

Understanding Book Adjustments under GST

Let's take an example.

Business A sells goods worth Rs. 10 Lacs to Business B

Business B then sells goods worth Rs. 5 Lacs to Business A

Business A does not have to make any payment to Business B; however, Business B has to pay Rs. 5 Lacs to Business A. Business B pays the amount, and the rest is settled via Book adjustment.

But the Officer in the notice to B, mentions that Business B is not entitled to ITC as it has not made the payment of Rs. 5 Lacs in money. The Officer also mentions that payment via Book adjustment is not allowed.

How to respond to such a notice?

1. The payment of GST will have to be done through internet banking, it is mentioned in section 49. But there are no guidelines that restrict Businesses from making payments in forms other than the online mode / Banking mode.
2. Rule 19(8) of the West Bengal Value Added Tax Rules, 2005, specifically provided that credit of input tax would be available only if the payment was made by account payee cheque or account payee draft or through electronic banking clearance when such payment exceeded rupees twenty thousand in a day. However, in GST Regulatory Framework, we do not find any such restrictions, so Businesses can choose their preferred form of payment.

3. Book adjustments are allowed as a mode of settlement in Indian Accounting Standard 32.

Para 42 of Indian Accounting Standard 32 provides that a financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when, an entity (a) currently has a legally enforceable right to set off the recognized amounts, and (b) intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4. If we check the title of Rule 37, it specifies the phrase "consideration". Consideration is further defined in Section 2(31), which includes payment in a form other than money.

5. One of the best examples of this scenario is the Advance ruling of Senco Gold which is a case that discusses this exact scenario. Reading the judgement of the case tells us that Book adjustments are a valid mode of payment, and ITC in such cases is not disallowed.

The case will differ with each facts and circumstances and have to be discussed in light of new facts.