

The businesses have to change the mindset, the way of accounting, the innovative way of doing accounting entries in the ERP systems to remain abreast of the continuous and dynamic changes in Gst rules/ Act. There have been more than 400 circulars/ notifications issued since July 2017 on advent of Gst era. Now, Gst has revolutionised and is not a tax reform but a business process reform and change of business process and adoption of technology helps the MSMEs to scale to new heights.

Notification no 49 wef 09.10.2019	120% of ITC in Gstr 2A
38 th Council Meeting	110% of ITC in Gstr 2A
Accounting Ledgers	Head Wise
Provisional ITC ledger	Provisional ITC
Final ITC ledger	Final ITC
Advantages of New accounting system	Essentials for Claiming ITC

Notification No. 49/2019-Central Tax sub-rule (4) has been inserted in Rule 36 in the Central Goods and Services Tax Rules, 2017 ("CGST Rules") which restricts the input tax credit ('ITC') in case of mis-match of invoices. The said Rule 36(4) is reproduced below:

"(4) Input tax credit to be availed by a registered person in respect of invoices or debit notes, the details of which have not been uploaded by the suppliers under sub-section (1) of section 37, shall not exceed 20 per cent. of the eligible credit available in respect of invoices or debit notes the details of which have been uploaded by the suppliers under sub-section (1) of section 37."

Thus, Rule 36(4) aims to limit the availment of ITC by the recipient in respect of invoices/debit notes, details of which have not been uploaded by the supplier in its FORM GSTR-1 filed under Section 37(1) of the CGST Act, 2017.

The provisions of Section 36(4) shall not apply to such cases - Sl. No. 1 of the Circular No. 123/42/2019-GST, dated 11-11-2019, which states that IGST paid on import, documents issued under RCM, credit received from ISD, etc., are outside the ambit of sub-section (1) of Section 37,

As per the 38th GST Council Meeting concluded on 18th December 2019, Gst dealers can now avail provisional ITC on invoices not reflecting on GSTR-2A only to the extent of 10% of ITC reflecting in GSTR-2A.

The Introduction of the Gst Rule 36(4) with respect to the matching of purchase invoices with Gstr 2A has become a cumbersome process for the team of accountants who need to verify the match or mismatch on real time basis. With the voluminous data flowing from

every nook and corner for the accountants, it's very difficult for the accounts team to keep track of the entries posted or entries missed in this scenario keeping in view the other human and external and internal factors which may have impact on the organisation's working or productivity.

Creation of Multiple Ledgers:

It is advisable to create ledgers for all - State GST, Central GST, Integrated GST, and even for tax levied on inter and intra state sales and imports. The ITC ledgers may be as follows:

ITC – SGST

ITC – CGST

ITC – IGST

ITC – GST CESS

Creation of Provisional ITC ledgers in case of Provisional ITC taken :

Interim / Suspense / Provisional ITC - SGST

Interim / Suspense / Provisional ITC - CGST

Interim / Suspense / Provisional ITC - IGST

Interim / Suspense / Provisional ITC - GST Cess

In the wake of newly introduced rule 36(4) with 10% restriction on itc (reflecting in Gstr 2A) wherein the itc would be given only when its reflected in respective 2A, accounting entries can be changed to keep track of itc taken in books vis a vis itc reflecting in 2A.

Where in the ITC as per purchase invoice matches with Gstr 2A implying seamless and unrestricted flow of ITC to the purchaser, the purchaser can take full and final ITC in his books of accounts.

But, now with advent of the new rule 36(4), the flow of ITC depends upon the same being reflected in Gstr 2A by the supplier, the purchaser can take provisional ITC first and on confirmation/ reflection of the same itc credit in his Gstr 2A, the purchaser can transfer the provisional itc as final itc in his books of accounts. The same is explained below :

The new accounting entry at the time of purchase or at the time of booking of expense should be

Inventory/ services/ expenses A/c Dr

Interim/ Suspense/ Provisional A/c - IGST Dr

Supplier A/c Cr

Creation of Final ITC ledger on matching :

The new accounting entry at the time of matching shall be

Input tax credit - IGST Dr

Interim/ suspense/ provisional A/c - IGST Cr

If out of Rs.100 provisional itc, only Rs.80 is transferred, the purchaser can easily track that Rs.20 is still pending to be shown by the supplier.

Advantages of the New Accounting System :

1. This process will have an option to track at the supplier invoice level and helps to monitor the suppliers who are not filing returns on time.
2. This new process also helps to keep track of the changes which are reflected dynamically in GSTR - 2A from time to time based on filing of returns by the supplier after the due date.
3. The purchaser can quantify the alert suppliers and the lazy suppliers distinguishing as to which supplier is prompt in transferring the itc smoothly which might result in increased businesses with them.

Essentials for claiming ITC :

Rule 69 of the Central Goods and Services Tax (CGST) Rules, 2017 requires following essentials to match the claim of input tax credit

GSTIN of the supplier

GSTIN of the recipient

Invoice or debit note number

Invoice or debit note date

Tax amount

Reasons for Differences in records :

There are reasons for the differences between the records of the seller and the buyer.

1. Wrong uploading of the invoice- wrong GSTIN of the supplier, date related or entry errors while uploading invoice or debit note number, invoice or debit note date, errors in tax amount.
2. Errors by the suppliers: Maybe in absence of a good ERP/Accounting system, the supplier might end up entering the wrong GSTIN number. There can be another factor that the supplier might have not filed tax or uploaded the tax invoice.
3. Invoice errors: Again, there could be mismatch due to data entry error of invoice or debit note number by the end of supplier in their ERP system or the books of accounts. The supplier can falter in invoice number or the tax amount too.
4. Human errors. Factor of time and luck
5. There can be time gap between receipt of goods and the generation of invoice- If the purchase is made on a certain day and the invoice is generated way later, for some reason. It may also happen that the supplier has issued invoice but not received by the recipient. Or the goods are still in transit or not yet shipped, then it will be required to reconcile the entries accordingly.

Conclusion :

To avoid the precious working capital the MSMEs have to change their business process based on the statutory requirements of GST and also adopt technology so that the entrepreneurs can concentrate on the business operations rather than the compliance and accounting work.

While every care has been taken to ensure the accuracy/ authenticity of the above, the readers are advised to recheck/ reconfirm the same from the original sources/ relevant departments. The company shall in no way be responsible for any loss or damage suffered to any person on account of the same. The views expressed are personal opinion, compilation and is no way, to be used for any legal opinion, matters