

# **Handbook on Accounting Treatment under Goods and Services Tax (GST)**



**Research Committee**  
**The Institute of Chartered Accountants of India**  
(Set up by an Act of Parliament)  
**New Delhi**

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# Foreword

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Goods and Services Tax (GST) is a major indirect tax reform introduced in India post independence by integrating the major taxes of Centre and State Government. GST subsumes many indirect taxes which were imposed by Centre and State Governments such as Excise, VAT, and Service tax and as such GST is considered to be a significant step in the indirect taxation reforms in India. Amalgamating of various Central and State taxes into a single tax would not only help to mitigate the double taxation but also boost export and manufacturing activity leading to substantive economic growth.

The Institute has been continuously undertaking several initiatives to support the Government as well as all related stakeholders for smooth implementation and spreading awareness on GST. I am happy to note that the Research Committee of the Institute in this direction has come up with this publication on “Handbook on Accounting Treatment under GST”, to provide guidance in respect of GST accounting.

I congratulate CA. Babu Abraham Kallivayalil, Chairman- Research Committee, CA. Satish Kumar Gupta, Vice Chairman- Research Committee and all other members of the Research Committee who have contributed immensely towards bringing out this publication. I would also like to thank CA. Sushil Kumar Goyal, Chairman & CA. P. Rajendra Kumar, Vice Chairman of Indirect Tax Committee for their invaluable contribution.

I am confident that this Handbook will be immensely useful for the members and other stakeholders as well.

New Delhi  
June 29, 2019

CA. Prafulla P. Chhajed  
President



# Preface

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Goods and Services Tax (GST) was introduced in India with effect from 1st July 2017 which has brought a paradigm shift in the methodology of levying and collecting of taxes. GST levied on the supply of goods and/or services has replaced many indirect taxes in India. It is a comprehensive multistage destination-based tax. It is comprehensive because it has subsumed almost all the indirect taxes except few. It is multi-staged as it is imposed at every step in the production / distribution process but is meant to be refunded to all parties in the various stages of production / distribution other than the final consumer. Further, it is destination-based tax, as it is collected from the point of consumption and not from the point of origin like previous taxes.

GST also aims to bring transparent and corruption-free tax administration by removing the shortcomings in earlier indirect tax structure. It has a multiplier effect on the economy with the benefits accruing to various sectors such as exporters, small traders and entrepreneurs, agriculture and industry, common consumers and has become a historic transformation in the country.

The Institute of Chartered Accountants of India has been regularly supporting the Government, its members and other stakeholders by disseminating GST knowledge through its technical publications, certificate course, programmes and conferences. Now, considering the need for guiding members and other stakeholders on various accounting aspects of GST, the Research Committee of the Institute had brought out this "Handbook on Accounting Treatment under GST". The objective of this handbook is to provide guidance in respect of accounting under GST.

I would like to take this opportunity to place on record my appreciation of the effort put in by CA. Vijay Gupta, New Delhi, the expert in the area who contributed in the preparation of the basic draft of the handbook. I would also like to thank CA. Satish Kumar Gupta, Vice-Chairman, Research Committee, other members of the Research Committee and CA. Vidhyadhar Kulkarni, Technical Consultant for their invaluable contribution. I also appreciate the dedicated efforts of entire Secretariat of Research Committee.

## **Handbook on Accounting Treatment under Goods and Services Tax (GST)**

I trust that this Handbook will be immensely useful to the members and to others interested

New Delhi  
June 25, 2019

CA. Babu Abraham Kallivayalil  
Chairman, Research Committee

# Handbook on Accounting Treatment under Goods and Services Tax (GST)

*(As there are similar provisions in respective State/UT Acts, reference to those provisions can be made, wherever required).*

## 1. Introduction

Goods and Services Tax (GST), a destination based tax, was introduced in India with effect from 1<sup>st</sup> of July, 2017 subsuming a large number of indirect taxes, cess and duties levied by the Central and State enactments. Required amendments to the Constitution were made by The Constitution (One Hundred and First Amendment), Act 2016. The GST Council has been established thereafter which consists of representatives of all the States and Union Territories with legislatures and its Chairman is the Finance Minister of India. GST Council deliberates on all aspects relating to GST and makes recommendations. In fact, without GST recommendations, changes in GST law cannot be made.

GST is a tax on supply of goods and/or services in terms of section 9 of the CGST Act, 2017 and section 5 of the IGST Act, 2017 and the liability to pay the tax arises at the time of supply as determined in terms of section 12 and 13 of the CGST Act. The tax has to be paid on the value of supply as determined in terms of section 15 of the CGST Act read with the Valuation rules. However, in case of import of goods, value shall be determined as per the provisions of Customs Act.

Supply is the taxable event under GST unlike manufacture in Excise, sale of goods in VAT/CST and provision of service in Service Tax. The nature of supply under GST may be intra-state or inter-state/inter-territory as determined in terms of section 7, 8 or 9 of the IGST Act. If the nature of supply is intra-state, then CGST and SGST/UTGST shall be payable and if nature of supply is inter-state, then IGST shall be payable. While inter-head set off of eligible input tax credit of IGST is allowed with CGST and SGST/UTGST and vice versa, set off of CGST and SGST/UTGST with each other is not allowed in terms of section 49(5) of CGST Act.

## 2. Objective

The objective of this Handbook is to provide guidance in respect of accounting under Goods and Services Tax (GST). Salient features of GST are briefly set out hereinafter. Reference may be made to the Central Goods

and Services Tax Act, 2017, State Goods and Services Tax Act, 2017 of the respective states, Union Territories Goods and Services Tax Act, 2017, Integrated Goods and Services Tax Act, 2017, Central Goods and Services Tax Rules, 2017, State Goods and Services Tax Rules, 2017 of the respective states and Union Territories, Notifications and Circulars issued by Central Board of Indirect Taxes and Customs (CBIC) erstwhile Central Board of Excise and Customs (CBEC) from time to time for details of the GST provisions.

### 3. Evolution of GST in India

**Year 1978:** A study on the need for implementing VAT in India was conducted by the Jha Committee which opined that VAT (GST) was needed for India to take its place among the developed nations.

**Year 2000:** Sri Atal Bihari Vajpayee, the then prime minister of India, set up a committee under the chairmanship of the then finance minister of West Bengal, Dr. Asim Dasgupta, to design the GST model and put in place the back-end technology and logistics for its implementation.

**February 2005:** In his budget speech for financial year 2005-06, the then union finance minister Mr. P. Chidambaram says: "In the medium-to-long term, it is my goal that the entire production-distribution chain should be covered by a national VAT (value added tax), or even better, a goods and services tax, encompassing both the Centre and the states."

**February 2006:** In his budget speech for 2006-07, Mr. P. Chidambaram set April 1, 2010, as the date for introduction of GST. "The world over, goods and services attract the same rate of tax. That is the foundation of a GST. People must get used to the idea of a GST," he said.

**November 2009:** Empowered Committee of State Finance Ministers released first discussion paper on GST which was put in the public domain to generate a debate and obtain inputs from stakeholders.

**March 2011:** The Congress party-led government introduced a Constitution amendment bill in the Lok Sabha to implement GST.

**May 2014:** The constitution amendment bill lapsed with the dissolution of the 15th Lok Sabha.

**December 2014:** Mr. Arun Jaitley, finance minister of India, introduces the Constitution (122nd Amendment) Bill in the 16th Lok Sabha on 19.12.2014.

**May 2015:** The Constitution Amendment Bill was passed by the Lok Sabha. The Bill was referred to the Select Committee of Rajya Sabha on 12.05.2015.

**July 2015:** The Select Committee submitted its Report on the Bill on 22.07.2015.

**August & September 2016:** The Bill with certain amendments was finally passed in the Rajya Sabha and thereafter by Lok Sabha in August, 2016. Further, the bill was ratified by required number of States and received assent of the President on 8th September, 2016. The bill has since been enacted as Constitution (101st Amendment) Act, 2016 with effect from 16th September, 2016. GST Council was notified with effect from 12.09.2016.

**July, 2017:** GST was launched at midnight on 1st of July 2017 by the President of India, Sri Pranab Mukherjee, and Prime Minister of India, Sri Narendra Modi. The launch was marked by a historic midnight (30th June–1st July) session of both the houses of parliament convened at the Central Hall of the Parliament.

## **4. Definitions**

Definitions of some key phrases relevant for the understanding of accounting treatment are as follows:

**A. Supply:** Scope of the term 'supply' has been provided in section 7 of the CGST Act as follows:

1. For the purposes of this Act, the expression "supply" includes—
  - a. all forms of supply of goods or services or both such as sale, transfer, barter, exchange, licence, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business;
  - b. import of services for a consideration whether or not in the course or furtherance of business and;
  - c. the activities specified in Schedule I, made or agreed to be made without a consideration;
- 1(A) where certain activities or transactions constitute a supply in accordance with the provisions of sub-section (1), they shall be treated either as supply of goods or supply of services as referred to in Schedule II "

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2. Notwithstanding anything contained in sub-section (1),-
  - a. activities or transactions specified in Schedule III; or
  - b. such activities or transactions undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities, as may be notified by the Government on the recommendations of the Council,shall be treated neither as a supply of goods nor a supply of services.
3. Subject to the provisions of sub-sections (1), (1A) and (2), the Government may, on the recommendations of the Council, specify, by notification, the transactions that are to be treated as—
  - (a) a supply of goods and not as a supply of services; or
  - (b) a supply of services and not as a supply of goods.

### **SCHEDULE-I**

#### **ACTIVITIES TO BE TREATED AS SUPPLY EVEN IF MADE WITHOUT CONSIDERATION**

1. Permanent transfer or disposal of business assets where input tax credit has been availed on such assets.
2. Supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business:  
Provided that gifts not exceeding fifty thousand rupees in value in a financial year by an employer to an employee shall not be treated as supply of goods or services or both.
3. Supply of goods—
  - a. by a principal to his agent where the agent undertakes to supply such goods on behalf of the principal; or
  - b. by an agent to his principal where the agent undertakes to receive such goods on behalf of the principal.
4. Import of services by a Person from a related person or from any of his other establishments outside India, in the course or furtherance of business.

**SCHEDULE-II**

**ACTIVITIES OR TRANSACTIONS TO BE TREATED AS SUPPLY OF GOODS OR SUPPLY OF SERVICES**

1. Transfer
  - a. any transfer of the title in goods is a supply of goods;
  - b. any transfer of right in goods or of undivided share in goods without the transfer of title thereof, is a supply of services;
  - c. any transfer of title in goods under an agreement which stipulates that property in goods shall pass at a future date upon payment of full consideration as agreed, is a supply of goods.
2. Land and Building
  - a. any lease, tenancy, easement, licence to occupy land is a supply of services;
  - b. any lease or letting out of the building including a commercial, industrial or residential complex for business or commerce, either wholly or partly, is a supply of services.
3. Treatment or process

Any treatment or process which is applied to another person's goods is a supply of services.
4. Transfer of business assets
  - a. where goods forming part of the assets of a business are transferred or disposed of by or under the directions of the person carrying on the business so as no longer to form part of those assets, whether or not for a consideration, such transfer or disposal is a supply of goods by the person;
  - b. where, by or under the direction of a person carrying on a business, goods held or used for the purposes of the business are put to any private use or are used, or made available to any person for use, for any purpose other than a purpose of the business, whether or not for a consideration, the usage or making available of such goods is a supply of services;
  - c. where any person ceases to be a taxable person, any goods forming part of the assets of any business carried on by him shall be deemed to be supplied by him in the course or

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furtherance of his business immediately before he ceases to be a taxable person, unless—

- (i) the business is transferred as a going concern to another person; or
- (ii) the business is carried on by a personal representative who is deemed to be a taxable person.

5. Supply of services the following shall be treated as supply of services, namely:—

- a. renting of immovable property;
- b. construction of a complex, building, civil structure or a part thereof, including a complex or building intended for sale to a buyer, wholly or partly, except where the entire consideration has been received after issuance of completion certificate, where required, by the competent authority or after its first occupation, whichever is earlier.

Explanation.—For the purposes of this clause—

- (1) the expression "competent authority" means the Government or any authority authorised to issue completion certificate under any law for the time being in force and in case of non-requirement of such certificate from such authority, from any of the following, namely:—
    - (i) an architect registered with the Council of Architecture constituted under the Architects Act, 1972; or
    - (ii) a chartered engineer registered with the Institution of Engineers (India); or
    - (iii) a licensed surveyor of the respective local body of the city or town or village or development or planning authority;
  - (2) the expression "construction" includes additions, alterations, replacements or remodelling of any existing civil structure;
- c. temporary transfer or permitting the use or enjoyment of any intellectual property right;

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- d. development, design, programming, customisation, adaptation, upgradation, enhancement, implementation of information technology software;
- e. agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act; and
- f. transfer of the right to use any goods for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration.

### 6. Composite supply

The following composite supplies shall be treated as a supply of services, namely:—

- a. works contract as defined in clause (119) of section 2; and
- b. supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (other than alcoholic liquor for human consumption), where such supply or service is for cash, deferred payment or other valuable consideration.

### 7. Supply of Goods

The following shall be treated as supply of goods, namely:—

Supply of goods by any unincorporated association or body of persons to a member thereof for cash, deferred payment or other valuable consideration.

## SCHEDULE-III

### ACTIVITIES OR TRANSACTIONS WHICH SHALL BE TREATED NEITHER AS SUPPLY OF GOODS NOR SUPPLY OF SERVICES

- 1) Services by an employee to the employer in the course of or in relation to his employment.
- 2) Services by any court or Tribunal established under any law for the time being in force.
- 3) (a) the functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities;

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- (b) the duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity; or
  - (c) the duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.
- 4) Services of funeral, burial, crematorium or mortuary including transportation of the deceased.
  - 5) Sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.
  - 6) Actionable claims, other than lottery, betting and gambling.
  - 7) Supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India.
  - 8) (a) Supply of warehoused goods to any person before clearance for home consumption
  - (b) Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin outside India but before clearance for home consumption.

Explanation 1—For the purposes of paragraph 2, the term "court" includes District Court, High Court and Supreme Court.

Explanation 1—For the purposes of paragraph 8, the expression "warehoused goods" shall have the meaning assigned to it in the Customs Act, 1962 (52 of 1962).

- B. Goods:** "Goods" means every kind of movable property other than money and securities but includes actionable claim<sup>(\*)</sup>, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply"- Section 2(52) of the CGST Act, 2017.

<sup>(\*)</sup> As per Section 2(1) of the CGST Act, 2017, "actionable claim" shall have the same meaning as assigned to it in section 3 of the Transfer of Property Act, 1882;

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As per Section 3 of the Transfer of Property Act, 1882, “actionable claim means a claim to any debt, other than a debt secured by mortgage of immovable property or by hypothecation or pledge of movable property, or to any beneficial interest in movable property not in the possession, either actual or constructive, of the claimant, which the civil courts recognize as affording grounds for relief, whether such debt or beneficial interest be existent, accruing, conditional or contingent;”

- C. “Services”** means anything other than goods, money and securities but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged;

Explanation.—For the removal of doubts, it is hereby clarified that the expression “services” includes facilitating or arranging transactions in securities;

- D. Input:** “Input” means any goods other than capital goods used or intended to be used by a supplier in the course or furtherance of business-Section 2(59) of the CGST Act, 2017.
- E. Capital Goods:** “Capital goods” means goods, the value of which is capitalised in the books of account of the person claiming the input tax credit and which are used or intended to be used in the course or furtherance of business-Section 2(19) of the CGST Act, 2017.
- F. Input Services:** “Input service” means any service used or intended to be used by a supplier in the course or furtherance of business- Section 2(60) of the CGST Act, 2017.
- G. Central Tax:** “Central tax” means the central goods and services tax levied under section 9-Section 2(21) of the CGST Act, 2017.
- H. Integrated Tax:** “Integrated tax” means the integrated goods and services tax levied under this Act-Section 2(12) of the IGST Act, 2017.
- I. Cess:** “Cess” means the goods and services tax compensation cess levied under section 8-Section 2(1) (c) of The Goods and Services tax (Compensation to states) Act, 2017.

## 5. Accounts and records under GST

- (i) **Section 35(1) of CGST Act read with Rule 56(1) of the CGST Rules,**

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requires every registered person to keep and maintain, at his principal place of business (as mentioned in the certificate of registration), a true and correct account of the following:

- Production or manufacture of goods;
- Inward supply of goods or services or both;
- Outward supply of goods and/or services or both
- Stock of goods;
- Input tax credit availed;
- Output tax payable and paid;
- Goods or services imported or exported;
- Supplies attracting payment of tax on reverse charge

along with relevant documents, including invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers and refund vouchers.

**Details of Stock:** Rule 56(2) provides that every registered person other than a person paying tax under composition scheme (Section 10 of CGST Act), shall maintain the accounts of stock in respect of goods received and supplied by him, and such accounts shall contain particulars of the opening balance, receipt, supply, goods lost, stolen, destroyed, written off or disposed of by way of gift or free sample and the balance of stock including raw materials, finished goods, scrap and wastage thereof.

**Details of Advance:** Rule 56(3) provides that every registered person shall keep and maintain a separate account of advances received, paid and adjustment made thereto.

**Details of Tax:** Rule 56(4) provides that every registered person other than a person paying tax under composition scheme (Section 10 of CGST Act), shall keep and maintain an account, containing the details of tax payable including under reverse charge[Section 9(3) and 9(4) of CGST Act], tax collected and paid, input tax, input tax credit claimed, together with a register of tax invoice, credit notes and debit notes, delivery challan issued or received during any tax period.

**Details of supplier, recipient and storage of goods:** Rule 56(5) provides that every registered person shall keep the particulars of:

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- (a) names and complete addresses of suppliers from whom taxable goods or services have been received;
- (b) names and complete addresses of the persons to whom goods or services have been supplied, where required under the provisions of this chapter;
- (c) the complete address of the premises where goods are stored including goods stored during transit along with the particulars of stock stored therein.

**Storage without proper documents:** Rule 56(6) provides that if any taxable goods are found to be stored at any place(s) other than those declared under Rule 56(5) without the cover of any valid documents, the proper officer shall determine the amount of tax payable on such goods as if such goods have been supplied by the registered person.

**Keeping of accounts at different locations:** In case of multiple places of business (including additional place of business as specified in the certificate of registration), the accounts relating to each place of business shall be kept at the respective places of business concerned. Hence, all records are to be maintained at each place of business. Rule 56(7) provides that such books of accounts shall include any electronic form of data stored on any electronic device.

**Erasing, effacing, overwriting of manual entry, edit and delete of electronic entry:** Rule 56(8) prohibits erasing, effacing or overwriting of any entry in registers, accounts and documents and states that all incorrect entries, otherwise than those of clerical nature, shall be scored out under attestation and thereafter, the correct entry shall be recorded. It further provides maintenance of a log of every entry edited or deleted where the registers and other documents are maintained electronically.

**Serial Numbering:** Rule 56(9) provides that where a registered person maintains books of accounts manually, each volume of such books of accounts shall be serially numbered.

**Presumption regarding books of accounts:** Rule 56(10) provides that unless proved otherwise, if any documents, registers or any books of accounts belonging to a registered person are found at any premises other than those mentioned in the certificate of registration, they shall be presumed to be maintained by the said registered person.

**Maintenance of accounts by an agent:** Rule 56(11) requires an agent to maintain:

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- (a) particulars of authorisation received from each principal to receive or supply goods or services on behalf of each such principal separately;
- (b) particulars indicating description, value and quantity (wherever applicable), of goods or services received and supplied on behalf of every principal;
- (c) details of accounts furnished to every principal; and
- (d) tax paid on receipts or on supply of goods or services effected on behalf of every principal.

**Maintenance of accounts by a manufacturer:** Rule 56(12) requires a manufacturer to maintain monthly production accounts showing quantitative details of raw materials or services used in the manufacture and quantitative details of goods so manufactured including the waste and by-products thereof.

**Maintenance of accounts by a supplier of service:** Rule 56(13) requires a supplier of service to maintain:

- (a) quantitative details of goods used in the provision of services;
- (b) details of input services utilised; and
- (c) details of services supplied.

**Maintenance of accounts by a works contractor:** Rule 56(14) requires a works contractor to maintain separate accounts for each works contract showing:

- (a) name and address of the person on whose behalf the works contract is executed;
- (b) description, value and quantity (wherever applicable) of goods or services received and utilised in the execution of works contract;
- (c) details of payments received in respect of each works contract; and
- (d) name and addresses of suppliers from whom he received goods or services.

**Keeping and maintenance of accounts and other particulars in electronic form:** Registered persons may keep and maintain accounts and other particulars in the electronic form in such manner as may be prescribed. Rule 56(15) provides that such records shall be authenticated by means of a digital signature.

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**Preservation of accounts:** Rule 56(16) provides that accounts maintained by the registered person together with all the invoices, bills of supply, credit and debit notes, and delivery challans relating to stocks, deliveries, inward supply and outward supply shall be preserved for the period as provided in section 36 (i.e. until the expiry of 72 months from the due date of furnishing of annual return for the year pertaining to such accounts and records) and shall, where such accounts and documents are maintained manually, be kept at every related place of business mentioned in the certificate of registration and shall be accessible at every related place of business where such accounts and documents are maintained digitally.

Rule 56(17) provides that any person having custody over the goods in the capacity of a carrier or a clearing and forwarding agent for delivery or dispatch thereof to a recipient on behalf of any registered person shall maintain true and correct records in respect of such goods handled by him and shall produce the details thereof as and when required by the proper officer.

Rule 56(18) provides that every registered person shall, on demand, produce the books of accounts which he is required to maintain under any law for the time being in force.

### **Generation and maintenance of electronic records (Rule 57)**

- a. Rule 57(1) provides that proper electronic back up of records shall be maintained and preserved in such manner that, in the event of destruction of such records due to accident or natural causes, the information can be restored within a reasonable period of time.
  - b. Rule 57(2) requires registered person to produce on demand, relevant electronic records or documents, duly authenticated by him, in hard copy or in any electronically readable format.
  - c. Rule 57(3) requires registered person to provide on demand, details of files stored electronically, passwords of such files and explanation for codes used, where necessary, for access and any other information which is required for such access along with a sample copy in print form of the information stores in such files.
- (ii) Section 35(2) provides that every person who owns/ operates any warehouse, godown or any other place for storage of goods and every transporter should maintain the records of the consigner, consignee and other relevant details of the goods, even if such persons are not registered

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under the Act—i.e., both registered and unregistered persons are required to maintain such records/ details.

### **Rule 58 provides for maintenance of records by owner or operator of godown or warehouse and transporters as follows:**

- (a) If a person who is required to maintain records and accounts in accordance with the provision of section 35(2) is unregistered, then he shall submit his business details electronically on GST Portal in Form GST ENR-01, either directly or through a Facilitation Center notified by the Commissioner and upon validation, a unique enrolment number shall be generated and communicated to him.
- (b) The person enrolled in any other state or Union Territory (UT) shall be deemed to be enrolled in the state or UT.
- (c) Details furnished in ENR-01 can be amended electronically, whenever required.
- (d) Rule 58(4) provides that subject to provisions of Rule 56,

any person engaged in the business of transporting goods shall maintain records of goods transported, delivered and goods stored in transit by him along with the GSTIN of the registered consignor and consignee for each of his branches.

Every owner or operator of a warehouse or godown shall maintain books of accounts with respect to the period for which particular goods remain in the warehouse, including the particulars relating to dispatch, movement, receipt and disposal of such goods. The owner or operator of the godown shall store the goods in such manner that they can be identified item-wise and owner-wise and shall facilitate any physical verification or inspection by the proper officer on demand

(iii) Section 35(3): Commissioner may notify a class of taxable persons to maintain additional accounts or documents for specified purpose.

