10

Accounting for Goods and Services Tax (GST)

Learning Objectives

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO UNDERSTAND :

- Meaning of GST
- Taxes Merged into GST
- GST rate structure
- Objectives or Advantages of GST
- Type of Taxes under GST (Tax structure under GST)
- Accounting Procedure

Meaning of GST

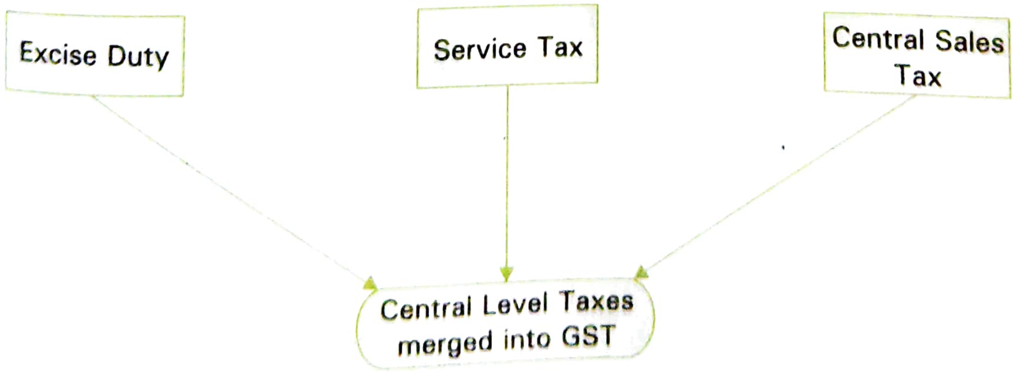
Goods and Services Tax (GST) is an indirect tax levied at prescribed rate on every supply of goods and services except on petroleum and alcohol for human consumption. Supply of goods means sale of goods and supply of services means rendering of services. It is a nation-wide tax seeking to unify several indirect taxes and is based on the principle of 'One Nation One Tax'.

GST Act was passed in the Parliament on 24th March, 2017 and it came into effect from 1st July, 2017.

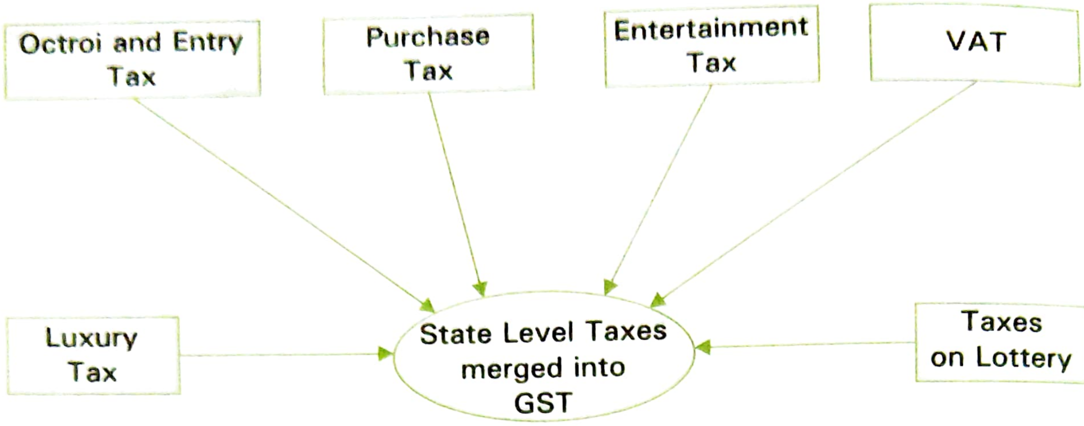
Taxes Merged into GST :

GST has replaced many indirect taxes levied by Centre and State Governments.

Central level taxes that have merged into GST are as under :



State level taxes that have merged into GST are as under :



GST Rate Structure : Goods and Services are divided into five slabs for collection of GST :

Essential Items including food	0%
Common Use Items	5%
Standard Rate	12%
Maximum Goods and all services Standard Rate	18%
Luxury items and tobacco	28%

GST is paid on purchase of goods and services and it is collected from customers on sale of goods and services. GST Paid (termed as Input GST) is set off against GST Collected (termed as Output GST).

As such, GST Paid on Purchase (Input GST) is **not a Cost** for the purchaser but is an **Asset** since it can be set off against GST Collected on Sales (*i.e.*, Output GST).

