



# THEORETICAL INSIGHTS INTO ACCOUNTING AND RECORD-KEEPING REQUIREMENTS UNDER THE GOODS AND SERVICES TAX ACT IN INDIA

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## ABSTRACT

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*In India, the implementation of the Goods and Services Tax has an effect on a wide range of businesses. Goods and Services Tax reform eliminated India's major indirect taxes such as Excise, Service Tax, and VAT, among others. It has also led to a change in the system of finalisation of accounts. Accounting treatment of GST is simpler than that for the older regime, due to the lesser number of taxes to account for. However, institutions need to be wary of GST record-keeping and GST Accounting measures to maintain compliance. GST implementation will have profound and far-reaching effects on a company's operations, necessitating a complete overhaul of the company's business, finance, financial reporting, and accounting systems. As management teams continue to assess these changes, they will need to consider changes in financial reporting as well as indirect tax accounting. The purpose of this research is to discuss the various types of business transactions involving Goods and Services Tax and their accounting treatment in the books of accounts and their compliances. This article also examines some of the most significant GST accounting and compliance changes.*

**KEYWORDS:** GST, Accounting, Compliances, Accounts and records.

## 1. INTRODUCTION

The Goods and Services Tax was implemented across the country in July 2017. As a result, a huge number of indirect taxes, cess, and duties imposed by Central and State legislation were absorbed. Every firm is projected to be impacted by the consolidation of the majority of indirect taxes into a single tax. Under the Goods and Services Tax regime, firms will be required to make modifications to their accounting systems in terms of recognition, measurement, and disclosure. The steps include creating a chart of accounts and keeping books of accounts and records. Accounting is an ancient art. It aids in the maintenance of correct books of accounts and records for a specific business tax transaction. GST necessitated the modification of accounting and computer systems to fit the new tax structure. The books of accounts for GST should be kept in line with the stipulations of the GST statutes, as well as the requirements of Indian Accounting Standards. As a result, it has generated a broad scope

in which different entities interpret the provision in different ways, resulting in a significant variety in company accounting books.

The primary impact area following the implementation of GST will be the Chart of Accounts (COA) utilised for reporting. Previously, there were numerous indirect taxes, which resulted in a large number of tax-related general ledger (GL) codes in the COA used for financial reporting. In a GST regime, the new COA will be determined by the type of business, credit avancement rules, and place of supply, among other factors. However, developing the new COA would necessitate significant thought and planning; otherwise, this could have an influence on financial reporting. Management will essentially need to make significant accounting-related changes in their IT systems at the transaction level for all transactions involving tax GLs, including auto accounting entries created in ERPs. This will require a thorough

examination to guarantee that there are no financial issues.

There should be separate ledgers for monitoring liability, recovery, and interim recovery under GST; otherwise, it will be difficult. For example, if there is just one GST liability account, it will be difficult to reconcile the same and state separately for interstate, stock transfer, or reporting of purchases from unregistered taxpayers or advance received. Assessment in goods and services tax is primarily based on self-assessment by taxpayers. Every taxpayer is required to self-assess the tax owed and file a return for each tax period for which a return is due. Compliance is verified by the department through the examination of returns, audits, and investigations. As a result, rather than physical controls, compliance will be verified through documentary checks. This imposes certain obligations on the taxpayer in terms of keeping and maintaining accounts and records in accordance with GST provisions.

Every taxpayer who is registered under the Goods and Services Tax (GST) Law is required to keep all GST accounts and records in a timely and accurate manner. These records must be kept at the taxpayer's principal place of business.

Section 35 of the CGST Act of 2017, as well as Rules 56, 57, and 58 of the CGST Rules of 2017, provide that every registered person must keep and maintain all records at his principal place of business. Furthermore, regardless of whether he is a registered person or not, the owner or operator of the warehouse, godown, or any other place used for the storage of goods, as well as every transporter, is responsible for maintaining specified records. The section also authorises the Commissioner to notify a class of taxable persons to keep additional accounts or documents for the specified purpose, or to keep accounts in any other manner prescribed.

The goal of this research study is to look into accounting for Goods and Services Tax (GST). Refer to the Central Goods and Services Tax Act, 2017, State Goods and Services Tax Acts of the respective states, the Integrated Goods and Services Tax Act, 2017, the Central Goods and Services Tax Rules, 2017, and the State Goods and Services Tax Rules, 2017. Details of the GST provisions can be found in notifications and circulars issued by the Central Board of Indirect Taxes and Customs (CBIC) from time to time.

