Compiled UIG Interpretation **Interpretation 1031**

Accounting for the Goods and Services Tax (GST)

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2014 but before 1 January 2020. It incorporates relevant amendments made up to and including 21 May 2019.

Prepared on 2 March 2020 by the staff of the Australian Accounting Standards Board.

Australian Government

Australian Accounting Standards Board

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ACCOUNTING FOR THE GOODS AND SERVICES TAX (GST)

UIG Interpretation 1031 *Accounting for the Goods and Services Tax (GST)* (as amended) is set out in paragraphs AusCF1 – 25. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation of Standards* and AASB 1057 *Application of Australian Accounting Standards* sets out their application. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

UIG Interpretation 1031

Interpretation 1031 was issued in July 2004.

This compiled version of Interpretation 1031 applies to annual reporting periods beginning on or after 1 January 2020. It incorporates relevant amendments contained in other AASB pronouncements up to and including 21 May 2019 (see Compilation Details).

Urgent Issues Group Interpretation 1031
Accounting for the Goods and Services Tax (GST)

Issue

AusCF1 AusCF entities are:

(a) not-for-profit entities; and

(b) for-profit entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. For-profit entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

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 15 *Revenue from Contracts with Customers* specifies requirements for recognising revenue from contracts with customers and states that amounts collected on behalf of third parties such as some sales taxes are excluded from the transaction price and, therefore, 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 [Deleted by the AASB]

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 [Deleted by the AASB]

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 The GST component of the consideration promised by a customer 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 15, paragraph 47, which states that amounts collected on behalf of third parties (for example, some sales taxes) are excluded from the transaction price and, therefore, revenue.

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 income statement 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.

- AASB 15 *Revenue from Contracts with Customers*
- AASB 102 *Inventories*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 116 *Property, Plant and Equipment*
- AASB 138 *Intangible Assets*
- *Framework for the Preparation and Presentation of Financial Statements*[1]

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*

1 The reference is to the *Framework for the Preparation and Presentation of Financial Statements* adopted by the AASB in 2004 and in effect when the Interpretation was developed.

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

Compilation details are not part of Interpretation 1031.

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2020. It takes into account amendments up to and including 21 May 2019 and was prepared on 2 March 2020 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/date issued	Effective date *(annual reporting periods … on or after …)*	Application, saving or transitional provisions
Interpretation 1031	Jul 2004	*(beginning)* 1 Jan 2005	see (a) below
AASB 2007-8	24 Sep 2007	*(beginning)* 1 Jan 2009	see (b) below
AASB 2007-10	13 Dec 2007	*(beginning)* 1 Jan 2009	see (b) below
AASB 2013-9	20 Dec 2013	Pt A *(ending)* 20 Dec 2013 Pt B *(beginning)* 1 Jan 2014	see (c) below see (d) below
AASB 2014-5	12 Dec 2014	*(beginning)* 1 Jan 2018	see (e) below
AASB 2015-8	22 Oct 2015	*(beginning)* 1 Jan 2017	see (e) below
AASB 2016-7	9 Dec 2016	*(beginning)* 1 Jan 2017	see (f) below
AASB 2019-1	21 May 2019	*(beginning)* 1 Jan 2020	see (g) below

(a) Earlier application of this Interpretation is not permitted.

(b) 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.

(c) Entities may elect to apply Part A of this Standard to annual reporting periods beginning on or after 1 January 2005 that end before 20 December 2013, provided that AASB CF 2013-1 *Amendments to the Australian Conceptual Framework* and AASB 1048 *Interpretation of Standards* (December 2013) are also applied to such periods.

(d) Earlier application of Part B of this Standard is not permitted.

(e) The amendments made by AASB 2014-5 are no longer required to apply to annual reporting periods beginning on or after 1 January 2017 but before 1 January 2018, as a consequence of AASB 2015-8 deferring the effective date of AASB 15 *Revenue from Contracts with Customers* (and its consequential amendments in AASB 2014-5) from 1 January 2017 to 1 January 2018.

(f) AASB 2016-7 deferred the effective date of AASB 15 (and its consequential amendments in AASB 2014-5) for not-for-profit entities to annual reporting periods beginning on or after 1 January 2019, instead of 1 January 2018. However, earlier application of Interpretation 1031 (2004) incorporating the amendments that relate to AASB 15 is permitted, provided that AASB 15 is also applied.

(g) Entities may elect to apply this Standard to annual periods beginning before 1 January 2020.

Table of amendments

Paragraph affected	How affected	By … [paragraph/page]
AusCF1	added	AASB 2019-1 [page 36]
3	amended	AASB 2014-5 [68]
4	amended	AASB 2007-10 [115]
9-10	amended	AASB 2007-8 [6]
12	amended deleted	AASB 2007-8 [7, 8] AASB 2019-1 [page 36]
13	amended	AASB 2007-8 [6]
16	amended deleted	AASB 2007-8 [8] AASB 2013-9B [37, 38]
20	amended	AASB 2014-5 [68]
21	amended amended amended	AASB 2007-8 [6] AASB 2013-9A [36] AASB 2019-1 [page 36]

Paragraph affected	How affected	By … [paragraph/page]
24-25	amended	AASB 2007-8 [6]
References	amended amended amended	AASB 2013-9A [22] AASB 2014-5 [69] AASB 2019-1 [page 37]