

GST Adviser

Keeping you updated on Goods and Services Tax issues

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GST – right accounting software helps

By Pak Fook Meng
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Having the right accounting software package complete with goods and services tax (GST) capabilities can help your business manage accounts more efficiently. It will also help make the process quicker and more straightforward when complying with the soon-to-be implemented GST on Jan 1, 2007.

GST and Value Added Tax (VAT) are not new and have been adopted by many developed and developing countries. GST and VAT generally operate on the same tax mechanism and much has been said about GST and its most probable features since the Finance Ministry made the announcement in Budget 2005.

The key question is...what is the level of readiness among our companies in facing this change? Do we have the right accounting software in place for GST implementation?

Accounting software

Maintaining accounts can be truly challenging for any business. Whilst many businesses entrust this task to an accountant, others aim to save time and money by using specialist accounting software. You will rely on your accounting package for all the important financial transactions in your business, as well as giving you critical information about the health

of your business. Therefore, it is crucial to choose the right package for your business needs.

Your package must not only be able to meet all the statutory or legal requirements applicable to your business now but it must also continue to do so in the future. It must be able to meet the Financial Reporting Standards (FRS) and revisions to the many existing standards based on the globally converged International FRS that will take place in 2006 and the GST requirements in 2007.

Some requirements are equally applicable to all businesses, but others are more specific to particular businesses and the way in which they operate. A business that deals mostly in cash will keep accounts in a different way from a business that does not. Understanding and defining your support requirements is an important element to consider in choosing the right accounting package. Consideration must be given to the setting up, installation and maintenance of the package.

Problems might occur in the handling of GST when you need to generate returns to the relevant authority. Penalties will be imposed if problems remain. Therefore, you will need a person or a support organisation that you can rely on to sort out this type of problem.

Contents

- 1 GST – right accounting software helps

- 3 GST implementation in Malaysia – a software perspective

You will encounter less problems making changes to your business now than when the GST system is in place.



Accounting software & GST

The administration and enforcement of the GST system would require efficient and effective computerisation of the relevant department administering the tax.

In the GST environment, the accounting software should be able to accommodate the changes affecting the invoicing and billing system of the business process.

The purchase and sales of goods and services will give rise to input and output tax. This information will have impacts on the inventory, purchase orders, sales orders, debit notes and credit notes.

Payments and refunds of GST will arise on supply of taxable goods or services and this information will most likely be addressed in the account receivables (AR) and account payables (AP) module of the accounting software.

Therefore, it is important for the accounting software to be able to integrate all the relevant data from the modules of sales, procurement, inventory, AR and AP to generate accurate and complete reports and forms required for filing and reporting to Kastam Diraja Malaysia (KDM) on a timely manner.

The relevant reports and forms can also be used to facilitate payments and refunds, audits and timely submissions to KDM. Having an e-filing feature will be ideal in expediting the filing process. In order to ensure compliance with the GST requirements, the accounting software must be able to carry out internal checking and auditing of GST returns. In addition, it must be able to facilitate the checking and monitoring of the information's completeness and accuracy.

The most challenging task is whether the accounting software has a master data maintenance function which will enable it to cater to any changes in the GST rates, taxpayer status, procedures and any other issues (such as business transitional issues, exempted or zero-rated goods/services and discount vouchers) that may affect the businesses.

Of course, one also has to consider implementing a fairly accurate cost estimates for budgeting purposes and cash flow position. Alternatively, companies employing legacy systems may want to opt for a small plug-in system capable of handling and administering the GST

requirements.

This may save the company from engaging in extensive modification work to its existing system, which involves much hassle that may lead to extensive downtime, thus affecting the operations and its bottom line eventually.

However, a detailed analysis has to be carried out to determine the current systems' capability or flexibility for modification to address the GST requirements. To ensure efficient and effective implementation, a committee needs to be set up and headed by a senior person, ensuring all departments in the company understand what is required of them in order to comply with the GST.

Effective administration and enforcement also require well-trained staff, both on the usage of the accounting software and GST requirements.

Training is vital as it can also be used as an ongoing process to garner feedback from the staff and management as varying expectations from them may arise. Early preparation by the companies in the implementation of GST will surely benefit both the taxpayers and Government. This will allow early detection of problems and the workaround of a solution.

Furthermore, you will encounter less problems making changes to your business now than when the GST system is in place. Therefore, it is worth planning ahead on what you need to do and when to do it in the early stages.

In conclusion, it is vital that companies get themselves prepared with the right accounting cum GST software in conjunction with the implementation of GST in Malaysia. Having the right accounting software is indispensable in the areas where it supports your core business processes, enables sophisticated decision making, and utilises business-critical specialist knowledge.

