



WHITE PAPER

Job Work Without the Headache: GST-Compliant Subcontracting in ERPNext for Indian Manufacturers

How ERPNext models the supply-process-receive flow — and where India's GST job-work rules (challans, ITC-04) actually fit.

For manufacturing & operations leaders · 9 min read

EXECUTIVE SUMMARY

Almost every Indian manufacturer sends work out — cloth to a dyeing unit, castings to a machine shop, tablets to a coating vendor. On paper it's simple: send raw material, get finished goods back. In practice it's where inventory goes dark, valuation drifts, and GST job-work compliance quietly breaks. This paper explains how ERPNext's subcontracting module actually models that flow — the Subcontracting Order, the raw materials you supply, the Subcontracting Receipt, and how the finished good's cost is built from raw material plus the job-work service charge. It then draws the line honestly: core ERPNext runs the operational workflow, while India's GST-specific job-work paperwork — delivery challans and the ITC-04 return — is handled by the separate India Compliance app. The goal is to help you see what the software does for you, what still needs discipline, and where an experienced partner earns their keep.

The job-work problem Indian manufacturers actually have

Subcontracting — job work, in GST language — is the norm across Indian manufacturing, not the exception. A textile mill sends grey fabric out for dyeing and printing. A pharma company sends bulk product for coating, blistering or packing. An engineering firm sends castings out for machining, plating or heat treatment. In each case, material physically leaves your premises, is worked on by someone else, and comes back changed.

The pain is rarely the vendor relationship — it's the visibility. Once stock leaves the gate, spreadsheets stop telling the truth. How much yarn is lying at the dyer right now? Was the wastage normal or excessive? What did this finished lot actually cost once you add the job-work charge and freight? And, in India, a second problem sits on top of the first: goods sent for job work move on a delivery challan, not a sale, must return within the time limits the GST law sets, and have to be reported in the ITC-04 return. Miss that, and material you never sold can be treated as a supply you owe tax on.

Most of this goes wrong not because anyone is careless, but because the operational flow and the compliance flow are tracked in different places — or not tracked at all.

- Textiles — grey fabric, yarn and garments sent out for dyeing, printing, embroidery, stitching and finishing.
- Pharma — bulk drug sent for coating, granulation, blistering, labelling and secondary packing.
- Engineering & auto components — castings and blanks sent for machining, plating, painting and heat treatment.
- The common thread: your material, someone else's premises, and a legal duty to bring it back and account for it.

How ERPNext models subcontracting

ERPNext treats subcontracting as a first-class flow, not a workaround. It starts from a purchase order marked as subcontracted, which generates a Subcontracting Order — the document that says "I'm paying this supplier a service charge to turn my raw materials into a finished good." The link between the finished good and the work is defined by a Subcontracting BOM, which maps each finished good to

its service item and to the bill of materials that lists the raw materials the job consumes.

From there the order carries three things at once: the finished goods you expect back, the service (the job-work charge you'll pay), and the supplied items — the raw materials to be issued, exploded from the BOM. ERPNext moves the order through clear statuses — Draft, Open, Material Transferred (or Partially Transferred), Partially Received, Completed — so at any moment you know whether material has gone out and how much has come back. This is the operational backbone; the compliance layer sits on top of it, not instead of it.

- Subcontracting Order — the finished goods expected, the service charge payable, and the raw materials to supply.
- Subcontracting BOM — maps each finished good to its service item and its raw-material bill of materials.
- Supplied items — the raw materials, exploded from the BOM, that you issue to the subcontractor.
- Status tracking — Draft -> Open -> Material Transferred -> Partially Received -> Completed, so the state is never a guess.

The ERPNext job-work flow, end to end

1

Subcontracting Order

from a subcontracted purchase order: finished goods expected, service charge, and raw materials to supply (via the Subcontracting BOM).

2

Supply raw materials

transfer the BOM raw materials to the subcontractor's supplier warehouse; stock stays owned and valued by you.

3

Work in progress

material sits at the vendor; ERPNext tracks required vs supplied vs consumed vs returned per raw-material line.

4

Subcontracting Receipt

book the finished goods in and backflush the raw materials actually consumed, adjusting for real wastage.

5

Finished-goods costing

value each finished good from raw-material cost + job-work service charge + apportioned freight and landed costs.

6

GST compliance layer

India Compliance app generates the job-work delivery challans and ITC-04 return data from the same transactions.

