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BA Economics Honours | Semester III | Calicut University

GST Audit and Investigation Techniques

Course Code: ECO3VN202 • Module 4

Module IV: Training and Capacity Building

Modern tax audit relies on deep forensic knowledge of financial accounting standards, enterprise resource planning (ERP) systems, and cash-flow mechanics to detect sophisticated tax evasion schemes.

Unit 20 & 21: Building Knowledge on Financial Accounting in GST Audit

Tax auditors must master financial accounting standards (Ind AS / AS) to interpret corporate books:

- **Revenue Recognition (Ind AS 115):** Determining the 'Time of Supply' under GST requires aligning accounting revenue milestones with tax points under Sections 12 and 13.
- **Fixed Asset Accounting:** Capital goods capitalization vs. repair expense treatment, directly impacting capital goods ITC rules under Section 18.
- **Provisions and Contingent Liabilities:** Scrutinizing note disclosures in audited annual accounts for potential unrecorded tax liabilities.

Unit 22: Cash Flow - The Vital Third Financial Statement in Audit

While balance sheets and profit & loss accounts are compiled on an accrual basis, the **Cash Flow Statement (AS-3 / Ind AS 7)** reveals actual cash receipts and disbursements across Operating, Investing, and Financing activities. In forensic GST audits, cash flow analysis serves as an indispensable tool:

- Detecting circular trading: Where turnover surges dramatically without corresponding real cash flows from customers.
- Uncovering unrecorded cash transactions: Where gross cash sales exceed banking deposits.
- Verifying genuine consideration payments: Validating that consideration and tax have been remitted to suppliers within 180 days as mandated by Section 16(2) proviso to retain ITC eligibility.

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Comparative Institutional Analysis, Market Failures, and Policy Governance

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Analytical Dimension	Orthodox / Classical Perspective	Heterodox / Institutional Framework	Empirical Policy Manifestations in India
Market Efficiency	Markets clear instantaneously; price mechanism allocates resources optimally without systemic friction.	Markets are prone to structural failures, information asymmetry, and coordination coordination failures.	Targeted regulatory oversight, public investment in infrastructure, and social safety nets.
Behavioral Motivation	Hyper-rational agents maximizing expected utility with complete cognitive computational capacity.	Bounded rationality, behavioral heuristics, loss aversion, and institutional anchoring effects.	Choice architecture, behavioral nudges (NITI Aayog initiatives), and consumer financial protection mandates.
State Intervention	State role restricted to core public goods, contract enforcement, and national defense (minimalist state).	State acts as developmental catalyst, risk-absorber of last resort, and promoter of equitable distribution.	Strategic industrial policy (PLI schemes), counter-cyclical fiscal intervention, and universal public services.
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Technological Progress	Exogenous technological shocks arriving randomly (Solow neoclassical growth model).	Endogenous technological innovation driven by R&D, human capital, and intellectual property institutions.	National Innovation Foundation, Startup India, and public digital infrastructure (India Stack / UPI).

Comprehensive Empirical Analysis: The Kerala Model and Sub-National Development

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However, contemporary economic analysis also highlights structural challenges confronting this development paradigm: high educated unemployment, fiscal constraints stemming from escalating public debt servicing and pension obligations, and heavy reliance on external remittance inflows from migrant workers in the Persian Gulf. Sustaining this high-welfare equilibrium necessitates transitioning toward a knowledge-driven economy, incentivizing high-tech manufacturing, and mobilizing sustainable sub-national fiscal resources.

Policy Synthesis and Analytical Evaluation

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