

# INTRODUCTION TO GST

## VALUE OF SUPPLY-PART 1

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Welcome friends, in our today's session we will be discussing about value of supply under GST and how GST is levied on business transactions and how invoicing is done? We will also talk about e-way bill, and its importance under GST laws.

### Value of Supply, Levy of GST, & Invoicing & e-way bill under GST

So, friends, moving with first topic of the day, "value of supply".

GST-04/15/1-3

What is Transaction value in GST ?

- ✓ Transaction value is the total price paid or payable or charged for the supply of goods/services or both between un-related parties and
- ✓ price is the sole consideration
- ✓ GST is charged on the '**Transaction value**'

*For Example: If a manufacturer supplied a machine costing Rs. 100000/-. Also provide services of Installation and Training to staff for which he charged Rs. 25000/-. So transaction value shall be Rs. 1,25,000/-*

Value of supply, is nothing but the value of any product or service on which we levy GST.

Now question comes, how value of goods or services is to be determined? Because when you are manufacturing a product, you have various elements of cost included in that particular product. Major input for any product is its raw material.

For instance, if I am manufacturing yarn, I will buy raw cotton from the market and it will be processed in the factory to get yarn. So, yarn can be my final product. Or, if in case I am having an integrated plant of textile, I will go further with yarn to convert it into fabric. So and so on. So, whatever cost I will incur for getting fabric from cotton, it will be worked out in a cost sheet by adding all element of cost like raw material cost, labour cost, consumable cost, chemical cost, utilities like electricity, steam, mechanical engineering, electrical engineering costs, depreciation of machines, depreciation of building, overheads like security, and some other expenses incurred in the factory, like insurance, some administrative costs, so and so on. So, adding all these costs to the production, I get total cost of production. And when I divide this total cost with the units of production, I get cost per unit. So, that is the value of that particular product.

In GST, the value of product, the cost of production or the cost of product has its own value, because ultimately GST will be charged on the value of the product inclusive of my reasonable margin; because whenever I am doing business, I must have some profit on my investments, on my efforts, on my resources I used; otherwise, I will not do business or that the business will not be a viable venture.

The determination of value is very important aspect under GST. Wrongly calculated value, undervalued goods or overvalued goods always create problem under GST. Because if any company overvalued its product, it means they are paying more GST without having any reason. If on the other hand the company has undervalued its products, it means they are paying less GST and the government department may not accept it because then you are paying less GST. So, scientifically and logically, we have to work out cost of a product and only then if we pay GST, there will be no dispute at all.

So, apart from the value of the product or value of the goods, there is another concept that is transaction value in GST. What is transaction value? If you go by the law provision, it says 'transaction value is the total price'. Transaction value is the total price paid or payable or charged for supply of goods or services or both between unrelated parties.

So, friends, whenever we are buying anything in the market, when we are selling anything in the market, we charge something for that. So, if I am selling a product, I am charging for that and whatever amount I will charge from my buyer is a transaction value. So, apart from cost of production, what we have incurred to produce that particular product, if I have incurred some other expenses over and above production costs, may be marketing, may be logistic, may be transferring, may be shipping, may be

insurance, may be transportation, etc., may be commission or brokerage, all put together is my total cost when I am selling this product to my customer.

So, in that situation, whatever amount I will charge from my customer is a transaction value. So, we can say that transaction value is the final value of the product on which GST is supposed to be paid. So, here the condition is that whenever you are selling in an independent market, both the parties, buyer and the seller should be unrelated parties, i.e. they both should be independent; and some amount should be charged to the product I sold/supplied to the buyer. Accordingly, GST will be charged on transaction value. Whatever amount I have charged to my buyer is a transaction value which is over and above the cost of the product I manufacture.

For example, where a manufacturer supplies a machine costing one lakh rupees and also provides services of installation and commissioning of the machine, supplying a machine is separate issue, but putting it into production is another issue. Means I have a contract with the buyer that I will not only supply the machine, but will also give the machine in running condition. Means I will give the customer demo also. But for that I charge extra, because for it my engineer's team will visit the buyer's site, will get the machine installed at the place earmarked by the buyer, run the machine and will even bring production out of that machine for a particular period of time. And for all these efforts, I will charge 25,000 rupees. i.e. the 25,000 rupees which I have charged is for supply of machine and its commissioning. So, putting together whatever total amount I have charged from customer, i.e. 1,25,000 rupees is the transaction value and it is subject to GST.