## 2. REVIEW OF LITERATURE

Dale Pinto (2002). The author investigated the implementation of the GST, which resulted in changes to accounting and computer systems that were required to accommodate the new tax. The changes have resulted in increased administrative and compliance costs for businesses across the economy.

Their research focused on simplified accounting measures implemented by the government on July 1, 2000, to assist businesses and result in lower compliance costs for GST accounting. The simplified accounting methods were created to save retail businesses time and paperwork. According to their research, the simplified accounting method has reduced the burden on taxpayers in terms of bookkeeping. Ravitch and Carl (2016) As a guide, researchers can use the theoretical framework to situate and contextualise formal theories in one's studies. This places their studies in a scholarly and academic context. Furthermore, the theoretical framework serves as the research's focal point and is linked to the research problem under consideration. K. P. Shashidharan (2017). The implementation of GST necessitated changes in financial accounting and reporting. The research article focused on some areas where financial accounting and reporting must change as a result of the transition to the GST framework. He also discussed the implications for the taxation structure, as well as the overall financial processes, accounting, and financial reporting of the business. Changes in taxation necessitate different treatment in accounts such as the Chart of Accounts (COA). "Currently, the chart of Accounts used for financial reporting contains a large number of tax-related general ledger (GL) codes." The new COA in the GST regime will be modified based on the type of business and the rules for availing services. Nurul Hoda and Nargish Bano (2017). Accounting Entries under GST Regime: A Descriptive Study" has discussed the various types of business transactions related to Goods and Services Tax and their accounting treatment in the books of accounts. The emphasis was on the accounting treatment of the various components of GST-related transactions. The comparison of the ledger account to be kept in an earlier tax system and under the goods and services tax regime. Santosh Kumar Tripathi (2018). has investigated accounting software for tracking goods and services tax that caters to the specific needs of various business organisations. Businesses can easily manage their accounts, inventory, finances, purchase, sales, taxation, payroll, and various processes using effective GST accounting software. The benefit of various accounting software related to Goods and Services Tax has been compared. How it aids in the smooth operation of the accounting books. It was also discovered that the GST compliance procedure must be completed solely through the online portal. Small and medium-sized businesses found it difficult because compliance costs had risen and many of them were unaware of the most recent technology. S Ramesh and K Arun Kumar (2020). An attempt has been made in their book to facilitate understanding of the various GST compliances. It addressed all aspects of accounting finalisation in one location. Its purpose was to provide general guidance to all stakeholders and assist them in resolving issues concerning their

compliances with the finalisation of accounts. This Handbook is comprehensive containing an analysis of the entire provisions under the law including notifications, circulars, etc. Rajendra Kumar et.al (2020) It was highlighted in their book that there was no common standard in relation to the maintenance of the books of accounts, regardless of the type of industry, nature of the product, size of the operations, and so on. This increased the burden of compliance and the costs of business maintenance. Through scrutiny and audits, the registered person's self-assessed tax returns should be corroborated with the books of accounts and other records. As a result, the registered person is required to keep accounts and records under the provisions of the GST Law, just as they are required under other laws. This book attempted to analyse the GST Law provisions pertaining to the maintenance of accounts and records.

### 3. RESEARCH OBJECTIVES

- To examine the accounting provisions of Goods and Services Tax (GST) laws.
- To study the accounts and record keeping practices of goods and services taxpayers.

### 4. RESEARCH METHODOLOGY

The research methodology of this study includes secondary data for achieving the above-stated objectives. For the accomplishment of the objectives analysis of provisions of Goods and Service Tax Laws.

### 5. DATA COLLECTION AND ANALYSIS

Content analysis is a research tool used to determine the accounting provision of Goods and Services Tax.

### 6. RESULTS AND DISCUSSION

After implementation of GST is the maintenance of proper accounts and records under the Act. It is pertinent to mention that, without proper maintenance of accounts and records, the taxable person may find several difficulties in filling periodical returns under the Act. Moreover, non-compliance on the part of a registered person may eventually result in a demand notice.

