the subsequent buyer and the Form E-1 obtained from the vendor.
- (f) Also link all the documents to find out that the same goods have been bought and sold and in the sales invoice no CST has been charged while effecting subsequent sales.

9. **VERIFICATION OF SALES TO SEZ UNIT/DEVELOPMENT OF SEZ:-**

- (a) Verify the purchase order so as to ascertain the quantity and particulars of the goods sought to be purchased by the buyer.
- (b) Verify the Form I if received from the party if it is not available then ask for a copy of certificate from the Competent Authority of the Central Government issued in favour of SEZ Unit/developer of SEZ.
- (c) Verify the Form I to find out that the particulars mentioned in the purchase order in the sale bill and the Form I match.

10 **TRANSACTION INVOLVING INTER-STATE MOVEMENT NOT IN PURSUANCE OF A CONTRACT OF SALES:-**

10.1 Branch transfer from Head office to branch/from branch to Head office:-

- (a) Verify the CST Registration Certificate so as to ascertain that the branch is shown as a place of business in the RC.
- (b) Verify the Registration Certificate of the branch under the CST Act so as to ascertain that it is a registered dealer.
- (c) Verify the Stock Transfer Memo to ascertain that no CST has been charged therein and it is mentioned that it is a case of stock transfer/branch transfer.
- (d) Verify the lorry receipt to find out that the consignor is the auditee and the consignee is the branch of the auditee.

- (e) Inter-link all these documents to find out that they pertain to the same goods.

PURCHASE TRANSACTIONS

I. Direct Import:-

- (a) Verify the order placed on the foreign vendor to know the description/quantity of the goods purchased.
- (b) Verify the invoice raised by foreign vendor.
- (c) Verify the bill of entry etc. to know the payment of import duty.
- (d) Please ensure that the import duty is added to the gross turnover of purchases as it is the part of purchase price of imported goods.
- (e) Verify the bills received from Custom House Agents in reduction to the goods.

II. High Seas Purchases (Indirect Imports):-

- (a) Verify the purchase order placed on the vendor to know the description quantity etc. of the goods purchased as high seas purchases.
- (b) Invoice of sales issued by the supplier for High Seas Sales.
- (c) Letter to the importer from the High Seas Purchaser.
- (d) Copy of letter by the importer to the Custom Authorities intimating that the goods will be cleared by the High Seas Buyer (if available).
- (e) Letter by the Buyer to the Custom Authorities intimating that being a purchaser he will be clearing the goods.
- (f) Verify the high-seas sale agreement entered to find out the description of the goods purchased. The agreement should be of a date prior to the date of endorsement of bill of lading etc.
- (g) Verify the endorsed copy of bill of lading and the date of endorsement.
- (h) Verify the custom duty paid by high seas buyer and its delivery was taken by him from the Custom Authorities. Also verify that the custom duty paid details.

III. Inter-State Purchases:-

- (a) Verify the purchase orders placed on the vendor to see the dispatch instructions, if any.
- (b) Verify the lorry receipt to confirm the movement of goods from one State to another.
- (c) Verify the purchase invoices, lorry receipt and purchase order to see that the goods are the same.
- (d) Verify the 'C' Form issued against the purchases.

IV. **Inter-State Branch Transfers received:-**

- (a) Verify the stock transfer note recorded and their entry in the stock register.
- (b) Verify the lorry receipt to check that the goods have moved from another state.
- (c) Verify the 'F' Form issued to the sender branch/ H.O. etc.
- (d) Verify the quantity received on branch transfer and its disposal.

REPORTING OF CST TRANSACTION IN FORM 704

Relevant items of Form 704

Part I 3 Certificates by VAT Auditor.

- (d) The gross turnover of sales and purchases, determined by us includes all transaction of Sales Purchases concluded during period under the audit.
- (f) The deductions claimed from GTO(S) and other adjustments are supported by necessary documents and are in conformity with the provisions of the relevant act.
- (i) Where ever the dealer has claimed sales against declarations or certificates; except as given in Annexure H and Annexure –I, all such declarations and certificates are produced before me. I/we verified the same and they are in conformity of the provisions relating therto.
- (p) I have verified that the purchases effected by the dealer in respect SEZ Unit of the dealer are used in said unit.

Part II ‘H’ Nature of Business → Importer

- Sch.I 1(g) Sales U/s 8(1) (Turnover covered under Sch.VI)
 3(e) Imports (Direct Imports)
 3(f) Imports (High Seas Purchases)
 3(g) Inter-State Purchases
 3(h) Inter-State Branch Transfers/Consignment Transfers received.
- Sch.VI 1(b) Turnover of inter-State Sales U/s 6(3) sales to foreign diplomatic mission or consulate in India or United Nations or any other similar internet body.
- (c) Value of goods returned within 6 months
 - (d) Turnover of sale of goods outside the State.
 - (e) Sales of goods in the course of export outside India
 - (f) Sales of goods in the course of Import into India
 - (g) Value of goods transferred U/s 6A(i)
 - (h) Turnover of sales of goods fully exempt from Tax U/s 8(2) r/w 8(4) of the MVAT Act.
- 2(a) Cost of freight, delivery or installation of separately charged in the invoices.
 (b) Turnover of inter-State sales on which no tax is payable.
 (c) Turnover of inter-State sales U/s 6(2).

(d) Turnover of inter-State sales on which tax is not leviable U/s 8(6).

4 Deduction u/s 8A(1) : Deduction of Tax

Annexure B: Details of amount paid alongwith returns in following format.

Annexure G: Declaration wise details of declarations received in respect of inter state sale (against Form C) , Branch Transfer (Form F) , sales to SEZ (Form I) , 6(2) sales (Form E-I / E-II) , Indirect Exports (Against Local H Form/ OMS H Form) , and Sales U/s 6(3) (Form J) in the following format:

Sr. No.	Name of the dealer	TIN/ RC No	Declaration/ Certificate Type	Issuing State	Declaration No.	Gross Amount as per invoice covered by declaration	Amount of Declaration

Annexure H: Details of Invoices of Indirect Exports in respect of which Declarations in (local Form H) not received in the following format:

Sr. No.	Name of the dealer who has not issued Declarations/ Certificates	TIN	Invoice No.	Date of Invoice	Taxable Amount	Rate of Tax Applicable	Tax Liability

Annexure I: Details of Invoices of in respect of which Declarations under CST Act in (Form C/ F/ E-I/E-II/ OMS H / I /J) are not received in the following format:

Sr. No.	Name of the dealer who has not issued Declarations/ Certificates	CST TIN	Declaration Type	Invoice No.	Date of Invoice	Taxable Amount	Tax Amount	Rate of Tax Applicable	Amount of Tax Col.	Tax Liability

Annexure J-5: Details of Customer wise transactions of Direct Exports and High Seas Sales under CST Act in following Format:

Sr. No.	Name of Customer	TIN of Customer	Transaction Type	Gross Total	Major Commodity

Annexure J-6 : Details of Supplier wise transaction under CST Act. in the following format:

Sr. No.	Name of Supplier	TIN of Supplier	Transaction Type	Any other cost of Purchase	Gross Amount