ABC OF ACCOUNTING IN GST ERA

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In GST era Every Registered Person shall keep and maintain ,in addition to the particulars mentioned in sub-section (1) of section 35, a true and correct account of the goods or services imported or exported or of supplies attracting payment of tax on reverse charge along with the relevant documents, including invoices. Bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers and refund vouchers.

GST will not only subsume the existing indirect taxes such as Service Tax, VAT, Excise, CST etc. but also simplify **business and accounting processes**. Initially, there may be certain transitional issues but in long term, it will ensure more transparency in **business reporting and compliance**.

In the GST regime, a taxpayer is required to maintain all types of **accounts and records related to GST transactions such as input supplies, output supplies, production, input credit, output tax, Stock, Import-export, reverse charge** etc. To know more about types of accounts and records under, please check – **Types of Accounts Under GST. This article will give you clear ideas of different types of business transactions related to GST accounting treatments.**

What records must be maintained under GST?
Goods and Services Tax (GST) is a tax reform that will eliminate India's major indirect taxes - Excise, Service Tax, and VAT. However, record-keeping and reporting requirements under GST contain elements from each of these, and they are far from simple.
Section 35 of the GST Act explains the record-keeping requirements. In addition, in April 2017 the central government released draft rules for GST accounts and records (draft record rules), which lists additional GST accounting and record-keeping requirements.
Every registered person
Section 35
Each registered person is required maintain a true and correct account of the following:

- **Production or manufacture of goods**
- **Inward and outward supply of goods or services, or both**
- **Stock of goods**
- **Input tax credit availed**
- **Output tax payable and paid**
- **Any other particulars deemed necessary**

The above records must be maintained at each place of business registered under GST.

Draft record rules
In additions to the above, every registered person must maintain the following:

- A separate account of advances received and paid, along with any adjustments
- A true and correct account of:
  - Goods or services imported or exported
  - Supplies attracting payment of tax on reverse charge

Other points:
Every registered person must also maintain relevant documents including invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers, refund vouchers, and electronic way (e-way) bills. Additionally, there must be separate records for each activity (i.e., manufacturing, trading, and the provision of services). Records must be in serially-numbered account books and include the following information:

- Names and complete addresses of suppliers
- Names and complete addresses of customers
- Address of all premises where the goods are stored, including goods stored during transit, and descriptions of the stock stored

Registered person other than person falling u/s 10 (composition levy)
Furthermore, all the registered people other than those falling under composition levy scheme must maintain accounts of stock for each commodity received and supplied, along with the following information:

- Opening balance
- Receipt
- Supply
- Goods lost, stolen, destroyed, written off, or disposed of by way of gift or free samples
- Balance of stock including raw materials, finished goods, scrap, and waste

These registered persons must also maintain an account containing the following details:

- Tax payable
- Tax collected and paid
- Input tax and input tax credit claimed
- Register of tax invoice, credit note, debit note, and delivery challan issued or received during any tax period

Godown and warehouse owner/operators and transporters
There are different requirements for warehouse owner/ operators and transporters. Whether registered or not, they must maintain records as prescribed under draft GST rules:

- Every unregistered must submit business details electronically in Form GST ENR-01
- Every transporter must maintain separate records for all branches of goods transported, delivered, and stored in transit:
- Every warehouse and godown owner/operator must maintain books of accounts for each period that goods remain in the warehouse, including details relating to dispatch, movement, receipt, and disposal of such goods
- The owner/operator must store the goods so that they can be identified by item and by owner, and facilitate (on demand) any authorized physical verification or inspection

Agent u/s 2(5)
Draft record rules require Agents (brokers, commission agents, *del credere* agents, auctioneer etc.) referred to in section 2(5) to maintain the following:

- Authorization from each principal to separately receive or supply goods or services on their behalf
- A description of goods or services received on behalf of every principal, including value and quantity (wherever applicable)
- A description of goods or services supplied on behalf of every principal, including value and quantity (wherever applicable)
- Details of accounts furnished to every principal
- Tax paid on the supply of goods or services performed on behalf of every principal

Registered manufacturer of goods
As per the draft record rules, every manufacturer must maintain:

- Monthly production accounts showing the quantitative details of raw materials or services used in the manufacture
- Quantitative details of the goods manufactured, including any waste and by-products

Registered service provider
The draft record rules require every service provider to maintain the following:

- Accounts showing the quantitative details of goods used in the provision of each service
- Details of input services utilized and the services supplied

Registered works contractor
Under the draft record rules, registered works contractors are required to maintain separate accounts for each contract, showing:

- The names and addresses of the persons on whose behalf the contract is executed
- A description, value, and quantity of goods or services received for the execution of the work
- A description, value, and quantity of goods or services utilized in the execution of each work contract
- A description of the payment received for each contract
- The names and addresses of suppliers of goods or services received

