Compiled Interpretation **Interpretation 1031**

Accounting for the Goods and Services Tax (GST)

This compiled UIG Interpretation applies to annual reporting periods beginning on or after 1 January 2009. Early application is permitted. It incorporates relevant amendments made up to and including 13 December 2007.

Prepared on 12 November 2009 by the staff of the Australian Accounting Standards Board.

Australian Government

Australian Accounting Standards Board

Obtaining Copies of Interpretations

Compiled versions of Interpretations, original Interpretations and amending pronouncements (see Compilation Details) are available on the AASB website: www.aasb.gov.au.

Printed copies of original Interpretations and amending pronouncements are available for purchase by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Postal address:
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

Phone:	(03) 9617 7637
Fax:	(03) 9617 7608
E-mail:	publications@aasb.gov.au
Website:	www.aasb.gov.au

Other Enquiries

Phone:	(03) 9617 7600
Fax:	(03) 9617 7608
E-mail:	standard@aasb.gov.au

COMPILATION DETAILS

UIG Interpretation 1031 *Accounting for the Goods and Services Tax (GST)* as amended

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2009. It takes into account amendments up to and including 13 December 2007 and was prepared on 12 November 2009 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Interpretation issued by the AASB. Instead, it is a representation of Interpretation 1031 (July 2004) as amended by other pronouncements, which are listed in the Table below.

Table of Pronouncements

Pronouncement	**Month issued**	**Application date *(annual reporting periods … on or after …)***	**Application, saving or transitional provisions**
Interpretation 1031	Jul 2004	*(beginning)* 1 Jan 2005	
AASB 2007-8	Sep 2007	*(beginning)* 1 Jan 2009	see (a) below
AASB 2007-10	Dec 2007	*(beginning)* 1 Jan 2009	see (a) below

(a) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.

Table of Amendments

Paragraph affected	**How affected**	**By … [paragraph]**
4	amended	AASB 2007-10 [115]
9-10	amended	AASB 2007-8 [6]
12	amended	AASB 2007-8 [7, 8]
13	amended	AASB 2007-8 [6]
16	amended	AASB 2007-8 [8]
21	amended	AASB 2007-8 [6]
24-25	amended	AASB 2007-8 [6]

INTERPRETATION 1031

UIG Interpretation 1031 was issued in July 2004.

This compiled version of Interpretation 1031 applies to annual reporting periods beginning on or after 1 January 2009. It incorporates relevant amendments contained in other AASB pronouncements up to and including 13 December 2007 (see Compilation Details).

URGENT ISSUES GROUP

INTERPRETATION 1031

ACCOUNTING FOR THE GOODS AND SERVICES TAX (GST)

Issue

1 Legislation to introduce the goods and services tax (GST) on 1 July 2000, titled *A New Tax System (Goods and Services Tax) Act 1999*, was assented to on 8 July 1999. The GST replaced the wholesale sales tax regime and a number of other taxes.

2 The GST legislation provides that the price quoted for the supply of goods and services and the price paid by the purchaser must include the amount of the GST where applicable. As such, the gross proceeds collected by the supplier includes the amount of GST. The GST is collected on behalf of the taxation authority. The purchaser of goods and services subject to the GST is, in many circumstances, able to obtain input tax credits for the GST included in the price of the goods and services acquired. Therefore, the price paid by the purchaser includes the GST that will be recovered from the taxation authority where an input tax credit can be claimed.

3 While authoritative requirements in Australia do not deal specifically with accounting for the GST, Accounting Standard AASB 118 *Revenue* defines revenue, specifies revenue recognition criteria and states that amounts collected on behalf of third parties such as goods and services taxes are excluded from revenue. Furthermore, AASB 102 *Inventories* provides that the cost of purchase of inventories does not include taxes that are subsequently recoverable from taxation authorities.

4 Concern has been expressed that, in the absence of authoritative guidance concerning accounting for the GST in general purpose financial statements, diverse or unacceptable practice may occur or develop and that this will undermine the relevance and reliability of general purpose financial statements.

5 The issues are:

(a) whether the GST should be recognised as part of the revenue of a supplier and as part of the cost of acquisition of assets and/or part of an item of expense of a purchaser; and

(b) whether amounts reported in the statement of cash flows should be reported on a gross basis.

Consensus

6 Revenues, expenses and assets shall be recognised net of the amount of goods and services tax (GST), except where paragraphs 7 and 8 apply.

7 The amount of GST incurred by a purchaser that is not recoverable from the taxation authority shall be recognised as part of the cost of acquisition of an asset or as part of an item of expense.

8 Receivables and payables shall be stated with the amount of GST included.

9 The net amount of GST recoverable from, or payable to, the taxation authority shall be included as part of receivables or payables in the statement of financial position.

10 Cash flows shall be included in the statement of cash flows on a gross basis, subject to paragraph 11 and to AASB 107 *Statement of Cash Flows*.