(iv) Section 35(4): If Commissioner considers that any class of taxable persons are not in a position to keep and maintain accounts in accordance with section 35, he can, for reasons to be recorded in writing, permit such class of taxable persons to maintain accounts in any other manner as may be prescribed.

(v) Audit: Section 35(5) provides that every registered person whose aggregate turnover during a financial year exceeds ₹ 2 (two) crores as mentioned in Rule 80(3) shall get his accounts audited by a chartered

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accountant or a cost accountant and shall submit to the proper officer a copy of the audited statement of accounts together with the electronic reconciliation statement u/s 44(2).

(vi) Section 35(6) provides that subject to provisions of section 17(5)(h), where the registered person fails to account for the goods and/or services in accordance with the provisions of section 35(1), the amount payable in such case would be determined by the proper officer based on the demand provisions (Section 73/74) as the case may be as if such goods/services had been supplied by such person.

Section 17(5)(h) provides that input tax credit shall not be available in cases where goods are lost, stolen, destroyed, written off, or disposed of as gifts or free samples.

### **6. Accounting Treatment under GST**

- a. Accounting Treatment of Inward Supplies under GST
- b. Accounting Treatment of Outward Supplies under GST
- c. Accounting Treatment in case of advance payment/receipt/refund for goods/services
- d. Accounting Treatment in case of distribution of Input tax credit by Input Service Distributor
- e. Accounting Treatment in case of Job work
- f. Accounting Treatment in case of supply through agents and intermediaries
- g. Accounting treatment in case of goods sent on approval basis
- h. Accounting treatment in case of issue of debit note
- i. Accounting treatment in case of issue of credit note
- j. Accounting treatment in case of E-Commerce and TCS
- k. Accounting treatment in case of GST-TDS
- l. Accounting treatment in case of Capital Goods
- m. Accounting treatment in case of reversal of Input tax credit
- n. Accounting treatment in case of offset of tax liability
- o. Accounting treatment in case of goods received in lots/batches.

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- p. Accounting treatment in case of carry forward of Input Tax Credit under Previous Tax Laws
- q. Accounting Treatment of Refunds received under GST

### **6(a) Accounting Treatment of Inward Supplies under GST**

“**Inward supply**” in relation to a person, shall mean receipt of goods or services or both whether by purchase, acquisition or any other means with or without consideration- Section 2(67) of the CGST Act.

Thus, inward supply may be of goods (inputs or capital goods) or of input services. The supplier may be a registered person or an unregistered person. Again, registered person may be a person supplying goods under composition scheme under section 10 of the CGST Act. If supply is received of notified goods or services, reverse charge provisions under section 9(3) of CGST Act or section 5(3) of the IGST Act will become applicable. Similarly, if supply is received by a registered person from an unregistered person, reverse charge provisions under section 9(4) of the CGST Act or section 5(4) of the IGST Act will become applicable. Inward supplies may be of goods and/or services attracting exempt, nil rated, non-taxable or other prescribed rates. The supply may also be of goods and/ or services on which input tax credit is not available. Further, the supply may be intra-state, inter-state, by way of import, from SEZ etc. In the following paras, an effort has been made to show accounting entries covering each of these transactions.

#### **A. Types of Inward Supply**

Inward supply may include:

1. Supply from registered person
2. Supply under reverse charge
  - a. of notified goods/services
  - b. from unregistered persons
3. Supply from a person registered under Composition scheme
4. Exempt/Nil rated/Non-Taxable supplies
5. Supply by way of Import/ from SEZ
6. Supply from Branch/ other place of business

Further, from taxability point of view, supply may be:

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1. Taxable supply;
2. Non-taxable supply;
3. Exempt supply;
4. Nil rated supply

**Taxable Supply:** "Taxable supply" means a supply of goods or services or both which is leviable to tax under this Act - Section 2(108) of the CGST Act, 2017.

**Non-Taxable Supply:** "Non-Taxable supply" means a supply of goods or services or both which is not leviable to tax under this Act or under the Integrated Goods and Services Tax Act - Section 2(78) of the CGST Act, 2017.

**Exempt Supply:** "Exempt supply" means supply of any goods or services or both which attracts nil rate of tax or which may be wholly exempt from tax under section 11, or under section 6 of the Integrated Goods and Services Tax Act, and includes non-taxable supply - Section 2(47) of the CGST Act, 2017.

**Nil-rated supply:** "Nil-rated supply" is not defined in the Act. However, supply of any goods or services or both which attracts nil rate of tax is a nil-rated supply.

### Nature of Supply

The nature of supply may be intra-state or inter-state. Import and supply from a SEZ developer or unit shall be treated as inter-state supply. The principle for determining the nature of supply has been given in section 7 (for inter-state supply) and section 8 (for intra-state supply) and section 9 (Supplies in Territorial Waters) of IGST Act, 2017.

### Assumptions for Inward supply:

- Inward Supply of 7 units @ ₹ 10/- each
- Incidental expenses like transportation charged by supplier- ₹ 30/-
- Total value of inward supply: ₹ 100/-
- CGST @ 9%
- SGST @ 9%

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- IGST @ 18%
- Cess @ 5%

**6(a)-A1: Inward supply from registered person (B2B Supply)**

REGISTERED PERSON: means a person who is registered under section 25 but does not include a person having a Unique Identity Number

Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
<b>a. For Intra State Supply from a registered person</b>				
Inward Supply /Expense A/c Dr.	100		P&L	<b>Statutory reference:</b> Sec 9 of the CGST Act read with Sec 16(1) of CGST Act  <b>GSTR Return Reference Table:</b> GSTR 2>>Table 3
SGST - Input Credit A/c Dr.	9		B/S	
CGST - Input Credit A/c Dr.	9		B/S	
Cess - Input Credit A/c Dr.	5		B/S	
To Vendor/Bank A/c (Being intra-state purchase made)		123	B/S	
<b>b. For Inter State Supply from a registered person</b>				
Inward Supply/Expense A/c Dr.	100		P&L	<b>Statutory reference:</b> Sec 7 of the IGST Act read with Sec 16(1) of CGST Act  <b>GSTR Return Reference Table:</b> GSTR 2>>Table 3
IGST- Input Credit A/c Dr.	18		B/S	
Cess - Input Credit A/c Dr.	5		B/S	
To Vendor/Bank A/c (Being inter-state purchase made)		123	B/S	

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### Notes:

- (i) In case of goods, inward supply account will be debited and in case of services, the expense account will be debited.
- (ii) In case of inward supply on credit, the Vendor will be credited and in case of cash purchase, bank or cash will be credited.
- (iii) Cess is charged in accordance with Section 8 of The Goods & Services Tax (Compensation to States) Act, 2017.
- (iv) Effect of Income-tax TDS (or TCS) is ignored in these illustrations and the gross liability towards creditor is reflected as a payable to Vendor or payment through Bank.
- (v) Credit accounts do not require to be sub-divided rate-wise. However, for purposes of reversal of any credit in the future, it may be required to be able to extract purchase-wise information for such reversal (more on the later).

### 6(a)-A2: Supply under reverse charge

“Reverse charge” means the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier of such goods or services or both under sub-section (3) or sub-section (4) of section 9, or under sub-section (3) or sub-section (4) of section 5 of the Integrated Goods and Services Tax Act- Section 2(98) of the CGST Act.

Under section 9(3) of the CGST Act, SGST Act and section 5(3) of the IGST Act, recipient of the goods and/or services is liable to pay tax on notified categories of supply of goods and/or services. The Government has issued various notifications in this regard, summary of the same are as follows:

#### List of Services on which tax is payable under Reverse Charge

Sl. No.	Category of Supply of Services	Supplier of service	Recipient of Service
(1)	(2)	(3)	(4)
1	Supply of Services by a goods transport agency (GTA) in respect of transportation of goods by road to- (a) any factory	Goods Transport Agency (GTA)	(a) Any factory registered under or governed by the Factories Act, 1948(63 of 1948);or (b) any society registered under the

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<p>registered under or governed by the Factories Act, 1948(63 of1948);or</p> <p>(b) any society registered under the Societies Registration Act, 1860 (21 of 1860) or under any other law for the time being in force in any part of India; or</p> <p>(c) any co-operative society established by or under any law; or any person registered under the Central Goods and Services Tax Act or the Integrated Goods and Services Tax Act or the State Goods and Services Tax Act or the Union Territory Goods and Services Tax Act; or</p> <p>(d) anybody corporate established, by or under any law; or</p> <p>(e) any partnership firm whether registered or not under any law including association of persons; or</p> <p>(f) any casual taxable person.</p>		<p>Societies Registration Act, 1860 (21 of 1860) or under any other law for the time being in force in any part of India; or</p> <p>(c) any co-operative society established by or under any law; or</p> <p>(d) any person registered under the Central Goods and Services Tax Act or the Integrated Goods and Services Tax Act or the State Goods and Services Tax Act or the Union Territory Goods and Services Tax Act; or</p> <p>(e) anybody corporate established, by or under any law; or</p> <p>(f) any partnership firm whether registered or not under any law including association of persons; or any casual taxable person; located in the taxable territory.</p>
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2	Services supplied by an individual advocate including a senior advocate by way of representational services before any court, tribunal or authority, directly or indirectly, to any business entity located in the taxable territory, including where contract for provision of such service has been entered through another advocate or a firm of advocates, or by a firm of advocates, by way of legal services, to a business entity.	An individual advocate including senior advocate or firm of advocates.	Any business entity located in the taxable territory.
3	Services supplied by an arbitral tribunal to a business entity.	An arbitral tribunal.	Any business entity located in the taxable territory.
4	Services provided by way of sponsorship to anybody corporate or partnership firm.	Any person	Anybody corporate or partnership firm located in the taxable territory.
5	Services supplied by the Central Government, State Government, Union territory or local authority to a business entity excluding, -	Central Government, State Government, Union territory or local authority	Any business entity located in the taxable territory.

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	<p>(1) renting of immovable property, and</p> <p>(2) services specified below-</p> <p>(i) services by the Department of Posts by way of speed post, express parcel post, life insurance and agency services provided to a person other than Central Government, State Government or Union territory or local authority;</p> <p>(ii) services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport;</p> <p>(iii) transport of goods or passengers.</p>		
6	Services supplied by a director of a company or a body corporate to the said company or the body corporate.	A director of a company or a body corporate	The company or a body corporate located in the taxable territory.
7	Services supplied by an insurance agent to any person carrying on insurance business.	An insurance agent	Any person carrying on insurance business, located in the taxable territory.
8	Services supplied by a recovery agent to a banking company or a	A recovery agent	A banking company or a financial institution or a non-banking financial

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	financial institution or a non-banking financial company.		company, located in the taxable territory.
9	Supply of services by an author, music composer, photographer, artist or the like by way of transfer or permitting the use or enjoyment of a copyright covered under clause (a) of sub-section (1) of section 13 of the Copyright Act, 1957 relating to original literary, dramatic, musical or artistic works to a publisher, music company, producer or the like.	Author or music composer, photographer, artist, or the like	Publisher, music company, producer or the like, located in the taxable territory.
10.	Services supplied by the Central Government, State Government, Union territory or local authority by way of renting of immovable property to a person registered under CGST Act, 2017.	Central Government, State Government, Union territory or local authority	Any Person Registered under CGST Act, 2017 read with clause (V) of section 20 of IGST Act, 2017.
11.	Supply of services by the member of Overseeing Committee to Reserve Bank of India.	Members of Overseeing Committee Constituted by the Reserve Bank of India.	Reserve Bank Of India.

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12	Services supplied by individual Direct Selling Agents (DSAs) other than a body corporate, partnership or limited liability partnership firm to bank or non-banking financial company (NBFCs). (Inserted vide Notification No.15/2018-Central Tax (Rate) dated July 26, 2018)	Individual Direct Selling Agents (DSAs) other than a body corporate, partnership or limited liability partnership firm.	A banking company or a non-banking financial company, located in the taxable territory.
13	Services provided by business facilitator (BF) to a banking company	Business facilitator (BF)	A banking company, located in the taxable territory
14	Services provided by an agent of business correspondent (BC) to business correspondent (BC).	An agent of business correspondent (BC)	A business correspondent, located in the taxable territory.
15	Security services (services provided by way of supply of security personnel) provided to a registered person: Provided that nothing contained in this entry shall apply to, - (i)(a) a Department or	Any person other than a body corporate	A registered person, located in the taxable territory.

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	<p>Establishment of the Central Government or State Government or Union territory; or (b) local authority; or (c) Governmental agencies; which has taken registration under the Central Goods and Services Tax Act, 2017 (12 of 2017) only for the purpose of deducting tax under section 51 of the said Act and not for making a taxable supply of goods or services; or (ii) a registered person paying tax under section 10 of the said Act. Any person other than a body corporate. A registered person, located in the taxable territory.;</p> <p>(Inserted vide Notification No.29/2018-Central Tax (Rate) dated Dec 31, 2018)</p>		
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16	Any services supplied by any person who is located in NTT to any person other than non-taxable on line recipient.	Any Person located in NTT	Any Person located in the taxable territory other than non-taxable on line recipient.
17	Services supplied by a person located in non-taxable territory by way of transportation of goods by a vessel from a place outside India up to the custom station of clearance in India.	Any person located in NTT	Importer located in taxable territory. As defined in section 2(26) of the custom Act, 1962,

**List of Goods on which tax is payable under reverse charge**

S. No.	Tariff item, sub-heading, heading or Chapter	Description of supply of Goods	Supplier of goods	Recipient of supply
(1)	(2)	(3)	(4)	(5)
1.	0801	Cashew nuts, not shelled or peeled	Agriculturist	Any registered person
2.	1404	Bidi wrapper leaves (tendu)	Agriculturist	Any registered person
3.	2401	Tobacco leaves	Agriculturist	Any registered person
4.	5004 to 5006	Silk yarn	Any person who manufactures silk yarn from raw silk or silk worm cocoons for supply of silk yarn	Any registered person

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5.	—	Supply of lottery.	State Government, Union Territory or any local authority	Lottery distributor or selling agent. Explanation.- For the purposes of this entry, lottery distributor or selling agent has the same meaning as assigned to it in clause (c) of Rule 2 of the Lotteries (Regulation) Rules, 2010, made under the provisions of sub section 1 of section 11 of the Lotteries (Regulations) Act, 1998 (17 of 1998).
6.	5201	Raw Cotton	Agriculturist	Any Registered Person
7.	Any Chapter	Used Vehicles, Seized and confiscated Goods, Old and Used Goods, Waste and Scrap.	Central Government, State Government, Union territory or a local Authority.	Any Registered Person
8.	Any Chapter	Priority Sector Lending Certificate	Any registered person	Any registered person

Under section 9(4) of the CGST Act, the central tax and under section 5(4) of the IGST Act, the integrated tax in respect of the supply of specified categories of goods and/or services by an unregistered supplier to a specified class of registered persons shall be paid by such registered person on reverse charge basis.

In the absence of any notification to this effect, no tax is yet payable by any registered person on their purchases from unregistered persons.

However prior to the notification of the amended section 9(4) of CGST Act/SGST Act or 5(4) of IGST Act, respectively, the Government vide no.

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38/2017 & 10/2018-Central Tax (Rate) dated 13th October, 2017 & 23rd March, 2018 has exempted such supplies by an unregistered supplier to a registered person from reverse charge till 30th June, 2018 which was extended to September, 2019 but came to be withdrawn due to the provision of law having undergone amendment effective 1 Feb, 2019.

If taxable goods and/or services is received by a registered person and such registered person is liable to pay tax under section 9(3) or section 9(4) of the CGST Act or under section 5(3) or 5(4) of the IGST Act, then he shall issue an invoice under section 31(3)(f) of the CGST Act and a payment voucher at the time of making payment to the supplier under section 31(3)(g) of the CGST Act read with Rule 46 and Rule 52 respectively.

Under 2nd proviso to Rule 46 of the CGST Rules, 2017, a consolidated invoice may be issued at the end of a month for supplies covered under section 9(4), where aggregate value of such supplies exceeds ₹ 5000/- in a day from any or all the suppliers.

Subject to such restrictions and conditions as prescribed in section 16 and 17 of the CGST Act and Rules 36 to 45 of the CGST Rules, Input Tax Credits (ITC) in respect of taxes paid on reverse charge basis shall be available to the recipient.

#### Accounting Entries:

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
A. (I)	<b>For Intra-state Inward supply u/s 9(3)/9(4) of CGST Act</b>				<b>GSTR Return Reference Table:</b> GSTR 2>>Table 4A and 4B
	Inward Supply /Expense A/c Dr.	100		P&L	
	SGST - Input credit A/c Dr.	9		B/S	
	CGST - Input credit A/c Dr.	9		B/S	
	Compensation Cess Input credit A/c Dr.	5		B/S	
	To Output SGST (RCM) A/c		9	B/S	
	To Output CGST (RCM) A/c		9	B/S	
	To Output Compensation Cess (RCM) A/c		5	B/S	

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	To Vendor/Bank A/c (Being intra state purchases made along with provision for RCM liability and credit for the same is recognized )		100	B/S	
(II)	E-cash Ledger CGST A/c Dr.	9		B/S	
	E-cash Ledger SGST A/c Dr.	9		B/S	
	E-cash Ledger Cess A/c Dr.	5		B/S	
	To Bank A/c (Being tax deposited in the Electronic Cash Ledger)		23	B/S	
(III)	Output SGST (RCM) A/c Dr.	9		B/S	
	Output CGST (RCM) A/c Dr.	9		B/S	
	Output Compensation Cess (RCM) A/c Dr.	5		B/S	
	To E-cash Ledger CGST A/c		9	B/S	
	To E-cash Ledger SGST A/c		9	B/S	
	To E-cash Ledger Cess A/c (Being payment of tax under RCM on intra-state supply made through Electronic Cash ledger)		5	B/S	
B. (I)	<b>For Inter-state Inward supply u/s 5(3)/5(4) of IGST Act</b>				
	Inward Supply /Expense A/c Dr.	100		<b>P&amp;L</b>	<b>GSTR Return Reference Table: GSTR 2&gt;&gt;Table 4A &amp; 4B</b>
	IGST- Input credit A/c Dr.	18		<b>B/S</b>	
	Compensation Cess Input credit A/c Dr.	5		<b>B/S</b>	
	To Output IGST (RCM) A/c		18	B/S	
	To Output Compensation Cess (RCM) A/c		5	B/S	

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	To Vendor/Bank A/c (Being inter-state purchases made along with provision for RCM liability and credit for the same is recognized)		100	B/S	
(II)	E-cash Ledger IGST A/c      Dr.	18		B/S	
	E-cash Ledger Cess A/c      Dr.	5		B/S	
	To Bank A/c (Being tax deposited in the Electronic Cash Ledger)		23	B/S	
(III)	Output IGST (RCM) A/c      Dr.	18		B/S	
	Output Compensation Cess (RCM) A/c      Dr.	5		B/S	
	To E-cash Ledger IGST A/c		18	B/S	
	To E-cash Ledger Cess A/c (Being payment of tax under RCM on inter-state supply made through Electronic Cash ledger)		5	B/S	

**Note:** Input Tax Credit under Reverse Charge shall be available in the month in which self-invoice is issued under section 31(3)(f) provided payment of said tax under RCM is made within the due date prescribed for that same month. The entry to carry the amount of RCM to 'Interim Input A/c' is a good check to see if the liability to tax under RCM is discharged within the due date for payment of tax relating to the same month or not.

**Illustration:**

If a Invoice u/s 31(3)(f) is generated in the month of April, 2018 and the amount of tax under RCM is paid after 20<sup>th</sup> of May (say 30<sup>th</sup> of May) , then, the input of tax paid under RCM will be available in the month of May, 2018. But, if the said tax is paid on 20<sup>th</sup> May (along with return for April), then credit is available for April itself and the accounting entry 'transferring Interim Input A/c into actual Input Credit A/c' will appear in the books on 20<sup>th</sup> of May through GST returns will have reflected this credit as the credit for the month of April, 2018.



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(III)	Output SGST (RCM) A/c	Dr.	9		B/S
	Output CGST (RCM) A/c	Dr.	9		B/S
	Output Compensation Cess (RCM) A/c	Dr.	5		B/S
	To E-cash Ledger CGST A/c			9	B/S
	To E-cash Ledger SGST A/c			9	B/S
	To E-cash Ledger Cess A/c			5	B/S
	(Being payment of tax under RCM on intra-state supply made through Electronic Cash ledger)				
(IV)	SGST - Input Credit A/c	Dr.	9		B/S
	CGST - Input Credit A/c	Dr.	9		B/S
	Compensation Cess - Input A/c	Dr.	5		B/S
	To SGST Interim Input A/c			9	B/S
	To CGST Interim Input A/c			9	B/S
	To Compensation Cess - Interim Input A/c			5	B/S
(Being Input tax credit transferred on payment of tax under RCM on intra-state supply)					
B. (I)	<b>For Inter-state Inward supply u/s 5(3)/5(4) of IGST Act</b>				
	Inward Supply /Expense A/c	Dr.	123		<b>P&amp;L</b>
				18	B/S
	To Output IGST (RCM) A/c				B/S
	To Output Compensation Cess (RCM) A/c			5	B/S
	To Vendor/Bank A/c			100	B/S
(Being inter-state purchases made along with provision for					

**GSTR Return Reference Table:**  
GSTR 2>>Table 4A & 4B

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	RCM liability BUT AFTER inventorying or expensing said amount of RCM)			
(II)	E-cash Ledger IGST A/c	Dr .	18	B/S
	E-cash Ledger Cess A/c	Dr .	5	B/S
	To Bank A/c			23 B/S
	(Being tax deposited in the Electronic Cash Ledger)			
(III)	Output IGST (RCM) A/c	Dr .	18	B/S
	Output Compensation Cess (RCM) A/c	Dr .	5	B/S
	To E-cash Ledger IGST A/c			18 B/S
	To E-cash Ledger Cess A/c			5 B/S
	(Being payment of tax under RCM on inter-state supply made through Electronic Cash ledger)			

**Note:** Such a person shall, issue a bill of supply instead of a tax invoice, containing such particulars and in such manner as provided in section 31(3)(c) read with Rule 49 of CGST Rules, 2017.

Proviso to section 31(3)(c) states that a bill of supply may not be issued if the value of the goods or services or both supplied is less than two hundred rupees subject to such conditions and in such manner as may be prescribed.

**Bill of Supply (Rule 49):**

A bill of supply referred to in clause (c) of sub-section (3) of section 31 shall be issued by the supplier containing the following details, namely,-

- a) name, address and Goods and Services Tax Identification Number of the supplier;
- b) a consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters - hyphen or dash and slash symbolized as — and — respectively, and any combination thereof, unique for a financial year;
- c) date of its issue;

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- d) name, address and Goods and Services Tax Identification Number or Unique Identity Number, if registered, of the recipient;
- e) Harmonised System of Nomenclature Code for goods or services;
- f) description of goods or services or both;
- g) value of supply of goods or services or both taking into account discount or abatement, if any; and
- h) signature or digital signature of the supplier or his authorised representative:

Provided that the provisos to rule 46 shall, mutatis mutandis, apply to the bill of supply issued under this rule:

Provided further that any tax invoice or any other similar document issued under any other Act for the time being in force in respect of any non-taxable supply shall be treated as a bill of supply for the purposes of the Act.

#### **6(a)-A3: Inward Supply not attracting tax under RCM made by a person under composition scheme**

Now, GST levied on taxable inward supplies received by a person under composition scheme shall become a cost to him as he cannot avail input tax credit on that.