Buying / Purchase Order / **Fast Transporter** To Receive and Bill Status: Create Cancel

Details | Address & Contact | Terms | More Info | Connections

Company * **Developer Pvt Ltd** | Date * **17-02-2026** | **Is Subcontracted** | Supplier Warehouse **Finished Goods - DPL**

Supplier * **Fast Transporter** | Required By **28-02-2026**

Order Confirmation No

Currency and Price List >

No.	Item Code *	Required By *	Quantit...	UOM *	Rate	Amount	Target Warehou...
1	CPU Assembly	28-02-2026	8	Nos	₹ 5,000.00	₹ 40,000.00	Stores - DPL

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Total Quantity: 8 | Total (Company Currency): ₹ 40,000.00 | Total: ₹ 40,000.00

Net Total (Company Currency): ₹ 40,000.00 | Net Total: ₹ 40,000.00

Total Taxes and Charges: ₹ 0.00

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A subcontracting Purchase Order in ERPNext — 'Is Subcontracted' turns on the job-work flow.

Supplying raw materials and tracking what's at the subcontractor

When you issue raw materials, ERPNext records the transfer to a supplier warehouse — a stock location that represents "material physically with the subcontractor but still owned by us." This is the crux of the whole thing: the goods are off your shop floor but still on your books, and ERPNext keeps them visible instead of writing them off into a black hole.

Against each supplied line the system tracks the quantities that matter — required, supplied, consumed and returned — so you always know how much of each raw material is sitting at the vendor, how much has been used in the goods received back, and how much is still to come home. A standard report of raw materials to be transferred tells you what the current order still needs. Because the supplier warehouse is a real inventory location, the material continues to carry its valuation and remains part of your stock ledger the entire time it's out — which is exactly what both good costing and GST job-work accounting require.

- Supplier warehouse — represents stock physically with the subcontractor but still owned and valued by you.
- Per raw-material tracking — required vs supplied vs consumed vs returned quantities on every line.
- Live position — see what's lying at each vendor and what an open order still needs transferred.
- The material stays in your stock ledger throughout, so valuation and accountability never break.

Stock / Item / CPU Assembly Enabled Actions Duplicate ... Save

Details Dashboard Defaults Accounting Purchasing Sales Tax Quality

Item Name Disabled

Item Group * Allow Alternative Item

Default Unit of Measure * Maintain Stock

Has Variants
If this item has variants, then it cannot be selected in sales orders etc.

Is Fixed Asset

Over Delivery/Receipt Allowance (%) Over Billing Allowance (%)

Description >

Units of Measure >

CA CPU Assembly

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Setting up the finished / service item that the subcontractor produces.

Receiving finished goods, consumption and true costing

When the finished goods come back, you book a Subcontracting Receipt. This is where the accounting is made honest. The receipt records how much finished good arrived, and against it ERPNext backflushes consumption — reducing the supplied raw materials by what the job actually used, based on the BOM but adjustable to reflect reality (real wastage and process loss included). What was issued but not consumed can be returned and brought back onto your floor.

The part manufacturers most often get wrong by hand — the real cost of the finished good — is where ERPNext is strongest. It builds the finished good's valuation from its true components: the raw-material cost consumed, the job-work service charge you're paying the subcontractor, and any additional costs (freight, and other landed costs) distributed across the receipt. The result is a finished-goods value that reflects what the item genuinely cost to make, not just the vendor's invoice. That flows straight into your stock valuation and margins — no separate costing spreadsheet, no month-end reconciliation guesswork.

- Subcontracting Receipt — records finished goods in and backflushes raw-material consumption.
- Consumption reflects reality — adjust for actual usage, wastage and process loss, not just theoretical BOM.
- Finished-good cost = raw-material cost + job-work service charge + apportioned additional/landed costs.
- Returned raw material comes back onto your books; valuation stays intact end to end.

GST job-work compliance: where the India Compliance app comes in

Here is the line every Indian manufacturer needs drawn clearly. Core ERPNext runs the subcontracting operation — supply, track, receive, cost — extremely well. It does not, on its own, produce India's statutory job-work paperwork. That compliance layer is provided by the separate, free India Compliance app, which extends ERPNext for Indian GST.

Under GST, goods sent for job work move on a delivery challan, not a tax invoice, because there's no sale — ownership never leaves you. The principal must bring the goods back within the prescribed time

limits (inputs and capital goods have different windows), and must report the movement in the ITC-04 return. If material isn't returned in time, the original dispatch can be deemed a supply and attract tax. The India Compliance app is what lets ERPNext generate compliant job-work / subcontracting challans and prepare the ITC-04 data from the same transactions your operations team is already booking — so the paperwork is a by-product of doing the work, not a parallel exercise in Excel. Be clear-eyed about the split: describe core ERPNext as the workflow engine and the India Compliance app as the GST job-work compliance layer. They're designed to work together, but they are two things.

