GOODS AND SERVICE TAX

OLD REGIME OF INDIRECT TAXES

EXCISE DUTY

It was **levied on manufactured goods** and levied at the time of removal of goods.

VALUE ADDED TAX

It was levied on **intra-state (within the same state) purchase and sale** of goods at the time of sales.

CENTRAL SALES TAX

It was levied on **inter-state (one state to another state) purchase and sale of goods.**

IMPORT/EXPORT DUTY

It is levied on **imports into or exports** from India.

SERVICE TAX

Service tax is levied on **rendering of services**

MEANING OF GST

- GST was implemented in **India on 1 July 2017** after the Parliament passed the **Goods and Service Tax Act on 29 March 2017.**
- GST is a comprehensive indirect tax which is l**evied on Supply of goods or Services or both** which includes manufacturing, sale and consumption of both goods and services throughout India.
- In GST supply includes Supply of goods or services or both such as **sale, transfer, barter, exchange, licence, rental, lease or disposal**.

FEATURES OF G.S.T

GST IS A CONSUMPTION-BASED TAX: It is a tax based on consumption, meaning that the **tax liability arises in the state** where **goods and services are ultimately consumed**.

DUAL GST STRUCTURE: GST in India follows a dual model, meaning it is levied by **both the Central Government and the State Government**

FOUR-TIER TAX STRUCTURE IN G.S.T: GST introduced uniform tax rates across the country, reducing disparities in tax structures between states. GST has a 4-tier tax structure of **5%, 12%, 18%, and 28%**.

COMPREHENSIVE TAX BASE: GST subsumes various indirect taxes like **VAT, excise duty, service tax, octroi, and luxury tax** into a single tax system, simplifying tax compliance.

BROAD COVERAGE: GST applies to all goods and services except for alcohol for human consumption, petroleum products (like crude oil, petrol, diesel, natural gas, and ATF), and electricity, which are currently out of the GST purview.

INPUT TAX CREDIT

- It refers to the mechanism that **allows businesses to claim a credit for the taxes** paid on the inputs (purchases) used in the production or supply of goods and services.
- It means that the taxes paid while **purchasing inputs shall be allowed as credit** out of the taxes to be paid on supply of output.
- This **eliminates the cascading effect** of taxes and reduces the tax burden on businesses, enhancing their competitiveness.

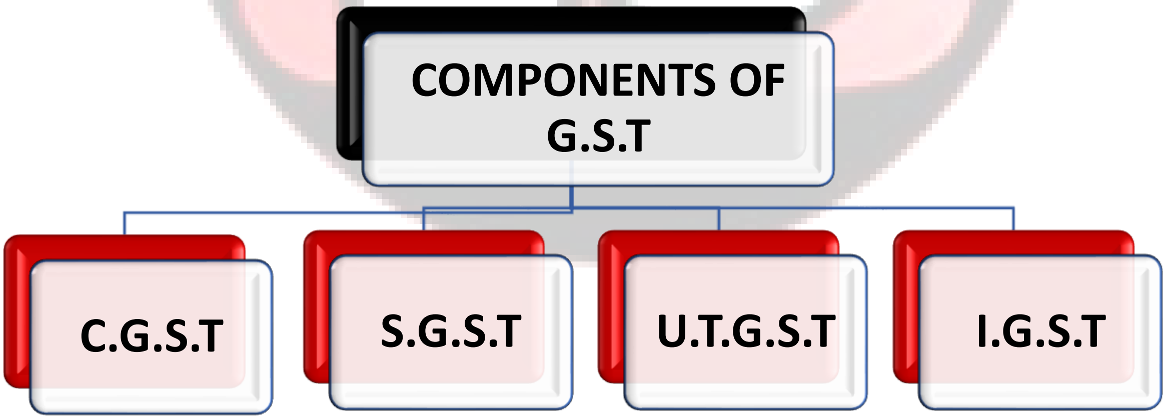
TAXABLE EVENT IN GST

- It refers to the **specific occurrence or transaction** that triggers the **imposition of a tax liability**.
- The taxable event in GST is the **supply of goods or services or both**. Note that the word used is 'supply' and not 'sale.