As per section 10(2), a registered person shall be eligible to opt for composition scheme, only if:

- (a) he is not engaged in the supply of services other than supplies referred to in clause (b) of paragraph 6 of Schedule II;
- (b) he is not engaged in making any supply of goods which are not leviable to tax;
- (c) he is not engaged in making any inter-State outward supplies of goods;
- (d) he is not engaged in making any supply of goods through an electronic commerce operator who is required to collect tax at source under section 52; and
- (e) he is not a manufacturer of such goods as may be notified by the Government on the recommendations of the Council:

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**Accounting Entries:**

Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
<b>For Inter State and Intra State Supply from a composite dealer</b>				
Inward Supply /Expense A/c Dr.	118		P&L	GSTR Return Reference Table: GSTR 2>>Table 7(2)
To Vendor/Bank A/c (Being inward supply made from a person under Composition Scheme)		118	B/S	

**6(a)-A4: Inward Supply [Exempt/Nil rated/Non-Taxable]**

A registered person supplying exempted goods or services or both shall issue a bill of supply, instead of a tax invoice, containing such particulars and in such manner as provided in section 31(3)(c) read with Rule 49 of CGST Rules, 2017. Proviso to section 31(3)(c) further provides that a bill of supply may not be issued if the value of the goods or services or both supplied is less than two hundred rupees subject to such conditions and in such manner as may be prescribed.

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**Accounting Entries:**

Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
<b>For Inter State and Intra State Supply of Nil rated/Exempt/Non-taxable goods or services</b>				
Inward Supply/Expense A/c Dr. 100 To Vendor/Bank A/c (Being Intra-state/Inter-state Inward supply of Exempt/Nil rated/Non-Taxable goods or services undertaken)		100	P&L  B/S	GSTR Return Reference Table: GSTR 2>>Table 7(3/4/5)

**6(a)-A5: Inward Supply by way of import/from SEZ**

**Import of Goods:** ‘Import of goods’ with its grammatical variations and cognate expressions, means bringing goods into India from a place outside India and shall be treated as inter-state supply-Section 2(10) read with section 7(2) of the IGST Act, 2017.

Import of goods being an inter-state supply as per section 7(2) [supra], will be subject to levy of IGST as provided in section 5(1) of the IGST Act. Additional duty of customs (CVD) or Special Additional Duty (SAD) hitherto levied on imported goods in pre-GST regime shall no longer be levied except on few commodities such as pan masala, certain petroleum products. The levy, collection, valuation and point of taxation of IGST, however, shall not be as per GST law but as per the provisions of Customs Act as provided in the proviso to Section 5(1) of IGST Act as follows:

“Integrated tax on goods imported into India shall be levied and collected in accordance with the provisions of section 3 of the Customs Tariff Act, 1975 on the value as determined under the said Act at the point when duties of customs are levied on the said goods under section 12 of the Customs Act, 1962.”

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Thus,

- **Levy and collection of IGST on import of goods into India:** shall be in accordance with the provisions of section 3 of the Customs Tariff Act, 1975;

As per section 3 of the Customs Tariff Act, 1975; "any article which is imported into India shall, in addition, be liable to a duty (hereafter in this section referred to as the additional duty) equal to the excise duty for the time being leviable on a like article if produced or manufactured in India and if such excise duty on a like article is leviable at any percentage of its value, the additional duty to which the imported article shall be so liable shall be calculated at that percentage, of the value of the imported article. Explanation.- In this section, the expression "the excise duty for the time being leviable on a like article if produced or manufactured in India" means the excise duty for the time being in force which would be leviable on a like article if produced or manufactured in India or, if a like article is not so produced or manufactured, which would be leviable on the class or description of articles to which the imported article belongs, and where such duty is leviable at different rates, the highest duty"

- **Valuation:** shall be determined under the Customs Tariff Act, 1975 and
- **Point of Taxation:** shall be at the point when duties of customs are levied on the said goods under section 12 of the Customs Act, 1962.

In addition, a few products such as aerated waters, tobacco products, motor vehicles etc. would also attract levy of GST Compensation Cess, over and above IGST at the rates specified under Schedule to The Goods and Services Tax (Compensation to States) Act, 2017.

Valuation and method of calculation in case of import of goods: For calculating IGST on any imported goods, the value of such imported goods shall be the aggregate of -

- (i) the value determined under section 14(1) or the tariff value fixed under section 14(2) of the Customs Act, 1962; and
- (ii) any duty of Customs chargeable on that article under section 12 of the Customs Act, 1962; and

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any sum chargeable on that article under any law for the time being in force as an addition to, or as duty of Customs. These would include education cess or higher education cess as well as anti-dumping and safeguard duties.

but does not include IGST and GST Compensation Cess as referred to in section 3(7) and 3(9) of the Customs Tariff Act.

The value of the imported article for the purpose of levying GST Compensation cess shall be the aggregate of the followings:

- (i) Assessable value;
- (ii) Basic Customs Duty (BCD) levied under the Act;
- (iii) any sum chargeable on the goods under any law for the time being in force, as an addition to, and in the same manner as, a duty of customs. These would include education cess or higher education cess as well as anti-dumping and safeguard duties.

Prior to 1st July, 2017, anti-dumping duties and safeguard duty were not included in the value for the levy of additional duty of customs (CVD) or Special Additional Duty (SAD). However, now for calculating IGST on imported goods, these duties will be included. The IGST paid shall not be added to the value for the purpose of calculating Compensation Cess.

**Import of Services:** "Import of services" as defined in section 2(11) of the IGST Act means the supply of any service, where-

- (i) the supplier of service is located outside India;
- (ii) the recipient of service is located in India; and
- (iii) the place of supply of service is in India

Import of services being an inter-state supply as per section 7(2) [supra], will be subject to levy of IGST as provided in section 5(1) of the IGST Act. However, unlike import of goods, such levy will be on the value determined under section 15 of the CGST Act and collected in such manner as may be prescribed.

The tax shall be payable under reverse charge by the recipient of services (other than a non-taxable online recipient) as provided in Sl. No. 1 of no. 10/2017-Integrated Tax (Rate) dated 28<sup>th</sup> June, 2017.

**Special Economic Zone:** "Special Economic Zone" shall have the same meaning as assigned to it in clause (za) of section 2 of the Special Economic Zones Act, 2005-Section 2(19) of the IGST Act.

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**Special Economic Zone developer:** “Special Economic Zone Developer” shall have the same meaning as assigned to it in clause (g) of section 2 of the Special Economic Zones Act, 2005 and includes an Authority as defined in clause (d) and a Co-Developer as defined in clause (f) of section 2 of the said Act - Section 2(20) of the IGST Act.

Supply of goods or services or both to or by a Special Economic Zone developer or a Special Economic Zone unit shall be treated to be a supply of goods or services or both in the course of inter-State trade or commerce-Section 7(5)(b) of IGST Act. Such supplies shall not be treated an intra-state supply as also mentioned in clause (i) of proviso to section 8(1) and proviso to section 8(2) of IGST Act.

### Illustration:

- Import 9 units @ 10/- each
- Total Custom Duty ₹ 10.
- Total value of inward supply: ₹ 100/-
- IGST @ 18%

### Accounting Entries

S. No.	Particulars		Debit (₹)	Credit (₹)	Reference	Remarks
a.	Inward Supply A/c	Dr.	100		P&L	GSTR Return Reference Table:
						For goods: GSTR 2>>Table 5A and 5B
	IGST - Interim Input A/c	Dr.	18		B/S	For services: GSTR 2>>Table 4C
	To Vendor/Bank A/c			90	B/S	
	To Custom Duty Payable A/c			28	B/S	
	(Being goods/					

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	services imported from outside India/SEZ)					
b.	Custom Duty Payable A/c	Dr.	28		<b>B/S</b>	
	To Bank A/c			28	B/S	
	(Being import purchases made and duties (basic customs and customs equivalent to IGST paid)					
e.	IGST - Input Credit A/c	Dr.	18		B/S	
	To IGST Interim Input A/c			18	B/S	
	(Being Input tax transferred on payment of tax under RCM on inter-state supply)					

**Notes:** All duties paid under Customs law, whether it is basic customs duty or customs equivalent to IGST or Cess, it will be paid through Bill of Entry assessed. And IGST or Cess, to the extent available as input tax credit specifically as per definition under section 2(62) of CGST Act, will be reflected in the returns as per section 38(2) of CGST Act voluntarily by the registered persons. Hence, payment of customs (all types) are not accounted like other GST payments under RCM but accounted as customs duty only but creditable portion is extracted out of this single payment.

**Accounting Entries; if Goods are imported on FOB contract and separate contract has entered with a person located in India for transportation of goods from a place outside India upto the custom station of clearance in India**

**Assumptions for Freight**

**Amount of Freight (in ₹): ₹20.00**

**Rate of IGST: 5%**

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a.	Inward supply A/c Dr. IGST –Interim input A/c Dr. To Vendor/Bank To Output IGST(RCM) A/c	20 01		B/S B/S
b.	E-Cash Ledger IGST Dr. To Bank	01	20 01	B/S B/S
c.	Output IGST (RCM) Dr. To E- cash Ledger IGST	01	01	B/S
d.	IGST Input A/c Dr. To IGST Interim Input A/c	01	01	B/S B/S

**Note:** Freight is not accounted as a separate item of direct expense but is inventoried as per AS 2. Cost includes all expenses incurred to bring the goods to their present location and condition including taxes and duties (other than those subsequently recoverable from taxing authorities). The same applies to capital goods imported also, that are capitalized as part of asset as per AS 10.

Even if, goods are imported on CIF basis, then also GST under RCM is levied on Charges paid for transportation of goods from outside India to Indian custom port and freight is calculated on deemed basis as provided in corrigendum dated 30.06.2017 to Notification No. 08/2017-Integrated Tax (Rate) ,dated. 28.06.2017:-

Where the value of taxable service provided by a person located in non-taxable territory to a person located in non-taxable territory by way of transportation of goods by a vessel from a place outside India up to the customs station of clearance in India is not available with the person liable for paying integrated tax, the same shall be deemed to be 10 % of the CIF value (sum of cost, insurance and freight) of imported goods

**6(a)-A6: Inward Supply from Branch/ other place of business**

As per Para 2 of Schedule-I to the CGST Act, 2017, Supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business shall be treated as supply even if made without any consideration.

Section 25 of the CGST Act, 2017:

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- (1) Every person who is liable to be registered under section 22 or section 24 shall apply for registration in every such State or Union territory in which he is so liable within thirty days from the date on which he becomes liable to registration, in such manner and subject to such conditions as may be prescribed:

Provided that a casual taxable person or a non-resident taxable person shall apply for registration at least five days prior to the commencement of business.

Explanation — Every person who makes a supply from the territorial waters of India shall obtain registration in the coastal State or Union territory where the nearest point of the appropriate baseline is located.

- (2) A person seeking registration under this Act shall be granted a single registration in a State or Union territory:

Provided that a person having multiple place of business in a State or Union territory may be granted a separate registration for each place of business, subject to such conditions as may be prescribed.

- (3) A person, though not liable to be registered under section 22 or section 24 may get himself registered voluntarily, and all provisions of this Act, as are applicable to a registered person, shall apply to such person.

- (4) **A person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons for the purposes of this Act.**

- (5) **Where a person who has obtained or is required to obtain registration in a State or Union territory in respect of an establishment, has an establishment in another State or Union territory, then such establishments shall be treated as establishments of distinct persons for the purposes of this Act.**

- (6) Every person shall have a Permanent Account Number issued under the Income Tax Act, 1961 in order to be eligible for grant of registration:

Provided that a person required to deduct tax under section 51 may have, in lieu of a Permanent Account Number, a Tax Deduction and

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Collection Account Number issued under the said Act in order to be eligible for grant of registration.

- (7) Notwithstanding anything contained in sub-section (6), a non-resident taxable person may be granted registration under sub-section (1) on the basis of such other documents as may be prescribed.
- (8) Where a person who is liable to be registered under this Act fails to obtain registration, the proper officer may, without prejudice to any action which may be taken under this Act or under any other law for the time being in force, proceed to register such person in such manner as may be prescribed.
- (9) Notwithstanding anything contained in sub-section (1),—
  - (a) any specialised agency of the United Nations Organisation or any Multilateral Financial Institution and Organisation notified under the United Nations (Privileges and Immunities) Act, 1947, Consulate or Embassy of foreign countries; and
  - (b) any other person or class of persons, as may be notified by the Commissioner,

shall be granted a Unique Identity Number in such manner and for such purposes, including refund of taxes on the notified supplies of goods or services or both received by them, as may be prescribed.

- (10) The registration or the Unique Identity Number shall be granted or rejected after due verification in such manner and within such period as may be prescribed.
- (11) A certificate of registration shall be issued in such form and with effect from such date as may be prescribed.
- (12) A registration or a Unique Identity Number shall be deemed to have been granted after the expiry of the period prescribed under sub-section (10), if no deficiency has been communicated to the applicant within that period.
  - **As per the section 25(4), and 25(5), Branches be treated as distinct persons for the purposes of this Act and be treated as establishments of distinct persons for the purposes of this Act.**
  - **Branches are also not Covered under the Related Persons Provided in Explanation given in the section 15**

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- (a) Persons shall be deemed to be “related persons” if—
- (i) such persons are officers or directors of one another’s businesses;
  - (ii) such persons are legally recognised partners in business;
  - (iii) such persons are employer and employee;
  - (iv) any person directly or indirectly owns, controls or holds twenty-five per cent. or more of the outstanding voting stock or shares of both of them;
  - (v) one of them directly or indirectly controls the other;
  - (vi) both of them are directly or indirectly controlled by a third person;
  - (vii) together they directly or indirectly control a third person; or
  - (viii) they are members of the same family;
- (b) the term “person” also includes legal persons;
- (c) persons who are associated in the business of one another in that one is the sole agent or sole distributor or sole concessionaire, howsoever described, of the other, shall be deemed to be related. This will include the cases of stock transfer between branches from other states as well as supply from another place of business being a distinct person, within the same state.

**Accounting Entries:**

Particulars	Debit (₹)	Credit (₹)	Reference
<b>a. For Intra State Supply from another place of business</b>			
Inward supply	Dr. 100		P&L
SGST - Input A/c	Dr. 9		B/S
CGST - Input A/c	Dr. 9		B/S
Cess - Input A/c	Dr. 5		B/S
To another place of Business A/c (Being intra-state transfer made from another place of business of the company)		123	B/S

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<b>b. For Inter State Supply from another place of business</b>				
Inward Supply	Dr.	100		P&L
IGST- Input A/c	Dr.	18		B/S
Cess - Input A/c	Dr.	5		B/S
To another place of Business A/c			123	B/S
(Being inter-state transfer made from another place of business of the company)				

Please refer **6(b)-A4: Outward supply to another branch/ other place of business having same PAN** for corresponding entries in branch books.

**6(b): Accounting Treatment of Outward Supplies under GST**

“**Outward supply**” in relation to a taxable person, means supply of goods or services or both, whether by sale, transfer, barter, exchange, licence, rental, lease or disposal or any other mode, made or agreed to be made by such person in the course or furtherance of business- **Section 2(83) of the CGST Act.**

**A. Types of Outward Supply**

Outward supply may include:

1. Supply under forward charge
2. Supply under reverse charge
3. Supply by way of Export/SEZ/Deemed Export
4. Supply by a person under Composition scheme
5. Supply to Branch/ other place of business

**Illustrations for Outward supply:**

- Supply of 5 units @ 15/- each
- Incidental expenses like transportation etc.- ₹ 25/-
- Total value of supply- ₹ 100/-
- CGST @9%
- SGST @ 9%
- IGST @ 18%
- Compensation Cess @ 5%

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6(b)-A1: Outward supply under forward charge

Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
<b>a. For Intra State Supply made</b>				
Debtor/Bank A/c Dr. 123			B/S	GSTR Return Reference Table:
To Output SGST A/c		9	B/S	To Registered Person: GSTR 1>>Table 4A
To Output CGST A/c		9	B/S	
To Output Cess A/c		5	B/S	To Unregistered Person: GSTR 1>>Table 7A(1)
To Outward Supply/Services A/c (Being intra-state supply made)		100	P&L	
<b>b. For Inter State Supply made</b>				
Debtor/Bank A/c Dr. 123			B/S	GSTR Return Reference Table:
To Output IGST A/c		18	B/S	To Registered Person: GSTR 1>>Table 4A
To Output Cess A/c		5	B/S	
To Outward Supply/Services A/c{(15x5) + (25)}		100	P&L	To Unregistered Person:
(Being inter-state purchase made)				GSTR 1>>Table 7B(1)- If invoice value upto ₹ 2.50 lacs
				GSTR 1>>Table 5A- If invoice value is > ₹ 2.50 lacs

**Note:** In case of exempt sales/service, there would be no entries for tax. The same is illustrated below:

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Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
<b>a. For Intra State / Inter State Supply made</b>				
Debtor/Bank A/c Dr.	100		B/S	GSTR Return Reference Table: GSTR 1>>Table 8A/8B/8C/8D
To Outward Supply A/c (Being supply made)		100	P&L	

**6(b)-A2: Outward supply under reverse charge**

In case the supplier makes supply under Section 9(3) of CGST or Section 5(3) of IGST, following journal entries are to be passed:

Particulars	Debit (₹)	Credit (₹)	Reference
Debtor/Bank A/c Dr.	100		B/S
To Outward Supply A/c (Being inter/intra state supply made)		100	P&L

S. No.	Particulars	GSTR 1 Table Reference
1	Intra-state supply made to a registered person	4B
2	Inter-state supply made to a registered person	4B
3	Intra-state supply made to an unregistered person	7A
4	Inter-state supply made to an unregistered person	7B(1)

**6(b)-A3: Outward supply by way of Export/SEZ**

**Export of goods:** “export of goods” with its grammatical variations and cognate expressions, means taking goods out of India to a place outside India; Section 2(5) of IGST Act, 2017

**Export of Services:** “export of services” means the supply of any service when,—

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- (i) the supplier of service is located in India;
- (ii) the recipient of service is located outside India;
- (iii) the place of supply of service is outside India;
- (iv) the payment for such service has been received by the supplier of service in convertible foreign exchange; and
- (v) the supplier of service and the recipient of service are not merely establishments of a distinct person in accordance with Explanation 1 in section 8

#### (Section 2(6) of IGST Act, 2017)

As per section 16(1) of the IGST Act, export of goods and/or services or supply of goods and/or services to a SEZ developer or a SEZ unit shall be treated as “**zero rated supply**”, meaning thereby no tax shall be leviable on such supplies.

Section 16(2) further provides that “subject to the provisions of section 17(5) of the CGST Act, input tax credit may be availed for making zero-rated supplies, notwithstanding that such supply may be an exempt supply”.

As per section 16(3), a registered person making zero rated supply shall be eligible to claim refund in accordance with the provisions of section 54 of the CGST Act or the rules made thereunder. He may supply goods or services or both, subject to such conditions, safeguards and procedure as prescribed in Rules 89 to 97A of the CGST Rules and the notifications/circulars issued in this regard, under either of the following options:

- (a) Under bond or Letter of Undertaking, without payment of integrated tax and claim refund of unutilised input tax credit; or
- (b) On payment of integrated tax and claim refund of such tax paid on goods or services or both supplied.

#### Accounting Entries:

**Assumption: Unutilized Input Tax Credit Balance in books is ₹ 12/-.**

##### (I) Export Under Payment of GST

S. No.	Particulars		Debit (₹)	Credit (₹)	Reference	Remarks
a.	Debtor/Bank A/c	Dr	100		B/S	GSTR Return Referenc
	IGST Refundable A/c	Dr	18		B/S	

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	To Outward Supply /Services A/c		100			<b>e Table:</b> GSTR 1>>Table 6A & 6B
	To Output IGST A/c (Being goods/services exported)		18		<b>P&amp;L</b> <b>B/S</b>	
b.	Output IGST A/c	Dr.	12		<b>B/S</b>	
	To IGST Input A/c (Being output IGST being reduced with the eligible Input of tax)		12		<b>B/S</b>	
c.	E-Cash Ledger IGST A/c	Dr.	6		B/S	
	To Bank A/c (Being balance tax payable deposited in the Electronic Ledger of IGST)		6		B/S	
d.	Output IGST A/c	Dr.	6		B/S	
	To E-Cash Ledger IGST A/c (Being balance output liability adjusted with the E-Cash Ledger of IGST)		6		B/S	
e.	IGST Refund Receivable A/c	Dr.	18		B/S	GSTR Return Referenc e Table: IGST paid amount of 6/- out of 18/- to be shown in Table 14 of GSTR - 3.
	To IGST Refundable A/c (Being IGST refund claimed filed))		18		B/S	
f.	Bank A/c	Dr.	18		B/S	
	To IGST Refund Receivable A/c (Being refund received)		18		B/S	

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**(II) Export under Bond/LUT**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
a.	Debtor/Bank A/c Dr. To Outward Supply /Services A/c (Being goods/services exported under Bond/LUT))	100	100	B/S P&L	
b.	CGST/SGST/IGST Refund Receivable A/c Dr. To Input-CGST/SGST/IGST A/c (Being refund of eligible ITC as per Rule 89 in case of export/SEZ Supply under Bond/LUT claimed)	12	12	B/S B/S	GSTR Return Reference Table: GSTR 1>>Table 6A & 6B
c.	Bank A/c Dr. To CGST/SGST/IGST Receivable Claim A/c (Being refund received)	12	12	B/S B/S	

**6(b)-A4: Outward supply to another branch/ other place of business having same PAN**

Para 2 of Schedule-I read with Section 7 of CGST Act states that supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business shall be treated as supply even if made without consideration.

Section 25(4) states that “a person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, **be treated as distinct persons for the purposes of this Act**”

Section 25(5) states that “where a person who has obtained or is required to obtain registration in a State or Union territory in respect of an establishment, has an establishment in another State or Union territory, then such establishments **shall be treated as establishments of distinct persons for the purposes of this Act**”

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**Accounting entries**

A. In the books of the transferring Branch

Particulars	Debit (₹)	Credit (₹)	Reference
<b>a. For Intra State Supply to another place of business</b>			
<b>other place of Business A/c</b> Dr. 123			B/S
To Output SGST A/c		9	B/S
To Output CGST A/c		9	B/S
To Output Cess A/c		5	B/S
To Outward Supply /Services A/c		100	P&L
(Being intra state transfer made to an <b>other place of business</b> of the company)			
<b>b. For Inter State Supply from other place of business</b>			
<b>other place of Business A/c</b> Dr. 123			B/S
To Output IGST A/c		18	B/S
To Output Cess A/c		5	B/S
To Outward Supply /Services A/c		100	P&L
(Being inter-state transfer made to <b>other place of business</b> of the company)			

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B. In the books of the recipient branch

Particulars	Debit (₹)	Credit (₹)	Reference
<b>a. Where credit of GST paid is availed by the Recipient branch</b>			
Inward Supply Dr. (branch) A/c	100		P&L
SGST - Input A/c	Dr. 9		B/S
CGST - Input A/c	Dr. 9		B/S
Cess - Input A/c	Dr. 5		B/S
To other place of Business A/c		123	B/S
(Being intra state transfer made to other place of business of the company)			
			In case of Interstate supply, CGST and SGST will be replaced by IGST.
			GSTR Return Reference Table: GSTR 1>>Table 4A
<b>b. Where credit of GST paid is not availed by the Recipient branch</b>			

However in case where the branches / other place of business situated in same state, do not have separate registration for the branches, in that case goods would be transferred on the basis of delivery Challan.

