THE GST INPUT TAX CREDIT RECEIVABLE IN CURRENT AND NON-CURRENT ASSETS OF INDIAN TELECOM COMPANIES: AN ANALYTICAL STUDY

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Abstract

The organization places a premium on reaching its performance goals. Asset management is the means through which this objective may be attained. A company's ability to maintain tight financial control is reflected in how well it manages its assets. The purpose of this study is to analyze how Indian telecommunications firms' performance and profitability are affected by the input tax credit recoverable in current and non-current assets related to the Goods and Services Tax. Three major telecommunications firms' financial statements from 2017 to 2023 were analyzed during a four-year period. The study's methodology is based on a content analysis of annual reports from 2017-2023 from a selection of 3 out of 5 telecommunications corporations. The percentage of GST ITC receivable in both current assets and non-current assets of enterprises has grown significantly over the last several years, according to the data results. GST ITC recoverable has grown to represent a significant portion of both the liquid and non-liquid assets of many businesses over the years. Which ultimately hurt the company's ability to make money and function. Therefore, the analysis demonstrates that GST ITC is a growing component of the company's total current assets that may be reclaimed from the tax authorities. Company non-current assets include tax refunds that are expected in more than a year. Firms must pay close attention to their cash flow and the timing of their cash conversions as part of their overall financial management.

Keywords: Current asset, Non-Current asset Goods and services tax, Input tax credit, financial performance.

1. Introduction

Assets play a significant role in determining the efficiency and profitability of a firm. No business can thrive without assets. Assets are resources under the control of an entity, arising from past events, from which future economic benefits are expected to flow to the entity (IASB 2010). Assets are classified into current and non-current depending on the purpose for which they were acquired, and the period in which such can convertible to cash by the entity. An asset can be described as 'current' if: 1. It is held for trading in the normal course of business, 2. will be realized within a period of 12 months from the reporting date.

The implementation of the Goods and Services Tax Act on July 1, 2017 under the Constitution 101(Amendment), Act 2016. As a result, numerous indirect taxes were combined into one tax known as GST, which is expected to affect every business. Entities will need to make some adjustments to their accounting systems in terms of recognition, measurement, and disclosure under the Goods and Services Tax framework. The recognition of the Goods and Services Tax Input Tax Credit receivable became one of the major components of the companies' current assets while maintaining the books of accounts and records. Current assets are an important indicator of the organization's financial health and liquidity.

Proper management of current assets is required for the proper maintenance of adequate liquidity in the day-to-day operations and smooth running of the firm. Mbula et al (2016) opined that accounts receivable as a component of current assets have a direct effect on firm profitability. Padachi (2006) also asserted that there exists a positive relationship between working capital management and the corporate profitability of companies. That means the importance of current assets management as it affects a company's performance in today's business cannot be over-emphasized. Accordingly, an optimal level of current asset investments plays a crucial role in an entity's liquidity position, hence financial managers are expected to ensure they do not suffer from either lack of current assets or an excess amount of current assets due to the implications such may have on their firms.

Some studies have been carried out by scholars on the effect of current assets management on the performance of Companies. Whereas Cash and cash equivalents form a very important component of an entity's current assets. Cash is essential for the operations and continuous survival of every business entity, as it is needed on a day to day basis to pay for the entity's financial obligations as they fall due. Cash is not the same thing as profit, as it is possible for a business that is profitable to encounter liquidity problems if it does not manage its inflow or outflow of cash effectively. Cash management is therefore essential, as it is not just about survival or liquidity but it is about the process of utilizing cash resources to their optimal effect.
According to IAS 7, cash includes "cash in hand and demand deposits. Cash equivalent on the other hand means "short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value". These include short term deposits, loan notes, bank deposit accounts, government securities and GST ITC recoverable. The implementation of the GST Act resulted in an Input tax credit which resulted in part of the current assets of the company.
Mbula et al (2016) examined the effect of receivables on the performance of firms in Kenya. Raheman and Nasr (2007) examined the effect of working capital management on the Performance of firms listed on the Karachi Stock Exchange.

The primary goal of this study is to quantify how the Goods and Services Tax Input Tax Credit affects the organization's overall financial performance. Profitability and liquidity/working capital are the traditional metrics for measuring financial performance. On the firm's statement of financial status, current assets, however, also account for a significant portion of overall assets. These short-term assets are managed under the umbrella of current asset management (CAM). The overall assets of the company could include a significant percentage of current assets. The management of current assets has a significant impact on the financial success of many businesses.