COMMON PORTAL GSTN

Goods and Services Network (GSTN) has been set up by the Government to establish a uniform interface for the tax payer and a common and shared IT infrastructure between the Centre and States.

COMPONENTS OF G.S.T



CENTRAL GOODS AND SERVICE TAX (C.G.S.T)

- Central GST is levied by the **Central Government**.

- Central GST is levied **under CGST Act, 2017**.
- Income from Central GST **collected by the Central Government**.
- Central GST is levied on **Intra State or Intra UT supply of goods and services**.

STATE GOODS AND SERVICE TAX (S.G.S.T)

- State GST is levied by the **State Government**.
- State GST is levied under **SGST Act, 2017**.
- Income from State GST **collected by the State Government**.
- State GST is levied on **Intra State supply of goods and services**.

UNION TERRITORY GOODS AND SERVICES TAX (U.T.G.S.T)

- UTGST is levied by the **Union territory Government**.
- UTGST is levied under **UTGST Act, 2017**.
- It is levied and collected by the **Central Government**, in addition to the Central GST (CGST).
- Revenue collected from UTGST **is shared between the Central Government and the Union Territory government**.
- UTGST is levied on **Intra UT supply of goods and services**.

INTEGRATED GOODS AND SERVICE TAX (I.G.S.T)

- Integrated GST is levied by the **Central Government**.
- Integrated GST is levied under the **IGST Act, 2017.**
- Integrated GST is levied on **Inter State or Inter UT supply of goods and service.**
- Income from IGST **collected by central government** and **apportioned between the centre and states** on the recommendations of the GST council.

GST COUNCIL

- It is the primary **decision-making body responsible** for making recommendations on **various GST-related matters**.
- These matters include determining which goods and services should be **taxed or exempted from GST**, **setting GST rates, and addressing other important issues.**
- The Chairman of the GST council is the **Union Finance Minister**, **who leads the discussions and decision-making processes** within the council.

- The council also includes the **Minister of State (Revenue) and State Finance Ministers**, who actively participate in discussions

LIABILITY TO PAY GST

SUPPLIER OF GOODS OR SERVICES

- The liability to pay Goods and Services Tax (GST) rests **primarily with the supplier of goods or services.**
- The supplier is responsible for **collecting GST from the recipient and remitting it to the tax authorities**.

REVERSE CHARGE MECHANISM (RCM)

- Under RCM, the recipient of goods or services becomes **liable to pay GST instead of the supplier.**
- This typically applies to specific supplies as notified by the government, such as **certain services, imports, or purchases from unregistered suppliers.**

E-COMMERCE OPERATORS

- In the case of **supplies made through an e-commerce platform**, the liability to pay GST may be shifted to the e-commerce operator.
- The operator is responsible for **collecting and remitting GST on behalf of the suppliers** who sell their goods or services through the platform.

TAX DEDUCTED AT SOURCE

Certain entities, such as government departments or specified categories of persons, are required to **deduct GST at the prescribed rate** when making payments to **suppliers/vendors above a specified threshold**

WHEN DOES LIABILITY TO PAY GST ARISE

Liability to pay arises at the time of supply of Goods and **at the time of supply of services.**

The time is generally the earliest of one of the three events

- Receiving payment
- Issuance of invoice
- Completion of supply

GST RETURNS

- It refers to the **periodic filing of information and details** related to a taxpayer's **business activities and transactions** for a specific period under the Goods and Services Tax (GST) system.
- It involves providing comprehensive information **about sales, purchases, input tax credit, and tax liabilit**y to the tax authorities.

REGISTRATION UNDER GST

Turnover-Based Registration: Businesses providing services with an annual aggregate turnover exceeding **₹20 lakh** (₹10 lakh for special category states) must register under GST . For goods suppliers, the threshold limit is **₹40 lakh** (₹20 lakh for special category states) in most states.