GST implementation in Malaysia – a software perspective

by Yau Yat Hoong
Chief Technical Officer, Ingenuity Solutions Berhad



What is the impact of GST on businesses in relation to their accounting software? As the actual laws have not been announced, the following suggestions and explanations are only intended for general guidance and should not be taken as complete nor final.

Scope of GST

GST is defined as a multi-stage tax on domestic consumption levied on taxable supply of goods and services in Malaysia and on imports to Malaysia. The tax will be imposed on a majority of goods and services with minimum exemptions and zero rating.

In general, what this means is that we need to know the nature of both the buyer and seller, the nature of the product or service provided and the location in which this product or service is rendered and of course, the time at which the transaction occurred.

To ensure that your accounting software is able to determine the correct GST calculation to be used, broad parameters need to be incorporated and they can be categorised into the following areas:

- A. Master file setup information
- B. Transaction and document printouts
- C. Reporting requirements

A. Master file setup information

1. Company profile information

Upon registration, a GST registration number will be assigned. This is to allow the generation of tax invoices. Parameters required include:

- GST registration number
- sales tax registration number (during the conversion period, both numbers may be in use concurrently)
- GST status of company (i.e. GST registered or exempted)
- date of GST registration taking effect

2. Creditor master file setup

To determine whether input GST can be claimed, we need to know where the supplier is located and the GST status of the supplier. Parameters include:

- GST registration number of creditor
- GST status of creditor
- country in which creditor is located
- date of GST registration/taking effect

3. Debtor master file setup

To determine the rate of GST to collect on sales, we need to know who the customer is, where they are located and the GST registration status of the customer.

- GST registration number of debtor
- GST status of debtor
- country in which debtor is located
- date of GST registration/taking effect

4. Product setup

As GST is both an input and output tax, we need to cater to the tax applicable on both sales & purchases.

a. Purchases

- GST category of product
- custom code (for excise duties)
- excise duty rate
- GST rate applicable

b. Sales

- GST category of product
- GST rate applicable

5. Product pricing

• GST as part of selling price

In product pricing setup, the system must be flexible enough to ensure that the selling price can be set up either as gross or net of GST. In cases where the seller decides to absorb the GST and charges net prices to its customers, then pricing setup is done on a net basis.

• GST as part of purchase price/past through cost

If you are a manufacturer, some items purchased may be for your own consumption. Hence, you need to cost the GST component into your stocks. For those that you resell, GST should not be a part of your stock cost.



“GST is not just about collecting and paying taxes. It impacts your cash flow as well as the cost of doing business. Those without the right system will be penalised and businesses must take a serious look at how prepared they are.”

Yau Yat Hoong
Chief Technical Officer, Ingenuity Solutions Berhad

B. Transaction entries and documents

For transaction entries, the objective is to ensure that any transactions attracting GST have captured the GST component completely and accurately.

1. GST as a mandatory field

- GST should be made a mandatory field on certain transaction screens whereby if someone forgets to enter the correct value, the system will alert the user and will not allow the transaction to be saved
- There should also be logic checks to ensure the amount of GST is accurately calculated (shortage or excess should not be allowed).

2. Tax invoice format

- The formats and input screens of sales invoices and purchases need to cater to GST
- There could be a need for 2 formats if some products are exempted from GST while others attract GST
- It may be necessary to also look at where the GST tax field is located on the invoices screen, e.g. is it on the item-by-item or on the net total of the invoice? Since we may have exempted and non-exempted items, it may be necessary to cater to GST at both levels.

C. GST reporting from the general ledger

The format shown here is just a broad guide to the type of information that is expected and the form of reporting that is required, and not the actual format. I hope you will get a useful overview of the broad system parameters and the various factors to consider when embarking on your journey to upgrade, update or modify your existing systems to cater to GST in the Malaysian context.

GST Tracking Report

GST (payable)/Receivable B/F		X
Add: GST on qualifying sales for the period (a)	X	
GST on qualifying purchases returns (b)	X	
Penalty on late payment of GST (c)	X	
		<hr/>
Less: GST on qualifying purchases for the period (d)	X	
GST on qualifying sales return (e)	X	
		<hr/>
Add/(Less) Adjustments for the period	X	
GST on bad debt written off (f)	X	
Etc (g)	X	
		<hr/>
GST (payable)/Receivable in the period		X
GST (paid)/Received in the period (h)		X
		<hr/>
GST (payable)/Receivable C/F		X

Sub-reports that substantiate the figures from item (a) to (h) should also be made available and records may need to be kept for 7 years. Audit trail to the source documents and the source documents itself to support the sub-report (a) to (h) should also be made available. Additional reports to verify qualifying and non-qualifying items may also be necessary. For example, total qualifying purchases = total purchases – total non-qualifying purchases. Reports to show the non-qualifying purchases may also need to be made available.