So, the total amount 1,25,000 is subject to GST. This way we charge GST under GST laws and value is determined for a product. So, value of a product means cost of production and also the transaction value whatever amount you are charging from your customer are equally important under GST and we must understand that concept. Because if any product is having GST at the rate of 12 percent or 18 percent or 28 percent, with the help of this rate we will calculate the GST payment. And the value on which the GST is payable should be accurate otherwise tomorrow department will say that your products are undervalued and you are paying less GST. Or maybe some auditor comes to your company and may say that you are having overvalued products. i.e. your actual cost should be around 100 rupees but you are showing that your product cost is 102. So, you have overvalued your products, you are wasting your resources and unnecessarily paying more GST.

So, your value of a product should be determined in such a way that there should not be any chance of mistake and it should be calculated in a formal way by adopting formal costing principles and costing records as prescribed in India by the Institute of Cost Accountants of India. By having these things in line, definitely your value of the product will not be under a question mark and tomorrow you will not be in a litigation with the department.

## How to determine Transaction Value?

### **Transaction Value includes:-**

- ✓ Price Charged plus
- ✓ Any taxes, duties, cess, fees, and charges levied under any act, other than GST.
- ✓ Any amount paid or spent by the recipient instead of supplier but was suppose to be paid by supplier,
- ✓ Commission, brokerage, freight, insurance, packing etc etc if charged separately,
- ✓ Any other amount paid by recipient which was suppose to be paid by supplier for such supplies
- ✓ Any interest, fine and penalty on late payments

So, friends, I told you, how we will work out the transaction value, which is the final cost, final price that you charge to your customer. And it is price charge means actual price that we have charged based on our costing. That is X factory price.

Then any taxes, duties, cess, fees, charges levied under any act. The point here is "any act", that means any act other than the GST Act. So, under GST, no doubt we will charge on the product value, but apart from GST, there may be some other tax you may charge on that particular product, because of some state government's policy. It happens so many times, that taxes other than GST are also part of your transaction value.

Further, 'any amount paid or spent by recipient'. Recipient here means buyer who is receiving the goods. So, any amount which is paid or spent by recipient instead of supplier, such that it was actually supposed to be paid by the supplier. It happens many times in the transactions under business. Though some sort of expenses, some sort of activity is actually in the scope of supplier as per the terms of the purchase order or the terms of the contract. These things were supposed to be done by supplier. But considering the time constraint or considering the convenience of the parties, buyer himself does that activity. If that is the case, it means the amount or the activity which was supposed to be done by the supplier is done by buyer. i.e. for that, the buyer has paid. But for GST purposes, for transaction value we will add that amount to our product cost because it was actually in the scope of supplier, but for the convenience of the party it is done by the buyer; so that also becomes subject to transaction value and subject to further payment of GST.

Moving further any commission brokerage freight insurance packing etc. if charged by supplier Because whenever you are giving any price of your product to the buyer, it includes everything. But sometimes

there is a condition in the law or in the contract you have signed with buyer, that the product needs some special packing or some special commission is given. In such situations, that commission, that freight, that packing is also part of your transaction value, which is over and above the total cost of the product.

Any other amount? See, nowadays business transactions are very complex. So, you never know where something extra is to be done for the buyer or by the seller. So, if you are anchoring anything over and above your actual cost of your product, that cost will be part of the transaction value and GST will be paid accordingly.

Lastly friends, any interest, fine and penalty on late payments. So generally, when we sell our product to our customer, we also decide payment terms. We may give 15 days' credit, we may give 30 days' credit, we may even give 3 months credit. So if payment is made well in time, there is no issue. But if payment is delayed from the agreed time, definitely we will charge some late fee or interest on the late payment. So, if it happens, then definitely that amount what you have charged on account of delayed payments is also part of your transaction value. So, on that also you are supposed to pay GST.

So, transaction value is important from GST point of view because whatever amount, whatever expenses we incur after production of goods, we will add to the cost of the product, keeping some margin for us and then charge GST on that value. So friends, keep this thing in mind whenever you are dealing with GST cases, whenever you are supplying your goods, whenever you are raising your invoice that amount should not be less than transaction value. Because when audit will start or when an investigation will be conducted by the department, they will search each and every document and they will try to coordinate everything and will prove that your product is undervalued and you have paid less tax. So, these things are very, very important as far as GST is concerned.

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While calculating the Transaction value how to treat discounts under GST regime ?