Mandatory Registration:

- Individuals making **inter-state taxable supplies**.
- Casual taxable persons and non-resident taxable persons.
- E-commerce operators (e.g., Flipkart, Amazon).
- Persons liable to deduct TDS under GST.
- Input Service Distributors (ISD).

- Agents supplying goods/services on behalf of another.
- Businesses providing **online information and database access** (OIDAR services).

Voluntary Registration: Businesses can voluntarily register under GST even if their turnover is below the prescribed limit to avail benefits like Input Tax Credit (ITC).

ADVANTAGES OF GST

Simplified Tax Structure

- GST replaces multiple indirect taxes, such as **excise duty, service tax, VAT, and others**, with a single **comprehensive tax**.
- It simplifies the **tax structure by eliminating the cascading effect** of taxes and reducing complexities for taxpayers.

Input Tax Credit

- GST allows for **input tax credit**, which means businesses can claim credit for the taxes paid on their purchases of goods or services.
- This **eliminates the cascading effect** of taxes and reduces the tax burden on businesses, enhancing their competitiveness.

Transparent tax system

- GST introduces a **robust and transparent tax system** with online processes and electronic filing.
- This helps in improving tax compliance as it becomes easier for businesses **to register, file returns, and make tax payments digitally**.

Broadening of Tax Base

GST expands the tax base by **bringing more businesses** into GST tax preview by **encouraging unregistered businesses to become part of the formal economy,** leading to increased tax revenues for the government.

Boost to the Economy

The simplified tax structure, **removal of tax barriers**, and increased compliance contribute to the **overall growth and development of the economy.**

Reduced Prices for Consumers

- GST aims to reduce the **tax burden on the end consumer** by **eliminating the cascading effect of taxes**.

- It is intended to bring down the overall tax incidence on goods and services, leading to lower prices and **increased affordability for consumers.**

GST PROVISIONS WITH RESPECT TO BANKS

The Banking sector plays an **important role in generating revenue** in our economy. It also plays an important role in the **financial life of a business.**

IMPACT OF GST ON BANKING SECTOR

No more centralized registration

Under GST banks will have to **register themselves separately for each state**. This puts an additional burden on the banks to comply with the filing of returns.

Assessment and Adjudication

- Under GST, the assessment has to be done by the **respective state regulators** under which the concerned branch is registered.

- This means that more than one adjudicating authority will be involved and there may be **different opinions on the same underlying issue.**

Actionable Claims

Prior to GST, actionable claims were **not included as a service under Service Tax**. However, **Under GST actionable claims are included** in the definition of supply of goods.

Inter-branch GST implications

- Before the introduction of the GST, banks were **not taxed on interstate transactions between two of their branches**.
- The same tax, though, is applied under GST on transactions involving a bank's two interstate branches.

Index Tax Credits (ITC)

Under GST, a **banking company or a financial institution** engaged in the supply of services through acceptance of deposits, granting loans or giving advances are allowed to **claim ITC under Section 17(4) of CGST Act, 2017.**

18% TAX BRACKET

GST on banking Transaction fees in financial services such as credit card payments, fund transfer, ATM transactions, processing fees on loans etc. is increased to **18% tax bracket in the GST regime**.

CASE STUDY ON GST

Swanky Shirts is a clothing manufacturer based in Punjab, India. They sell their shirts directly to consumers and to other businesses in bulk across India . Swanky Shirts' annual turnover is ₹ 18 lakhs.

Q: 1Swanky Shirts gives samples worth ₹10,000 for ₹5,000 to fashion vloggers for reviews. Does this transaction qualify as a supply under GST?

a) Yes, it qualifies as a supply

b) No, it does not qualify as a supply

c) It depends on the value of the shirts

d) It depends on the number of shirts distributed

Q: 2Swanky Shirts' annual turnover is ₹ 18 lakhs. Are they required to register for GST?

a) Yes, they are required to register for GST

b) No, they are not required to register for GST

c) It depends on the state they operate in

d) It depends on their profit margin

Q: 3Swanky Shirts receives a bulk order for shirts from a clothing store in Chennai and swanky shirts delivered order successfully How will this supply be treated under GST and is which tax is applicable ?