2. Literature review

Most of the empirical studies regarding the relationship between current assets and financial performance. Philip (1996) studied the working capital and emphasized the appropriate presentation of information relating to the current assets and fixed assets. The non-current assets classification in the balance sheet is very ambiguous and may lead to different implications, therefore proper identification, classification and recording of the assets and liabilities would lead to making better decisions in the field of working capital management. Chowdhury and Amin (2007) collected the data of pharmaceutical companies from 2000 to 2004 listed in Dhaka Stock Exchange and examined that there is a positive relationship between current assets and firm performance.
Vishnani and Shah (2007) Studied the impact of working capital on corporate performance and found that if the amount of current assets increase it will increase liquidity but will put a negative effect on the profitability of the firm.
Iqbal and Mati (2012) examined the "relationship between noncurrent assets and firm profitability". For this purpose, they collected the data of 10 years of firms listed in Karachi
Stock Exchange. They used regression analysis and concluded that there is a relationship between a firm's profitability and noncurrent assets.
Alavinasab and Davoudi (2013) examined 147 companies listed in the Tehran Stock Exchange over a period of 2005 to 2009 and found a significant relationship between current ratio and profitability.
Cyril and Ogbonna (2013) Studied the impact of noncurrent assets on the profitability of cement companies in Nigeria. They collected the data over a period of 2004 to 2013. The result revealed that there is an impact of noncurrent assets on return on assets but not significant.
Sudiyatno, Puspitasari, and Sudarsi (2017) collected data from 2010 to 2013 of manufacturing firms which were listed in Indonesia stock exchange. Their result showed that current assets have a significant and positive impact on firm performance in Indonesia.
Nurul Hoda and Nargish Bano (2017). In their research paper different types of business transactions related to Goods and Services Tax and its accounting treatment in the books of accounts. The focus

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was on the accounting treatment of the different elements involved in GST related transactions. The comparison was made between the ledger account to be maintained in an earlier tax system and under the Goods And Service Tax regime.

3. Research Objective

1. To examine the Goods and Services Tax Input Tax Credit receivable component in the Current Assets of the companies.
2. To analyse the proportion of Goods and Services Tax Input Tax Credit receivable in the Current Assets of the companies.
3. To study the trend of Goods and Services Tax Input Tax Credit recoverable in Current Assets from 2017 to 2022.
4. Research Methodology Population

The population for the study was telecommunication companies in India.

Sample

A sample of five companies was selected for the study. These were the top five leading telecommunication companies in India by their market share. From the top five companies, a convenient sample of three companies were selected based on the disclosure of GST ITC receivable in the current assets, non-current assets and balance sheet of the companies.

Period of study

Goods and Services Tax Act was introduced in India on 1st July 2017 under the Constitution 101(Amendment), Act 2016. The present study cover period from 2017-2023.

GST accounts related to input tax credit

GST Payable is an expense shown in the Profit & Loss accounts of the companies. However, to the extent of input tax credit recoverable in respect of GST was shown as a current asset provided it gets recovered within 12 months beyond the 12 months it becomes the part as non- current assets of the companies. During verification of the balances of the current asset in the balance sheet, it should necessarily map the input tax credit ledgers as per books with the GST credit ledgers. The input tax credit ledgers disclosed in the financial statements should normally tally with the GST credit ledgers as per the GST portal.

Data collection and analysis

Content analysis is a research tool used to determine the presence of Goods and Services Tax Input Tax Credit receivable in the Current Assets and Non-Current Assets of the sample companies. Fearnley (2004) in the study gives content analysis methodology that is preeminent for analysing and evaluating accounts and records.

5. Results and Discussion

Table 1 Results of average Current Assets, GST Input Tax Credit receivable and its proportion in Current Assets for a period of 2017-2023.

SL. No	Name of the Company	Current Assets		GST ITC		GST ITC Proportion
		Mean	Standard Deviation	Mean	Standard Deviation	% GST ITC in CA
1	Bharti Airtel Limited	33549	19917	9239	2092	33.10
2	Vodafone Idea Limited	17299	5581	6123	3081	33.11
3	Reliance Jio Infocomm Ltd	20987	6203	13435	2784	66.32
	Overall Total	23945	13415.	9599	3960	44.18

Table 1 presents the results of average Current Assets, GST Input Tax Credit receivable and its proportion in Current Assets for a period of four years from 2017-2023.

The mean current assets of sample companies range from a low of 17,299Crs for Vodafone Idea Limited and a high of 33,549Crs for Bharti Airtel Limited. The overall mean for three companies is 23,945Crs. The standard deviation of sample companies ranges from a low of 5581 for Vodafone Idea Limited and a High of 19917 for Bharti Airtel Limited. The overall standard deviation of the 3 sample companies is 13415.

The average GST input tax credit receivable for three sample companies is presented in Table 1 It has a high value of 13,435Crs for Reliance Jio Infocomm Ltd with a low value of 6,123 Cr for Vodafone Idea Limited. The overall average of 9,599Crs. The standard deviation of GST input tax credit receivable for sample companies has a high value of 3081 for Vodafone Idea Limited and a low value of 2092 for Bharti Airtel Limited and the overall standard deviation of sample companies is 3960.

