Income Tax Act , 1961

360° of TAX AUDIT

Thrissur Branch (SIRC)
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360° of TAX AUDIT

Why Audit ?	to arrive at actual Income of the assessee
When to Audit ?	during A.Y. before 30th September
Who has to Audit ?	a CA having Full Time COP
What to Audit ?	BOA, Documents, Supporting Records
How to Audit ?	Let's together discuss in this Presentation

Topics for Today's Discussion 01 - 200

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HISTORY & BACKGROUND

Legislative Objective	Introduced in the **1984–85** Budget, compulsory tax **audit u/s. 44AB** aims to ensure **proper record-keeping**, reflect true **taxable income**, simplify **tax administration**, and save **verification time** for Assessing Officers.
Scope Expansion (Presumptive Taxation)	Audit requirements under Section 44AB were progressively extended to taxpayers under presumptive taxation schemes if they claim income lower than the deemed profits. This includes:
	• Sections 44AD, 44AE, and 44AF - (effective AY 1998-99) • Sections 44BB and 44BBB - (effective AY 2004-05) • Section 44ADA - (effective AY 2017-18)
	• **Consolidation of Section 44AD** • Effective AY 2011-12, the retail trade provisions under Section 44AF were omitted and merged into Section 44AD. Currently, Section 44AD covers all eligible businesses except: • Professionals under Section 44AA(1) • Commission or brokerage earners • Agency businesses

HISTORY & BACKGROUND

What is an Audit ?	The dictionary meaning of the term "audit" is check, review, inspection, etc. There are various types of audits prescribed under different laws; for example, company law requires a company audit, cost accounting law requires a cost audit, etc.
What is Tax Audit	Under Section 44AB of the Income-tax law, specified taxpayers must have their business or professional accounts audited by a Chartered Accountant. This procedure is known as a tax audit.
Objective of Tax Audit	A key objective of a tax audit is to report in Form Nos. 3CA/3CB and verify the requirements of Form No. 3CD, ensuring that books of account are properly maintained and financials give true and fair view and particulars in 3CD reflect true and correct.
Tax Audit Guidance Note	Practicing CAs bear the significant responsibility of conducting Section 44AB tax audits. Because this collaborative process relies on evolving laws and stakeholder inputs, the accompanying Guidance Note must be regularly updated.

INCOME TAX ACT & RULES

SECTION 44AB	
44AB(a)	**Business -** Total sales, Turnover or Gross Receipts **> 1 Crore** in any previous year
44AB(a) 1st Proviso	**Business -** Total sales, Turnover or Gross Receipts **> 10 Crore** in any previous year - if Aggregate Cash Receipts during PY <=5% of Total receipts During PY **And** if Aggregate Cash Payments during PY <=5% of Total Payments During PY
44AB(b)	**Profession -** Gross receipts in profession **> 50 Lakh** in any previous year.
44AB(c)	**Business U/s. 44AE, 44BB {10%} or 44BBB {10%} -** Declared income < Deemed income in any previous year.
44AB(d)	**Profession U/s. 44ADA {50%} -** Declared income < Deemed income in any previous year and Income > BEL in any PY.
44AB(e)	**Business U/s. 44AD {6% of 8%} (as applicable) -** Declared income < Deemed income in any previous year and Income > BEL in any PY.