a) Central GST (CGST) only

b) State GST (SGST) only

c) Integrated GST (IGST)

d) Both CGST and SGST

Q: 4 At the end of the quarter, Swanky Shirts has paid total input tax is ₹ 20 lakhs and a total output tax liability is ₹ 25 lakhs. How will they determine their final GST liability for the quarter?

a) They will pay ₹5 lakhs to the government

b) They will not owe any GST for the quarter

c) They will receive a refund of ₹5 lakhs from the government

d) All of the above

Q: 5 Swanky Shirts receives a bulk order for shirts from a clothing store in Chennai and swanky shirts delivered

order successfully. In which state will GST be levied on these sales?

a) The state where Swanky Shirts is located

b) The state where the clothing store is located

c) Both the states where Swanky Shirts and the clothing store are located

d) GST is not applicable on inter-state sales

CASE STUDY ON REVERSE CHARGE MECHANISM

XYZ Enterprises, a registered manufacturing company specializing in automotive parts, regularly sources raw materials and components from various suppliers to meet its production requirements. Recently, they engaged in a transaction with an unregistered supplier, a small-scale metal fabrication workshop known as ABC Metalworks, for the supply of specialized alloy steel. XYZ Enterprises, being the registered manufacturing company, produced and sold finished automotive parts to a local unregistered automobile dealership.

Q: 1ABC Metalworks, a small-scale metal fabrication workshop, supplied specialized alloy steel to XYZ Enterprises for the production of automotive components. How this transaction is taxable under GST ?

a) ABC Metalworks charges GST to XYZ Enterprises on the supply of alloy steel.

b) XYZ Enterprises pays GST under the Reverse Charge Mechanism (RCM) for the supply of alloy steel by ABC Metalworks.

c) The transaction is exempt from GST as it involves a supply between unregistered suppliers.

d) All of the above

Q: 2XYZ Enterprises, being the registered manufacturing company, produced and sold finished automotive parts to

a local automobile dealership. How this transaction is taxable under GST?

a) XYZ Enterprises charges GST to the local automobile dealership on the sale of finished automotive parts and pays GST.

b) The local automobile dealership charges GST to XYZ Enterprises on the purchase of finished automotive parts.

c) The transaction is exempt from GST as it involves a sale by an unregistered supplier.

d) The local automobile dealership pays GST under the Reverse Charge Mechanism (RCM)

Q: 3XYZ Enterprises issues an invoice to local automobile dealership for the supply of finished automotive parts on July 28th, 2024. The delivery is completed on August 3rd, 2024, and payment is made on August 5th 2024. When does the liability to pay GST arise?

a) July 28th, 2024

b) August 3rd, 2024

c) August 5th, 2024

d) August 8th, 2024

Q: 1 How has the implementation of GST affected XYZ Bank's registration process?

a) XYZ Bank now enjoys centralized registration, reducing administrative burden.

b) XYZ Bank needs to register separately for each state, increasing compliance complexities.

c) GST has exempted XYZ Bank from registration requirements.

d) XYZ Bank no longer requires registration under GST.

Q: 2Which of the following entities is responsible for collecting and remitting GST on behalf of suppliers who sell goods or services through an e-commerce platform?

a) Supplier

b) Recipient

c) Input Service Distributor (ISD)

d) E-commerce operator

Q: 3What type of information is included in GST return filing?