Similarly, GST Collected on Sales (Output GST) is **not an income** of the seller but is a **liability**.

IMPORTANT NOTES

(1) Usually, GST Paid on purchase of goods and services (*i.e.*, Input GST) is **not a Cost** for the purchaser but is an **Asset** because it can be set off against GST Collected (*i.e.*, Output GST)

(2) However, in certain cases GST Paid cannot be set off against GST collected. In such cases, GST Paid on purchase of goods and services is a **Cost** for the purchaser. Following are the cases where GST Paid on purchase of goods and services cannot be set off against GST collected :

(*i*) Food and Beverages Expenses (Restaurant Bills);

(*ii*) Payment for health insurance;

(*iii*) Payment of Membership Fee of a Club, health and Fitness Centre;

(*iv*) Repairs and Maintenance of Building;

(*v*) Purchase of Vehicles;

(*vi*) Free gift to Staff;

(*vii*) Payment for goods and services for personal use.

(3) **GST Paid (*i.e.*, Input GST) is Reversed (Credited) in the following cases :**

- (*i*) Purchase Returns;
- (*ii*) Goods taken by the proprietor;
- (*iii*) Goods lost or stolen;
- (*iv*) Goods destroyed or become not saleable (written off);
- (*v*) Goods distributed as free samples;
- (*vi*) Goods given away as gift or charity.

Similarly, Output GST is Reversed (Debited) in case of Sales Returns.

(4) **Following goods and services are exempt from levy of GST :**

- (*i*) Payment of Wages and Salaries;
- (*ii*) Supply of Services to Government or to Embassies of other countries;
- (*iii*) Electricity and water bills;
- (*iv*) Educational Services;
- (*v*) Health Services;
- (*vi*) Travelling Expenses; and
- (*vii*) Interest.

ILLUSTRATION 2.

(Intra-State *i.e.,* Within State)

Pass entries in the books of Mukul Roy & Sons, assuming all transactions have been entered within the state of West Bengal, charging CGST and SGST @ 6% each :

2023	
April 1	Purchased goods for ₹1,50,000 from S. Banerjee.
6	Sold goods for ₹2,50,000 to Aditya Sangma.
8	Returned goods to S. Banerjee for ₹10,000.
15	Aditya Sangma returned goods for ₹8,000.
18	Printing & stationery expenses of ₹5,000 paid in cash.
24	Goods withdrawn by Proprietor for personal use ₹20,000.
27	Goods destroyed by fire ₹15,000.
30	Payment made of balance amount of GST.

SOLUTION : JOURNAL OF MUKUL ROY & SONS

Date	*Particulars*		*L. F.*	*Amount Dr.*	*Amount Cr.*
2023				₹	₹
April 1	Purchases A/c	Dr.		1,50,000	
	Input CGST A/c	Dr.		9,000	
	Input SGST A/c	Dr.		9,000	
	To S. Banerjee				1,68,000
	(Purchased goods on Credit)				
" 6	Aditya Sangma	Dr.		2,80,000	
	To Sales A/c				2,50,000
	To Output CGST A/c				15,000
	To Output SGST A/c				15,000
	(Sale of goods on Credit)				
" 8	S. Banerjee	Dr.		11,200	
	To Purchase Returns A/c				10,000
	To Input CGST A/c				600
	To Input SGST A/c				600
	(Purchase returns)				
" 15	Sales Returns A/c	Dr.		8,000	
	Output CGST A/c	Dr.		480	
	Output SGST A/c	Dr.		480	
	To Aditya Sangma				8,960
	(Sales returns)				
" 18	Printing & Stationery A/c	Dr.		5,000	
	Input CGST A/c	Dr.		300	
	Input SGST A/c	Dr.		300	
	To Cash A/c				5,600
	(Paid for printing and stationery)				
		C/F		4,73,760	4,73,760

		B/F	4,73,760	4,73,760
" 24	Drawings A/c	Dr.	22,400	
	To Purchases A/c			20,000
	To Input CGST A/c			1,200
	To Input SGST A/c			1,200
	(Goods withdrawn for personal use)			
" 27	Loss by Fire A/c	Dr.	16,800	
	To Purchases A/c			15,000
	To Input CGST A/c			900
	To Input SGST A/c			900
	(Goods destroyed by fire)			
" 30	Output CGST A/c	Dr.	14,520	
	Output SGST A/c	Dr.	14,520	
	To Input CGST A/c			6,600
	To Input SGST A/c			6,600
	To Bank A/c (₹7,920 + ₹7,920)			15,840
	(Adjustment of GST and payment of balance amount)			
	Total	₹	5,42,000	5,42,000

