

Inventory Accounting Entries

All the Inventory transactions will look for the valuation class and the corresponding G.L. Accounts and post the values in the G.L accounts.

For Example: during Goods Receipt

Stock Account - Dr
G/R I/R Account - Cr
Freight Clearing account - Cr
Other expenses payable - Cr

During Invoice Verification

G/R I/R Account - Dr
Vendor - Cr

When the Goods are issued to the Production Order the following transactions takes place:

Consumption of Raw Materials - Dr
Stock A/c - Cr

When the Goods are received from the Production Order the following transactions takes place:

Inventory A/c - Dr
Cost of Goods Produced - Cr
Price difference - Dr/Cr
(depending on the difference between standard cost and actual cost)

When the Goods are dispatched to customer through delivery the following transactions takes place:

Cost of Goods Sold - Dr
Inventory A/c - Cr

When the Goods are issued to a Cost Center or charged off against expenses the following transactions takes place:

Repairs and Maintenance - Dr
Inventory A/c - Cr

When the Goods are stock transferred from one plant to another, the following transactions takes place:

Stock A/c - Dr (Receiving location)
Stock A/c - Cr (Sending location)
Price difference - Dr/Cr
(due to any difference between the standard costs between the two locations)

When the stocks are revalued, the following transactions takes place:

Stock A/c - Dr/Cr
Inventory Revaluation A/c - Cr / Dr

When the Work in Progress is calculated the following transaction takes place:

Work in Progress A/c - Dr
Change WIP A/c - Cr

Physical verification /shortages and excesses: Shortages/excesses on authorizations shall be adjusted using the physical inventory count transaction.

Sales and Distribution Accounting Entries

INVOICE GENERATION

Invoices will be generated at the Smelters and stock points. The accounting entries for the sale of goods despatched will flow from the Sales invoice generated in SAP Sales and Distribution module.

The following entries shall be passed

Customer Account	Dr	
Revenue		Cr
Excise Duty Payable		Cr
Sales Tax Payable (local or central)		Cr

Note: As mentioned above in the FI document, which is created in the background, the SD invoice number shall be captured. However as per the current accounting procedure the accounting entry passed is as follows :-

Customer Account	Dr	
Revenue		Cr
Excise Duty Billed		Cr
Sales Tax Payable (local or central)		Cr
Excise duty paid a/c	Dr	
Excise duty payable a/c		Cr

EXPORT SALES

There have been very few export transactions in the past. SAP system will be designed to handle export business. Exports are mainly from the mines and will be handled at the mines; however the documentation part will be taken care at the Head Office.

The accounting entry is:

Customer Account	Dr	
Revenue (Exports)		Cr

The realization of export sales will be directly credited to the bank. The accounting entries will be as follow:

Bank	Dr	
Customer		Cr
Exchange Fluctuation	Dr/ Cr	

The accounting entries will be:

Rebates/Discounts	Dr	
Customer		Cr

DEBIT MEMOS

Debit Memos shall be issued in case of price difference, sale tax difference and interest on usance period and overdue payments.

The accounting entries for two possible scenarios are as follows:

Price Undercharged:		
Customer Account	Dr.	
Revenue		Cr.
Sales tax payable		Cr.
Sales tax undercharged		
Customer Account	Dr.	
Sales tax adjustment		Cr.

Interest on delayed payments/usance period and other charges

Customer Account	Dr.	
Interest Others		Cr.

In case of HZL a complete retirement or a partial retirement of asset is done. The system uses the asset retirement date to determine the amount to be charged off for each depreciation area. The existing accounting policy is to provide depreciation for the full quarter in which the asset is sold/discarded, recommended that the depreciation be provided from the date of acquisition on prorata basis.

Accounting entry for sale of Asset to customers:

Customer Account	Dr	
Asset Sale		Cr

Accumulated Depreciation	Dr	
Loss on Sale (if applicable)	Dr	
Asset Sale account	Dr	
Asset account		Cr
Profit on sale (if applicable)		Cr

Note: In case of any Sales Tax /Excise duty applicable for this transaction, SAP will calculate the Sales Tax/Excise Duty based on the Tax Code selected the entry is posted to the GL Account (Sales Tax Payable)

Accounting entry for sale without a customer:

Accumulated Depreciation	Dr	
Loss on Sale (if applicable)	Dr	
Asset Sale account	Dr	
Asset account		Cr
Profit on sale (if applicable)		Cr

Accounting entry for scrap

Accumulated Depreciation	Dr	
Loss on Sale of Assets	Dr	
Asset account		Cr

SALE OF SCRAP

The sale of scrap (non-stock) shall be mapped as a direct manual FI entry. The customer will be created as a FI customer. No Logistics module will be involved in the process.

A FI Invoice will be prepared for the sale of scrap with the following entries:

Customer	Dr	
Sale of Scrap		Cr
Excise Duty Payable		Cr

ADVANCES FROM CUSTOMERS

Advances are received from the customers against delivery. These advances will be recorded in a special general ledger account. The accounting entry for the same will be:

Bank Account	Dr	
Advance Customer Payments		Cr

These advances will be later on adjusted against the invoices raised on the customers. Advances can be adjusted against more than one invoice at the time of clearing of the invoices against advances.

Adjustment of Advances		
Customer Account		Cr
Advance Customer Payments	Dr	

A financial document would be created for each Bank Guarantee received and this document number will be referred to in the Sales Order which would then monitor the value and the validity of the of the Bank Guarantee instrument wise while doing the billing. The letter of credit /Bank guarantee given will be recorded as a noted item.