**ACCOUNTING ENTRIES:**

a) In the books of transferring branch:

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
(I)	Dispatch of Goods Stock with branch/ other place of business A/c	Dr ****		B/S	Stock with branch / other place

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	To Stock Control A/c (Being goods sent on to <b>other place of business / branch</b> )		****	B/S	of business will be eliminated at the time of consolidation of accounts of all branches with head office.
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**b) In the books of receiving branch:**

S.No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
(I)	<b>Receipt of Goods</b> Stock Control A/c Dr. To <b>other place of Business / branch</b> Stock A/c (Being inputs received)	****	****	B/S B/S	

**6(c): Accounting Treatment in case of Advance payment/receipt/refund for goods/services**

Accounting treatment in case of advance payment/receipt and refund for goods and services, from the point of view of the recipient and the supplier is discussed below:

**A. Accounting treatment in case of advance payment for goods and services by the recipient**

Section 12(1) and 13(1) CGST Act, 2017 states that the liability to pay tax on goods / services shall arise at the time of supply of goods / services as determined in accordance with provisions of section 12/13 of CGST Act.

As per the provisions of Section 12(2) and 13(2) of CGST Act, 2017;

The time of supply of goods shall be the earlier of the following dates, namely:—

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- (a) the date of issue of invoice by the supplier or the last date on which he is required, under sub-section (1) of section 31, to issue the invoice with respect to the supply; or
- (b) the date on which the supplier receives the payment with respect to the supply:

Provided that where the supplier of taxable goods receives an amount up to one thousand rupees in excess of the amount indicated in the tax invoice, the time of supply to the extent of such excess amount shall, at the option of the said supplier, be the date of issue of invoice in respect of such excess amount

In case of inward supply of services from unregistered suppliers, a registered person is liable to pay tax under reverse charge as per the provisions of section 12(3) and 13(3) of the CGST Act. When advance payment is made to such unregistered supplier, date of advance payment being the earliest event, becomes the time of supply and accordingly the liability to pay the tax crystallizes.

However, in case of supply of goods from unregistered supplier, in view of Notification No 66/2017 – Central Tax, a registered person is liable to pay tax under reverse charge as per the provisions of section 12(1)(a). When advance payment is made to such unregistered supplier, date of issue of invoice or the last date on which the supplier is required to issue invoice under Section 31(1) of CGST Act, becomes the time of supply and accordingly the liability to pay the tax crystallizes.

**Accounting Entries:**

**1. Advance paid for services to unregistered dealer in one month and purchase in subsequent month**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
A. (I)	<b>For Intra-state advance</b>				<b>GSTR Return Reference Table:</b> GSTR 2>>Table 10A(1) and GSTR 3>>5A(II)
	Vendor A/c Dr. 100	100		B/S	
	SGST - Interim Input A/c Dr. 9	9		B/S	
	CGST - Interim Input A/c Dr. 9	9		B/S	

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	Compensation Cess - Interim Input A/c	Dr.	5		B/S	
	To Output SGST (RCM) A/c			9	B/S	
	To Output CGST (RCM) A/c			9	B/S	
	To Output Compensation Cess (RCM) A/c			5	B/S	
	To Bank A/c			100	B/S	
	(Being advance payment made to an unregistered supplier and recognition of GST Liability)					
(II)	E-cash Ledger CGST A/c	Dr.	9		B/S	<b>Note:</b> This entry not to be passed if URD purchase is recorded in the same month.
	E-cash Ledger SGST A/c	Dr.	9		B/S	
	E-cash Ledger Cess A/c	Dr.	5		B/S	
	To Bank A/c			23	B/S	
	(Being tax deposited in the Electronic Cash Ledger)					
(III)	Output SGST (RCM) A/c	Dr.	9		B/S	<b>Note:</b> This entry not to be passed if URD purchase is recorded in the same month.
	Output CGST (RCM) A/c	Dr.	9		B/S	
	Output Compensation Cess (RCM) A/c	Dr.	5		B/S	

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	To E-cash Ledger CGST A/c		9	B/S	
	To E-cash Ledger SGST A/c		9	B/S	
	To E-cash Ledger Cess A/c		5	B/S	
	(Being payment of tax under RCM on intra-state advance made through Electronic Cash ledger)				
(IV)	Inward Supply /Expense A/c	Dr.	500	P&L	Intra-state Inward supply u/s 9(3)/9 (4) GSTR Return Reference Table: GSTR 2>>Table 4B
	SGST - Interim Input A/c	Dr.	45	B/S	
	CGST - Interim Input A/c	Dr.	45	B/S	
	Compensation Cess - Interim Input A/c	Dr.	25	B/S	
	To Output SGST (RCM) A/c		45	B/S	
	To Output CGST (RCM) A/c		25	B/S	
	To Output Compensation Cess (RCM) A/c		500	B/S	
	To Vendor A/c				
(V)	Output SGST (RCM) A/c	Dr.	9	B/S	
	Output CGST (RCM) A/c	Dr.	9	B/S	
	Output Compensation Cess (RCM) A/c	Dr.	5	B/S	
	To SGST Interim Input A/c		9	B/S	
	To CGST Interim Input A/c		9	B/S	
	To Compensation Cess - Interim Input A/c		5	B/S	
	(Being amount transferred from Input A/c on payment of tax on RCM)				
(VI)	E-cash Ledger CGST A/c	Dr.	36	B/S	
	E-cash Ledger SGST A/c	Dr.	36	B/S	
	E-cash Ledger Cess A/c	Dr.	20	B/S	

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	To Bank A/c (Being tax under RCM deposited in the Electronic Cash Ledger)		92	B/S	
(VII)	Output SGST (RCM) A/c Dr.	36		B/S	
	Output CGST (RCM) A/c Dr.	36		B/S	
	Output Compensation Cess (RCM) A/c Dr.	20		B/S	
	To E-cash Ledger CGST A/c		36	B/S	
	To E-cash Ledger SGST A/c		36	B/S	
	To E-cash Ledger Cess A/c (Being payment of tax under RCM on intra-state supply made through Electronic Cash ledger)		20	B/S	
(VIII)	SGST – Input Credit A/c Dr.	45		B/S	
	CGST - Input Credit A/c Dr.	45		B/S	
	Compensation Cess - Input A/c Dr.	25		B/S	
	To SGST Interim Input A/c		45	B/S	
	To CGST Interim Input A/c		45	B/S	
	To Compensation Cess - Interim Input A/c (Being payment of tax under RCM on intra-state supply made through Electronic Cash ledger)		25	B/S	
B. (I)	<b>For Inter-state Advance</b>				
	Vendor A/c Dr.	100		B/S	<b>GSTR Return Referen ce Table: GSTR</b>
	IGST - Interim Input A/c Dr.	18		B/S	
	Compensation Cess - Interim Input A/c Dr.	5		B/S	
	To Output IGST (RCM) A/c		18	B/S	
	To Output Compensation		5	B/S	

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	Cess (RCM) A/c To Bank A/c (Being advance payment made to an unregistered supplier and recognition of GST Liability)			100	B/S	2>>Table 4A & 4B
(II)	E-cash Ledger IGST A/c Dr.	18			B/S	<b>Note:</b> <b>This entry not to be passed if URD purchase is recorded in the same month.</b>
	E-cash Ledger Cess A/c Dr.	5			B/S	
	To Bank A/c (Being tax deposited in the Electronic Cash Ledger)		23		B/S	
(III)	Output IGST (RCM) A/c Dr.	18			B/S	<b>Note:</b> <b>This entry not to be passed if URD purchase is recorded in the same month.</b>
	Output Compensation Cess (RCM) A/c Dr.	5			B/S	
	To E-cash Ledger IGST A/c		18		B/S	
	To E-cash Ledger Cess A/c (Being payment of tax under RCM on intra-state advance made through Electronic Cash ledger)		5		B/S	
(IV)	Inward Supply /Expense A/c Dr.	500			P&L	Intra-

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	IGST - Interim Input A/c	Dr.	90		B/S	state Inward supply u/s 5(3)/5 (4) GSTR Return Referen ce Table: GSTR 2>>Tabl e 4B
	Compensation Cess - Interim Input A/c	Dr.	25	90	B/S	
	To Output IGST (RCM) A/c			25	B/S	
	To Output Compensation Cess (RCM) A/c			500	B/S	
	To Vendor A/c					
(V)	Output IGST (RCM) A/c	Dr.	18		B/S	
	Output Compensation Cess (RCM) A/c	Dr.	5		B/S	
	To IGST Interim Input A/c			18	B/S	
	To Compensation Cess - Interim Input A/c			5	B/S	
	(Being amount transferred from Input A/c on payment of tax on RCM)					
(VI)	E-cash Ledger IGST A/c	Dr.	72		B/S	
	E-cash Ledger Cess A/c	Dr.	20		B/S	
	To Bank A/c			92	B/S	
	(Being tax under RCM deposited in the Electronic Cash Ledger)					
(VII)	Output IGST (RCM) A/c	Dr.	72		B/S	
	Output Compensation Cess (RCM) A/c	Dr.	20		B/S	
	To E-cash Ledger IGST A/c			72	B/S	
	To E-cash Ledger Cess A/c			20	B/S	
	(Being payment of tax under RCM on intra-state supply made through Electronic Cash ledger)					

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(VIII)	IGST - Input Credit A/c	Dr.	90		B/S	
	Compensation Cess - Input Credit A/c	Dr.	25		B/S	
	To IGST Interim Input A/c			90	B/S	
	To Compensation Cess - Interim Input A/c			25	B/S	
	(Being payment of tax under RCM on intra-state supply made through Electronic Cash ledger)					

**2. Advance paid for goods to unregistered dealer in one month and purchase in subsequent month**

**a. Invoice is issued before the last date of issuance of Invoice**

S.No.	Particulars		Debit (₹)	Credit (₹)	Reference	Remarks
(I)	Vendor A/c	Dr.	100		B/S	
	To Bank A/c			100	B/S	
	(Being advance payment made to an unregistered supplier for supply of goods)					
(II)	Inward Supply /Expense A/c	Dr.	500		P&L	Intra-state Inward supply u/s 9(3)/9(4)
	SGST - Interim Input A/c	Dr.	45		B/S	GSTR Return Reference Table: GSTR 2>>Table 4B
	CGST - Interim Input A/c	Dr.	45		B/S	
	Compensation Cess - Interim Input A/c	Dr.	25		B/S	
	To Output SGST (RCM) A/c			45	B/S	
	To Output CGST (RCM) A/c			45	B/S	
	To Output Compensation Cess (RCM) A/c			25	B/S	

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	To Vendor A/c		500	B/S
(III)	E-cash Ledger A/c	CGST Dr.	45	B/S
	E-cash Ledger A/c	SGST Dr.	45	B/S
	E-cash Ledger A/c	Cess Dr.	25	B/S
	To Bank A/c (Being tax under RCM deposited in the Electronic Cash Ledger)		115	B/S
(IV)	Output A/c	SGST (RCM) Dr.	45	B/S
	Output A/c	CGST (RCM) Dr.	45	B/S
	Output Cess (RCM) A/c	Compensation Dr.	25	B/S
	To E-cash Ledger CGST A/c		45	B/S
	To E-cash Ledger SGST A/c		45	B/S
	To E-cash Ledger Cess A/c (Being payment of tax under RCM on intra-state supply made through Electronic Cash ledger)		25	B/S
(V)	SGST - Input A/c	Dr.	45	B/S
	CGST - Input A/c	Dr.	45	B/S
	Compensation Cess - Input A/c	Dr.	25	B/S
	To SGST Interim Input A/c		45	B/S
	To CGST Interim Input A/c		45	B/S
	To Compensation		25	B/S

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	Cess - Interim Input A/c (Being payment of tax under RCM on intra-state supply made through Electronic Cash ledger)			
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Please note that in case of Inter-state supply, CGST & SGST will be replaced by IGST

**b. Invoice is not issued on or before the last date of issuance of invoice**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
(I)	Vendor A/c Dr. To Bank A/c (Being advance payment made to an unregistered supplier for supply of goods)	100	100	B/S B/S	Intra-state Inward supply u/s 9(3)/9(4)
(II)	SGST - Interim Input A/c Dr. CGST - Interim Input A/c Dr. Compensation Cess - Interim Input A/c Dr. To Output SGST (RCM) A/c To Output CGST (RCM) A/c To Output Compensation Cess (RCM) A/c (Being liability of GST under Reverse Charge booked)	9 9 5	9 9 5	B/S B/S B/S B/S B/S	Intra-state Inward supply u/s 9(3)/9(4) GSTR Return Reference Table: GSTR 2>>Table 4B

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						This transaction will take place on the last date on which the invoice was required to be issued.
(III)	E-cash Ledger CGST A/c	Dr.	9		B/S	
	E-cash Ledger SGST A/c	Dr.	9		B/S	
	E-cash Ledger Cess A/c	Dr.	5		B/S	
	To Bank A/c			23	B/S	
	(Being tax under RCM deposited in the Electronic Cash Ledger)					
(IV)	Output SGST (RCM) A/c	Dr.	9		B/S	
	Output CGST (RCM) A/c	Dr.	9		B/S	
	Output Compensation Cess (RCM) A/c	Dr.	5		B/S	
	To E-cash Ledger CGST A/c			9	B/S	
	To E-cash Ledger SGST A/c			9	B/S	
	To E-cash Ledger Cess A/c			5	B/S	
	(Being payment of tax under RCM on intra-state supply made through Electronic Cash ledger)					
(V)	Inward Supply /Expense A/c	Dr.	500		P&L	Intra-state
	SGST - Interim Input A/c	Dr.	45		B/S	state
	CGST - Interim Input A/c	Dr.	45		B/S	Inward
	Compensation Cess - Interim Input A/c	Dr.	25		B/S	supply
	To Output SGST (RCM) A/c			45	B/S	u/s
	To Output CGST (RCM) A/c			45	B/S	9(3)/9(4)
	To Output Compensation			25	B/S	GSTR
				500	B/S	Return
						Referen

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	Cess (RCM) A/c To Vendor A/c (Being purchases made)				ce Table: GSTR 2>> Table 4B
(VI)	Output SGST (RCM) A/c	Dr.	9		B/S
	Output CGST (RCM) A/c	Dr.	9		B/S
	Output Compensation Cess (RCM) A/c	Dr.	5		B/S
	To SGST Interim Input A/c			9	B/S
	To CGST Interim Input A/c			9	B/S
	To Compensation Cess - Interim Input A/c (Being output RCM and Input on advance paid reversed)			5	B/S
(VII)	E-cash Ledger CGST A/c	Dr.	36		B/S
	E-cash Ledger SGST A/c	Dr.	36		B/S
	E-cash Ledger Cess A/c	Dr.	20		B/S
	To Bank A/c (Being tax under RCM deposited in the Electronic Cash Ledger)			92	B/S
(VIII)	Output SGST (RCM) A/c	Dr.	36		B/S
	Output CGST (RCM) A/c	Dr.	36		B/S
	Output Compensation Cess (RCM) A/c	Dr.	20		B/S
	To E-cash Ledger CGST A/c			36	B/S
	To E-cash Ledger SGST A/c			36	B/S
	To E-cash Ledger Cess A/c (Being payment of tax under RCM on intra-state supply made through Electronic Cash ledger)			20	B/S
(IX)	SGST - Input Credit A/c	Dr.	45		B/S
	CGST - Input Credit A/c	Dr.	45		B/S
	Compensation Cess - Input A/c	Dr.	25		B/S
	To SGST Interim Input A/c			45	B/S

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To CGST Interim Input A/c	45	B/S
To Compensation Cess - Interim Input A/c (Being payment of tax under RCM on intra-state supply made through Electronic Cash ledger)	25	B/S

Please note that in case of Inter-state supply, CGST & SGST will be replaced by IGST

### **B. Accounting treatment in case of receipt for advance payment for goods and services by the supplier**

Section 31(3)(d) of the CGST Act provides that on receipt of advance payment with respect to any supply of goods or services or both, a registered person shall issue a receipt voucher or any other document, containing such particulars as prescribed in Rule 50 of the CGST Rules, evidencing receipt of such payment.

#### **Receipt Voucher (Rule 50)**

A receipt voucher referred to in clause (d) of sub-section (3) of section 31 shall contain the following particulars, namely,-

- (a) name, address and Goods and Services Tax Identification Number of the supplier;
- (b) a consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters, hyphen or dash and slash symbolized as --|| and -/|| respectively, and any combination thereof, unique for a financial year;
- (c) date of its issue;
- (d) name, address and Goods and Services Tax Identification Number or Unique Identity Number, if registered, of the recipient;
- (e) description of goods or services;
- (f) amount of advance taken;
- (g) rate of tax (central tax, State tax, integrated tax, Union territory tax or cess);
- (h) amount of tax charged in respect of taxable goods or services (central tax, State tax, integrated tax, Union territory tax or cess);

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- (i) place of supply along with the name of State and its code, in case of a supply in the course of inter-State trade or commerce;
- (j) whether the tax is payable on reverse charge basis; and
- (k) signature or digital signature of the supplier or his authorized representative:

1<sup>st</sup> proviso to Rule 50 further states that where at the time of receipt of advance-

- (i) the rate of tax is not determinable, the tax shall be paid at the rate of 18%;
- (ii) the nature of supply is not determinable, the same shall be treated as inter-State supply.

In case of receipt of advance payment against supply of goods and/or services, date of receipt of advance payment being the earlier event, is the time of supply as per the provisions of section 12(2)(b) and 13(2)(a) and (b) of the CGST Act. However, by virtue of N. No. 66/2017-Central Tax dated 15<sup>th</sup> November, 2017 receipt of advance against supply of goods is no longer a determining factor to ascertain time of supply. Effective from 15<sup>th</sup> November, 2017, only the date of issue of invoice or the last date when an invoice is required to be issued under section 31(1) of the CGST Act shall determine the time of supply in case of supply of goods. This notification has superseded no. 40/2017-Central Tax dated 13<sup>th</sup> October, 2017, by which only a registered person with aggregate turnover upto 1.50 crores is entitled to this benefit.

However, on receipt of advance against supply of services, date of receipt of advance, being earliest event, shall continue to be time of supply as per the provisions of section 13(2)(a) and (b).

**Accounting Entries:**

1. In case of Advance for Services

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
(I)	Bank A/c Dr.	123		B/S	<b>GSTR Return Reference Table:</b> GSTR 1>>
	SGST on advance A/c Dr.	9		B/S	
	CGST on advance A/c Dr.	9		B/S	
	Compensation Cess on advance A/c Dr.	5		B/S	

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	To Output SGST A/c		9	B/S	Table 1A It has been assumed that the amount has been received inclusive of tax. If not, then the amount received shall be grossed up and the amount of tax shall be calculated accordingly.
	To Output CGST A/c		9	B/S	
	To Output Compensation Cess A/c		5	B/S	
	To Vendor A/c (Being advance payment received and recognition of GST Liability)		123	B/S	
(II)	E-cash Ledger CGST A/c	Dr.	9	B/S	
	E-cash Ledger SGST A/c	Dr.	9	B/S	
	E-cash Ledger Cess A/c	Dr.	5	B/S	
	To Bank A/c (Being tax deposited in the Electronic Cash Ledger)		23	B/S	
(III)	Output SGST A/c	Dr.	9	B/S	
	Output CGST A/c	Dr.	9	B/S	
	Output Compensation Cess A/c	Dr.	5	B/S	
	To E-cash/credit Ledger CGST A/c		9	B/S	
	To E-cash/credit Ledger SGST A/c		9	B/S	
	To E-cash/credit Ledger		5	B/S	

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	Cess A/c (Being payment of tax made through Electronic Cash ledger)				
(IV)	Vendor A/c	Dr.	73.8		B/S
	To Output SGST A/c			5.4	B/S
	To Output CGST A/c			5.4	B/S
	To Output Compensation Cess A/c			3	B/S
	To Outward Supply A/c (Being sales made to the Vendor)			60	P&L
(V)	Output SGST A/c	Dr.	5.4		B/S
	Output CGST A/c	Dr.	5.4		B/S
	Output Compensation Cess A/c	Dr.	3		B/S
	To SGST on Advance A/c			5.4	B/S
	To CGST on Advance A/c			5.4	B/S
	To Compensation Cess on Advance A/c (Being amount of GST adjusted with the amount paid)			3	B/S
(VI)	Vendor A/c	Dr.	49.2		B/S
	To Bank A/c (Being amount refunded to the vendor)			49.2	B/S
(VII)	CGST Refund A/c	Dr.	3.6		B/S
	SGST Refund A/c	Dr.	3.6		B/S
	Compensation Cess Refund A/c	Dr.	2		B/S
	To SGST on Advance A/c			3.6	B/S
	To CGST on Advance A/c			3.6	B/S
	To Compensation Cess on Advance A/c (Being balance GST			2	B/S

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	refundable under Section 54(8) booked)				
(VIII)	Bank A/c To CGST Refund A/c To SGST Refund A/c To Compensation Cess Refund A/c (Being balance GST refund received directly in the bank)	Dr.	9.2		B/S B/S B/S B/S

Note: In case of Inter state supply, CGST and SGST will be replaced by IGST.

#### 2. Advance for goods

##### a. Invoice is issued before the last date of issuance of Invoice

S. No.	Particulars		Debit (₹)	Credit (₹)	Reference	Remarks
(I)	Bank A/c To Vendor A/c (Being advance payment received for supply of goods)	Dr.	100	100	B/S B/S	<b>GSTR Return Reference Table: GSTR 1&gt;&gt; Table 1A</b>
(II)	Vendor A/c To Output SGST A/c To Output CGST A/c To Output Compensation Cess A/c To Outward Supply A/c (Being outward Supply made to the Vendor)	Dr.	615	45 45 25 500	B/S B/S B/S P&L	
(III)	E-cash Ledger CGST A/c E-cash Ledger SGST A/c E-cash Ledger Cess A/c	Dr.	45 45 25		B/S B/S B/S	

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	To Bank A/c (Being tax deposited in the Electronic Cash Ledger)		115	B/S	
(IV)	Output SGST A/c	Dr.	45	B/S	
	Output CGST A/c	Dr.	45	B/S	
	Output Compensation Cess A/c	Dr.	25	B/S	
	To E-cash Ledger CGST A/c		45	B/S	
	To E-cash Ledger SGST A/c		45	B/S	
	To E-cash Ledger Cess A/c (Being payment of tax made through Electronic Cash ledger)		25	B/S	
(V)	Bank A/c	Dr.	515	B/S	
	To Vendor A/c (Being amount received from the vendor)		515	B/S	

Note: In case of Inter-state supply, CGST and SGST will be replaced by IGST.

b. Invoice is issued after the last date of issuance of Invoice

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
(I)	Bank A/c	Dr. 100		B/S	<b>GSTR Return Reference Table: GSTR 1&gt;&gt; Table 1A</b>
	To Vendor A/c (Being advance payment received for supply of goods)		100	B/S	
(II)	E-cash Ledger CGST A/c	Dr. 9		B/S	This transacti
	E-cash Ledger SGST A/c	Dr. 9		B/S	

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	E-cash Ledger Cess A/c	Dr.	5		B/S	on will take on the last date on which invoice should have been issued.
	To Bank A/c (Being tax deposited in the Electronic Cash Ledger)			23	B/S	
(III)	Output SGST A/c	Dr.	9		B/S	
	Output CGST A/c	Dr.	9		B/S	
	Output Compensation Cess A/c	Dr.	5		B/S	
	To E-cash Ledger CGST A/c			9	B/S	
	To E-cash Ledger SGST A/c			9	B/S	
	To E-cash Ledger Cess A/c (Being payment of tax made through Electronic Cash ledger)			5	B/S	
(IV)	Vendor A/c	Dr.	615		B/S	
	To Output SGST A/c			45	B/S	
	To Output CGST A/c			45	B/S	
	To Output Compensation Cess A/c			25	B/S	
	To Outward Supply A/c (Being Outward Supply made to the Vendor)			500	P&L	
(V)	E-cash Ledger CGST A/c	Dr.	36		B/S	
	E-cash Ledger SGST A/c	Dr.	36		B/S	
	E-cash Ledger Cess A/c	Dr.	20		B/S	
	To Bank A/c (Being tax deposited in the Electronic Cash Ledger)			92	B/S	
(VI)	Output SGST A/c	Dr.	36		B/S	

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	Output CGST A/c	Dr.	36		B/S
	Output Compensation Cess A/c	Dr.	20		B/S
	To E-cash Ledger CGST A/c			36	B/S
	To E-cash Ledger SGST A/c			36	B/S
	To E-cash Ledger Cess A/c			20	B/S
	(Being payment of tax made through Electronic Cash ledger)				
(VII)	Bank A/c	Dr.	515		B/S
	To Vendor A/c			515	B/S
	(Being amount received from the vendor)				

Note: In case of Inter-state supply, CGST and SGST will be replaced by IGST.