Working Note :

Total Input CGST	:	9,000 – 600 + 300 – 1,200 – 900	=	₹6,600
Total Input SGST	:	9,000 – 600 + 300 – 1,200 – 900	=	₹6,600
Total Output CGST	:	15,000 – 480 = ₹14,520		
Total Output SGST	:	15,000 – 480 = ₹14,520		
Net CGST Paid	:	14,520 – 6,600 = ₹ 7,920		
Net SGST Paid	:	14,520 – 6,600 = ₹ 7,920		

ILLUSTRATION 3.

(Intra-State *i.e.,* Within State)

Enter the following transactions in the books of Luxmi traders assuming that all transactions have taken place in the state of Rajasthan. Assume CGST @9% and SGST @9% :

2023	
March 5	Purchased goods for 5,00,000 from Chauhan Traders, at 20% Trade discount.
10	Sold goods to Pushkar Bros. for ₹3,20,000.
15	Received from Pushkar Bros. a cheque for ₹2,00,000 on account. Cheque is sent to bank.
18	Purchased furniture for ₹50,000 and payment made by cheque.
20	Advertisement charges of ₹20,000 paid by cheque.
22	Sold goods for ₹1,00,000 and received a cheque for the same. Cheque is sent to bank.
25	Commission of ₹10,000 received in cash.
31	Output GST adjusted against Input GST.

SOLUTION : JOURNAL OF LUXMI TRADERS

Date	Particulars		L.F.	Amount Dr.	Amount Cr.
2023				₹	₹
March 5	Purchases A/c	Dr.		4,00,000	
	Input CGST A/c	Dr.		36,000	
	Input SGST A/c	Dr.		36,000	
	To Chauhan Traders				4,72,000
	(Purchase of goods for ₹5,00,000 at 20% trade discount)				
March 10	Pushkar Bros.	Dr.		3,77,600	
	To Sales A/c				3,20,000
	To Output CGST A/c				28,800
	To Output SGST A/c				28,800
	(Sale of goods on credit)				
March 15	Bank A/c	Dr.		2,00,000	
	To Pushkar Bros.				2,00,000
	(Received payment by cheque)				
March 18	Furniture A/c	Dr.		50,000	
	Input CGST A/c	Dr.		4,500	
	Input SGST A/c	Dr.		4,500	
	To Bank A/c				59,000
	(Furniture purchased)				
March 20	Advertisement Exp. A/c	Dr.		20,000	
	Input CGST A/c	Dr.		1,800	
	Input SGST A/c	Dr.		1,800	
	To Bank A/c				23,600
	(Payment of advertisement expenses)				
March 22	Bank A/c	Dr.		1,18,000	
	To Sales A/c				1,00,000
	To Output CGST A/c				9,000
	To Output SGST A/c				9,000
	(Sold Goods and received a cheque)				
March 25	Cash A/c	Dr.		11,800	
	To Commission Received A/c				10,000
	To Output CGST A/c				900
	To Output SGST A/c				900
	(Received Commission)				
March 31	Output CGST A/c	Dr.		38,700	
	Output SGST A/c	Dr.		38,700	
	To Input CGST A/c (See Working Note)				38,700
	To Input SGST A/c				38,700
	(Adjustment of GST)				
	Total	₹		13,39,400	13,39,400

Working Note :

Total Input CGST	:	₹36,000 + ₹4,500 + ₹1,800 = ₹42,300
Total Input SGST	:	₹36,000 + ₹4,500 + ₹1,800 = ₹42,300
Total Output CGST	:	₹28,800 + ₹9,000 + ₹900 = ₹38,700
Total Output SGST	:	₹28,800 + ₹9,000 + ₹900 = ₹38,700

Since Input GST is more than output GST, there is no tax liability to be paid to the Government. Excess of Input GST is called Input Tax Credit. It will be carried forward and shown on the assets side of Balance Sheet and will be adjusted in the next month.

Input Tax Credit	:	Input CGST – Output CGST = ₹42,300 – ₹38,700 = ₹3,600
		Input SGST – Output SGST = ₹42,300 – ₹38,700 = ₹3,600

Input Tax Credit of ₹3,600 + ₹3,600 = ₹7,200 will be carried forward and will be adjusted in the next month.