Accounting Entry for Goods receipt

Stock/Inventory account	Dr	
GR/IR account		Cr
Freight clearing account		Cr

Accounting Entry on invoice verification of supplier

GR/IR	Dr	
Vendor account		Cr

Accounting Entry on invoice verification of freight vendor

Freight clearing account	Dr	
Freight Vendor account		Cr

GOODS RECEIPT

Based on the Purchase order and the Quantity actually received Goods Receipts (GR) will be done. Based on the GR done the following accounting entry will be passed in the Financial Accounts

RM/PM Stock Account	Dr	
GR/IR Account		Cr
Freight Clearing Account		Cr

EXCISE INVOICE VERIFICATION

On receipt of the excise invoice cum gate pass the following entry will be passed

RG 23 A / RG 23 C Part 2 Account	Dr	
Cenvat Clearing Account		Cr

Vendor Invoice Verification Accounting Entries

VENDOR INVOICE VERIFICATION

The detail process related to invoice verification is documented in Materials Management Document.

On receipt of vendor bill the following entry will be passed:

GR/IR Account	DR
Freight Clearing Account	DR
Cenvat Clearing Account	DR
Vendor Account	CR

Invoice Verification for Foreign Vendor

On receipt of vendor bill the following entry will be passed:

GR/IR Account DR
Vendor Account CR

Invoice Verification for Custom vendor

On receipt of Vendor bill the following entry will be passed:

- 1) RG 23A/RG 23C Part 2 A/c (CVD) A/c DR
 Cenvat Clearing A/c CR
- 2) G/R I/R A/c DR
 Cenvat Clearing A/c DR
 Vendor A/c CR
- 3) Cost of Material A/c DR
 Vendor A/c (Customs) CR

Invoice Verification for Freight / Clearing Agent

Cost of Material A/c DR
Vendor A/c (Clearing Agent) CR

Invoice Verification for Octroi Expenses

Cost of Material DR
Vendor A/c (Octroi) CR

TDS (Work Contract Tax) for Service Orders shall be calculated and deducted accordingly.

The following entry will be passed on bill passing:

Expenses Account DR
Vendor Account CR
TDS Account CR

The material shall be returned to the vendor using the
Return to vendor movement type in SAP
Creating a Return PO

These transactions will be processed in the MM module.
The accounting entries will be :

Returns after GRN
GR/IR A/c Dr
Stock A/c Cr

The accounting in respect of debit / credit memos for FI vendors, the process will be similar to that of invoice processing. The accounting entries will be:

On issue of debit note

Vendor Account DR
Expenses Account CR

In respect of import vendor - capital goods exchange differences are to be accounted manually through a Journal Voucher for capitalization. Exchange rate differences will be accounted at HO. An example of the accounting entry in this case shall be:
Invoice entry @ 40 INR: 1 USD

Asset / Expense A/c DR 100
Vendor A/c CR 100

Payment Entry @ 41 INR: 1 USD
Vendor A/c DR 100
Bank A/c CR 110
Exchange rate loss Capital A/c DR 10

Asset A/c DR 10
Exchange rate loss Capital A/c CR 10

A new G/L account shall be created for the special G/L transactions. The accounting entry for making the down payment shall be:
Advance to supplier account Debit
Bank A/c Credit

When the invoice is booked the following entry is passed
GR/IR account Debit
Vendor account Credit
Clearing of Invoice against Down Payment
Vendor A/c Debit
Vendor down payment account Credit

Wherever, TDS is applicable, the TDS will be deducted at the time of down-payment to the vendor.
Down Payment for Capital (tangible) Assets

Down payment to vendors for capital acquisitions is to be reported separately in the Balance Sheet under the head Capital Work in Progress. Hence down payment for capital goods would be tracked through a separate special general ledger indicator.

The procedure to be followed is:
Definition of alternative reconciliation accounts for Accounts Payable for posting down payments made for Capital assets
Clearing the down payment in Accounts Payable with the closing invoice.

A new G/L account shall be created for the special G/L transactions.
The accounting entry for making the down payment shall be:

Vendor Advance for Capital Goods Account Debit
Bank A/c Credit
When the invoice is booked the following entry is passed
Asset A/c / Asset WIP Debit
Vendor A/c Credit
Clearing of Invoice against Down Payment
Vendor A/c Debit
Vendor Advance for Capital Goods Account Credit

The Following are the TDS Rates (to be confirmed with the recent changes)

Particulars	Tax Rate	Surcharge Rate	Total
Contractors – 194 C	2%	5%	2.10%
Advertising – 194 C	1%	5%	1.05%
Prof. Fees – 194 J	5%	5%	5.25%
Rent – Others – 194 I	15%	5%	15.75%
Rent – Company – 194 I	20%	5%	21%
Commission – 194H	5%	5%	5.25%
Interest - Others – 194 A	10%	5%	10.50%
Interest – Company – 194 A	20%	5%	21%
Special Concessional Tax			
Works Contract Tax			

SECURITY DEPOSITS /EARNEST MONEY DEPOSIT RECEIVED FROM VENDORS

Bank A/c DR
Security Deposit Vendor CR

EMD to give the age so as to enable the same to be transferred to unclaimed EMD account.

PAYMENT OF TOUR ADVANCE DOMESTIC TOURS

Employee Advances will be paid by the Accounts Department unit wise based on the requisition or recommendation of the respective departmental head.

Employee Travel Advance A/c DR
Cash / Bank Account CR