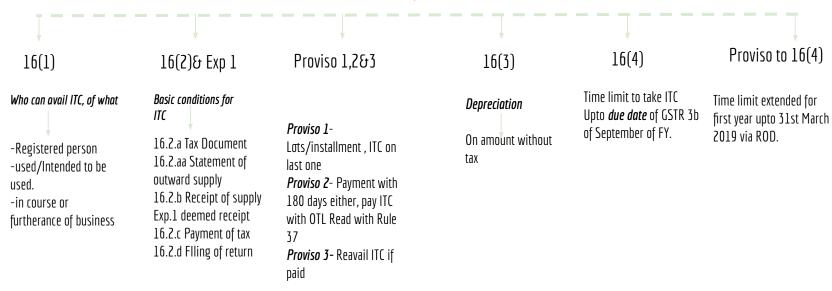


S.18 **S.21 S.17 S.19** S.20 S.16 Manner of recovery of Eligibility and conditions Apportionment of credit Availability of credit in special Manner of distribution Taking input tax credit in respect for taking input tax and blocked credits. circumstances. of credit by Input credit distributed in of inputs and capital goods sent Service Distributor. credit. Read with Rule 40 excess. for job work.





Section 16 of CGST Act



Section - 16(1)

Every registered person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in section 49, be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business and the said amount shall be credited to the electronic credit ledger of such person

Illustration:1

A is a manufacturer of plastic bottles and his cost is Rs. 80. He paid Rs.10 in form of tax on his purchases. Other expenses related to labour and the heads not liable for tax. He decides to keep a margin of Rs. 20 and sell it in Rs. 100.

As per the value added feature of Tax. He will collect tax on sale from the customer.

Amount collected= Rs. 100 of sale price and Rs. 18 of tax. At the time of payment he will be liable to deposit Rs. 18 to the account of the government. But he also paid tax of Rs. 10 on purchases which was deposited to the account of the government by his seller. So now Mr. A is required to pay Rs. 18 after adjustment of tax paid on purchase. His liability to pay via cash ledger is Rs. 18-Rs.10 = Rs. 8

This right to adjust the tax paid on purchase form the tax payable at the time of sales is called Input tax credit.



You create an asset at the time of purchase and use it at the time of sale.

Let us understand the journal entries of this transaction.

At the time of purchase.

PurchasesDr 100 CGST/SGST/IGST recoverable a/c ...Dr 10

To Vendor 110

We have created a recoverable with the tax paid at the time of purchase.

At the time of sale:

Customer.....Dr 118

To CGST /SGST/IGST payable 18
To sales 100

Now we can check that all ledgers are correct.



A liability to pay for purchase is there for Rs. 110. Vendor account will be paid by Bank/cash. Total cash burn is Rs. 110. Amount of tax recoverable as tax is Rs. 10. Value of purchase is Rs. 100.

In case of entry of sales: Customer will pay Rs. 118. Tax payable for this particular transaction is Rs. 18. Price charged for sales of the item is Rs. 100.

At the time of filing of return and adjustment of tax.

CGST/SGST/IGST PayableDr.	18	
To CGST /SGST/IGST recoverable		10
To cash Ledger		8

