



Suggested Accounting entries for Input Tax Credit (ITC)

Important points to keep in mind for ITC Booking

Effective January 1, 2022, having tax invoice would not be sufficient to claim input credits. The date has been prescribed to make section 109 of Finance Act 2021 effective hence by adding clause (aa) after clause (a) of section 16 of CGST Act which is reproduced below:

Section 16

.....

(2) Notwithstanding anything contained in this section, no registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both to him unless,--

(a) he is in possession of a tax invoice or debit note issued by a supplier registered under this Act, or such other tax paying documents as may be prescribed;

(aa) the details of the invoice or debit note referred to in clause (a) has been furnished by the supplier in the statement of outward supplies and such details have been communicated to the recipient of such invoice or debit note in the manner specified under section 37.

Suggested Changes

Accordingly, all the businesses are advised to change their accounting, vendor payment and reconciliation method to incorporate controls to mitigate the risk of disallowed ITC without proper recovery from vendor. We, in this regard, suggest following changes:

1. Open two new ledgers “GST Retention Account” - Liability & “Deferred GST Input Account” - Asset
2. The method and timing of purchase and expenses booking will remain same and following entry to be passed:

»	Expense/Purchase A/c		Dr. XXXX
	GST Input A/c	Dr. XXXX	
	To Vendor A/c		XXXX
	To GST Retention A/c		XXXX

(The GST charged by the vendor will be parked to GST Retention a/c instead of crediting to Vendor A/c)

3. After the month end, once GSTR 1 filing date is over, prepare a reconciliation of ITC as per Books of Accounts and 2A.

4. After the reconciliation as suggested above is completed, post following entries in books of accounts:

» **For Matched inputs:**

GST Retention A/c Dr. XXXX
 To Vendor A/c XXXX

(For the matched input amount with the total amount matched with the respective vendors)

» **For unmatched inputs:**

Deferred Input GST A/c Dr. XXXX
 To GST Input A/c XXXX

(For the total unmatched amount)

» **For ITC subsequently reported by Vendor:**

GST Input A/c Dr. XXXX
 To Deferred Input GST A/c XXXX

(With the total matched ITC amount pertaining to earlier period)

GST Retention A/c Dr. XXXX
 To Vendor A/c XXXX

(With the total matched ITC amount pertaining to earlier period from respective vendors)

- 
5. For vendor, with whom, regular business is being done, it is suggested to make payments after holding sufficient amount to adjust from potential GST amount which may **not** be reported by them.
 6. For one off vendors, GST amount should be retained till the time ITC is matched from 2A.



About Us

Nucleus AAR Advisors LLP is a business consulting firm providing specialized services in the field of Investment Banking, Deal Transaction Advisory, Corporate Advisory, International Taxation, Audit & Assurance. We partner entrepreneurs in their critical decision making by providing them various analysis customized as per their requirement. We also help in the effective implementation of decisions and its subsequent monitoring as well.

Team Nucleus is comprised of people from Big4s and reputed consulting firms with combined experience of 30+ years.

Team is distinguished by their functional and technical expertise combined with their hands-on experience, thereby ensuring that our clients receive the most professional service.

For any queries, write to pkg@nucleusadvisors.in or hemendra@nucleusadvisors.in

Nucleus
ADVISORS

W : www.nucleusadvisors.in
E : info@nucleusadvisors.in

Click to Follow On

LinkedIn