**6(d): Accounting Treatment in case of distribution of Input tax credit by Input Service Distributor**

**Input Service Distributor:** "Input Service Distributor" (ISD) means an office of the supplier of goods or services or both which receives tax invoices issued under section 31 towards the receipt of input services and issues a prescribed document for the purposes of distributing the credit of central tax, State tax, integrated tax or Union territory tax paid on the said services to a supplier of taxable goods or services or both having the same Permanent Account Number as that of the said office- **Section 2(61) of CGST Act and SGST, 2017. Thus, credit transfer by an ISD can only be for services and not for goods.**

Section 20(1) of CGST Act states that "the Input Service Distributor shall distribute the credit of:

- central tax as central tax or integrated tax and
- integrated tax as integrated tax or central tax,

by way of issue of a document containing the amount of input tax credit being distributed in such manner as may be prescribed". An ISD invoice or credit

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note shall contain the details as prescribed in Rule 54 of the CGST and SGST Rules.

Section 20(1) of the SGST Act states that “the Input Service Distributor shall similarly distribute the credit of:

- state tax as state tax or integrated tax and
- integrated tax as integrated tax or state tax,

The distribution of credit shall be subject to such conditions as specified in section 20(2) of the CGST and SGST Act and in rule 39

### Section 20 (2)

The Input Service Distributor may distribute the credit subject to the following conditions, namely:—

- (a) the credit can be distributed to the recipients of credit against a document containing such details as may be prescribed;
- (b) the amount of the credit distributed shall not exceed the amount of credit available for distribution;
- (c) the credit of tax paid on input services attributable to a recipient of credit shall be distributed only to that recipient;
- (d) the credit of tax paid on input services attributable to more than one recipient of credit shall be distributed amongst such recipients to whom the input service is attributable and such distribution shall be pro rata on the basis of the turnover in a State or turnover in a Union territory of such recipient, during the relevant period, to the aggregate of the turnover of all such recipients to whom such input service is attributable and which are operational in the current year, during the said relevant period;
- (e) the credit of tax paid on input services attributable to all recipients of credit shall be distributed amongst such recipients and such distribution shall be pro rata on the basis of the turnover in a State or turnover in a Union territory of such recipient, during the relevant period, to the aggregate of the turnover of all recipients and which are operational in the current year, during the said relevant period.

Explanation.—For the purposes of this section,—

- (a) the “relevant period” shall be—

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- (i) if the recipients of credit have turnover in their States or Union territories in the financial year preceding the year during which credit is to be distributed, the said financial year; or
  - (ii) if some or all recipients of the credit do not have any turnover in their States or Union territories in the financial year preceding the year during which the credit is to be distributed, the last quarter for which details of such turnover of all the recipients are available, previous to the month during which credit is to be distributed;
- (b) the expression “recipient of credit” means the supplier of goods or services or both having the same Permanent Account Number as that of the Input Service Distributor;
  - (c) the term “turnover”, in relation to any registered person engaged in the supply of taxable goods as well as goods not taxable under this Act, means the value of turnover, reduced by the amount of any duty or tax levied under entry 84 of List I of the Seventh Schedule to the Constitution and entries 51 and 54 of List II of the said Schedule.

### **Procedure for distribution of input tax credit by Input Service Distributor: (Rule 39)**

- (1) An Input Service Distributor shall distribute input tax credit in the manner and subject to the following conditions, namely,-
  - (a) the input tax credit available for distribution in a month shall be distributed in the same month and the details thereof shall be furnished in FORM GSTR6 in accordance with the provisions of Chapter VIII of these rules;
  - (b) the Input Service Distributor shall, in accordance with the provisions of clause (d), separately distribute the amount of ineligible input tax credit (ineligible under the provisions of sub-section (5) of section 17 or otherwise) and the amount of eligible input tax credit;
  - (c) the input tax credit on account of central tax, State tax, Union territory tax and integrated tax shall be distributed separately in accordance with the provisions of clause (d);
  - (d) the input tax credit that is required to be distributed in accordance with the provisions of clause (d) and (e) of sub-section (2) of section 20 to one of the recipients ‘R1’, whether registered or not, from amongst the total of the recipients to whom input tax credit is attributable,

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including the recipient(s) who are engaged in making exempt supply, or are otherwise not registered for any reason, shall be the amount,  $-C1$ , to be calculated by applying the following formula –

$$C1 = (t1 \div T) \times C$$

where,

“C” is the amount of credit to be distributed,

“t1” is the turnover, as referred to in section 20, of person R1 during the relevant period, and

“T” is the aggregate of the turnover, during the relevant period, of all recipients to whom the input service is attributable in accordance with the provisions of section 20;

- (e) the input tax credit on account of integrated tax shall be distributed as input tax credit of integrated tax to every recipient;
- (f) the input tax credit on account of central tax and State tax or Union territory tax shall-
  - (i) in respect of a recipient located in the same State or Union territory in which the Input Service Distributor is located, be distributed as input tax credit of central tax and State tax or Union territory tax respectively;
  - (ii) in respect of a recipient located in a State or Union territory other than that of the Input Service Distributor, be distributed as integrated tax and the amount to be so distributed shall be equal to the aggregate of the amount of input tax credit of central tax and State tax or Union territory tax that qualifies for distribution to such recipient in accordance with clause (d);
- (g) the Input Service Distributor shall issue an Input Service Distributor invoice, as prescribed in sub-rule (1) of rule 54, clearly indicating in such invoice that it is issued only for distribution of input tax credit;
- (h) the Input Service Distributor shall issue an Input Service Distributor credit note, as prescribed in sub-rule (1) of rule 54, for reduction of credit in case the input tax credit already distributed gets reduced for any reason;
- (i) any additional amount of input tax credit on account of issuance of a debit note to an Input Service Distributor by the supplier shall be distributed in the manner and subject to the conditions specified in

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clauses (a) to (f) and the amount attributable to any recipient shall be calculated in the manner provided in clause (d) and such credit shall be distributed in the month in which the debit note is included in the return in FORMGSTR-6;

- (j) any input tax credit required to be reduced on account of issuance of a credit note to the Input Service Distributor by the supplier shall be apportioned to each recipient in the same ratio in which the input tax credit contained in the original invoice was distributed in terms of clause (d), and the amount so apportioned shall be-
- (i) reduced from the amount to be distributed in the month in which the credit note is included in the return in FORM GSTR-6; or
  - (ii) added to the output tax liability of the recipient where the amount so apportioned is in the negative by virtue of the amount of credit under distribution being less than the amount to be adjusted.

(2) If the amount of input tax credit distributed by an Input Service Distributor is reduced later on for any other reason for any of the recipients, including that it was distributed to a wrong recipient by the Input Service Distributor, the process specified in clause (j) of sub rule(1) shall apply, mutatis mutandis, for reduction of credit.

(3) Subject to sub-rule (2), the Input Service Distributor shall, on the basis of the Input Service Distributor credit note specified in clause (h) of sub-rule (1), issue an Input Service Distributor invoice to the recipient entitled to such credit and include the Input Service Distributor credit note and the Input Service Distributor invoice in the return in FORMGSTR-6 for the month in which such credit note and invoice was issued.

#### Accounting Entries (In the books of ISD)

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
(l)	<b>a. For Intra State Supply</b>				
	Inward Supply/Expense A/c Dr.	100		P&L	GSTR Return Reference Table: GSTR 6>>Table 3
	SGST - Input Credit A/c Dr.	9		B/S	

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	CGST - Input Credit A/c	Dr.	9		B/S	
	Cess - Input Credit A/c	Dr.	5		B/S	
	To Vendor/Bank A/c			123	B/S	
	(Being intra state purchase made by ISD)					
	<b>b. For Inter State Supply</b>					
	Inward Supply/Expense A/c	Dr.	100		P&L	<b>GSTR Return Reference Table: 6&gt;&gt;Table 3</b>
	IGST- Input Credit A/c	Dr.	18		B/S	
	Cess - Input Credit A/c	Dr.	5		B/S	
	To Vendor/Bank A/c			123	B/S	
	(Being inter-state purchase made by ISD)					
(II)	<b>other place of Business A/c</b>	Dr.	18		B/S	GSTR Return Reference Table: 6>>Table 3
	To CGST - Input Credit A/c			9	B/S	GSTR 2>>Table 8A of branch (BY recipient) GSTR 6>>Table 5 of ISD
	To SGST - Input Credit A/c			9	B/S	Note: CGST and SGST can be transferred as IGST also within the state as per section 20(1).
	<b>(Being intra state credit transfer to one or more than one other place of business having separate GSTIN)</b>					

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(III)	<p><b>Other place of</b> Dr. 18 Business A/c To IGST - Input 18 Credit A/c (Being <b>inter-state</b> credit transfer to one or more than <b>other place of</b> business having separate GSTIN)</p>	18	18	B/S B/S	<p>GSTR Return Reference Table: GSTR 2&gt;&gt;Table 8A of branch (BY recipient) GSTR 6&gt;&gt;Table 5 of ISD Note: IGST can be transferred as CGST or SGST also within the state as per section 20(1).</p>
(IV)	<p>Branch A/c Dr. 36 To IGST - Input A/c - 36 (Being <b>inter-state</b> credit transfer to one or more than one branch in separate states having separate GSTIN)</p>	36	36	B/S B/S	<p>GSTR Return Reference Table: GSTR 2&gt;&gt;Table 8A of branch (Recipient) GSTR 6&gt;&gt;Table 5 of ISD Note: Credit transfer will always be IGST</p>

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### 6(e): Accounting Treatment in case of Job work

The term “**Job work**” as defined in section 2(68) of the CGST Act, 2017 means “any treatment or process undertaken by a person on goods belonging to another registered person and the expression “job worker” shall be construed accordingly.”

As per section 143 of the CGST Act, principal may under intimation and subject to such conditions as may be prescribed, send any inputs (including intermediate goods) or capital goods, without payment of tax, to a job worker for job work and from there subsequently to another job worker and likewise. The goods shall be sent to the job worker under the cover of a delivery challan as mentioned in Rule 45 containing the details as specified in Rule 55. Such details, amongst other things, shall include taxable value of the goods.

#### **Conditions and restrictions in respect of inputs and capital goods sent to the job worker: Rule 45 of CGST Rules**

- (1) The inputs, semi-finished goods or capital goods shall be sent to the job worker under the cover of a challan issued by the principal, including where such goods are sent directly to a job-worker, [and where the goods are sent from one job worker to another job worker, the challan may be issued either by the principal or the job worker sending the goods to another job worker:

Provided that the challan issued by the principal may be endorsed by the job worker, indicating therein the quantity and description of goods where the goods are sent by one job worker to another or are returned to the principal:

Provided further that the challan endorsed by the job worker may be further endorsed by another job worker, indicating therein the quantity and description of goods where the goods are sent by one job worker to another or are returned to the principal.]

- (2) The challan issued by the principal to the job worker shall contain the details specified in rule 55.
- (3) The details of challans in respect of goods dispatched to a job worker or received from a job worker or sent from one job worker to another during a quarter shall be included in FORM GST ITC-04 furnished for that period on or before the twenty-fifth day of the month succeeding the said quarter [or within such further period as may be extended by the Commissioner by a notification in this behalf:

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Provided that any extension of the time limit notified by the Commissioner of State tax or the Commissioner of Union territory tax shall be deemed to be notified by the Commissioner.]

- (4) Where the inputs or capital goods are not returned to the principal within the time stipulated in section 143, it shall be deemed that such inputs or capital goods had been supplied by the principal to the job worker on the day when the said inputs or capital goods were sent out and the said supply shall be declared in FORM GSTR-1 and the principal shall be liable to pay the tax along with applicable interest.

Explanation - For the purposes of this Chapter,-

- (1) the expressions –capital goods shall include –plant and machinery|| as defined in the Explanation to section 17;
- (2) for determining the value of an exempt supply as referred to in sub-section (3) of section 17-
  - (a) the value of land and building shall be taken as the same as adopted for the purpose of paying stamp duty; and
  - (b) the value of security shall be taken as one per cent. of the sale value of such security.

### **Transportation of goods without issue of invoice: Rule 55**

- (1) For the purposes of-
- (a) supply of liquid gas where the quantity at the time of removal from the place of business of the supplier is not known,
  - (b) transportation of goods for job work,
  - (c) transportation of goods for reasons other than by way of supply, or
  - (d) such other supplies as may be notified by the Board,
- the consigner may issue a delivery challan, serially numbered not exceeding sixteen characters, in one or multiple series, in lieu of invoice at the time of removal of goods for transportation, containing the following details, namely:-
- (i) date and number of the delivery challan;
  - (ii) name, address and Goods and Services Tax Identification Number of the consigner, if registered;

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- (iii) name, address and Goods and Services Tax Identification Number or Unique Identity Number of the consignee, if registered;
  - (iv) Harmonised System of Nomenclature code and description of goods;
  - (v) quantity (provisional, where the exact quantity being supplied is not known);
  - (vi) taxable value;
  - (vii) tax rate and tax amount – central tax, State tax, integrated tax, Union territory tax or cess, where the transportation is for supply to the consignee;
  - (viii) place of supply, in case of inter-State movement; and
  - (ix) signature.
- (2) The delivery challan shall be prepared in triplicate, in case of supply of goods, in the following manner, namely:–
- (a) the original copy being marked as ORIGINAL FOR CONSIGNEE;
  - (b) the duplicate copy being marked as DUPLICATE FOR TRANSPORTER; and
  - (c) the triplicate copy being marked as TRIPLICATE FOR CONSIGNER.
- (3) Where goods are being transported on a delivery challan in lieu of invoice, the same shall be declared as specified in rule 138.
- (4) Where the goods being transported are for the purpose of supply to the recipient but the tax invoice could not be issued at the time of removal of goods for the purpose of supply, the supplier shall issue a tax invoice after delivery of goods.
- (5) Where the goods are being transported in a semi knocked down or completely knocked down condition –
- (a) the supplier shall issue the complete invoice before dispatch of the first consignment;
  - (b) the supplier shall issue a delivery challan for each of the subsequent consignments, giving reference of the invoice;

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- (c) each consignment shall be accompanied by copies of the corresponding delivery challan along with a duly certified copy of the invoice; and
- (d) the original copy of the invoice shall be sent along with the last consignment.

#### **Conditions for removal of goods without payment of tax:**

- a) such Inputs are brought back to any of his place of business within one year of their being sent out; or
- b) such capital goods (other than moulds and dies, jigs and fixtures, or tools) are brought back to any of his place of business within three years of their being sent out.

#### **Supply from the place of business of job worker- Section 143(1)(b) of CGST Act**

Instead of bringing the input or capital goods back to any of his place of business, principal may supply such inputs or capital goods, other than moulds and dies, jigs and fixtures, or tools within above mentioned period of one year and three years respectively, from the place of business of the job worker itself:

- on payment of tax within India; or
- with or without payment of tax for export; as the case may be.

However, to do so, principal has to declare job worker's place of business as his additional place of business except:

- where the job worker himself is registered under section 25; or
- where the principal is engaged in the supply of such goods as may be notified by the Commissioner.

In terms of section 143(2) of CGST Act, 2017 the principal shall be responsible for keeping proper accounts for the inputs or capital goods sent to the job worker.

#### **Consequences of not receiving goods back or directly supplying from Job Worker's place within prescribed time limit- Section 143(3) and 143(4)**

If the inputs/capital goods are not received back or supplied directly from job worker's place of business as stated above, within the prescribed period of 1/3 years respectively, then such inputs/capital goods shall be deemed to be

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“supply” from the principal to the job worker on the day when said inputs/capital goods were sent out.

The said supply shall have to be declared in FORM GSTR-1 and the principal shall be liable to pay the tax along with applicable interest- **Rule 45(4) of CGST Rules.**

After completion of the job work, the job worker shall return the said goods to the principal's premises under delivery challan or the principal may supply the said goods from the premises and Job worker will prepare his invoice for job work charges.

### Reporting of stock movement with their taxable values in ITC-04- Rule 45(3)

The details of following challans issued during a quarter shall be furnished in **FORM GST ITC-04** on or before the 25<sup>th</sup> day of the month succeeding the said quarter or such further period as may be extended:-

- i. Goods dispatched to a job worker or
- ii. Goods received from a job worker or
- iii. Goods sent from one job worker to another.

### Waste and Scrap during Job Work- Section 143(5) of CGST Act

Any waste and scrap generated during the job work may be supplied by the job worker directly from his place of business on payment of tax, if he is registered; or by the principal, if the job worker is not registered.

### Inventories & Accounting Entries

#### A. In the books of Principal

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
(I)	<b>Dispatch of Inputs to the Job Worker</b> Stock with Job Worker Dr. A/c To Stock Control A/c (Being goods sent on job work)	****	****	B/S B/S	Stock with Job worker will appear in Balance Sheet with Inventories as stock lying with third party. Stock Control A/c will appear

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				in Trading A/c /Statement of profit and loss with Inventories as stock lying with third party.
(II)	<p><b>Receipt of inputs/capital goods within one year</b>                  Stock Control A/c Dr. ****                  To Stock with Job Worker A/c                  (Being goods received back from the job worker within one year)</p>		****	B/S B/S
(III)	<p><b>Receipt of Job Work invoice from Job Worker</b>  <b>(A) Job Worker is registered</b>                  Job Work Charges A/c Dr. ****                  CGST - Input Credit A/c Dr. ***                  SGST - Input Credit A/c Dr. ***                  To Job Worker A/c                  (Being job work invoice received from Job worker)</p>		****	P&L B/S B/S B/S
	<p><b>(B) Job Worker is unregistered</b>                  Accounting entry will be the same in case of reverse charge as mentioned in Para 6(a)-A2</p>			
(IV)	<p><b>Transfer of input from one job worker to another</b>                  Stock with Job Worker 'A' A/c Dr. ****                  To Stock with Job Worker 'B' A/c                  (Being stock transferred</p>		****	B/S B/S

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	from one job worker to another)				
(V)	<b>Supply of inputs from Job worker's place of business on payment of tax in India.</b>				
	A. Stock Control A/c To Stock with Job Worker A/c (Being inputs supplied from Job Worker's place of business on payment of tax)	Dr.	****	****	B/S B/S In this case, Principal has to declare job worker's place of business as his additional place of business, if job worker is unregistered.
	B. For other entries, refer Outward Supply - Para No. 6(b)-A1				
(VI)	<b>Supply of inputs from Job worker's place of business with payment of tax for export.</b>				
	A. Stock Control A/c To Stock with Job Worker A/c (Being inputs supplied from Job Worker's place of business on payment of tax)	Dr.	****	****	B/S B/S
	B. For other entries, refer Outward Supply - Para No. 6(b)-A3				
(VII)	<b>Supply of inputs from Job worker's place of business without payment of tax for export</b>				
	A. Stock Control A/c To Stock with Job Worker A/c (Being inputs exported from Job Worker's place of business without payment of tax)	Dr.	****	****	B/S B/S
	B. For other entries, refer Outward Supply - Para No. 6(b)-A3				
(VIII)	<b>Non-receipt of inputs from Job worker within prescribed time limit of one year</b>				
	A. Stock Control A/c To Stock with Job Worker A/c (Being Inputs supplied from Job Worker's	Dr.	****	****	B/S B/S Supply shall be deemed to have taken place on the date of dispatch to job

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	premises to the Principal's)				worker and applicable interest has to be paid.
	B. For other entries, refer Outward Supply - Para No. 6(b)-A1				
(IX)	<b>Receipt of inputs from Job worker after prescribed time limit of one year</b>				
	A. No Entry for stock transfer				Note: To be treated as Inward supply from job worker
	B. Accounting entry if job worker is registered, refer inward supply - Para No. 6(a)A1				
	C. Accounting entry if job worker is unregistered, refer inward supply - Para No. 6(a)A2				
(X)	<b>Supply of waste and scrap from Job worker's place of business if job worker is unregistered.</b>				
	Debtor/Bank A/c To Output SGST A/c To Output CGST A/c To Output Cess A/c To Outward Supply of waste & Scrap A/c (Being waste & Scrap sold on payment of tax)	Dr.	****	** ** ** *** *	B/S B/S B/S B/S B/S
(XI)	<b>Process Loss/ Normal Loss of goods at job worker's place of business</b>				
	Stock with Job Worker A/c To Stock Control A/c (Being normal/process loss at job worker's premises recorded in the books of accounts)	Dr.	****	****	B/S B/S
(XII)	<b>Abnormal loss for example-goods at job worker's place of business-lost, stolen, destroyed, written off etc.</b>				
	Stock with Job Worker A/c To Stock Control A/c (Being abnormal loss at	Dr.	****	****	B/S B/S

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<p>job worker's premises recorded in the books of accounts)</p> <p>Goods lost/destroyed A/c Dr. ****</p> <p style="padding-left: 20px;">To Stock A/c ****</p> <p style="padding-left: 20px;">To Output SGST A/c</p> <p style="padding-left: 20px;">To Output CGST A/c</p> <p style="padding-left: 20px;">To Output Cess A/c</p> <p>(Being abnormal loss of stock at job worker's premises will amount to deemed supply of inputs sent to job worker)</p>				<p>P&amp;L</p> <p>B/S</p> <p>B/S</p> <p>B/S</p> <p>B/S</p>
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**B. In the books of Job Worker**

S. No.	Particulars	Deb it (₹)	Cre dit (₹)	Remarks
(I)	<p><b>Receipt of inputs from Principal</b></p> <p>Job Work Stock A/c Dr. ****</p> <p style="padding-left: 20px;">To Stock of Principal A/c ****</p> <p>(Being inputs received for job work)</p>			<p>B/S</p> <p>B/S</p>
(II)	<p><b>Return of inputs to principal within one year</b></p> <p>Stock of Principal A/c Dr. ****</p> <p style="padding-left: 20px;">To Job Work Stock A/c ****</p> <p>(Being inputs returned to the principal within one year)</p>			<p>B/S</p> <p>B/S</p>
(III)	<b>Raising of invoice on the Principal for job work charges</b>			
	<b>(A) Job Worker is registered</b>			

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	Principal A/c To CGST - Output A/c To SGST - Output A/c To Job Work Charges A/c (Being job work invoice issued to the principal)	Dr.	****		B/S B/S B/S P&L	
(IV)	<b>(B) Job Worker is unregistered</b> Principal A/c To Job Work Charges A/c (Being job work invoice issued to the principal) <b>Dispatch of input from one job worker to another</b> Stock with Principal 'A' A/c To Job Work Stock A/c (Being stock transferred to another job worker)	Dr.	****	***	B/S P&L B/S B/S	
(V)	<b>Supply of inputs from Job worker's place of business on payment of tax in India.</b>					
	Stock with Principal 'A' A/c To Job Work Stock A/c (Being inputs supplied from Job Worker's place of business on payment of tax)	Dr.	****	****	B/S B/S	Note: No accounting entry in the books of registered job worker except for job work charges.
(VI)	<b>Supply of inputs/capital goods by the principal from Job worker's place of business with payment of tax for export</b>					
	Stock with Principal 'A' A/c	Dr.	****		B/S	Note: No accounting entry in the books of

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	To Job Work Stock A/c (Being inputs supplied for export from Job Worker's place of business on payment of tax)		****	B/S	registered job worker except for job work charges.
(VII)	<b>Supply of inputs from Job worker's place of business without payment of tax for export</b>				
	Stock with Principal 'A' A/c To Job Work Stock A/c (Being inputs exported from Job Worker's place of business without payment of tax)	Dr.	****	B/S	Note: No accounting entry in the books of registered job worker except for job work charges.
			****	B/S	
(VIII)	<b>Non-dispatch of inputs to Principal within prescribed time limit of one year</b>				
	A. Stock with Principal 'A' A/c To Job Work Stock A/c (Being stock entry passed on non-dispatch of inputs to the principal within the period of one year)	Dr.	****	B/S	Note: Supply shall be deemed to have taken place on the date of dispatch to job worker and applicable interest has to be paid.
			****	B/S	
	B. For other entries, if job worker is registered, refer Inward Supply - Para No. 6(a)-A1				
	C. For other entries, if job worker is unregistered:				
	Inward Supply A/c To Principal 'A' A/c (Being accounting entry passed at the time of non-transfer of inputs within a period of one year.	Dr.	****	P&L B/S	Note: The purchase amount includes the GST amount.
(IX)	<b>Dispatch of inputs to principal after prescribed time limit of one year</b>				
	A. No Entry for stock transfer				Note: To be treated

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					as Outward supply to Principal
	B. Accounting entry if job worker is registered, refer outward supply - Para No. 6(b)A1				
	C. For accounting entries, if job worker is unregistered:				
	Principal 'A' A/c To Sales A/c  (Being accounting entry passed on dispatch of inputs to principal after a period of one year)	Dr.	****	****	B/S P&L
(X)	<b>Supply of waste and scrap by Job worker if he is registered</b>				
	Debtor/Bank A/c To Output SGST A/c To Output CGST A/c To Output Cess A/c To Outward Supply of waste & Scrap A/c  (Being waste & Scrap sold on payment of tax)	Dr.	****	** ** ** ****	B/S B/S B/S B/S <b>P&amp;L</b>
(XI)	<b>Issue of credit note to Principal for Outward Supply of waste/scrap, if Outward Supply of waste/scrap is on account of principal</b>				
	Waste & Scrap A/c To Principal A/c  (Being credit note issued to the Principal for Outward supply of waste/scrap, if outward supply of waste/scrap is on account of principal)	Dr.	****	****	P&L B/S

**6(f): Accounting Treatment in case of supply through agents/intermediaries**

“Agent” as defined in section 2(5) of the CGST Act means “a person, including a factor, broker, commission agent, arhatia, del credere agent, an auctioneer or any other mercantile agent, by whatever name called, who carries on the business of supply or receipt of goods or services or both on behalf of another.”