ILLUSTRATION 4. (Intra-State *i.e.,* Within State)

Journalise the following transactions in the books of Kaveri Traders, Bengaluru :

2023	
May 15	Purchased goods from Nagendra & Sons. of Belgaum of the list price of ₹1,25,000 at 20% trade discount and 5% cash discount on purchase price of goods. Paid CGST and SGST @6% each. Payment was made immediately by cheque.
20	Sold to Arvind Patil & Co. Hubli goods of the list price of ₹4,00,000 at 25% trade discount and 3% cash discount on sale price. Charged CGST and SGST @6% each. Full payment received by cheque at the time of sale itself.
22	Sold to Bangarappa & Bros of Mysuru goods of the list price of ₹2,50,000 at 20% trade discount and 4% cash discount on sale price. Charged CGST and SGST @ 6% each. 80% of the amount received by cheque immediately.
31	Payment made of balance amount of GST.

SOLUTION :

KAVERI TRADERS BENGALURU
JOURNAL

Date	*Particulars*		*L. F.*	*Amount Dr.*	*Amount Cr.*
2023				₹	₹
May 15	Purchases A/c	Dr.		1,00,000	
	Input CGST A/c	Dr.		5,700	
	Input SGST A/c	Dr.		5,700	
	To Bank A/c(1)				1,06,400
	To Discount Received A/c				5,000
	(Goods purchased at 20% trade discount and 5% cash discount)				
		C/F		1,11,400	1,11,400

		B/F	1,11,400	1,11,400
May 20	Bank A/c(2)	Dr.	3,25,920	
	Discount Allowed A/c	Dr.	9,000	
	To Sales A/c			3,00,000
	To Output CGST A/c			17,460
	To Output SGST A/c			17,460
	(Sold goods at 25% trade discount and 3% cash discount)			
May 22	Bank A/c(3)	Dr.	1,72,032	
	Discount Allowed A/c	Dr.	6,400	
	Bangarappa & Bros.	Dr.	44,800	
	To Sales A/c			2,00,000
	To Output CGST A/c (₹9,216 + ₹2,400)			11,616
	To Output SGST A/c (₹9,216 + ₹2,400)			11,616
	(Sold goods at 20% trade discount and 4% cash discount)			
May 31	Output CGST A/c (₹17,460 + ₹11,616)	Dr.	29,076	
	Output SGST A/c (₹17,460 + ₹11,616)	Dr.	29,076	
	To Input CGST A/c			5,700
	To Input SGST A/c			5,700
	To Bank A/c			46,752
	(Adjustment of GST and payment of balance amount)			
	Total	₹	7,27,704	7,27,704

Notes :

		₹
(1)	List Price of goods purchased	1,25,000
Less :	Trade Discount @ 20%	25,000
		1,00,000
Less :	Cash Discount @ 5% on ₹1,00,000	5,000
		95,000
Add :	CGST @ 6%	5,700
	SGST @ 6%	5,700
	Net Amount paid	1,06,400

PLEASE NOTE

In this edition of the book, CGST and SGST are calculated after deducting both Trade Discount and Cash Discount.

(2)	List Price of goods sold	4,00,000
Less :	Trade Discount @ 25%	1,00,000
		3,00,000
Less :	Cash Discount @ 3% of ₹3,00,000	9,000
		2,91,000
Add :	CGST @ 6%	17,460
	SGST @ 6%	17,460
	Net Amount received	3,25,920

Ans. 1. (C) 2. (B)

6. (C)

PRACTICAL QUESTIONS

(Q. No. 1 to 10 are strictly in the serial order of Illustrations)

Q. 1. Pass entries in the books of Mukerjee & Sons. assuming all transactions have taken place within the state of Uttar Pradesh. Assume CGST @9% and SGST @9%.

2023	
March 4	Purchased goods for ₹5,00,000 from Mehta Bros.
March 10	Sold goods for ₹8,00,000 to Munjal & Co.
March 15	Paid for advertisement ₹40,000 by cheque.
March 18	Purchased furniture for office use ₹50,000 and payment made by cheque.
March 25	Paid for printing and stationery ₹8,000.
March 31	Payment made of balance amount of GST.

[**Ans.** Total ₹17,93,640. Net amount paid ₹36,360.]