The proportion of GST input tax credit receivable in the current asset of the companies ranges from higher to 66.24% for Reliance Jio Infocomm Ltd and lower of 33.10% for Bharti Airtel Limited and the average proportion is 44.18%.

Which show significant differences among these variables. The empirical study supports the significant increase in GST input tax credit receivable over the years. The GST ITC proportion in current assets shows its major contribution, which was highly significant. This supports the theory of change in the current asset will result in a change in the liquidity and financial performance of the companies. This high standard deviation associated with GST ITC shows quite a high level of difference in the Input Tax Credit. Fluctuations of the input tax credit receivable may heavily influence the company's financial performance.

6. Testing of Hypotheses

The study has presented the following three hypotheses.

H0: There is no difference in average Current Assets among the sample companies. H1: There is a difference in average Current Assets among the sample companies.

Table 2 Result of one way ANOVA on Current Assets of the sample companies

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	197904127141	2	98952063570	6.932	.015*
Within Groups	128472531074	9	14274725674		
Total	326376658216	11			

*p-value is significant at < 0.05 level.

Table 2 shows the ANOVA results of current assets. The results reject the null hypothesis and accept the research hypothesis. Proves that there is a difference in average current assets among the sample companies as the p-value associated with the mean of current assets of the companies is <0.05. The result shows that there is a significant difference among the current asset of the sampled companies. The current asset is a financial yardstick that represents operating liquidity available to a business. After the introduction of GST, input tax credit become a significant portion of current assets and over the year ITC receivables increased among the selected sample companies.

H0: There is no difference in the Goods and Services Tax Input Tax Credit receivable in the Current Asset of the Company

H1: There is a difference in the Goods and Services Tax Input Tax Credit receivable in the Current Asset of the Company

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Table 3 Result of one-way ANOVA on Goods And Services Tax Input Tax Credit Receivable

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	12654574272	2	6327287136	13.606	.002*
Within Groups	4185461603	9	465051289		
Total	16840035875	11			

*p-value is significant at < 0.05 level.

Table 3 shows the results of ANOVA. The ANOVA results reject the null hypothesis and accept the research hypothesis. There is a difference in the Goods and Services Tax Input Tax Credit receivable in Current Asset of the Company as the p-value associated with the mean of Goods and Services Input Tax Credit Receivable of the companies is <0.05. The result shows that there is a significant difference among the Goods and Services Input Tax Credit Receivable of the sampled companies.
H0: There is no difference in the proportion of Goods and Services Tax Input Tax Credit in Current Asset of the Company
H1: There is a difference in the proportion of Goods and Services Tax Input Tax Credit in Current Asset of the Company

Table 4 ANOVA Goods and services input tax credit proportion in the current assets of the company

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.294	2	.147	8.832	.008*
Within Groups	.150	9	.017		
Total	.444	11			

*p-value is significant at < 0.05 level.

Table 4 shows the results of ANOVA. The ANOVA results reject the null hypothesis and accept the research hypothesis. There is a difference in the proportion of Goods and Services Tax Input Tax Credit receivable in Current Asset of the Company as the p-value associated with the mean of proportion of Goods and Services Tax Input Tax Credit receivable of the companies is <0.05. The result shows that there is a significant difference in the proportion of Goods and Services Tax Input Tax Credit receivable in Current Asset of the sampled companies. The proportion of input tax credit receivable has increased over the year by becoming a major portion of the current assets of the company. Which may have affected the financial performance of the company over the year.

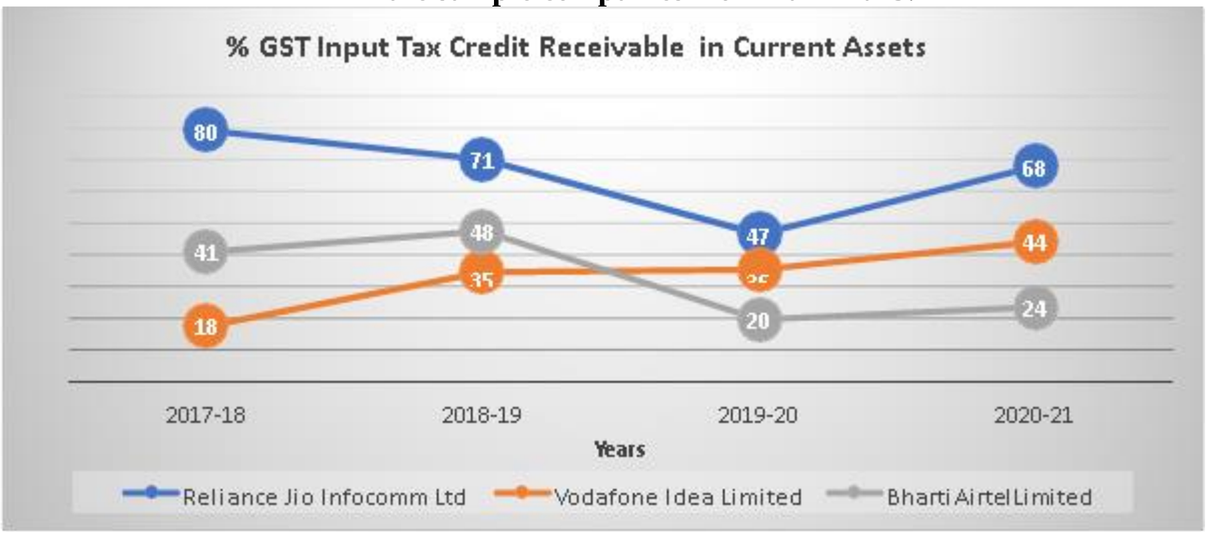
Table 5 Portion of Current and Non-current GST ITC receivable in the total Goods And Services Input Tax Credit receivable of the company