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An “**Intermediary**” on the other hand, has been defined in section 2(13) of the IGST Act and it means “a broker, an agent or any other person, by whatever name called, who arranges or facilitates the supply of goods or services or both, or securities, between two or more persons, but does not include a person who supplies such goods or services or both or securities on his own account”

Thus, an intermediary does not carry on the business of supply or receipt of goods or services or both on behalf of another but arranges or facilitates the supply of goods or services or both, or securities, between two or more persons.

As per section 2(85) of the CGST Act, “Place of business” includes a place where a taxable person is engaged in business through an agent, by whatever name called.

The word “Principal” has been defined in section 2(88) of the CGST Act to mean “a person on whose behalf an agent carries on the business of supply or receipt of goods or services or both.

Explanation (c) to section 15 of the CGST Act states that persons who are associated in the business of one another in that one is the sole agent or sole distributor or sole concessionaire, howsoever described, of the other, shall be deemed to be related.

Clause (vii) of section 24 of the CGST Act states that “persons who make taxable supply of goods or services or both on behalf of other taxable persons whether as an agent or otherwise” are compulsorily required to be registered irrespective of their turnover.

Section 86 of the CGST Act states that “where an agent supplies or receives any taxable goods on behalf of his principal, such agent and his principal shall, jointly and severally, be liable to pay the tax payable on such goods under this Act.”

As per Para 3 of Schedule I of the CGST Act, Supply of goods,

- (a) by a principal to his agent where the agent undertakes to supply such goods on behalf of the principal; or
- (b) by an agent to his principal where the agent undertakes to receive such goods on behalf of the principal.

shall be treated as supply even if made without consideration.

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**Accounting Entries**

**A. Supplies through agents**

**A1. In the books of Principal**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference
A. (I)	<b>For Intra-state supply</b>			
	Agent A/c Dr. 123	123		B/S
	To Output SGST A/c		9	B/S
	To Output CGST A/c		9	B/S
	To Output Compensation Cess A/c		5	B/S
	To Intra State Consignment A/c		100	P&L
	(Being intra state supply made through an agent)			
(II)	Commission A/c Dr. 10	10		P&L
	Input SGST A/c Dr. 0.9	0.9		B/S
	Input CGST A/c Dr. 0.9	0.9		B/S
	To Agent A/c		11.8	B/S
	(Being receipt of invoice from the agent for commission for intra state supply)			
(III)	Bank A/c 131.2	131.2	131.2	B/S
	To Agent A/c			
	(Being Payment Received From Agent)			
(IV)	At the end of Tax Period	Dr. 100	100	B/S
	Outward supply			
	To Agent			
	(Being the amount of outward supply recorded for the purpose of GST, Reversed)			
(V)	Agent Dr. 120	120	120	P/L
	To Outward Supply			B/S
	(Being the amount of outward supply made by agent @ 120			

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	Plus GST debited to this account)			
B. (I)	<b>For Inter-state supply</b>			
	Agent A/c Dr. 123			B/S
	To Output IGST A/c		18	B/S
	To Output Compensation Cess A/c		5	B/S
	To Inter State Consignment A/c		100	P&L
	(Being inter-state supply made through an agent)			
(II)	Commission A/c Dr. 10			P&L
	Input IGST A/c Dr. 1.8			B/S
	To Agent A/c		11.8	B/S
	(Being receipt of invoice from the agent for commission for inter-state supply)			
(III)	Bank A/c Dr. 131.2	131.2		B/S
	To Agent A/c			B/S
	(Being Payment Received From Agent)			
(IV)	At the end of Tax Period Dr. 100	100		P/L
	Outward supply		100	B/S
	To Agent			
	(Being the amount of outward supply recorded for the purpose of GST reversed)			
(V)	Agent Dr. 120	120		B/s
	To Outward supply			P/L
	(Being the amount of outward supply made by agent @ ₹ 120 Debited to this account)			

**A2. In the books of agents**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference
A. (I)	<b>For Intra-state supply</b>			

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	Inward Supply A/c	Dr.	100		P&L
	SGST - Input Credit A/c	Dr.	9		B/S
	CGST - Input Credit A/c	Dr.	9		B/S
	Cess - Input Credit A/c	Dr.	5		B/S
	To Principal A/c			123	B/S
	(Being intra state receipt of goods from Principal recorded as purchase for the purpose of GST)				
(II)	Principal A/c	Dr.	11.8		B/S
	To Output SGST A/c			0.9	B/S
	To Output CGST A/c			0.9	B/S
	To Commission A/c			10	P&L
	(Being invoice raised for commission to the principal for intra state supply)				
(III)	Principal A/c	Dr.	131.2	131.2	
	To Bank				
	(Being Payment Made)				
(IV)	At the end of tax period	Dr.	100	100	
	Principal A/c				
	To Intra state Inward Supply				
	(Being inward supply recorded for the purpose of GST reversed)				
(V)	Bank A/c	Dr.	147.6		B/S
	To Outward supply			120	
	To Output CGST			10.8	B/S
	To Output SGST			10.8	
	To Output Cess			6	
	(Being Outwad supply by agent @ ₹ 120 recoded for the purpose of GST)				
(V)	Outward supply	Dr.	120	120	
	To Principal				
	(Being outward supply recorded for the purpose of SGT reversed)				

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B. (I)	<b>For Inter-state supply</b> inward supply A/c IGST - Input Credit A/c Cess - Input Credit A/c To Principal A/c (Being inter-state receipt of goods from Principal recoded as inward supply for the purpose of GST)	Dr. Dr. Dr.	100 18 5		P&L B/S B/S B/S
(II)	Principal A/c To Output IGST A/c To Commission A/c (Being invoice raised for commission to the principal for inter-state supply)	Dr.	11.8	1.8 10	B/S B/S P&L
(III)	Principal A/c To Bank (Being Payment Made) At the end of Tax Period Please refer the entries made at the end of tax period in the books of Agent Replace output CGST + output SGST with Output IGST	Dr.	111.2	111.2	B/S B/S

**B. Supply through Intermediaries**

**B1. In the books of Principal**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference
A. (I)	<b>For Intra-state supply</b> Commission A/c Input SGST A/c	Dr. Dr.	10 0.9	P&L B/S
	Input CGST A/c To Agent A/c (Being receipt of invoice from the intermediary for commission for intra state supply)	Dr.	0.9 11.8	B/S B/S

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B. (I)	<b>For Inter-state supply</b>				
	Commission A/c	Dr.	10		P&L
	Input IGST A/c	Dr.	1.8		B/S
	To Agent A/c			11.8	B/S
	(Being receipt of invoice from the intermediary for commission for inter-state supply)				

**B2. In the books of agents**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference
A. (I)	<b>For Intra-state supply</b>			
	Principal A/c	Dr.	11.8	B/S
	To Output SGST A/c		0.9	B/S
	To Output CGST A/c		0.9	B/S
	To Commission A/c		10	P&L
	(Being invoice raised for commission to the principal for intra state supply)			
B. (I)	<b>For Inter-state supply</b>			
	Principal A/c	Dr.	11.8	B/S
	To Output IGST A/c		1.8	B/S
	To Commission A/c		10	P&L
	(Being invoice raised for commission to the principal for inter-state supply)			

**6(g): Accounting Treatment in case of goods sent on approval basis**

**Section 31(7) of the CGST Act** provides that “Notwithstanding anything contained in sub-section (1), where the goods being sent or taken on approval for sale or return are removed before the supply takes place, the invoice shall be issued before or at the time of supply or six months from the date of removal, whichever is earlier”.

Whenever an invoice is issued, accounting treatment shall be same as mentioned in case of outward supply in **Para 6(b)**.

The goods on approval basis shall be sent under the cover of a delivery challan as mentioned in Rule 45 containing the details as specified in Rule

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55. Such details, amongst other things, shall include taxable value of the goods.

**Inventory Entries**

Particulars	Amount (₹)	Amount (₹)	Reference	Remarks
Goods sent on approval Stock Control A/c Dr To Goods sent on approval A/c (Being stock entry passed for the goods sent on approval)	100	100	B/S P&L	Goods sent on approval Stock Control A/c will appear in Balance Sheet under Inventories. Goods sent on approval A/c will appear in Trading A/c under Inventories.

Accounting entry on 'acceptance' or end of '6<sup>th</sup> month'

Particulars	Amount (₹)	Amount (₹)	Reference	Remarks
Goods sent on approval A/c Dr To Goods sent on approval Stock Control A/c (Being stock entry passed)	100	100	P&L B/S	
Vendor A/c / Bank A/c Dr To Output CGSTA/c To Output SGST A/c To Output Compensation Cess A/c To Outward Supply A/c	123	9 9 5 100	B/S B/S B/S P&L	

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(In case of Inter State Supply, IGST to be levied instead of CGST & SGST)

### **6(h): Accounting Treatment- Issue of Credit Note under GST**

**Section 34(1)** of the CGST Act provides that “where a tax invoice has been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or where the goods supplied are returned by the recipient, or where goods or services or both supplied are found to be deficient, **the registered person, who has supplied such goods or services or both**, may issue to the recipient a credit note containing such particulars as prescribed in Rule 53.

**Section 34(2)** provides that “any registered person who issues a credit note in relation to a supply of goods or services or both shall declare the details of such credit note in the return for the month during which such credit note has been issued but not later than September following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier, and the tax liability shall be adjusted in such manner as may be prescribed. However, no reduction in output tax liability of the supplier shall be permitted, if the incidence of tax and interest on such supply has been passed on to any other person.

### **Revised tax invoice and credit or debit notes: (Rule 53)**

(1) A revised tax invoice referred to in section 31 and credit or debit notes referred to in section 34 shall contain the following particulars, namely:-

- (a) the word — Revised Invoice, wherever applicable, indicated prominently;
- (b) name, address and Goods and Services Tax Identification Number of the supplier;
- (c) nature of the document;
- (d) a consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special character, hyphen or dash and slash symbolized as —|| and —/|| respectively, and any combination thereof, unique for a financial year;
- (e) date of issue of the document;
- (f) name, address and Goods and Services Tax Identification Number or Unique Identity Number, if registered, of the recipient;

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- (g) name and address of the recipient and the address of delivery, along with the name of State and its code, if such recipient is un-registered;
- (h) serial number and date of the corresponding tax invoice or, as the case may be, bill of supply;
- (i) value of taxable supply of goods or services, rate of tax and the amount of the tax credited or, as the case may be, debited to the recipient; and
- (j) signature or digital signature of the supplier or his authorized representative.

**A credit note is to be issued by the supplier** for different reasons. Three situations have been covered in the following paras for the purpose of accounting entries:

- Sales Return
- Post Supply Discount
- Downward Price Revision

Example:

Sales: ₹1000

GST Rate: 18%

Cess Rate: 5%

Sales Return/Discount given/Downward Revision of price: ₹ 100

**A. Accounting entries (In the books of Supplier)**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference
(I)	<b>Return of goods from the recipient</b>			
	Outward Supply Return A/c Dr.	100		P&L
	SGST - Output A/c Dr.	9		B/S
	CGST - Output A/c Dr.	9		B/S
	Cess - Output A/c Dr.	5		B/S
	To Debtors A/c		123	B/S
	(Being goods returned by the customer)			

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(II)	<b>Discount given to the customer</b>				
	Discount Given A/c	Dr.	100		P&L
	SGST - Output A/c	Dr.	9		B/S
	CGST - Output A/c	Dr.	9		B/S
	Cess - Output A/c	Dr.	5		B/S
	To Debtors A/c			123	B/S
	(Being discount given to the customer)				
(III)	<b>Downward revision of price</b>				
	Outward Supply A/c	Dr.	100		P&L
	SGST - Output A/c	Dr.	9		B/S
	CGST - Output A/c	Dr.	9		B/S
	Cess - Output A/c	Dr.	5		B/S
		To Debtors A/c			123
	(Being downward revision in price of outward supply recorded)				

Note: In case of Inter-state supply, CGST & SGST will be replaced by IGST.

**B. Accounting entries (In the books of Recipient)**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference
(I)	<b>Return of goods to the recipient</b>			
	Creditor A/c	Dr.	123	B/S
	To SGST - Input Credit A/c		9	B/S
	To CGST - Input Credit A/c		9	B/S
	To Cess - Input Credit A/c		5	B/S
	To Inward Supply return A/c		100	P&L
	(Being goods returned to the supplier)			
(II)	<b>Discount received from the supplier</b>			
	Creditor A/c	Dr.	123	B/S
	To SGST - Input Credit A/c		9	B/S

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(III)	To CGST - Input Credit A/c		9	B/S
	To Cess - Input Credit A/c		5	B/S
	To Discount received A/c (Being discount received from the supplier)		100	P&L
	<b>Downward revision of price</b>			
	Creditor A/c	Dr.	123	B/S
	To SGST - Input Credit A/c		9	B/S
	To CGST - Input Credit A/c		9	B/S
To Cess - Input Credit A/c		5	B/S	
To Inward Supply A/c (Being downward revision in purchase price recorded)		100	P&L	

Note: In case of Inter-state supply, CGST & SGST will be replaced by IGST.

**6(i) Accounting Treatment- Issue of Debit Note under GST**

**Section 34(3)** of the CGST Act provides that

“where a tax invoice has been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to be less than the taxable value or tax payable in respect of such supply, **the registered person, who has supplied such goods or services or both**, shall issue to the recipient a debit note containing such particulars as prescribed” i.e. particulars as prescribed in Rule 53.

**Section 34(4)** provides that any registered person who issues a debit note in relation to a supply of goods or services or both shall declare the details of such debit note in the return for the month during which such debit note has been issued and the tax liability shall be adjusted in such manner as may be prescribed.

**Explanation:** For the purposes of this Act, the expression “debit note” shall include a supplementary invoice.

A debit note is to be issued by the supplier for different reasons. One situation has been covered in the following paras for the purpose of accounting entries:

- Upward Price Revision

Example:

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Sales: ₹ 1000

GST Rate: 18%

Cess Rate: 5%

Downward Revision of price: ₹ 100

**Accounting entries (In the books of Supplier)**

Particulars	Debit (₹)	Credit (₹)	Reference
<b>a. For Intra State upward price revision made</b>			
Debtor A/c Dr.	123		B/S
To Output SGST A/c		9	B/S
To Output CGST A/c		9	B/S
To Output Cess A/c		5	B/S
To Outward Supply/Services A/c		100	P&L
(Being upward revision in price in intra state supply made)			
<b>b. For Inter State upward price revision made</b>			
Debtor A/c Dr.	123		B/S
To Output IGST A/c		18	B/S
To Output Cess A/c		5	B/S
To Outward Supply/Services A/c		100	P&L
(Being upward revision in price in inter-state supply made)			

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Accounting entries (In the books of Recipient)

Particulars		Debit (₹)	Credit (₹)	Reference
<b>a. For Intra State upward price revision made</b>				
Inward Supply/Expense A/c	Dr.	100		P&L
SGST - Input Credit A/c	Dr.	9		B/S
CGST - Input Credit A/c	Dr.	9		B/S
Cess - Input Credit A/c	Dr.	5		B/S
To Vendor/Bank A/c			123	B/S
(Being upward revision in price in intra state purchase made/expense incurred)				
<b>b. For Inter State upward price revision made</b>				
Inward Supply/Expense A/c	Dr.	100		P&L
IGST- Input A/c	Dr.	18		B/S
Cess - Input A/c	Dr.	5		B/S
To Vendor/Bank A/c			123	B/S
(Being upward revision in price in inter-state purchase made/expense incurred)				

**6(j): Accounting Treatment for E-Commerce and TCS**

“**Electronic commerce**” as defined in section 2(44) of CGST Act means “the supply of goods or services or both, including digital products over digital or electronic network”

“**Electronic commerce operator**” as defined in section 2(45) of the CGST Act means “any person who owns, operates or manages digital or electronic facility or platform for electronic commerce”

**Section 9(5) of the CGST Act and section 5(5) of the IGST Act** provides that electronic Commerce Operator shall be liable to pay tax on notified services supplied through it. For example- Aggregator services like Uber, Ola.

**Illustrations for aggregator’s services under section 9(5):**

- Supply of services ₹ 100/- Commission @ 20% will be deducted and paid to Supplier
- CGST @9%

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- SGST @ 9%

**Option I:** Aggregator services under section 9(5)-Amount collected by E-Commerce Operator

**Option II:** Amount collected by supplier

**Option I**

**Aggregator services under section 9(5)-Amount collected by E-Commerce Operator (In the books of Aggregator)**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference
a.	Debtors/Bank A/c Dr.	123		B/S
	To Output CGST - Aggregator A/c		9	B/S
	To Output SGST - Aggregator A/c		9	B/S
	To Output Cess - Aggregator A/c		5	B/S
	To Aggregator Services A/c (Being collection liability with aggregator booked for aggregator services provided)		100	P&L
b.	Aggregator Service A/c Dr.	100		P&L
	To Service Provider A/c (Being amount transferable to service provider)		100	B/S
c.	Service Provider A/c Dr.	23.6		B/S
	To Commission A/c Dr.		20	P&L
	To Output CGST A/c Dr.		1.8	B/S
	To Output SGST A/c (Being commission charged)		1.8	B/S

Note: In case of Inter-state supply, CGST & SGST will be replaced by IGST

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**Outward supply (Supplier's Books)**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference
a.	Aggregator/Debtor A/c Dr. To Outward Supply/ Services A/c (Being services provided)	100	100	B/S P&L
b.	Commission Expense A/c Dr. To Aggregator/Debtor A/c (Being expense booked)	20	20	P&L B/S

Note: In case of Inter-state supply, CGST & SGST will be replaced by IGST

**Option II**

**Aggregator services under section 9(5)-Amount collected by service provider(Accounting entries in the books of Aggregator)**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference
a.	Service Provider/Debtors A/c Dr. To Output CGST as Aggregator A/c To Output SGST as Aggregator A/c To Output Cess as Aggregator A/c (Being collection liability with service provider booked)	23	9 9 5	B/S B/S B/S B/S
b.	Service Provider A/c Dr. To Commission A/c To Output CGST A/c To Output SGST A/c (Being commission charged)	23.6	20 1.8 1.8	B/S P&L B/S B/S

Note: In case of Inter-state supply, CGST & SGST will be replaced by IGST

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**Outward supply (Supplier Books)**

<b>S. No.</b>	<b>Particulars</b>	<b>Debit (₹)</b>	<b>Credit (₹)</b>	<b>Reference</b>
a.	Debtor/Bank A/c Dr. To Outward Supply/Services A/c	118	100	B/S P&L
	To Aggregator/Debtor A/c (Being services provided)		18	B/S
b.	Commission Expense A/c Dr. To Aggregator/Debtor A/c (Being expense booked)	20	20	P&L B/S

Note: In case of Inter-state supply, CGST & SGST will be replaced by IGST

**Supplies made through e-commerce operator and collection of Tax at source (TCS):** Section 52(1) of the CGST Act provides that where supply is made by the suppliers through an ECO and the consideration with respect to such supplies is to be collected by the ECO, then such ECO, not being an agent, shall, notwithstanding anything to the contrary contained in this Act, collect an amount calculated at such rate not exceeding 1%, as may be notified by the Government on the recommendations of the Council, of the net value of taxable supplies made through it by other suppliers.

**Explanation to section 52(1)** further provides that the expression “net value of taxable supplies” shall mean the aggregate value of taxable supplies of goods or services or both, other than services notified under section 9(5), made during any month by all registered persons through the operator reduced by the aggregate value of taxable supplies returned to the suppliers during the said month.

**Illustrations:**

- Supply of goods 10 items @ ₹ 100/-
- Goods Returned 1 item
- CGST @9%
- SGST @ 9%
- TCS @ 1% for CGST and SGST

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**Supplies through ecommerce (e-commerce operator Books)**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference
<b>a.</b>	<b>At the time of Supply</b>			
	Bank A/c Dr. 1180	1180		B/S
	To TCS CGST A/c		10	B/S
	To TCS SGST A/c		10	B/S
	To Vendor A/c		1160	B/S
	(Being supplies made through E-commerce operator with TCS @ 1%)			
<b>b.</b>	<b>At the time of Supply Return</b>			
	Vendor A/c Dr. 116	116		B/S
	TCS CGST A/c Dr. 1	1		B/S
	TCS SGST A/c Dr. 1	1		B/S
	To Bank A/c		118	B/S
	(Being supplies returned)			

Note: In case of Inter-state supply, CGST & SGST will be replaced by IGST

**Supplies through e-commerce (Vendor Books)**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
<b>(I)</b>	<b>At the time of Supply</b>				
<b>a.</b>	E-commerce Operator A/c Dr. 1180	1180		B/S	Party name given since we may require to pass on the GST credit
	To Output SGST A/c		90	B/S	
	To Output CGST A/c		90	B/S	
	To Outward Supply A/c		1000	P&L	
	(Being supply made through E-commerce operator)				
<b>b.</b>	Bank A/c Dr. 1160	1160		B/S	Since payment will be made by
	TCS CGST A/c Dr. 10	10		B/S	
	TCS SGST A/c Dr. 10	10		B/S	
	To E-commerce		1180	B/S	

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	Operator A/c (Being e-commerce operator debited)				e-commerce operator. Debtor's name replaced by e-commerce operator.
<b>(II)</b>	<b>At the time of return of Supply</b>				
a.	Outward Supply Dr. 100 Return A/c CGST - Output A/c Dr. 9 SGST - Output A/c Dr. 9 To Vendor/Bank A/c (Being return of supply recorded)		118	P&L B/S B/S B/S	
b.	Debtor A/c Dr. 118 To TCS SGST A/c To TCS CGST A/c To E-commerce Operator A/c (Being e-commerce operator credited)		1 1 116	B/S B/S B/S B/S	Since payment to customer will be made by e-commerce operator, credit given to him and TCS reversed.