- Core ERPNext — the subcontracting workflow: orders, material supply, receipts, consumption and costing.
- India Compliance app (separate, free) — GST job-work delivery challans and ITC-04 return data.
- Delivery challan, not invoice — job-work dispatch is a movement of your own goods, not a sale.
- Time limits matter — inputs and capital goods must return within the GST windows or dispatch can be deemed a supply.

What it takes to run this well

The module is capable, but capability isn't the same as a clean month-end. Job work done well in ERPNext rests on a few unglamorous disciplines. Item and BOM masters have to be right — the finished good, its service item and its raw-material BOM define everything downstream, so a wrong conversion factor or a missing raw material quietly corrupts both costing and challans. Consumption has to be booked honestly, so backflush reflects real usage and wastage rather than a theoretical BOM the shop floor doesn't follow.

Operationally, the supplier warehouse per subcontractor has to be maintained so "what's lying where" stays true, and someone has to own the loop — chasing returns before GST time limits lapse rather than discovering the breach at filing time. And the two layers have to be installed and configured to match: the operational flow in core ERPNext, the India Compliance app set up so challans and ITC-04 pull from the same transactions. None of this is exotic; all of it rewards being set up correctly once rather than patched after the first messy quarter.

- Clean masters — accurate finished good, service item, Subcontracting BOM and conversion factors.
- Honest consumption — backflush that matches real usage and wastage, not a BOM nobody follows.
- One supplier warehouse per subcontractor — so the at-vendor position is always trustworthy.
- A named owner for the returns clock — bring material back before GST windows lapse.
- Both layers aligned — core ERPNext for workflow, India Compliance for challans and ITC-04.

When to get help

You can absolutely learn ERPNext subcontracting in-house, and many teams do. The place a partner earns their fee is at the seams — where the operational flow meets GST compliance and where your specific process (multi-stage job work, batch or serial tracking, high wastage, or several subcontractors in a chain) needs the masters and the India Compliance setup configured to match reality. Getting that right once, at implementation, is far cheaper than unwinding a year of mis-costed finished goods or an ITC-04 that never reconciled.

As an official ERPNext partner working with Indian manufacturers, we set up the subcontracting module

and the India Compliance layer together, mapped to how your material actually moves — so the job-work challans, the finished-goods costing and the ITC-04 all come from one honest set of transactions. If job work is a real part of how you make things, that's the difference between ERPNext being a system of record and a source of monthly firefighting.

KEY TAKEAWAYS

- 1 ERPNext models job work as a proper flow: a Subcontracting Order, raw materials supplied to a supplier warehouse, and a Subcontracting Receipt for the finished goods.
- 2 Material sent out stays on your books — tracked as required vs supplied vs consumed vs returned — so it never disappears into a spreadsheet black hole.
- 3 The finished good's cost is built honestly from raw-material cost + the job-work service charge + apportioned freight and landed costs — real costing, not the vendor's invoice.
- 4 Core ERPNext runs the operation; India's GST job-work paperwork — delivery challans and the ITC-04 return — comes from the separate, free India Compliance app.
- 5 The wins come from clean masters, honest consumption booking, a supplier warehouse per vendor, and owning the returns clock before GST time limits lapse.

FAQ

Does ERPNext handle GST job-work challans and ITC-04?

Core ERPNext runs the subcontracting workflow — supplying raw materials, receiving finished goods, tracking consumption and costing. India's GST-specific job-work paperwork, namely the delivery challans and the ITC-04 return, is handled by the separate, free India Compliance app, which extends ERPNext for Indian GST. They're designed to work together, but they are two distinct things.

Can I track raw materials sent to a subcontractor?

Yes. ERPNext transfers the raw materials to a supplier warehouse — a stock location representing goods physically with the subcontractor but still owned and valued by you. Against each raw-material line it tracks required, supplied, consumed and returned quantities, so you always know what's lying at each vendor and what an open order still needs.

How does ERPNext work out the real cost of a subcontracted finished good?

On the Subcontracting Receipt, ERPNext builds the finished good's valuation from its true components — the raw-material cost actually consumed, the job-work service charge you pay the subcontractor, and any additional or landed costs like freight distributed across the receipt. That gives a finished-goods value reflecting what the item genuinely cost to make, flowing straight into your stock valuation.

What happens if job-work material isn't returned within the GST time limit?

Under GST, goods sent for job work move on a delivery challan and must be brought back within the prescribed windows (inputs and capital goods differ). If material isn't returned in time, the original dispatch can be deemed a supply and attract tax. This is why the returns clock needs a named owner — and why the India Compliance app's challan and ITC-04 tracking, pulling from your ERPNext transactions, matters for staying compliant.

Talk to a real ERPNext expert.

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