Sl. No	Company	Particular	Year 2017-18	2018-19	2019-20	2020-21
1	Bharti Airtel Limited	Total Input Tax Credit recoverable	6,522	11,390	12,709	10,826
		Current Assets: Taxes recoverable	6,522	9,313	11,621	9,503
		Non-Current Assets: Taxes recoverable	-	2,078	1,088	1,322
2	Vodafone Idea Limited	Total Input Tax Credit recoverable	1,620	6,713	8,222	8,521
		Current Assets: Taxes recoverable	1,620	6,713	7,771	8,392
		Non-Current Assets: Taxes recoverable	-	-	451	129
3	Reliance Jio Infocomm Ltd	Total Input Tax Credit recoverable	15,580	16,088	17,768	17,454
		Current Assets: Taxes recoverable	15,580	9,540	13,320	15,300
		Non-Current Assets: Taxes recoverable	-	6,548	4,448	2,154

The above table represents the information about the input tax credit receivable of the sample company. The total GST ITC consists of input tax credit recoverable under current and non- current assets of the company. In 2017 when the GST was introduced by subsuming various other indirect taxes to avoid cascading effects. This results in GST ITC becoming part of the current assets. Input Tax Credit is the tax that a business pays on a purchase, and when it makes the sale, it can reduce its tax liability. In short, businesses can reduce their tax liability on purchases by

claiming credit to the extent of GST. The credit that is due for 12 months is treated as a Current Asset of the company whereas if it is due beyond 12 months treated as a Non-Current asset of the company. In the initial year of GST implementation, there was no ITC in the non-current assets of the company over the year ITC become a significant portion of the Non-current assets of the sample companies. From the above table, it is evident that a major portion of the total input tax credit is in the Current assets of the companies. From the above literature, it proved that components of the current assets affect the profitability and liquidity of companies.

Graphical representation of percentage GST Input Tax Credit receivable in Current Assets of the sample companies from 2017-2023.



The above graph depicts the percentage of Input tax credit recoverable in the current assets of the sample company over the year. While analysing the portion of GST ITC among the three sample companies Reliance Jio Infocomm Ltd has 80% major portion of ITC in Current assets of the company over the years. The ITC of the company was slightly reduced in 2019&2020 and in 2023 having a significant increase of 68% ITC recoverable in the Current assets of the company. The second highest Portion of ITC is Bharti Airtel Limited has 41% of ITC recoverable. Initial two years there was a significant increase of ITC from 41 to 48% in the current assets of the company later there was a downfall of 28% ITC compared to previous years and in 2023 slight increase to 24% in the ITC of the company. The least portion of GST ITC is of Vodafone Idea Limited has 18% ITC. ITC recoverable over the years was in an upward trend compared to the other two sample companies. The portion of GST ITC in current was 18% comparatively low initial year of GST implementation later significantly increased to 24% in 2020-21. The above graph, it proves that GST ITC became a significant part of the current assets of the company.

7. Conclusion

Many scholars have conducted studies on the association between current assets management and the financial performance of firms and have proposed various theories to explain the association. Using descriptive statistics and one-way ANOVA on 3 sample companies of major telecommunication companies from 2017 to 2023 shows a significant difference between the Current asset, Goods and services tax input tax credit receivable and proportion of ITC in the current asset of the companies.

After the introduction of GST, input tax credit receivable becomes the component of the current asset. Input tax credit due from the government for a period 12 months is treated as current assets of the company and if exceeds more than 12 months its considered as non-current assets of the company. The proportion of GST ITC in current assets has a significant impact on the financial performance of the companies over the years. Positive or negative changes in the current asset will affect the liquidity and financial performance of the companies. Afza and Nazir (2008) supported the view that lower current assets may lead to shortages, illiquidity, and difficulties in managing the day-to-day operation.

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