The maintenance of "Accounts and Records" is specifically covered under Chapter VIII, Sections 35 & 36 of CGST ACT, 2017 and Rules 56 to 58 of CGST Rules, 2017 made there under.

ACCOUNTS & RECORDS IN GST			
Sr. No	Section/ Rules	Issue	Requirements
1	Sec. 35(1) / Rule 56(7) & 56(16)	Place where records are to be kept.	The registration certificate specifies the principal place of business. Other records pertaining to additional places of business must be kept at such location.
2	Sec. 35(1) / Rule 56(7)	Manner of maintenance of records.	Either Manual or Electronic.
3	Sec 35 (1)	Which records are to be maintained.	a) "Manufacturing or production of goods, including related processes and operations." b) "Inward and outward supply of goods, services, or both, including transactions involving both inputs and outputs." c) "Management and maintenance of stock of goods, including inventory tracking and valuation." d) "Recording and utilization of input tax credit availed for offsetting against output tax liabilities." e) "Calculation, declaration, and payment of output tax payable and actual tax payments made." f) "Inclusion of any additional particulars as mandated by the relevant tax authorities."
4	Sec. 35(2) / Rule 58(1)	Who is required to keep records.	a. Registered person b. Owner or operator of warehouse or godwon. c. Every transporter whether registered or not.
5	Sec. 35(5)	Audit Report	Any registered person whose turnover exceeds the specified threshold during a fiscal year is required to undergo a mandatory audit of their accounts by either a chartered accountant or a cost accountant. Subsequently, the registered person must furnish a copy of the audited annual accounts, the reconciliation statement as per sub-section (2) of section 44, and any other relevant documents in the prescribed form and manner.
6	Sec.36	Period of Records to be maintained.	Maintain these records and documents for a period of 72 months beyond the due date for filing the annual return for the corresponding year.

7	Rule 56 (1)	Records to be maintained.	<p>a. Maintain a record of imported or exported goods or services</p> <p>b. Maintain an account of supplies subject to tax on reverse charges, accompanied by relevant documents, such as invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers, and refund vouchers.</p>
8	Rule 56(2)	Stock Account	Every registered person, excluding those paying tax under section 10, must maintain stock accounts for goods received and supplied. These accounts should encompass the opening balance, receipts, supplies, goods lost, stolen, destroyed, written off, or given as gifts or free samples. Additionally, the stock accounts should reflect the balance of stock, including raw materials, finished goods, scrap, and wastage.
9	Rule 56 (3)	Advances	Comprehensive details of advances received, advances paid, and any adjustments made to them are provided
10	Rule 56(4)	Details of Tax	A record of the following details for each tax period: the amount of tax to be paid as per section 9(3) and 9(4), the amount of tax collected and paid, the amount of input tax and input tax credit claimed, and the list of tax invoices, credit notes, debit notes, and delivery challans issued or received.
11	Rule 56(5)	Details of supplier/recipient of goods/services	He must record the full names and addresses of the following people: (a) the suppliers who provided him with taxable goods or services under the Act; (b) the recipients who received his taxable goods or services, as per this Chapter's rules.
12	Rule 56(5)	Details of Place of Storage	Must provide the full address of the place where he keeps his items, including those in transit, and the details of the inventory stored there.
13	Rule 56(8)	Whether record of can be erased or modified.	Except for clerical errors, all update or deletion in manual records and a log of every entry modified or deleted in electronic records must be attested.
14	Rule 56 (9)	Obligation in case of Manual records	The registered person must serially number each volume of manual books of account maintained
15	Rule 56(11)	Which documents are to be maintained by agents supplying goods/services	<p>a. The specific authority of each principal to accept or supply goods or services on their behalf must be recorded separately.</p> <p>b. Detailed particulars, including description, value, and quantity (where applicable), of goods or services received on behalf of each principal should be documented.</p> <p>c. Comprehensive particulars, including description, value, and quantity (where applicable), of goods or services supplied on behalf of each principal must be duly recorded.</p> <p>d. A detailed account of information furnished to each principal must be maintained.</p> <p>e. The tax paid on receipts or supply of goods or services on behalf of each principal should be clearly documented.</p>
16	Rule 56(12)	Manufacturers	Monthly production statements providing quantitative information on the utilization of raw materials or services in manufacturing, along with details of the commodities produced, including waste and byproducts.
17	Rule 56 (13)	Services provider.	Comprehensive quantitative data on the commodities utilized in the provision of services, along with details of the input services used and the services provided.
18	Rule 56(14)	Works contractor.	<p>a. The names and addresses of the beneficiaries for whom the works contract is executed;</p> <p>b. Detailed description, value, and quantity (where applicable) of goods or services received for the execution of works contracts;</p> <p>c. Comprehensive information on the description, value, and quantity (where applicable) of goods or services used in the execution of works contracts;</p> <p>d. Detailed records of payments received in relation to each works contract; and</p> <p>e. The names and addresses of the suppliers from whom payments are received.</p>
19	Rule 56 (15)	Electronic Records	A digital signature must be used to validate any electronic records that are kept.

