
GST
GOODS AND SERVICES TAX

ACCOUNTING UNDER GST

Contents

4 ACCOUNTS AND OTHER RECORDS

8 ACCOUNTING ENTRIES

20 GST IMPACT ON FINANCIALS

24 KEY AREAS OF CONCERN

28 FORMAT OF OUTPUT REPORT AND INVOICE

ACCOUNTS AND OTHER RECORDS

ACCOUNTS AND OTHER RECORDS

Accounts and other records- Section 35, CGST Act

- Every registered person shall keep and maintain, at his **principal place of business**, as mentioned in the certificate of registration, a true and correct account of—

  (a) production or manufacture of goods;

  (b) inward and outward supply of goods or services or both;

  (c) stock of goods;

  (d) input tax credit availed;

  (e) output tax payable and paid; and

  (f) such other particulars as may be prescribed.

- Where more than one place of business is specified in the certificate of registration, the accounts relating to each place of business shall be kept at such places of business:
- The registered person may keep and maintain such accounts and other particulars in **electronic form** in such manner as may be prescribed.

Contd..

ACCOUNTS AND OTHER RECORDS

- Every **owner or operator of warehouse or godown** or any other place used for storage of goods and every transporter, irrespective of whether he is a registered person or not, shall maintain records of the consigner, consignee and other relevant details of the goods in such manner as may be prescribed.
- Every registered person whose turnover during a financial year exceeds the prescribed limit shall get his accounts **audited by a chartered accountant or a cost accountant** and shall submit a copy of the audited annual accounts, the reconciliation statement under section 44(2) and such other documents in such form and manner as may be prescribed.

Period of retention of accounts- Section 36, CGST Act

- Every registered person required to keep and maintain books of account or other records shall retain them until the expiry of seventy two months from the due date of furnishing of annual return for the year pertaining to such accounts and records.

ACCOUNTING IN CURRENT SCENARIO VS. GST REGIME

Current scenario	GST Regime
• Separate accounts have to be maintained for excise, VAT, CST and service tax. Here's a list of the few A/Cs currently any business has to maintain (apart from accounts like purchase, sales, stock) – • Excise payable a/c (for manufacturers) • CENVAT credit a/c (for manufacturers) • Output VAT a/c • Input VAT a/c • Input Service tax a/c • Output Service tax a/c	• Under GST all these indirect taxes will get subsumed into one account. The same trader X has to then maintain the following A/Cs (apart from accounts like purchase, sales, stock) – • Input CGST a/c • Output CGST a/c • Input SGST a/c • Output SGST a/c • Input IGST a/c • Output IGST a/c • Electronic Cash Ledger (to be maintained on Government GST portal to pay GST)

ACCOUNTING ENTRIES

ACCOUNTING ENTRIES

Example 1: Intra-state Supply

1. Mr. X purchases goods worth Rs. 1,00,000 locally (intra-state)
2. He sells them for Rs. 1,50,000 in the same state
3. He pays legal consultation fees Rs. 5,000
4. He purchases furniture for his office for Rs. 12,000
5. Rate of CGST @9% and SGST @9%

The entries will be:

1. On purchase of goods

	Purchases A/c	Dr.	1,00,000	
	Input CGST A/c	Dr.	9,000	
	Input SGST A/c	Dr.	9,000	
	To Creditors A/c			1,18,000

ACCOUNTING ENTRIES

2. On making intra-state sales

	Debtors A/c	Dr.	1,77,500	
	To Sales A/c			1,50,000
	To Output CGST A/c			13,500
	To Output SGST A/c			13,500

3. Payment of Legal fees

	Legal fees A/c	Dr.	5,000	
	Input CGST A/c	Dr.	450	
	Input SGST A/c	Dr.	450	
	To Bank A/c			5,900

Contd..

ACCOUNTING ENTRIES

4. At the time of purchase of furniture[capital goods]

	Furniture A/c	Dr.	12,000	
	Input CGST A/c	Dr.	1,080	
	Input SGST A/c	Dr.	1,080	
	To ABC Furniture shop A/c			14,160

Total Input CGST= 9000+450+1080= Rs. 10,530
Total Input SGST= 9000+450+1080= Rs. 10,530

Total output CGST= Rs. 13,500
Total output SGST= Rs. 13,500

Therefore Net CGST payable=13,500-10,530= Rs. 2970

Net SGST payable=13500-10530= Rs. 2970

Contd..

ACCOUNTING ENTRIES

5. Adjustment of ITC with GST payable

	Output CGST A/c	Dr.	13,500	
	Output SGST A/c	Dr.	13,500	
	To Input CGST A/c			10,530
	To Input SGST A/c			10,530
	To Electronic Cash Leger A/c			5,940

Thus due to input tax credit, tax liability of Rs. 27,000 is reduced to only Rs. 5,940.
If there had been any input tax credit left it would have been carried forward to the next year.

Contd..