Q. 2. Pass entries in the books of Devdhar & Bros. Odisha, assuming all transactions have been entered within the state, charging CGST and SGST @ 9% each:

2023	
March 4	Purchased goods for ₹5,00,000 from Sunil Bros.
7	Goods returned to Sunil Bros. for ₹20,000
10	Sold goods to Mehta & Co. for ₹8,00,000
12	Goods returned by Mehta & Co. for ₹30,000
20	Goods withdrawn by Proprietor for personal use ₹10,000
25	Goods distributed as free samples ₹5,000
26	Paid advertisement expenses by cheque ₹20,000
31	Payment made of balance amount of GST.

[**Ans.** Total ₹17,72,900; Net amount paid ₹51,300]

Q. 3. Pass entries in the books of Ganguli & Sons. assuming all transactions have been entered in the state of West Bengal :

(*i*)	Purchased goods for ₹2,00,000 and payment made by cheque.
(*ii*)	Sold goods for ₹1,60,000 to Devki Nandan & Sons.
(*iii*)	Purchased goods for ₹50,000 on credit.
(*iv*)	Paid for printing and stationery ₹4,000.
(*v*)	Received for commission ₹5,000.
(*vi*)	Output GST adjusted against Input GST.

Assume CGST @6% and SGST @6%.

[**Ans.** Total ₹4,89,080; Input CGST and Input SGST ₹15,240 each. Output CGST and Output SGST ₹9,900 each. Input Tax Credit : CGST ₹5,340 and SGST ₹5,340.]

Q. 4. Pass entries for the following transactions in the books of M/s Karthikeyan & Co. of Chennai :

2022	
June 10	Purchased goods from Ravichandran of Madurai of the list price of ₹2,00,000 at 25% trade discount at 4% cash discount on purchase price of goods. Paid CGST and SGST @9% each. Paid the entire amount by cheque on the same date.
June 25	Sold goods to Ramalingam of Erode of the list price of ₹3,75,000 at 20% trade discount and 2% cash discount on sale price. Charged CGST and SGST @9% each. Full amount was received by cheque on the same date.

Ignore adjustment and payment of GST.

[**Ans.** Total ₹5,28,840;

June 10 : Net amount paid ₹1,69,920; Discount Received ₹6,000.

June 25 : Net amount received ₹3,46,920; Discount allowed ₹6,000.]

Q. 5. Record the following transactions in the books of Sahdev & Sons assuming all transactions have been entered within the state of Bihar, Charging CGST and SGST @ 9% each.

(i)	Bought goods from Nanak Bros. for ₹4,00,000 at 10% trade discount and 3% cash discount on purchase price. 25% of the amount paid at the time of purchase.
(ii)	Sold goods to Kumar & Sons. for ₹2,00,000 at 20% trade discount and 5% cash discount on sale price. 60% of the amount received by Cheque.
(iii)	Received from Gopi Chand ₹38,000 by Cheque after deducting 5% cash discount.
(iv)	Paid ₹20,000 for rent by Cheque.
(v)	Paid ₹50,000 for salaries by Cheque.
(vi)	Goods worth ₹10,000 distributed as free samples.
(vii)	₹5,000 due from Chanderkant are bad-debts.
(viii)	Sold household furniture for ₹15,000 and the proceeds were invested into business.

Ignore adjustment of GST.

[**Ans.** Total ₹7,57,650]

Hints : *(i)* GST will be levied on transaction No. *(i)*, *(ii)*, *(iv)* and *(vi)*.

(ii) Cash Discount in Transaction *(i)* ₹2,700.
Cash Discount in Transaction *(ii)* ₹4,800.

(iii) In transaction No. *(iii)* discount allowed will be ₹2,000.

Q. 6. Pass entries in the books of Mr. Roopani of Gujarat assuming CGST @9% and SGST @9%.

(i)	Purchased goods for ₹2,00,000 from Suryakant of Jaipur (Rajasthan) on Credit.
(ii)	Sold goods for ₹1,50,000 to Mr. Pawar of Mumbai (Maharashtra) and the cheque received was sent to bank.
(iii)	Sold goods for ₹2,50,000 within the state on credit.
(iv)	Paid insurance premium of 20,000 by cheque.
(v)	Purchased furniture for office for ₹60,000 by cheque.
(vi)	Payment made of balance amount of GST.

[**Ans.** Total ₹8,74,400]