20	Rule 57(1)	Whether I have to keep back-up of electronic records.	Appropriate electronic backups must be maintained to ensure that, in the event of data loss due to accidents or natural causes, the information can be recovered promptly within an acceptable timeframe.
21	Rule 58 (1)	Whether Owner of Godown & transporter require enrolment in GST.	Yes, by filing form GST ENR 01
22	Rule 58 (4)	Manner of maintenance of records by transporter/ Warehouse keeper.	(a) Any individual engaged in the transportation of goods is required to maintain records of items carried, delivered, and in transit, along with the Goods and Services Tax Identification Number of the registered consigner and consignee for each branch. (b) The proprietor or operator of a warehouse or godown must maintain books of account, encompassing the duration for which specific commodities remain in the warehouse. These records should include details related to the dispatch, transportation, receipt, and disposal of such goods.
24	Accounts/ Ledgers	How many ledgers are to be maintained for tax payment.	The following Ledgers are required: a. Liability ledger (reflecting liability on outward supply as well as tax payment under reverse charge) – Separately for CGST,SGST & IGST b. Credit Ledger (reflecting tax credits claimed) – Separately for CGST, SGST & IGST c. Cash Ledger (reflecting payments made and debited against liability) - Separately for CGST, SGST & IGST
25	Accounts/ Ledgers	Whether State-wise accounts are required.	Yes, since under GST Law, registration in each state is considered a different person, and returns must be filed individually. Even reconciliation statements must be filed at the state level.
26	Accounts/ Ledgers	How to create ledgers for payments under reverse charge.	a. Specified List: The GST Council has provided a specific list of supplies that shall attract reverse charge. Therefore, separate expense ledgers need to be maintained for each supply specified in the list. b. Receipt from unregistered suppliers: As per GST Law, a registered person has to pay GST under reverse charge for taxable supplies of goods/services received from unregistered persons if the value of supply per day exceeds Rs. 5000/-. Consequently, two sub-ledgers are to be maintained – one covering supplies not liable to tax (including supplies up to Rs. 5,000/- that do not attract GST) and the second covering supplies liable to tax, on which GST is payable under reverse charge mechanism (RCM).
27	Accounts/ Ledgers	Reversal of Input tax credits on account of non-payment within 180 days to supplier.	When Input Tax Credit (ITC) needs to be reversed due to non-payment to suppliers within 180 days, a new ledger should be created to record the reversed ITC. Once payment is made to the suppliers, re-credit of the reversed amount must be obtained and recorded in the ledger.

## 7. CONCLUSION

- ❑ Every registered person is required to maintain books of account at their principal place of business and also for any additional places of business specified in their certificate of registration. These books of account must include any electronically recorded data on electronic devices.
- ❑ Any entry made in registers, accounts, or documents should not be erased, effaced, or overwritten. All incorrect entries, except those of clerical nature, must be crossed out with attestation, and the correct entry should be recorded thereafter.
- ❑ For electronically maintained registers and documents, a log of every edited or deleted entry must be maintained. Additionally, each volume of manual books of account must be serially numbered.
- ❑ In the absence of evidence to the contrary, any papers, registers, or books of account belonging to a registered person found at premises other than those specified in the certificate of registration shall be deemed to be kept by the said registered person.
- ❑ Failure to maintain accurate and complete records of goods and/or services by the taxpayer will lead to accountability. Unaccounted goods and services will be considered as supplied by the taxpayer by the competent authority. The officer will then assess and calculate the tax due on such unaccounted goods and services. The taxpayer will be liable to pay the tax liability and the penalty charge resulting from such assessment.

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