ACCOUNTING ENTRIES

Example 2: Inter-state Supply

1. Mr. X purchases goods worth Rs. 1,50,000 from outside the State (intra-state)
2. He sells them for Rs. 1,50,000 in the same state
3. He sells Rs. 1,00,000 outside the State
4. He pays telephone bill Rs. 5,000
5. He purchases an air cooler for his office for Rs. 12,000
6. Rate of IGST @18%

The entries will be:

1. On purchase of goods

	Purchases A/c	Dr.	1,50,000	
	Input IGST A/c	Dr.	27,000	
	To Creditors A/c			1,77,000

ACCOUNTING ENTRIES

2. On making intra-state sales

	Debtors A/c	Dr.	1,77,000	
	To Sales A/c			1,50,000
	To Output CGST A/c			13,500
	To Output SGST A/c			13,500

3. On making inter-State sales

	Debtors A/c	Dr.	1,18,000	
	To Sales A/c			1,00,000
	To Output IGST A/c			18,000

Contd..

ACCOUNTING ENTRIES

4. Payment of telephone expenses

	Telephone expenses A/c	Dr.	5,000	
	Input CGST A/c	Dr.	450	
	Input SGST A/c	Dr.	450	
	To Bank A/c			5,900

5. At the time of purchase of air cooler [capital goods]

	Office equipment A/c	Dr.	12,000	
	Input CGST A/c	Dr.	1,080	
	Input SGST A/c	Dr.	1,080	
	To ABC Furniture shop A/c			14,160

Contd..

ACCOUNTING ENTRIES

Total Input CGST= 450+1080= Rs. 1,530
Total Input SGST= 450+1080= Rs. 1,530
Total Input IGST= Rs. 27000

Total output CGST= Rs. 13,500
Total output SGST= Rs. 13,500
Total output IGST= Rs. 27000

Particulars	CGST	SGST	IGST
Output liability	13,500	13,500	18,000
Less: Input tax credit			
CGST	1,530		
SGST		1,530	
IGST	9,000		18,000
Amount payable	2,970	11,970	NIL

Contd..

ACCOUNTING ENTRIES

Any IGST credit will first be applied to set off IGST and then CGST. Balance if any will be applied to setoff SGST.

So out of total input IGST of Rs. 27,000, firstly it will be completely setoff against IGST. Then balance Rs. 9,000 against CGST.

From the total output tax liability of Rs. 45,000, only Rs. 14,940 is payable in cash.

6. Adjustment of ITC with GST payable

(i)	Output CGST A/c	Dr.	10,530	
	To Input CGST A/c			1,530
	To Input IGST A/c (being set-off against CGST output)			9.000
(ii)	Output SGST A/c	Dr	1,530	
	To Input SGST A/c (being set-off against SGST output)			1,530

Contd..

ACCOUNTING ENTRIES

6. Adjustment of ITC with GST payable (contd.)

(iii)	Output IGST A/c	Dr.	18,000	
	To Input IGST A/c (being setoff against IGST output)			18,000
(iv)	Output CGST A/c	Dr.	2,970	
	Output SGST A/c		11,970	
	To Electronic Cash Leger A/c (Being final Payment)			14,940

ITC IN BALANCE SHEET

- However, in case where the input credit is more than the tax on output services, the same shall be carried forward in the next year and shall be shown on the assets side of the balance sheet under the head ‘Current Assets’.

- In the GST return also, such excess credit shall be carried forward.

Balance Sheet as on 31/03/…..

	<u>CURRENT ASSETS</u> ITC on input services A/c

GST IMPACT ON FINANCIALS

GST IMPACT ON FINANCIALS

1. Reduction in raw material cost and other expenses:

GST will mean seamless input credits for intra-state and inter-state purchases of goods. This will mean reduction in cost of raw materials as input GST can be setoff against the output GST payable on sales. Also GST paid on many services like legal consultation, audit fees, engineering consultation etc. can be setoff against output GST. Currently input credit of service tax paid cannot be adjusted against output excise/VAT.

All this will effectively bring down the expenses.

Profit and Loss A/C			
Particulars	**Rs.**	**Particulars**	**Rs.**
Raw material consumption	XXX [Decrease]	Sales	XXX***
Purchases	XXX		
Depreciation	XXX		
Other Expenses	XXX		

*** Impact on Sales may vary depending on the industry and the rate of GST.

Contd..

GST IMPACT ON FINANCIALS

2. Reduction in cost of fixed assets:

Effective cost of fixed assets will come down as input credit will be available on both capital goods and services related to such goods like installation, inspection etc.

Tax payable and credit receivable will face changes too. There will be only three accounts under each of them- SGST, CGST, IGST instead of maintaining current Excise payable, CENVAT credit, VAT payable, VAT credit, Service tax accounts.

Balance Sheet			
Liabilities	**Rs.**	**Assets**	**Rs.**
Capital	XXX	Fixed assets	XXX [Decrease]
Current liabilities	XXX	Current assets	XXX
Tax payable	XXX	Credit receivable	XXX

3. Accounting principles

GAAP is applicable mandatorily on GST. So, all principles following revenue recognition etc. will be applicable.