Persons whose turnover exceeds ₹1 crore in a financial year
In addition to the above requirements, any person whose turnover exceeds ₹1 crore in a financial year is required to:

- Have accounts audited by a chartered accountant or a cost accountant
- Submit a copy of the audited annual accounts and the reconciliation statement u/s 44(2) (Form GSTR-9B)and file annual return (Form GSTR-9)

Electronic record-keeping requirements

- Electronic records must be authenticated by means of a digital signature
- Electronic records must be backed-up

Types of Ledger Accounts to be Maintained Under GST

Under the GST regime, all indirect taxes will be subsumed in GST and there will be dual GST Structure based on intra-state supplies and inter-state supplies. The CGST and SGST will be charged on intra-state supplies whereas the IGST (Integrated Goods and Services Tax) will be charged on all inter-state supplies. Therefore separate ledger account is required to be maintained related to CGST, SGST and IGST.

There are list of Ledgers to be created under Balance Sheet are as follows:

Under Current Asset:
1) Input CGST A/c, 2) Input SGST A/c, 3) Input IGST A/c,
4) Provisional ITC CGST A/c, 4) Provisional ITC SGST A/c,
5) Provisional ITC IGST A/c, 6) Electronic Credit CGST A/c,
7) Electronic Credit SGST A/c, 8) Electronic Credit IGST A/c,
9) Electronic Cash CGST A/c, 10) Electronic Cash SGST A/c,
11) Electronic Cash IGST A/c, 10) Cash/Bank A/c

Duties & Taxes (Current Liabilities)

1) 6% Output CGST A/c, 2) 6% Output SGST A/c, 3) 12% output IGST A/c (Here we take 12%), 4) GST on Advance.

Current Liabilities
1) Electronic Liability CGST A/c, 2) Electronic Liability SGST A/c, 3) Electronic Liability IGST A/c.

There are list of Ledgers to be created under Profit & Loss are as follows:

OUTWARD SUPPLY
1) Local B2B Sales A/c, 2) Local B2C Sales A/c, 3) Interstate B2B Sales A/c,
4) Interstate B2C Sales A/c, 5) Export Sales, 6) Exempt Sales,
7) E Com Sales.

INWARD SUPPLY
1) Purchases A/c, 2) Exempt Purchases A/c, 3) Expenses A/c,
4) Inward Supply-Purchases A/c.

GST Accounting Entries for Intra state Transactions (i.e within the State) for purchases of Goods, Purchases Of Assets & Consultation Fees & How ITC has been shown are as follows:

Mr. Ajay purchased goods ₹3,00,000 locally (intrastate). He sold them for ₹ 5,00,000 in the same state.
He paid legal consultation fees ₹60,000. He purchased Plant & Furniture for his office for ₹1,00,000 from Machinery Company. (Assuming CGST @9% and SGST@9%)

Sr. No.	Particulars	Debit	Credit
1	Purchase A/c…………………Dr	300000	
	Input CGST A/c ....Dr	27000	
	Input SGST A/c ....Dr	27000	
	To Creditors A/c		354000
2	Debtors A/c…………………. Dr		
	To Sales	590000	500000
	To Output CGST A/c		45000
	To Output SGST A/c		45000
3	Consultancy Fees A/c………. Dr	60000	
	Input CGST A/c ....Dr	5400	
	Input SGST A/c ....Dr	5400	
	To Bank A/c		70800
4	Plant & Machinery A/c………. Dr	100000	
	Input CGST A/c ....Dr	9000	
	Input SGST A/c ....Dr	9000	
	To Bank A/c		118000
5	Output CGST A/c…………… Dr	45000	
	Output SGST A/c…………… Dr	45000	
	To Input CGST A/c		41400
	To Input SGST A/c		41400
	To Electronic Cash Ledger A/c		7200

Total Input CGST = 27,000 + 5400 + 9,000 = ₹41,400
Total Input SGST = 27,000 + 5400 + 9,000 = ₹41,400
Total output CGST = 45,000
Total output SGST = 45,000
Therefore Net CGST payable = 45,000 - 41,400 = 3,600
Net SGST payable = 45,000 - 41,400 = 3,600
Thus Output liability of ₹45,000 has been adjusted with Input tax credit of ₹41,400. So, net tax liability of CGST is ₹3,600 and SGST ₹3,600.

GST Accounting Entries for Interstate transactions (i.e Outside the State) along with expenses & Office Equipment

Mr. Rahul purchased goods ₹3,00,000 from outside the State. He sold ₹4,00,000 locally. He sold ₹2,00,000 outside the state. He paid expenses ₹50,000. He purchased an office Equipment for his office for ₹24,000 (locally) Assuming CGST @9% and SGST@9%.