Note: In case of Inter-state supply, CGST & SGST will be replaced by IGST

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### 6(k): Accounting Treatment in case of TDS

**Section 51 of CGST Act** provides that Notwithstanding anything to the contrary contained in this Act, the Government may mandate:

- a. a department or establishment of the Central Government or State Government; or
- b. local authority; or
- c. Governmental agencies; or
- d. such persons or category of persons as may be notified by the Government on the recommendations of the Council,

(hereafter in this section referred to as “the deductor”), to deduct tax at the rate of 1% from the payment made or credited to the supplier (hereafter in this section referred to as “the deductee”) of taxable goods or services or both, where the total value of such supply, under a contract, exceeds ₹ 2,50,000/-.

The section further provides that “no deduction shall be made if the location of the supplier and the place of supply is in a State or Union territory which is different from the State or as the case may be, Union territory of registration of the recipient.” This means no tax is to be deducted in case of inter-state supply.

**Explanation:** For the purpose of deduction of tax specified above, the value of supply shall be taken as the amount excluding the central tax, State tax, Union territory tax, integrated tax and cess indicated in the invoice.

The Central Government, vide Notification No. 33/2017-Central Tax dated 15th September, 2017 has notified following persons under clause (d) of section 51(1):

- a. an authority or a board or any other body,
  - (i) set up by an Act of Parliament or a State Legislature; or
  - (ii) established by any Government,with 51% or more participation by way of equity or control, to carry out any function.
- (b) society established by the Central Government or the State Government or a Local Authority under the Societies Registration Act, 1860 (21 of 1860);
- (c) public sector undertakings:

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The notification is effective from 18<sup>th</sup> September, 2017, further provides that the persons specified under clause (a), (b) and (d) of section 51(1) as stated above, shall be liable to deduct tax with effect from a date to be notified subsequently, on the recommendations of the GST Council.

**Accounting entries (In the books of deductor)**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks	
a.	Inward Supply/Expense A/c SGST – Input A/c CGST – Input A/c Cess – Input A/c To CTDS Payable A/c To STDS Payable A/c To Vendor A/c (Being purchase/expense recorded and TDS @ 1% deducted at the time of credit to the account of supplier)	Dr. 100 Dr. 9 Dr. 9 Dr. 5			P&L B/S B/S B/S B/S B/S B/S B/S	GSTR Return Reference Table: GSTR 2>>Table 9A (TDS credit will be auto populated in above table) GSTR 3>>Table 9
b.	E-cash Ledger CGST A/c E-cash Ledger SGST A/c To Bank A/c (Being TDS deposited in the Electronic Cash Ledger)	Dr. 1 Dr. 1			B/S B/S B/S	

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c.	CTDS Payable Dr.	1		B/S
	A/c			
	STDS Payable Dr.	1		B/S
	A/c			
	To E-cash Ledger CGST A/c		1	B/S
To E-cash Ledger SGST A/c		1	B/S	
(Being TDS Payable adjusted with the amount deposited in the e-cash ledger)				

**Accounting entries (In the books of deductee)**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
a.	Debtor/Bank A/c Dr.	121		B/S	
	CTDS Receivable A/c Dr.	1		B/S	
	STDS Receivable A/c Dr.	1		B/S	
	To Outward Supply/Service A/c		100	<b>P&amp;L</b>	
	To Output SGST A/c		9	<b>B/S</b>	
	To Output CGST A/c		9	<b>B/S</b>	
	To Output Cess A/c		5	<b>B/S</b>	
(Being TDS @ 1% deducted by the recipient at the time of credit)					

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b.	E-cash Ledger Dr.	1		B/S	GSTR Return Reference Table: GSTR 2>>Table 9A GSTR 3>>Table 9
	CGST A/c				
	E-cash Ledger Dr.	1		B/S	
	SGST A/c				
	To CTDS Receivable A/c		1	B/S	
	To STDS Receivable A/c		1	B/S	
	(Being TDS amount deposited by the recipient in the Electronic Cash Ledger recorded)				

**6(I): Accounting Treatment in case of Capital Goods**

“**Capital Goods**” has been defined in **Section 2(19) of the CGST Act, 2017** to mean “goods, the value of which is capitalised in the books of account of the person claiming the input tax credit and which are used or intended to be used in the course or furtherance of business.”

**Section 16(3) of the CGST Act** provides that “where the registered person has claimed depreciation on the tax component of the cost of capital goods and plant and machinery under the provisions of the Income-tax Act, 1961, the input tax credit on the said tax component shall not be allowed.”

**Section 18(6) of the CGST Act read with Rule 40(2) of the CGST Rules** provides that “In case of supply of capital goods or plant and machinery, on which input tax credit has been taken, the registered person shall pay an amount equal to:

- the input tax credit taken on the said capital goods or plant and machinery reduced by 5% points for every quarter or part thereof from the date of the issue of the invoice for such goods; or
- the tax on the transaction value of such capital goods or plant and machinery determined under section 15,

whichever is higher.

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Section 18(6) further provides that “where refractory bricks, moulds and dies, jigs and fixtures are supplied as scrap, the taxable person may pay tax on the transaction value of such goods determined under section 15.”

### **6(m): Accounting Treatment in case of reversal of Input Tax Credit**

#### **Reversal of Input Tax credit in case of non-payment of consideration to the supplier**

**2nd proviso to Section 16(2) read with Rule 37** states that “where a recipient fails to pay to the supplier of goods or services or both, other than the supplies on which tax is payable on reverse charge basis, the amount towards the value of supply along with tax payable thereon within a period of 180 days from the date of issue of invoice by the supplier (say, month 1), he shall (means recipient) furnish the details of such supply, the amount of value not paid and the amount of input tax credit availed of proportionate to such amount not paid to the supplier in **FORM GSTR-2** for the month immediately following the period of 180 days from the date of the issue of the invoice (i.e. month 2) and an amount equal to the input tax credit availed by him shall be added to his output tax liability, along with interest thereon, for the month (i.e. month 2) in which such details are furnished. Interest has to be paid for the period starting from the date of availing credit on such supplies till the date when the amount is added to the output tax liability.

However, the value of supplies made without consideration as specified in Schedule I of the CGST Act, shall be deemed to have been paid for the purposes of the second proviso to section 16(2).

#### **Apportionment of Credit used partly for providing taxable Supplies/Zero rated Supplies and partly for providing exempted / non-taxable / nil rated supplies.**

**Section 17(1) of CGST Act** provides that “where the goods or services or both are used by the registered person partly for the purpose of any business and partly for other purposes, the amount of credit shall be restricted to so much of the input tax as is attributable to the purposes of his business”.

**Section 17(2) of CGST Act** provides that “where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under this Act or under the IGST Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.”

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**Section 17(3) of CGST Act** provides that “the value of exempt supply under sub-section (2) shall be such as may be prescribed, and shall include supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.”

**Section 17(4) of CGST Act** provides that “a banking company or a financial institution including a non-banking financial company, engaged in supplying services by way of accepting deposits, extending loans or advances shall have the option to either comply with the provisions of sub-section (2), or avail of, every month, an amount equal to 50% of the eligible input tax credit on inputs, capital goods and input services in that month and the rest shall lapse. The option once exercised shall not be withdrawn during the remaining part of the financial year. However, the restriction of 50% shall not apply to the tax paid on supplies made by one registered person to another registered person having the same Permanent Account Number.”

### Blocked Credits

**Section 17(5) of the CGST Act** provides that “Notwithstanding anything contained in sub-section (1) of section 16 and sub-section (1) of section 18, input tax credit shall not be available in respect of the following, namely:

- (a) motor vehicles and other conveyances except when they are used:
  - (i) for making the following taxable supplies, namely:
    - (A) further supply of such vehicles or conveyances; or
    - (B) transportation of passengers; or
    - (C) imparting training on driving, flying, navigating such vehicles or conveyances;
  - (ii) for transportation of goods;
- (b) the following supply of goods or services or both:
  - (i) food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery except where an inward supply of goods or services or both of a particular category is used by a registered person for making an outward taxable supply of the same category of goods or services or both or as an element of a taxable composite or mixed supply;
  - (ii) membership of a club, health and fitness centre;
  - (iii) rent-a-cab, life insurance and health insurance except where:

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- (A) the Government notifies the services which are obligatory for an employer to provide to its employees under any law for the time being in force; or
- (B) such inward supply of goods or services or both of a particular category is used by a registered person for making an outward taxable supply of the same category of goods or services or both or as part of a taxable composite or mixed supply; and
- (iv) travel benefits extended to employees on vacation such as leave or home travel concession;
- (c) Works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service;
- (d) goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business.

*Explanation:* For the purposes of clauses (c) and (d), the expression “construction” includes re-construction, renovation, additions or alterations or repairs, to the extent of capitalisation, to the said immovable property;

- (e) goods or services or both on which tax has been paid under section 10;
- (f) goods or services or both received by a non-resident taxable person except on goods imported by him;
- (g) goods or services or both used for personal consumption;
- (h) goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples; and
- (i) any tax paid in accordance with the provisions of sections 74, 129 and 130.

**Manner of determination of input tax credit and reversal thereof has been prescribed in the following rules of CGST Rules:**

**Rule 42: Manner of determination of input tax credit in respect of inputs or input services and reversal thereof**

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(1) The input tax credit in respect of inputs or input services, which attract the provisions of sub-section (1) or sub-section (2) of section 17, being partly used for the purposes of business and partly for other purposes, or partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies, shall be attributed to the purposes of business or for effecting taxable supplies in the following manner, namely,-

- (a) the total input tax involved on inputs and input services in a tax period, be denoted as  $\_T'$ ;
- (b) the amount of input tax, out of  $\_T'$ , attributable to inputs and input services intended to be used exclusively for the purposes other than business, be denoted as  $\_T1'$ ;
- (c) the amount of input tax, out of  $\_T'$ , attributable to inputs and input services intended to be used exclusively for effecting exempt supplies, be denoted as  $\_T2'$ ;
- (d) the amount of input tax, out of  $\_T'$ , in respect of inputs and input services on which credit is not available under sub-section (5) of section 17, be denoted as  $\_T3'$ ;
- (e) the amount of input tax credit credited to the electronic credit ledger of registered person, be denoted as  $\_C1'$  and calculated as

$$C1 = T - (T1+T2+T3);$$

- (f) the amount of input tax credit attributable to inputs and input services intended to be used exclusively for effecting supplies other than exempted but including zero rated supplies, be denoted as  $\_T4'$ ;
- (g)  $T1'$ ,  $\_T2'$ ,  $\_T3'$  and  $\_T4'$  shall be determined and declared by the registered person at the invoice level in FORM GSTR-2;
- (h) input tax credit left after attribution of input tax credit under clause (g) shall be called common credit, be denoted as  $\_C2'$  and calculated as

$$C2 = C1 - T4;$$

- (i) the amount of input tax credit attributable towards exempt supplies, be denoted as  $\_D1'$  and calculated as

$$D1 = (E+F) \times C2$$

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where,  $\_$

E 'is the aggregate value of exempt supplies during the tax period and  $\_$

F 'is the total turnover in the State of the registered person during the tax period:

Provided that where the registered person does not have any turnover during the said tax period or the aforesaid information is not available, the value of  $\_E/F$ ' shall be calculated by taking values of  $\_E$ ' and  $\_F$ ' of the last tax period for which the details of such turnover are available, previous to the month during which the said value of  $\_E/F$ ' is to be calculated;

Explanation: For the purposes of this clause, it is hereby clarified that the aggregate value of exempt supplies and the total turnover shall exclude the amount of any duty or tax levied under entry 84 of List I of the Seventh Schedule to the Constitution and entry 51 and 54 of List II of the said Schedule;

- (j) the amount of credit attributable to non-business purposes if common inputs and input services are used partly for business and partly for non-business purposes, be denoted as  $\_D2'$ , and shall be equal to five per cent. of  $C2$ ; and
- (k) the remainder of the common credit shall be the eligible input tax credit attributed to the purposes of business and for effecting supplies other than exempted supplies but including zero rated supplies and shall be denoted as  $\_C3'$ , where,-  
$$C3 = C2 - (D1 + D2);$$
- (l) the amount  $\_C3'$  shall be computed separately for input tax credit of central tax, State tax, Union territory tax and integrated tax;
- (m) the amount equal to aggregate of  $\_D1'$  and  $\_D2'$  shall be added to the output tax liability of the registered person:

Provided that where the amount of input tax relating to inputs or input services used partly for the purposes other than business and partly for effecting exempt supplies has been identified and segregated at the invoice level by the 31 registered person, the same shall be included in  $\_T1'$  and  $\_T2'$  respectively, and the

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remaining amount of credit on such inputs or input services shall be included in T4'.

- (2) The input tax credit determined under sub-rule (1) shall be calculated finally for the financial year before the due date for furnishing of the return for the month of September following the end of the financial year to which such credit relates, in the manner specified in the said sub-rule and-
- (a) where the aggregate of the amounts calculated finally in respect of D1' and D2' exceeds the aggregate of the amounts determined under sub-rule (1) in respect of D1' and D2', such excess shall be added to the output tax liability of the registered person in the month not later than the month of September following the end of the financial year to which such credit relates and the said person shall be liable to pay interest on the said excess amount at the rate specified in sub-section (1) of section 50 for the period starting from the first day of April of the succeeding financial year till the date of payment; or
- (b) where the aggregate of the amounts determined under sub-rule (1) in respect of D1' and D2' exceeds the aggregate of the amounts calculated finally in respect of D1' and D2', such excess amount shall be claimed as credit by the registered person in his return for a month not later than the month of September following the end of the financial year to which such credit relates.

### Example:

M/s ABC Limited has total Input Tax Credit of ₹ 20,90,000/- for the month of July, 2017. Out of total ITC, Input of goods / services utilized for effecting supplies for non-business purposes is ₹ 24,500/-, ITC of goods / services utilized for effecting exempted supplies is ₹ 15,000/- and in eligible ITC as per Section 17(5) is ₹ 31,500/-. ITC goods / services utilized for effecting taxable / zero rated supplies is ₹ 8,15,500/-. The aggregate Value of exempt Supplies is ₹ 25,15,000/- and aggregate value of Supplies of ₹ 2,65,70,000/-.

In Such Case, The Eligible ITC shall be computed as under:

Total ITC (T)	₹ 20,90,000
T1	₹ 24,500
T2	₹ 15,000
T3	₹ 31,500

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$$\begin{aligned} \text{C1} &= (T - (T1 + T2 + T3)) \\ &= ₹ 20,90,000 - (₹ 24,500 + ₹ 15,000 + ₹ 31,500) \\ &= ₹ 20,19,000 \end{aligned}$$

$$\begin{aligned} \text{C2} &= \text{C1-T4 (i.e. ITC for taxable / zero rated supplies)} \\ &= ₹ 20,19,000 - ₹ 8,15,500 \\ &= ₹ 12,03,500 \end{aligned}$$

$$\begin{aligned} \text{Calculation of input tax credit attributable towards exempt supplies (D1)} &= ₹ 25,15,000 / ₹ 2,65,70,000 * ₹ 12,03,500 \\ &= ₹ 1,13,918 \end{aligned}$$

$$\begin{aligned} \text{Calculation of amount of credit attributable to non-business purposes if common inputs and input services are used partly for business and partly for non-business purposes (D2)} &= ₹ 12,03,500 * 5\% \\ &= ₹ 60,175 \end{aligned}$$

$$\begin{aligned} \text{Amount of eligible input tax credit (C3)} &= \text{C2-(D1+D2)} \\ &= ₹ 12,03,500 - (₹ 1,13,918 + ₹ 60,175) \\ &= ₹ 10,29,407 \end{aligned}$$

**Rule 43: Manner of determination of input tax credit in respect of capital goods and reversal thereof in certain cases**

(1) Subject to the provisions of sub-section (3) of section 16, the input tax credit in respect of capital goods, which attract the provisions of sub-sections (1) and (2) of section 17, being partly used for the purposes of business and partly for other purposes, or partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies, shall be attributed to the purposes of business or for effecting taxable supplies in the following manner, namely,-

- (a) the amount of input tax in respect of capital goods used or intended to be used exclusively for non-business purposes or used or intended to be used exclusively for effecting exempt supplies shall be indicated in FORM GSTR-2 and shall not be credited to his electronic credit ledger;
- (b) the amount of input tax in respect of capital goods used or intended to be used exclusively for effecting supplies other than exempted supplies but including zero rated supplies shall be indicated in FORM GSTR-2 and shall be credited to the electronic credit ledger;
- (c) the amount of input tax in respect of capital goods not covered under clauses (a) and (b), denoted as ‘A’, shall be credited to the electronic credit ledger and the useful life of such goods shall be taken as five years from the date of the invoice for such goods:

Provided that where any capital goods earlier covered under clause (a) is subsequently covered under this clause, the value of ‘A’ shall be arrived at by 32 reducing the input tax at the rate of five percentage points for every quarter or part thereof and the amount ‘A’ shall be credited to the electronic credit ledger;

*Explanation.- An item of capital goods declared under clause (a) on its receipt shall not attract the provisions of sub-section (4) of section 18, if it is subsequently covered under this clause.*

- (d) the aggregate of the amounts of ‘A’ credited to the electronic credit ledger under clause (c), to be denoted as ‘Tc’, shall be the common credit in respect of capital goods for a tax period:

Provided that where any capital goods earlier covered under clause (b) is subsequently covered under clause (c), the value

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of  $\_A$  arrived at by reducing the input tax at the rate of five percentage points for every quarter or part thereof shall be added to the aggregate value  $\_Tc$ ;

- (e) the amount of input tax credit attributable to a tax period on common capital goods during their useful life, be denoted as  $\_Tm$  and calculated as

$$Tm = Tc \div 60$$

- (f) the amount of input tax credit, at the beginning of a tax period, on all common capital goods whose useful life remains during the tax period, be denoted as  $\_Tr$  and shall be the aggregate of  $\_Tm$  for all such capital goods;

- (g) the amount of common credit attributable towards exempted supplies, be denoted as  $\_Te$ , and calculated as

$$Te = (E \div F) \times Tr$$

where,

E 'is the aggregate value of exempt supplies, made, during the tax period, and

F 'is the total turnover of the registered person during the tax period:

Provided that where the registered person does not have any turnover during the said tax period or the aforesaid information is not available, the value of  $\_E/F$  'shall be calculated by taking values of  $\_E$  and  $\_F$  of the last tax period for which the details of such turnover are available, previous to the month during which the said value of  $\_E/F$  is to be calculated;

Explanation.- For the purposes of this clause, it is hereby clarified that the aggregate value of exempt supplies and the total turnover shall exclude the amount of any duty or tax levied under entry 84 of List I of the Seventh Schedule to the Constitution and entry 51 and 54 of List II of the said Schedule;

- (h) the amount  $Te$  along with the applicable interest shall, during every tax period of the useful life of the concerned capital goods, be added to the output tax liability of the person making such claim of credit

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- (2) The amount Te shall be computed separately for central tax, State tax, Union territory tax and integrated tax.

Explanation: -For the purposes of rule 42 and this rule, it is hereby clarified that the aggregate value of exempt supplies shall exclude: -

- (a) the value of supply of services specified in the notification of the Government of India in the Ministry of Finance, Department of Revenue No. 42/2017-Integrated Tax (Rate), dated the 27th October, 2017 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number GSR 1338(E) dated the 27th October, 2017;
- (b) the value of services by way of accepting deposits, extending loans or advances in so far as the consideration is represented by way of interest or discount, except in case of a banking company or a financial institution including a non-banking financial company, engaged in supplying services by way of accepting deposits, extending loans or advances; and
- (c) the value of supply of services by way of transportation of goods by a vessel from the customs station of clearance in India to a place outside India.

