ISSUES IN ITC WITH RESPECT TO BOOKKEEPING

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To begin with, I thank CVOCA for this opportunity. Book keeping (or accounting) is the foundation on which GST-relevant reports/returns can be made. Focusing on ITC i.e. Input Tax Credit, two important aspects are :

1. Eligibility of ITC
2. Availment and Utilization of ITC

Eligibility of ITC

From a practical point of view, the first step for eligibility of ITC is existence of that invoice's record in GSTR 2A/2B. The client's purchase and expense invoices' details are to be matched and reconciled. Certain issues faced:

a. Absence of Records/ Duplication of Records

It has happened many times that while reconciling data of GSTR 2A/2B, certain invoices which exist in GSTR 2B, simply aren't recorded in books of accounts. This happens for multiple reasons, usually being – the client didn't receive the invoice, or failed to enter the transaction into the accounting software, or the goods haven't been received or any other dispute. Duplication of records means the same invoice being recorded twice in the accounting software. This can be due to any posting error or existence of multiple ledger masters with similar names. Either case, even though by GST law such ITC may be eligible, but in GST workings, it may not be considered eligible for that particular period. Hence suitable accounting entries may be passed and /or altered.

b. Mismatch in Details

This happens especially in case of suppliers who deal in non-durable/ somewhat perishable/ articles meant for human consumption, like FMCG or medicines. The manufacturer/ distributor may supply certain goods via its salespeople, who will deliver those goods to the wholesaler/ retailer. Some from those delivered goods may have defects like dented packaging, lost contents, etc. Some goods delivered may not be as per specifications of the purchase order. To avoid backlash from seniors and additional goods handling charges, enterprising salespeople will sell such rejected goods for cash in local markets and will change the particulars and amounts in the tax invoice by hand, to give effect of that rejection. However, this effect may not be done in the sales details of the manufacturer/ distributor's books and thereby the GSTR 1 filed by such people show inflated sales. Ensuring correct accounting of such invoices and thereby recording only the eligible ITC – GST amounts is essential.

c. Operation of Law

Data entry level accountants may not be well versed with the legal provisions pertaining to eligibility, ineligibility and reversal of ITC, like in case of Hire Purchase (when ITC is to be taken on or after the last installment), 180 days payment condition, etc. Just because any invoice is mentioned in GSTR 2A/2B, doesn't mean that ITC involved is eligible. Reversals of ITC, say for sale of capital assets, stock of goods written off, etc., in books, a reversal of ITC entry may also be passed (in the next year, till November) for such an invoice which was never visible in GSTR 2A/2B. Some clients also try to show certain personal expenditures as business expenses to claim ITC and Depreciation, one classic example being of mobile phone purchase. Here too, appropriate reversal accounting entries need to be passed.

d. Separate Record Maintenance

For all the invoices with any issue as discussed above, separate records need to be maintained, if possible then in the accounting software itself or in any other software or MS Excel. Lack of appropriate source data creates a separate set of issues – Table 8A details not matching with GSTR 2A, reconciling GSTR 2A with 2B, etc. wherein all data is from the same source i.e. GSTN database. Hence at least the books of the client should show a correct/ appropriate picture of state of ITC, what all was eligible, ineligible, reversed, claimed in next year, etc.

Availment and Utilisation of ITC

Again, practically, availment and utilisation of ITC can be understood better from the workings for GSTR 3B, Electronic Credit Ledger and Electronic Cash Ledger as available on the GST portal. Certain issues faced:

a. Creation and settlement of RCM liability
RCM (Reverse Charge Mechanism) is a concept wherein the recipient of goods or services is liable to pay GST on those transactions and then claim ITC. In books, appropriate accounting needs to be done to create RCM liability, show the payment via Bank account and transfer this to ITC – asset.

b. ITC availed in later period
For any reason, say, the client's supplier didn't file its GSTR 1 on time, or failed to mention the client's sale invoice, etc., the client can avail ITC only when details are mentioned/ amended. In such cases, in the balance sheet, all such ITC need to be shown under current assets till the time such ITC is availed and utilized. Care should be taken that such ITC shouldn't be otherwise ineligible, say blocked credit.

c. ITC couldn't be availed in later period
Say, the client's supplier failed to mention the client's sale invoice, etc., till the end of November the next year, such ITC asset should be reversed/reduced in the books of accounts as it cannot be availed in GSTR 3B.

d. Closure entries
Depending on the accounting policies, either during the year or at the end of year while finalizing and closing books of accounts, appropriate closure entries need to be passed to reflect the correct state of ITC asset. Mathematically, any closing ITC in current assets can be:

ITC asset balance of March/ closing period as per the Electronic Credit Ledger (+) ITC on those invoices not yet visible in GSTR 2A/2B (+) ITC to be claimed/ reclaimed by operation of law (–) Such ITC asset of last year which couldn't be availed in GST returns in current year.

General issues

There are multiple other general issues in ITC with respect to Book keeping. Listing a few below:

a. Incorrect GSTIN in ledger masters hindering the automated ITC mismatch process.
b. Lack of supporting documents such as E-way bill or delivery challans.
c. Verification of e-invoicing applicability to client's supplier.
d. Improper stock maintenance resulting in some stock items in negative values after sales – leading to scramble for purchase records of such stock items.
e. Lack of follow-up from client to its supplier, especially for invoices yet to be mentioned in their GSTR 1.

ITC (or GST in general) in book keeping is a task requiring good knowledge of GST law, proper record keeping of source documents such as invoices, reconciliations with GSTR 2A/ 2B, RCM accounting and others. Unfortunately, data entry accountants may not be well versed with all these requirements. Proper education, training and guidance needs to be provided.

Thank you!