- ✓Discount allowed before or at the time of supply through Purchase Order and/or Invoice is allowed to be deducted for transaction value,
- ✓Discount given or allowed or announced after supply will not be allowed to be deducted from transaction value.

**So any year end discount for performance or target achievement must be declared before supplies took place.**

***ITC as attributed to discount must be reversed by the recipient to reduce out ward liability of supplier.***

Wherefore, while calculating transaction value, how to treat discounts under GST regime is a very, very important and relevant question. When I told you that cost of product plus other expenses incurred after production are part of cost of goods, that is transaction value. But at the same time, we all know that business communities offer discounts to their agents, to their customers, and if discounts are given (which is normal practice in business) then what will happen to transaction value or to the cost of goods.

So, there is a provision under the law. Section 15 of CGST Act (you must read that section), deals with the valuation of the products under GST. So, solution is given under the law and law says "Discount allowed before or at the time of supply". So point is important over here that if you have announced discount before supply of goods, discount allowed before or at the time of supply through purchase order or invoice is allowed to be deducted from transaction value.

So it's very clear that if you want to give a discount to parties, maybe to your potential customers to have a long business relationship, you have to declare your discount policy well before supply of material actually. So if you have proper policy for your discounts for particular customers, you have to declare it in advance before raising invoice, before supplying goods and if you have done so then whatever discount you have declared that much of amount can be deducted from transaction value so we give discounts for many reasons; sometimes because of quantity lifted by the buyer, sometimes because buyer is giving me immediate cash after delivery, sometimes because of some overproduction in the factory or sometimes maybe because of festivals and all.

So, friends discounts are allowed under GST and GST law says from transaction value you can reduce your discounts but for that you must have clear cut and advance policy of discounts. If you declare discount after supply of goods, it will not be allowed. Once goods have been supplied, bill has already been raised and sent to the party/buyer; and later on, if you decide to give a discount, that will not be allowed. Though you can give discount to the party, though you can have less amount from the party on account of after deducting discount, but in GST, the GST will be charged on the original value which is derived without adjusting discount.

So, if you have supplied some material worth 100 rupees, and 18% GST is applicable, so your transaction value is 100 rupees, your GST is 18%, your invoice value is 118 rupees. Such material is supplied and consumed by the party also. Material is supplied and consumed by the party also. After some time, if you realize or if the buyer party pursues you for discount; for some or the other reasons, if you allowed party 2 rupees discount, in books of accounts, you may fix your sale at 98 rupees after giving 2 rupees discount. Your sale in your books of accounts can be 98 rupees, but as far as GST is concerned, your turnover is 100 rupees only and you are supposed to pay GST on 100 rupees only, not on 98 rupees. So, keep this thing in mind, it is very important. Because whenever you are having discount policies, announce them well in time. Otherwise, the benefit will not be given to you. Further, discount given, allowed or announced after supply will not be allowed deduction under transaction

value. This has been already and very clearly studied. So, any year-end discounts for performance or target achievements must be declared before supply took place.

So, friends, there are industries like cement industry and so, they have practices of giving discount on regular basis, but their pattern of discount depends on the business performance of the year. For instance, in financial year 2024-25, if we have a policy, then it must be declared well in advance in the month of April 2024, such that, in the financial year 2024-25, if any buyer/dealer purchases 5000 metric ton of cement or above, till the end of March 2025, such buyer shall be eligible to get a 2% discount. So how the quantity of 5000 will be determined? It will be determined only in March 25. When whole year quantity will be added, only then we will come to know that 5000 is lifted or not. So, only after March 25 means in April 25, we will be able to give a discount to the eligible parties. So, we supplied in the month of April 2024, we supplied in the month of June 2024, we supplied in July 2024, August 2024; at that point of time, we didn't reduce our invoice value. We charged full amount to the party. But on 31st March, 2025, we came to know that this party has done good business of 5000 metric tonnes plus. So, he is eligible for 2% discount. Then friends, during April 2025, after calculating total quantity lifted by the party, we will offer 2% discount. And we will reduce our turnover accordingly for the year 2024-25 and will adjust our GST payment accordingly.

So, if we have paid excess GST, it will be reduced. There are provisions under law and it is allowed. So, in case of year-end performance-based discounts declared earlier in advance before supply of goods, you can take the benefit and you can adjust such discounts in your turnover and you can pay less GST. But once supply is made but discount was not declared you are not entitled. So, friends whenever discount is allowed under GST or discount is not allowed under GST, it impacts my ITC. These aspects, as to how it impacts ITC, shall be covered in the later topics on ITC.