Sr. No.	Particulars	Debit	Credit
1	Purchase A/c…………………………Dr	300000	
	Input IGST A/c……………………….Dr	54000	
	To Creditors A/c		354000
2	Debtors A/c…………………………..Dr	472000	
	To Sales A/c		400000
	To Output CGST A/c		36000
	To Output SGST A/c		36000
3	Debtors A/c…………………………..Dr	236000	
	To Sales A/c		200000
	To Output IGST A/c		36000
4	Expenses A/c………………………..Dr	50000	
	Input CGST A/c……………………..Dr	4500	
	Input SGST A/c……………………..Dr	4500	
	To Bank A/c		59000
5	Office Equipment A/c…………..Dr	48000	
	Input CGST A/c……………………..Dr	4320	
	Input SGST A/c……………………..Dr	4320	
	To Bank A/c		56640
	Setoff against CGST Ouput		
	Output CGST A/c……………………Dr	26820	
	To Input CGST A/c		8820
	To Input IGST A/c		18000

	Setoff against SGST Ouput		
	Output SGST A/c…………………….Dr	8820	
	To Input SGST A/c		8820
	Setoff against IGST Ouput		
	Output IGST A/c…………………….Dr	36000	
	To Input IGST A/c		36000
	Final Payment		
	Output CGST A/c…………………..Dr	9180	
	Output SGST A/c…………………..Dr	27180	
	To Electronics Cash Ledger A/c		36360

Total CGST input = 4,500 + 4,320 = 8,820
Total CGST output = 36,000
Total SGST input = 4,500 + 4,320 = 8,820
Total SGST output = 36,000
Total IGST input = 54,000

Total IGST output = 36,000
Any IGST credit will first be applied to set off IGST and then CGST. So out of total input IGST of ₹54,000, firstly it will be completely setoff against IGST. Then balance ₹18,000 against CGST.
From the total liability ₹1,08,000, only ₹36,360 is payable

Particulars	CGST	SGST	IGST
Output Liability	36000	36000	36000
Less: Input Tax Credit			
CGST (Expenses+OfficeEqui.)	8820		
SGST (Expenses+OfficeEqui.)		8820	
IGST	18000		36000
Amount Payable	9180	27180	NIL

5. Accounting Treatment of Refunds in Case of Export of Goods and Services:

Under GST law, the **exports of goods or services are treated as Inter - State Supplies**. We have already discussed the impact of GST on exports in our previous article – **How Exports are Treated Under GST.** In the case of export supplies, the exporter has two options:

A. Export Under Bond/LUT (Clear goods without payment of duty and claim the refund of Input credits): In this case, the exporter has to record sale without charging any tax and determine the unutilized input credit of inputs for claiming the refund. The **journal entry for refund claim** will be as follows:
CGST Refund Receivable A/c _____________ Dr.
SGST Refund Receivable A/c _____________ Dr.
IGST Refund Receivable A/c _____________ Dr.
To CGST Input Credit A/c (unutilized input credit)
To SGST Input Credit A/c (unutilized input credit)
To IGST Input Credit A/c (unutilized input credit)

B. Export Under Rebate Claim (Clear goods with payment duty and claim the refund of duty paid on export goods): In this case, the sale will be recorded as follows:
Debtors A/c _____________Dr.
IGST Refund Receivable A/c______Dr.
To Sales A/c
To IGST Payable A/c

6. Accounting Treatment for Imports
In our previous article "Treatment of Imports under GST regime" we have discussed that Imports are treated as Inter - State supplies and therefore, IGST will be payable by the importer of goods or services. Further, the Custom duty is also applicable in the case of **Import of Goods** but the input credit of Custom duty is not allowed. Hence the importer can claim input credit of IGST and the Custom Duty will be added in the cost of imported goods:-
Purchase A/c_________________Dr.
IGST Input Credit A/c ______________Dr.
To Creditor A/c
To IGST Payable A/c
To Custom Duty Payable A/c

<u>Conclusion</u>

In addition, taxpayers must be able to produce — on demand — an account of the audit trail and inter-linkages, including the source document (paper or electronic), financial accounts, record layout, data dictionary, an explanation for codes used, and the total number of records in each field along with sample copies of documents.

As shown above, the GST regime has extensive accounting and record-keeping requirements. Although some of the more cumbersome manufacturing excise tax record-keeping requirements are eliminated under GST, they're replaced by similarly stringent requirements. The onus is therefore on professionals and accountants to keep informed and in compliance with the new GST law, rules, and regulations.

The stakes are high. With the government intending to make the GST compliance rating of each taxable person public, non-compliance would have an adverse effect on the entire business.