**Rule 44: Manner of reversal of credit (ITC) under special circumstances**

Input tax credit (ITC) may have to be reversed in the following two situations:

- (a) In case where payment is not made within 180 days of the issuance of invoice. In such case, the payment will have to be made along with interest. (Section 16)
- (b) ITC reversal made for any other reason. (Section 17)

**For situation (a) In case where payment is not made within 180 days of the issuance of invoice. In such case, the payment will have to be made along with interest. (Section 16)**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference	Remarks
a.	On the expiry of 180 Days ITC Reversal CGST A/c	Dr. ***		B/S	GSTR Return Reference Table:
	ITC Reversal	Dr. ***		B/S	GSTR

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b.	SGST A/c ITC Reversal Dr. *** IGST A/c To E-credit Ledger CGST A/c To E-credit Ledger SGST A/c To E-credit Ledger IGST A/c (Being ITC reversed)	***	***	B/S	2>>Table 11
	When payment would made in future E-credit Ledger Dr. CGST A/c E-credit Ledger Dr. SGST A/c Dr. E-credit Ledger IGST A/c To ITC Reversal CGST A/c To ITC Reversal SGST A/c To ITC Reversal SGST A/c (being on payment to the supplier credit of tax can again be claimed) <b>For Situation (b)</b> <b>ITC reversal</b>				

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	<p><b>made for any other reason</b> Expense / cost of purchase Dr. (for which credit is to be reversed) To E-credit Ledger CGST A/c To E-credit Ledger CGST A/c To E-credit Ledger CGST A/c (Being reversal of credit made)</p>		
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**6(n): Accounting treatment in case of offset of tax liability**

**Accounting Entries:**

S. No.	Particulars	Debit (₹)	Credit (₹)	Reference
(i)	<b>Transfer of output liability to E-liability ledgers upon filing of GSTR-1</b>			
	Output SGST A/c	Dr. ****		B/S
	Output CGST A/c	Dr. ****		B/S
	Output IGST A/c	Dr. ****		B/S
	Output Cess A/c	Dr. ****		B/S
	To E-liability Ledger CGST A/c		****	B/S
	To E-liability Ledger SGST A/c		****	B/S
	To E-liability Ledger IGST A/c		****	B/S
	To E-liability Ledger Cess A/c		****	B/S
	(Being output liability transferred to E-liability ledgers upon filing of GSTR-1)			

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(II)	<b>Transfer of ITC on Inward supply of goods or services or both), to Electronic Credit ledger upon filing of GSTR-2</b>				
	E-credit Ledger CGST A/c	Dr.	****		B/S
	E-credit Ledger SGST A/c	Dr.	****		B/S
(III)	E-credit Ledger IGST A/c	Dr.	****		B/S
	E-credit Ledger Cess A/c	Dr.	****		B/S
	To CGST - Input A/c			****	B/S
	To SGST - Input A/c			****	B/S
	To IGST - Input A/c			****	B/S
	To Cess - Input A/c			****	B/S
	(Being ITC on Inward supply of goods or services or both transferred (To the extent of claim for ITC but including Provisional Credit), to Electronic Credit ledger upon filing of GSTR-2)				
	<b>Mismatched ITC identified and reversed.</b>				
	Mismatch E-credit Ledger CGST A/c	Dr.	****		B/S
	Mismatch E-credit Ledger SGST A/c	Dr.	****		B/S
Mismatch E-credit Ledger IGST A/c	Dr.	****		B/S	
Mismatch E-credit Ledger Cess A/c	Dr.	****		B/S	
To E-credit ledger CGST A/c			****	B/S	
To E-credit ledger SGST A/c			****	B/S	
To E-credit ledger IGST A/c			****	B/S	
To E-credit ledger Cess A/c			****	B/S	
(Being mismatched ITC identified and reversed)					
(IV)	<b>Mismatch ITC rectified by supplier</b>				
	E-credit ledger CGST A/c	Dr.	****		B/S
	E-credit ledger SGST A/c	Dr.	****		B/S

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	E-credit ledger IGST A/c	Dr.	****		B/S
	E-credit ledger Cess A/c	Dr.	****		B/S
	To Mismatch E-credit Ledger CGST A/c			****	B/S
	To Mismatch E-credit Ledger SGST A/c			****	B/S
	To Mismatch E-credit Ledger IGST A/c			****	B/S
	To Mismatch E-credit Ledger Cess A/c (Being credit transferred back to the E-credit Ledger, when mismatch ITC is rectified by the supplier)			****	B/S
(V)	<b>Mismatch ITC not rectified by supplier</b>				
	Inward Supply/Expense/Vendor A/c	Dr.	****		P&L/B/S
	To Mismatch E-credit Ledger CGST A/c			****	B/S
	To Mismatch E-credit Ledger SGST A/c			****	B/S
	To Mismatch E-credit Ledger IGST A/c			****	B/S
	To Mismatch E-credit Ledger Cess A/c (Being credit charged to the Expense or purchase or vendor, when mismatch ITC is not rectified by the supplier)			****	B/S
(VI)	<b>On Deduction of tax by Govt. department etc. or on collection of tax by E-Commerce Operator</b>				
	E-cash ledger CGST A/c	Dr.	****		B/S
	E-cash ledger SGST A/c	Dr.	****		B/S
	E-cash ledger IGST A/c	Dr.	****		B/S
	E-cash ledger Cess A/c	Dr.	****		B/S
	To Government/Ecommerce			****	B/S

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	Operator A/c (Being credit of TDS deposited by Government or E-commerce Operator recognised)			
(VII)	<b>Payment of tax through E-Cash Ledger if credit balance is not sufficient</b>			
	E-cash ledger CGST A/c	Dr.	****	B/S
	E-cash ledger SGST A/c	Dr.	****	B/S
	E-cash ledger IGST A/c	Dr.	****	B/S
	E-cash ledger Cess A/c	Dr.	****	B/S
	To Bank A/c		****	B/S
	(Being payment of tax made through E-Cash Ledger (if credit balance is not sufficient))			
(VIII)	<b>Adjustment entry upon filing of GSTR-3</b>			
	E-liability ledger CGST A/c	Dr.	****	B/S
	E-liability ledger SGST A/c	Dr.	****	B/S
	E-liability ledger IGST A/c	Dr.	****	B/S
	E-liability ledger Cess A/c	Dr.	****	B/S
	To E-credit ledger CGST A/c		****	B/S
	To E-credit ledger SGST A/c		****	B/S
	To E-credit ledger IGST A/c		****	B/S
	To E-credit ledger Cess A/c		****	B/S
	To E-cash ledger CGST A/c		****	B/S
	To E-cash ledger SGST A/c		****	B/S
	To E-cash ledger IGST A/c		****	B/S
	To E-cash ledger Cess A/c		****	B/S
	(Being adjustment entry made upon filing of GSTR 3)			

**6(o): Accounting Treatment in case goods received in lots / batches**

As per Section 16(2),

“No registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both to him unless,—

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- (a) he is in possession of a tax invoice or debit note issued by a supplier registered under this Act, or such other tax paying documents as may be prescribed;
- (b) he has received the goods or services or both.”

The credit of tax is to be booked only when the above two conditions are satisfied i.e. the recipient is in possession of the tax invoice or the debit note issued by the supplier and has received the goods or services or both.

In certain cases, goods are not completely received; for example, in case the goods are received in more than one consignment under a single invoice; in such case, the credit booked shall be restricted upto the amount of goods received.

**However, as per Proviso to Section 16(4), where the goods against an invoice are received in lots or installments, the registered person shall be entitled to take credit upon receipt of the last lot or installment.**

Example: Purchase of 100 kg of Material A at ₹ 100 per kg on 01.04.20XX.

GST Rate 18%

70kg received on 05.04.20XX

30kg received on 06.04.20XX

S. No.	Date	Particulars	Debit (₹)	Credit (₹)	Reference
(I)	<b>At the time of purchase of goods</b>				
	01.04.20XX	Inward Supply A/c Dr.	10000		P&L
		SGST - Interim Input A/c Dr.	900		B/S
		CGST - Interim Input A/c Dr.	900		B/S
		To Bank A/c		11800	B/S
		(Being entry passed at the time of purchase of goods)			
(II)	<b>At the time of receipt of balance 30kg goods</b>				
	06.04.20XX	CGST Input Credit A/c Dr.	900		B/S
		SGST Input Credit Dr.	900		B/S

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	A/c			
	To CGST -	900	B/S	
	Interim Input A/c			
	To SGST -	900	B/S	
	Interim Input A/c			
	(Being balance			
	input booked at the			
	time of receipt of			
	balance goods)			

#### **6(p): Accounting Treatment in case of carry forward Input Tax credit under Previous Tax Laws**

The provisions related to carry forward of unutilized CENVAT credit / State Vat Input is governed by Section 140 of CGST Act, 2017 read with Rule 117. Subject to certain conditions stipulated in the respective section/ rules, the registered person is allowed to carry forward the input of utilised credit under previous laws subsumed under GST law. The same has been discussed as under:

#### **(A) IN CASE WHETHER PERSON IS REGISTERED UNDER PREVIOUS TAX LAWS:**

##### **Section 140(1):**

A registered person, other than a person opting to pay tax under section 10, shall be entitled to take, in his electronic credit ledger, the amount of CENVAT credit carried forward in the return relating to the period ending with the day immediately preceding the appointed day, furnished by him under the existing law in such manner as may be prescribed:

Provided that the registered person shall not be allowed to take credit in the following circumstances, namely:—

- (i) where the said amount of credit is not admissible as input tax credit under this Act; or
- (ii) where he has not furnished all the returns required under the existing law for the period of six months immediately preceding the appointed date; or

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- (iii) where the said amount of credit relates to goods manufactured and cleared under such exemption notifications as are notified by the Government

### Section 140(2)

A registered person, other than a person opting to pay tax under section 10, shall be entitled to take, in his electronic credit ledger, credit of the unavailed CENVAT credit in respect of capital goods, not carried forward in a return, furnished under the existing law by him, for the period ending with the day immediately preceding the appointed day in such manner as may be prescribed:

Provided that the registered person shall not be allowed to take credit unless the said credit was admissible as CENVAT credit under the existing law and is also admissible as input tax credit under this Act. Migration of existing taxpayers. Transitional arrangements for input tax credit.

Explanation.—For the purposes of this sub-section, the expression “unavailed CENVAT credit” means the amount that remains after subtracting the amount of CENVAT credit already availed in respect of capital goods by the taxable person under the existing law from the aggregate amount of CENVAT credit to which the said person was entitled in respect of the said capital goods under the existing law.

Thus, the amount of any ITC carried forward in a return which is unutilized under the previous tax regime, may be carried forward in GST regime as per the provisions in Rule 117.

### **Tax or duty credit carried forward under any existing law or on goods held in stock on the appointed day: Rule 117**

- (1) Every registered person entitled to take credit of input tax under section 140 shall, within ninety days of the appointed day, submit a declaration electronically in FORM GST TRAN-1, duly signed, on the common portal specifying therein, separately, the amount of input tax credit of eligible duties and taxes, as defined in Explanation 2 to section 140, to which he is entitled under the provisions of the said section:

Provided that the Commissioner may, on the recommendations of the Council, extend the period of ninety days by a further period not exceeding ninety days.

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Provided further that where the inputs have been received from an Export Oriented Unit or a unit located in Electronic Hardware Technology Park, the credit shall be allowed to the extent as provided in sub-rule (7) of rule 3 of the CENVAT Credit Rules, 2004.

- (2) Every declaration under sub-rule (1) shall-
  - (a) in the case of a claim under sub-section (2) of section 140, specify separately the following particulars in respect of every item of capital goods as on the appointed day-
    - (i) the amount of tax or duty availed or utilized by way of input tax credit under each of the existing laws till the appointed day; and
    - (ii) the amount of tax or duty yet to be availed or utilized by way of input tax credit under each of the existing laws till the appointed day;
  - (b) in the case of a claim under sub-section (3) or clause (b) of sub-section (4) or sub-section (6) or sub-section (8) of section 140, specify separately the details of stock held on the appointed day;
  - (c) in the case of a claim under sub-section (5) of section 140, furnish the following details, namely:—
    - (i) the name of the supplier, serial number and date of issue of the invoice by the supplier or any document on the basis of which credit of input tax was admissible under the existing law;
    - (ii) the description and value of the goods or services;
    - (iii) the quantity in case of goods and the unit or unit quantity code thereof;
    - (iv) the amount of eligible taxes and duties or, as the case may be, the value added tax [or entry tax] charged by the supplier in respect of the goods or services; and
    - (v) the date on which the receipt of goods or services is entered in the books of account of the recipient.
- (3) The amount of credit specified in the application in FORM GST TRAN-1 shall be credited to the electronic credit ledger of the applicant maintained in FORM GST PMT-2 on the common portal.

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CBEC vide its order no. 9/2017 & 10/2017 dated 15/11/2017 extended the due date of filing and / or revision of Trans-1 to 27/12/2017.

Accounting Treatment

S. No.	Date	Particulars	Debit (₹)	Credit (₹)	
(I)	<b>On the Appointed Day i.e. 01.07.2017</b>				
	01.07.2017	Interim CGST Input(Trans-1) Dr.	100		B/S
		Interim SGST Input(Trans-1) Dr.	200		B/S
		To CENVAT A/c		100	B/S
		To State VAT A/c		200	B/S
		(Being entry passed)			
(II)	27.12.2017	E-Credit Ledger CGST Dr.	100		B/S
		E-Credit Ledger SGST Dr.	200		B/S
		To Interim CGST Input(Trans-1)		100	B/S
		To Interim SGST Input(Trans-1)		200	B/S
		(Being entry passed )			

**(B) IN CASE WHETHER PERSON WAS NOT REGISTERED/ MANUFACTURING OR PROVIDING PARTIALLY TAXABLE OR EXEMPTED GOODSOR SERVICES UNDER PREVIOUS TAX LAWS:**

**Section 140(3):**

A registered person, who was not liable to be registered under the existing law, or who was engaged in the manufacture of exempted goods or provision of exempted services, or who was providing works contract service and was availing of the benefit of notification No. 26/2012—Service Tax, dated the 20th June, 2012 or a first stage dealer or a second stage dealer or a registered importer or a depot of a manufacturer, shall be entitled to take, in his electronic credit ledger, credit of eligible duties in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the appointed day subject to the following conditions, namely:—

- (i) such inputs or goods are used or intended to be used for making taxable supplies under this Act;

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- (ii) the said registered person is eligible for input tax credit on such inputs under this Act;
- (iii) the said registered person is in possession of invoice or other prescribed documents evidencing payment of duty under the existing law in respect of such inputs;
- (iv) such invoices or other prescribed documents were issued not earlier than twelve months immediately preceding the appointed day; and
- (v) the supplier of services is not eligible for any abatement under this Act:

Provided that where a registered person, other than a manufacturer or a supplier of services, is not in possession of an invoice or any other documents evidencing payment of duty in respect of inputs, then, such registered person shall, subject to such conditions, limitations and safeguards as may be prescribed, including that the said taxable person shall pass on the benefit of such credit by way of reduced prices to the recipient, be allowed to take credit at such rate and in such manner as may be prescribed.

#### **Section 140(4)**

A registered person, who was engaged in the manufacture of taxable as well as exempted goods under the Central Excise Act, 1944 or provision of taxable as well as exempted services under Chapter V of the Finance Act, 1994, but which are liable to tax under this Act, shall be entitled to take, in his electronic credit ledger,—

- (a) the amount of CENVAT credit carried forward in a return furnished under the existing law by him in accordance with the provisions of sub-section (1); and
- (b) the amount of CENVAT credit of eligible duties in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the appointed day, relating to such exempted goods or services, in accordance with the provisions of sub-section (3).

#### **Section 140(5)**

A registered person shall be entitled to take, in his electronic credit ledger, credit of eligible duties and taxes in respect of inputs or input services received on or after the appointed day but the duty or tax in respect of which has been paid by the supplier under the existing law, subject to the condition that the invoice or any other duty or tax paying document of the same was

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recorded in the books of account of such person within a period of thirty days from the appointed day:

Provided that the period of thirty days may, on sufficient cause being shown, be extended by the Commissioner for a further period not exceeding thirty days:

Provided further that said registered person shall furnish a statement, in such manner as may be prescribed, in respect of credit that has been taken under this sub-section.

### **Section 140(6)**

A registered person, who was either paying tax at a fixed rate or paying a fixed amount in lieu of the tax payable under the existing law shall be entitled to take, in his electronic credit ledger, credit of eligible duties in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the appointed day subject to the following conditions, namely:— (i) such inputs or goods are used or intended to be used for making taxable supplies under this Act; (ii) the said registered person is not paying tax under section 10; (iii) the said registered person is eligible for input tax credit on such inputs under this Act; (iv) the said registered person is in possession of invoice or other prescribed documents evidencing payment of duty under the existing law in respect of inputs; and (v) such invoices or other prescribed documents were issued not earlier than twelve months immediately preceding the appointed day

### **Rule 117(4)**

(a) (i) A registered person who was not registered under the existing law shall, in accordance with the proviso to sub-section (3) of section 140, be allowed to avail of input tax credit on goods (on which the duty of central excise or, as the case may be, additional duties of customs under sub-section (1) of section 3 of the Customs Tariff Act, 1975, is leviable) held in stock on the appointed day in respect of which he is not in possession of any document evidencing payment of central excise duty.

(ii) The input tax credit referred to in sub-clause (i) shall be allowed at the rate of sixty per cent. on such goods which attract central tax at the rate of nine per cent. or more and forty per cent. for other goods of the central tax applicable on supply of such goods after the appointed date and shall be credited after the central tax payable on such supply has been paid:

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Provided that where integrated tax is paid on such goods, the amount of credit shall be allowed at the rate of thirty per cent. and twenty per cent. respectively of the said tax;

(iii) The scheme shall be available for six tax periods from the appointed date.

(b) The credit of central tax shall be availed subject to satisfying the following conditions, namely:-

- (i) such goods were not unconditionally exempt from the whole of the duty of excise specified in the First Schedule to the Central Excise Tariff Act, 1985 or were not nil rated in the said Schedule;
- (ii) the document for procurement of such goods is available with the registered person;
- (iii) The registered person availing of this scheme and having furnished the details of stock held by him in accordance with the provisions of clause (b) of sub-rule (2), submits a statement in FORM GST TRAN 2 by 31st March 2018, or within such period as extended by the Commissioner, on the recommendations of the Council, for each of the six tax periods during which the scheme is in operation indicating therein, the details of supplies of such goods effected during the tax period;
- (iv) the amount of credit allowed shall be credited to the electronic credit ledger of the applicant maintained in FORM GST PMT-2 on the common portal; and
- (v) the stock of goods on which the credit is availed is so stored that it can be easily identified by the registered person.

**Note: CBEC vide its order no. 1/2018 dated 28/03/2018 extended the due date of filing of Trans-2 to 30/06/2018.**

As per CBEC circular no. 33/07/2018 – GST dated 23.02.2018, the input credit disputed under the CENVAT Credit Rules, 2014 which has been adjudicated and where in the last adjudication order or the last order-in-appeal, as it existed on 1st July, 2017, it was held that such CENVAT credit is not admissible, then such CENVAT credit (herein and after referred to as “disputed credit”), credited to the electronic credit ledger in terms of sub-section (1), (2), (3), (4), (5) (6) or (8) of section 140 of the Act, shall not be utilized by a registered taxable person to discharge his tax liability till the

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order-in-original or the last order-in-appeal, holding that disputed credit as inadmissible is in existence.

Also in the case of blocked credit as per section 17(5) of CGST Act, no carry forward shall be allowed for such blocked credit.

If such disputed credit or blocked credit is carried forward in the credit ledger by the registered person, such amount shall not be utilized to discharge the tax liability under the CGST / IGST act, shall be recovered from the tax payer with interest and penalty as per the provisions of the Act.

In case where the amount of disputed credit or blocked credit exceeds ten lakhs rupees the taxpayers shall submit an undertaking to the jurisdictional officer of the Central Government that such credit shall not be utilized or has not been availed as transitional credit.

In other cases of transitional credit of an amount lesser than ten lakhs rupees, the directions as above shall apply but the need to submit the undertaking shall not apply.

### **6(q) Accounting of Refunds Received Under GST**

The refund provisions are governed by Section 54 to 58 of CGST Act, 2017.

Section 54 deals with the legal and procedural aspects of claiming refunds under the GST law.

Section 54(1) states that “Any person claiming refund of any tax and interest, if any, paid on such tax or any other amount paid by him, may make an application before the expiry of two years from the relevant date in such form and manner as may be prescribed:

Provided that a registered person, claiming refund of any balance in the electronic cash ledger in accordance with the provisions of sub-section (6) of section 49, may claim such refund in the return furnished under section 39 in such manner as may be prescribed”

As per Explanation (2) to Section 54, “relevant date” means

- Refund of tax paid on goods exported or tax paid on inputs/input service
  - If exported by sea or air → date when the ship or the aircraft leaves India; or
  - If exported by land → date when such goods pass the Customs frontier; or

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- If exported by post → date of dispatch of goods by concerned Post Office to a place outside India.
- Deemed exports supply of goods → the date on which the return relating to such deemed exports is furnished.
- Refund of tax paid on such services exported itself or tax paid on inputs/input service
  - If supply of service is completed prior to the receipt of payment → date of receipt of payment in convertible foreign exchange;
  - If payment for the service received in advance prior to the date of issue of invoice → date of issue invoice.
- Refund of tax as a consequence of judgment, decree, order or direction of Appellate authority, Appellate Tribunal or any Court → date of communication of such judgement/decreed/order/ direction.
- Refund of unutilized input tax credit accumulated due to exports including zero rated supplies - end of the financial year in which such claim for refund arises;
- Provisionally paid tax - the date of adjustment of tax after the final assessment.
- In the case of a person, other than the supplier, the date of receipt of goods or services or both by such person; and
- In any other case, the date of payment of tax.

The time limit of two years as specified in 54(1) shall not apply where tax / interest / or any other amount has been paid under protest or otherwise.

Section 54 (2) entitles the following persons to refund of Tax paid by it on inward supplies of goods or services or both –

- (a) A specialized agency of the United Nations Organization or
- (b) Any Multilateral Financial Institution and Organization notified under the United Nations (Privileges and Immunities) Act, 1947,
- (c) Consulate or Embassy of foreign countries or
- (d) any other person or class of persons as notified under section 55.

All the persons covered under section 54(1) & 54(2) except persons notified under section 55 shall furnish the application of refund in Form RFD-01 through the GST portal either directly or through a facilitation centre as notified by the Commissioner.

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The form “RFD-01” shall be accompanied by any of the following documentary evidences in Annexure 1 in Form GST RFD-01, as applicable, to establish that a refund is due to the applicant, namely: **(RULE 89(2))**.

- a) the reference number of the order and a copy of the order passed by the proper officer or an appellate authority or Appellate Tribunal or court resulting in such refund or reference number of the payment of the amount specified in subsection (6) of section 107 and sub-section (8) of section 112 claimed as refund;
- b) a statement containing the number and date of shipping bills or bills of export and the number and the date of the relevant export invoices, in a case where the refund is on account of export of goods;
- c) a statement containing the number and date of invoices and the relevant Bank Realisation Certificates or Foreign Inward Remittance Certificates, as the case may be, in a case where the refund is on account of the export of services;
- d) a statement containing the number and date of invoices as provided in rule 46 along with the evidence regarding the endorsement specified in the second proviso to sub-rule (1) in the case of the supply of goods made to a Special Economic Zone unit or a Special Economic Zone developer;
- e) a statement containing the number and date of invoices, the evidence regarding the endorsement specified in the second proviso to sub-rule (1) and the details of payment, along with the proof thereof, made by the recipient to the supplier for authorised operations as defined under the Special Economic Zone Act, 2005, in a case where the refund is on account of supply of services made to a Special Economic Zone unit or a Special Economic Zone developer;
- f) a declaration to the effect that the Special Economic Zone unit or the Special Economic Zone developer has not availed the input tax credit of the tax paid by the supplier of goods or services or both, in a case where the refund is on account of supply of goods or services made to a Special Economic Zone unit or a Special Economic Zone developer;
- g) a statement containing the number and date of invoices along with such other evidence as may be notified in this behalf, in a case where the refund is on account of deemed exports;
- h) a statement containing the number and the date of the invoices received and issued during a tax period in a case where the claim

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pertains to refund of any unutilised input tax credit under sub-section (3) of section 54 where the credit has accumulated on account of the rate of tax on the inputs being higher than the rate of tax on output supplies, other than nil-rated or fully exempt supplies;

- i) the reference number of the final assessment order and a copy of the said order in a case where the refund arises on account of the finalisation of provisional assessment;
- j) a statement showing the details of transactions considered as intra-State supply but which is subsequently held to be inter-State supply;
- k) a statement showing the details of the amount of claim on account of excess payment of tax;
- l) a declaration to the effect that the incidence of tax, interest or any other amount claimed as refund has not been passed on to any other person, in a case where the amount of refund claimed does not exceed two lakh rupees:

Provided that a declaration is not required to be furnished in respect of the cases covered under clause (a) or clause (b) or clause (c) or clause (d) or clause (f) of sub-section (8) of section 54; 68

- m) a Certificate in Annexure 2 of FORM GST RFD-01 issued by a chartered accountant or a cost accountant to the effect that the incidence of tax, interest or any other amount claimed as refund has not been passed on to any other person, in a case where the amount of refund claimed exceeds two lakh rupees:

Provided that a certificate is not required to be furnished in respect of cases covered under clause (a) or clause (b) or clause (c) or clause (d) or clause (f) of subsection (8) of section 54;

Explanation.– For the purposes of this rule-

- (i) in case of refunds referred to in clause (c) of sub-section (8) of section 54, the expression –invoice|| means invoice conforming to the provisions contained in section 31;
- (ii) where the amount of tax has been recovered from the recipient, it shall be deemed that the incidence of tax has been passed on to the ultimate consumer.

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As per Rule 89(3), where the application relates to refund of input tax credit, the electronic credit ledger shall be debited by the applicant by an amount equal to the refund so claimed.

#### Accounting Treatment:

S. No.	Particulars	Amt (₹)	Amt (₹)	Reference	Remarks
a.	IGST/ CGST/SGST Refund Dr. Receivable A/c	18		B/S	
	To IGST/CGST/SGST Refundable A/c (Being balance output liability adjusted with the E- Cash Ledger of IGST)		18	B/S	
b.	Bank A/c Dr.	18		B/S	
	To IGST/SGST/CGST Refund Receivable A/c (Being refund received)		18	B/S	