a) Personal details of the taxpayer

b) Sales and purchase invoices only

c) Sales, purchases, input tax credit, and tax liability

d) Financial statements of the taxpayer

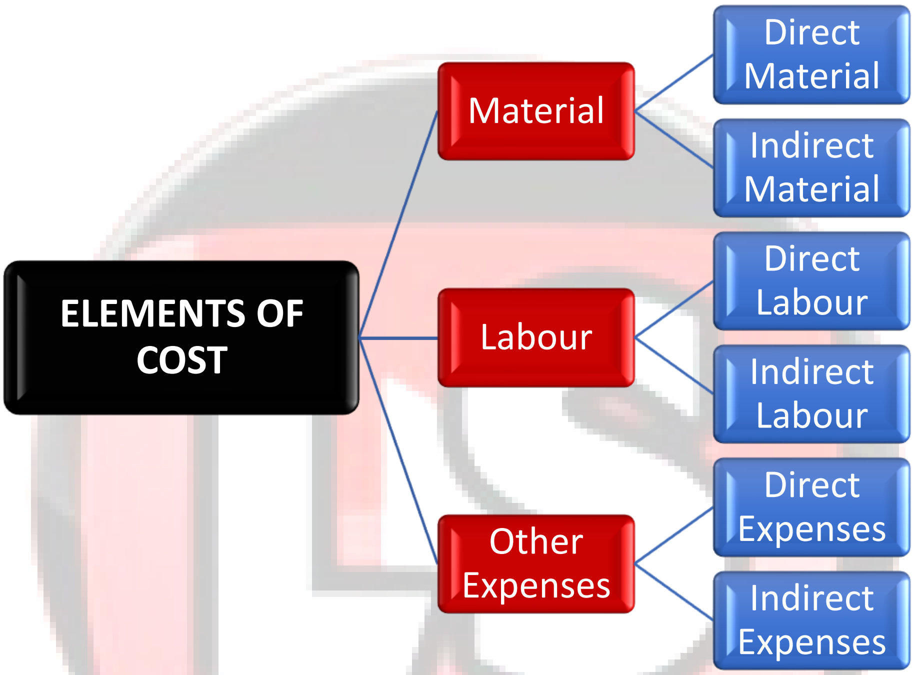
AN OVERVIEW OF COST & MANAGEMENT ACCOUNTING

COST

Cost is the **amount to be paid** for a good or service or the resources given in exchange for such good or service.

ELEMENTS OF COST

- It refers to the **different components or factors** that **make up the total cost** of a product, service, or project.
- These elements help in **analysing and understanding the cost structure** and determining the cost of production or provision.



MATERIAL COST

This element represents the **cost of the materials** used in the production process. It includes the cost of **raw materials, components, and any other material inputs required**.

Direct Materials

These are the materials that are **directly and visibly incorporated into the final product**. They can be easily traced and allocated to specific products or projects.

Example

Raw materials, Components, and Sub-assemblies used in manufacturing.

Indirect Materials

They are those materials that are **not directly incorporated into the final product** but are necessary for the production process. They are typically used in **maintenance, repair, and operating activities. Examples**

Lubricants, Cleaning supplies, Tools, and other consumables.

LABOUR COST

It refers to the cost of the human effort involved in the production process. It includes **wages, salaries, benefits, and other expenses** associated with the workforce.

Direct labour costs

- It refers to the expenses d**irectly associated with the employees** who are **directly involved in the production process** or the delivery of a service.
- These costs can be **easily traced and allocated** to a specific product, project, or service.

Indirect Labour Cost

It refers to the **expenses associated with employees** who provide support to the overall operations of an organization but **are not directly involved in the production process or service delivery**.

OTHER EXPENSE

In addition to direct and indirect labour costs, there are **other types of expenses that organizations** incur in their operations known as other expense.

Direct expenses

These are costs that can be directly **attributed to a specific product, project, or service.**

Indirect expense

These are costs that are **not directly attributable to a specific product, project, or service**. Instead, they are incurred for the overall functioning of the organization or to **support multiple cost objects**.

TYPES OF COST

Fixed Costs

These are expenses that d**o not change with the level of production or sales**. They remain constant over a specific period regardless of the volume of output.

Example

Rent, Salaries of permanent employees, Insurance premiums.

Variable Costs

These are expenses that **vary in direct proportion to the level of production or sales.** They increase or decrease as the volume of output changes.

Example

Cost of raw materials, Direct labour wages, packaging costs.

Semi-Variable Costs

Semi-variable costs, also known as mixed costs, **have both fixed and variable components**. They consist of a **fixed portion that remains constant** and a variable portion that varies with production or sales.