11 The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority shall be classified as operating cash flows.

Application

12 This Interpretation applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

13 The requirements of this Interpretation regarding statements of cash flows also apply to each non-reporting entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act.

14 This Interpretation applies to annual reporting periods beginning on or after 1 January 2005.
[Note: For application dates of paragraphs changed or added by an amending pronouncement, see Compilation Details.]

15 This Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.

16 The requirements specified in this Interpretation apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

17 When applicable, this Interpretation supersedes Abstract 31 *Accounting for the Goods and Services Tax (GST)*, as issued in January 2000.

18 Abstract 31 remains applicable until superseded by this Interpretation.

Discussion

19 The GST is a tax on the supply of goods and services which is ultimately borne by the final consumer but is collected at each stage of the production and distribution chain. The terms ‘taxable supply’, ‘input taxed’, ‘input tax credit’, ‘GST-free’ and ‘registered entity’ have the same meaning as in *A New Tax System (Goods and Services Tax) Act 1999.*

20 AASB 118, paragraph 7, defines revenues as 'inflows of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.' The GST component of the transaction price does not constitute revenue of the vendor. This is because the transaction gives rise to a present obligation to remit the amounts of the tax collected to the taxation authority. This is reflected in AASB 118, paragraph 8, which states that amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity.

21 Where an entity undertakes taxable and GST-free activities, it is entitled to claim input tax credits and recover from the taxation authority the GST included in the purchase price of supplies. This Interpretation reflects the view that in these cases the GST is not part of the cost of the asset acquired or the expense incurred. This is consistent with the *Framework for the Preparation and Presentation of Financial Statements*, which states that 'expenses are recognised in the statement of comprehensive income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.' It is also consistent with AASB 102, which provides that the cost of purchase of inventories does not include taxes that are subsequently recoverable from the taxing authorities. In addition, AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* require assets acquired to be recognised at their cost, being the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction (production). Therefore, recoverable GST would not be included in the cost of acquisition.

22 Where an entity undertakes input-taxed activities, the amount of the GST incurred comprises part of the cost of acquisition of the related asset or expense item to the extent that it is not recoverable from the taxation authority. This is because, in these cases, the entity cannot recover the amount of the GST included in a transaction from the taxation authority and, therefore, must sacrifice future economic benefits and suffer a decrease in equity resulting from the amount of the GST included in the price of the supplies.

23 In some cases, an entity carries on a business that comprises a mix of input-taxed activities and taxable activities and GST-free activities. In these circumstances, the entity is not entitled to claim an input tax credit in respect of its input-taxed activities. In these cases, the legislation provides that the related GST is apportioned between input-

taxed and other activities in measuring the recognised amount of the acquisition cost. In some cases, periodic adjustments will need to be made in respect of the apportionment. Where the related item is a depreciable asset, consequential adjustments will need to be made to reflect revisions of the acquisition cost and carrying amount of the asset. These adjustments are in the nature of revisions of the depreciable amount and would be accounted for in accordance with the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

24 Receivables and payables are required to be recognised on a gross basis, that is, inclusive of the amount of the GST. This is because the total amount of the transaction as represented by the price is the amount that will be paid or received by the entity. In addition, the net amount of GST receivable from, or payable by the entity to, the taxation authority is also recognised as part of receivables or payables in the statement of financial position.

25 AASB 107 requires cash flows to be classified as arising from operating, investing or financing activities. This Interpretation reflects the principle that all cash flows of the entity, including those relating to the GST component of a receipt or payment, should be reported on a gross basis in the statement of cash flows in accordance with AASB 107. The Interpretation also specifies that the GST component of financing and investing activities which are recoverable from, or payable to, the taxation authority should be classified as part of cash flows from operating activities. This means that investing and financing cash flows are presented net of the GST that is recoverable from, or payable to, the taxation authority and all cash flows relating to GST recoverable from, or payable to, the taxation authority are included in operating cash flows.

REFERENCES

Australia

The Urgent Issues Group discussed Issues Paper 04/3 "Revision of Various UIG Abstracts for 2005" in relation to this Interpretation at meetings on 4 May and 10 June 2004. In developing the superseded Abstract, the UIG discussed Issue Summary 99/9 "Accounting for the Goods and Services Tax (GST)" at meetings on 4 November and 16 December 1999.

Accounting Standard AASB 102 *Inventories*

Accounting Standard AASB 107 *Statement of Cash Flows*

Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

Accounting Standard AASB 116 *Property, Plant and Equipment*

Accounting Standard AASB 118 *Revenue*

Accounting Standard AASB 138 *Intangible Assets*

Framework for the Preparation and Presentation of Financial Statements

Canada

Emerging Issues Committee Abstract EIC-18 *Accounting for the Goods and Services Tax*

New Zealand

Financial Reporting Standard FRS-19 *Accounting for Goods and Services Tax*

United Kingdom

Statement of Standard Accounting Practice SSAP 5 *Accounting for Value Added Tax*