Contd..

GST IMPACT ON FINANCIALS

4. Revenue

Under Ind-AS, excise duty is incorporated in revenue, since it is production based tax. Sales tax and VAT is not incorporated in revenue, since it is levied at the time of sales. GST is considered a destination based tax, which is levied at the point of supply.

Hence, GST would not be presented as part of revenue. As currently excise duty is incorporated in the revenue, there might be some volatility in the reported number – even though from economic view point there will be no important change in the operations.

5. Credits

GST could bring significant benefits to organizations by way of tax credit. Currently organizations do not get credit of tax credit for indirect taxes like luxury tax, octroi, CST etc. On transition, these taxes will be subsumed into GST, organizations may be eligible for tax credit.

Hence, transition to GST will necessitate companies to reconfigure the inventory valuation or asset reclassification or expense recording rules in their accounting system to guarantee tax credits are accounted and utilized.

KEY AREAS OF CONCERN

KEY AREAS OF CONCERN

1. Reconciliations

- Revenue recognition according to IND AS may not coincide with turnover number for the purpose of GST. For example, in case of multiple element contracts, total consideration will be allocated to each component based on fair value of each element.
- However, the same methodology may not work for GST purpose. Moreover, GST payments and return filings are expected to be state wise.
- Accordingly companies will need to devise a proper system in place, for timely state-wise reconciliations of periodic GST filings in various states, with the amount recorded in the books of accounts. Companies, which include excise as a part of sales for their internal reporting/MIS, may have to redesign the MIS post-GST transition and consider the consequent impact, if any, on KPIs of sales/marketing staff.

2. Accounting of tax holiday incentives

- Many companies enjoyed significant amount of tax holiday incentives and accounted for same as government grant.
- For example, the Expert Advisory Committee of the ICAI, while evaluating an issue relating to sales tax exemption under In AS, required such exemptions to be recorded as revenue grants (distinct from sales).

Contd..

KEY AREAS OF CONCERN

- It is not clear whether these incentives will continue even in the GST regime. Companies will need to assess accounting implications of any change in these tax holiday benefits upon finalization of GST laws.

3. Updation of Chart of Accounts

- Another key impact area will be the Chart of Accounts (COA) used for reporting.
- Currently, there are several indirect taxes and hence, there are usually many tax-related general ledger (GL) codes in the COA used for financial reporting. In a GST regime, the new COA will depend on the type of business, credit availment rules and place of supply etc.
- However, devising the new COA would require careful consideration and planning; else, this could impact financial reporting. Essentially management will need to make substantial accounting-related modifications in their IT systems at a transaction level, for all transactions affecting tax GLs, including to the auto accounting entries generated in ERPs.
- This will entail a detailed assessment to ensure there are no financial reporting errors and impact on internal controls post transition.

Contd..

KEY AREAS OF CONCERN

4. Transition

- Companies will need to plan well for transition and assess carefully the transition rules.
- A key aspect will be whether transition results in any potential write off of tax credits accumulated in particular states and not likely to be set off. Another practical challenge relates to carry forward of tax credits.
- These may need to be carried forward state wise, which could involve significant effort in identifying and breaking down the current balances.
- Further tax accounting and compliance considerations needs to be planned in the IT systems for transactions originating before transition but reversing/concluding post transition, e.g., sales returns, receipt of purchases after transition etc.

THE WAY FORWARD…

The above points are some of the major concerns for companies to design an all-inclusive and sustainable Ind-AS reporting. This is necessary for organizations as careful evaluation is needed for avoiding disruptions and to make the transition to GST fast and secure.

FORMAT OF OUTPUT REPORT AND INVOICE

OUTPUT REPORT FORMAT

S. No.	Seller Name	Billed Address	*Place of Supply (Location)	PAN No.	*GSTN No.	Nature of Services /Goods	Category of Goods / Services	*HSN / SAC Codes	Invoice No.	Date of Invoice	Taxable Amount	CGST	SGST	IGST	Total Tax	Tax Rate
											TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	

* Mandatory Fields , No entry should be punched without filling the said fields.

DRAFT INVOICE FORMAT

Draft Invoice Format

1. GSTIN
2. Name
3. Address
4. Serial No. of Invoice
5. Date of Invoice

Details of Receiver (Billed to)
Name
Address
State
State Code
GSTIN/Unique ID

Details of Consignee (Shipped to)
Name
Address
State
State Code
GSTIN/Unique ID

Sr. No.	Description of Goods	HSN	Qty.	Unit	Rate (per item)	Total	Discount	Taxable value	CGST		SGST		IGST	
									Rate	Amt.	Rate	Amt.	Rate	Amt.
	Freight													
	Insurance													
	Packing and Forwarding Charges													
		Total												
	Total Invoice Value (In figure)													
	Total Invoice Value (In Words)													
	Amount of Tax subject to Reverse Charges													

Declaration:

Signature

Name of the Signatory

Designation / Status

THANK YOU!

For your concentration.