Example

A utility bill that includes a fixed monthly charge plus a variable charge based on usage.

Direct Costs

These are expenses that can be **directly traced to a specific product, service, or project.** They are incurred specifically **for that particular item.**

Example

Cost of raw materials used in manufacturing a product, wages of workers directly involved in production, and direct sales commissions.

Indirect Costs

These are expenses that are **not directly attributable to a specific product or service**. They are incurred to support overall operations and cannot be easily allocated to specific items.

Example

Rent for a factory building, administrative salaries, Maintenance costs.

Period Cost

These are expenses that are **not directly tied to the production or acquisition of goods**. They are incurred during a specific period and are expensed immediately.

Sunk Costs

They are costs that have a**lready been incurred and cannot be recovered**. They are **not relevant for future decision-making** since they are irreversible and should not influence current choices.

COST ACCOUNTING

- It is a branch of accounting that focuses on **analysing, recording, and reporting the costs incurred by a business.**
- Its primary purpose is to **provide management with relevant and accurate information** for decision-making, cost control, and performance evaluation.

OBJECTIVES

- To ascertain the Costs under **different situations using different techniques and systems of costing**.
- To determine the **selling prices under different circumstances.**
- To **determine and control efficiency** by setting standards for Materials, Labour, and Overheads
- To determine the **value of closing inventory for preparing financial statements** of the concern.
- It provides information for evaluating the performance **of various departments, products, or projects** within an organization.
- Cost accounting information is crucial for making strategic decisions. Whether it's **pricing decisions, make-or-buy analysis, product mix decisions.**

COST ACCOUNTANCY

It includes application of costing and cost accounting principles, methods, and techniques to the science, art and practice of cost control and the ascertainment of profitability.

MANAGEMENT ACCOUNTING

- It refers to the process of **analysing and providing financial and non-financial information to managers** within an organization to support decision-making, planning, and control.
- It focuses on providing **relevant and timely information to managers**, enabling them to make **informed decisions and achieve organizational objectives.**

OBJECTIVES

Planning and Forecasting

- It helps in setting **financial targets and formulating plans** to achieve them.

- It involves preparing **budgets, financial forecasts, and strategic plans** that guide the organization's activities and resource allocation.

Decision-making

- It provides managers with **accurate and relevant information to support decision-making.**
- This includes evaluating investment opportunities, analyzing costs and benefits, assessing the financial impact of different options, and identifying potential risks and uncertainties.

Performance Measurement

- It provides **tools and techniques** to measure and **evaluate the performance** of various organizational units, projects, or activities.
- Key performance indicators (KPIs) are developed to assess **financial and non-financial metrics**, enabling managers to monitor performance.

Cost Control and Cost Management

This involves **identifying and analyzing costs**, implementing cost reduction initiatives, and monitoring cost variances to **ensure efficient resource utilization and maximize profitability.**

Financial Reporting and Analysis

It involves **generating financial information**, such as **income statements, balance sheets, and cash flow statement**s, and providing insights into the financial performance and position of the organization.

Risk Management

- It assists in **identifying and managing risks** that may impact the organization's financial health and objectives.
- It involves assessing and quantifying risks, developing risk mitigation strategies, and monitoring risk exposure.

Tools and Techniques of Management Accounting

Budgeting

- Budgets are formal financial plans that outline an organization's expected **revenues, costs, and expenses over a specific period**.
- They help in setting **targets, allocating resources, and monitoring performance** against the budgeted figures.

Costing Methods

Different costing methods, such as **job costing, process costing, and activity-based costing,** are used to **allocate and trace costs to products, services, or processes.**

Variance Analysis

- **It compares the actual performance** of an organization with the **budgeted or standard performance**.
- It helps **identify and analyse** the **reasons for deviations** from the expected results, enabling management to take corrective actions.

Forecasting and Projections

This tool uses various techniques, such as **trend analysis, regression analysis, and time-series modelling**, to forecast future financial performance.

Capital Budgeting

This technique, such as **Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period**, are used to evaluate investment opportunities and determine the **financial feasibility of long-term projects or acquisitions.**