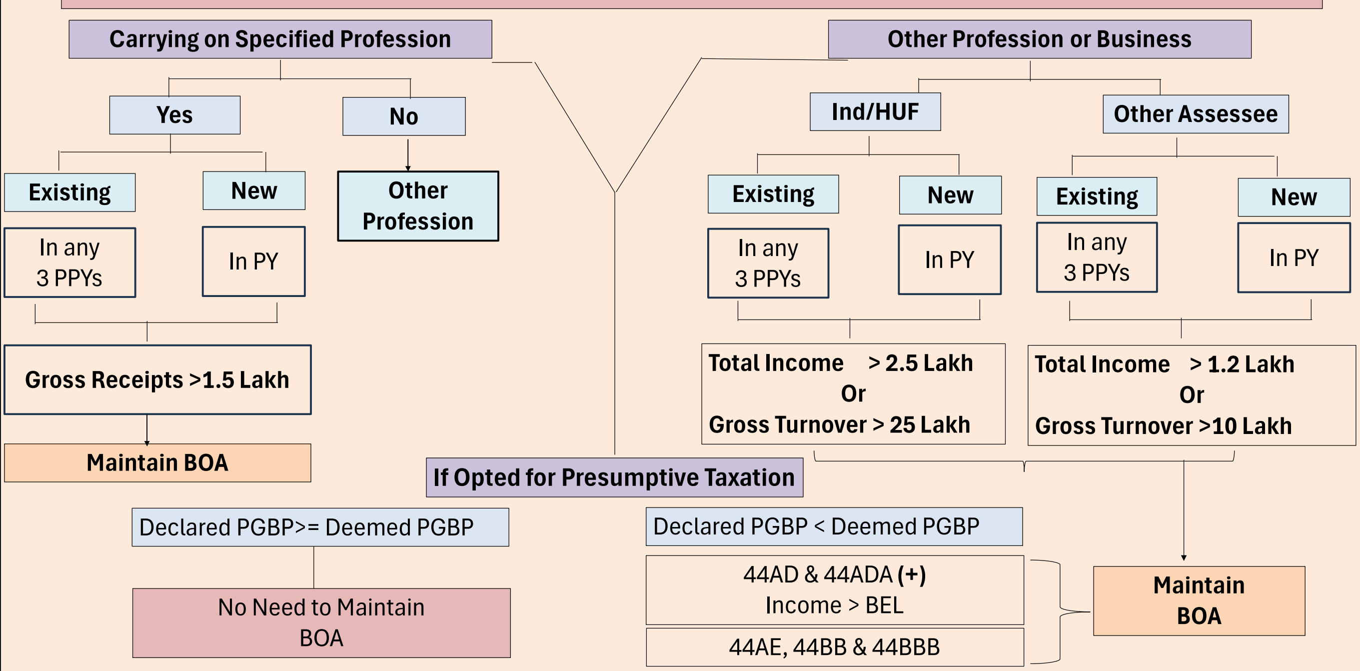
INCOME TAX ACT & RULES

BUSINESS AND PROFESSION	
2(13)	**"business"** includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture
2(36)	**"profession"** includes vocation
2(12A)	**"books or books of account"** includes ledgers, day-books, cash books, account-books and other books, whether kept in the written form or in electronic form or in digital form or as print-outs of data stored in such electronic form or in digital form or in a floppy, disc, tape or any other form of electro-magnetic data storage device;
145	**"Method of accounting"** – Income chargeable under PGBP or IFOS shall be accounted either on cash or mercantile system of accounting. Further, the Central Govt. may notify ICDS to be followed.

RULE 6G	
Rule 6G	(1) The report of audit of the accounts of a person required to be furnished under section 44AB shall, be in (a) **Form 3CA** - 3CD, for persons who are required by or under any other law to get their accounts audited; (b) **Form 3CB** - 3CD, for persons not being a person referred to in clause (a). (2) The particulars to be furnished under section 44AB shall be in **Form No. 3CD**. (3) The audit report can be revised, which necessitates recalculation of disallowance u/s. 40 or 43B.

INCOME TAX ACT & RULES

RULE 6F



INCOME TAX ACT & RULES

RULE 6F

What to maintain -

a) Cash Book
b) A Journal, if the accounts are maintained according to the mercantile system of accounting;
c) A ledger
d) Copies of bills or receipts issued by him for > Rs. 250
e) Original bills and receipts in respect of expenditure >= Rs.250
f) Payment voucher prepared and signed by the person for the expenditure incurred upto Rs.250

A person carrying on medical profession shall also maintain:
a) a daily case register in Form No. 3C
b) an inventory under broad heads, as on the first and the last day of the financial year,

Where to maintain -

a) the place where he is carrying on the profession **(or)**
b) where the profession is carried on in more places than one, at the principal place of his profession; (or)
c) If Separate BOA for each place of profession – then maintain at such respective place of Profession

How to maintain -

Physical or Electronic Mode

Period to maintain -

Previous Year **Subsequent 7 Previous years**

INCOME TAX ACT & RULES

SECTION 44AD

Specified Business ✓ → Eligible Assessee ✓ → Presumptive Basis ✓

Specified Business

- Any Business other than Profession as per 44ADA
- **AND**
- Turnover or Gross Receipts
  - If Cash Receipts <= **5%** of Total Turnover or Gr. Receipt
    - Yes → **Upto 3 Cr**
    - No → **Upto 2 Cr**

Eligible Assessee

Eligible Persons –

RESIDENT →
- Individual
- HUF
- Partnership Firm
- ~~LLP~~

AND

- Not claimed Deduction u/s 10A, 10B
- Not claimed Deduction u/c VIA-C
- Not a Specified Profession u/s 44AA(1)
- Not earned Commission or Brokerage
- Not carrying on Agency Business

Presumptive Basis

Computation of Income

A. **Aggregate receipts by -**

Specified Banking or Online Mode	6% of TO/GR received in PY or upto 139(1)
(+)	
Other Modes	8% of TO/GR received in PY

OR

B. **Actual Profit earned**

Which ever is Higher

INCOME TAX ACT & RULES

SECTION 44AD

- **Eligible Assessee -**

44AD(5) - Succeeding 5 PYs cannot opt 44AD(1)

Sec 44AD(1)

Sec 44AD(4) : Contravenes Sec 44AD(1)

Previous Year 1	P. Y. 2	P. Y. 3	P. Y. 4	P. Y. 5	P. Y. 6	P. Y. 7

Declared PGBP >= Deemed PGBP

Declared PGBP < Deemed PGBP

(+)

Sec 44AD(5)- Total Income > BEL

Maintain BOA and Other Documents — **Sec 44AA**

(+)

Get Accounts Audited and Furnish Report — **Sec 44AB**

INCOME TAX ACT & RULES

SECTION 44AE

Eligible Assessee ✓ → Presumptive Basis ✓

An Assessee

Owns → **<= 10** Goods Carriage **At anytime** During the PY

Deemed Owner — **Possession of Goods Carriage Taken on Hire Purchase or Instalment And Amount Payable is due**

Computation of Income

A. **Aggregate of income from goods carriage -**

Heavy Goods Vehicle > 12,000 KGS. — Rs.1,000 per ton of Gross Vehicle Weight or Unladen Weight — for each vehicle , for every month or Part of month Owned during PY

(+)

Other than HGV — Rate at Rs.7,500 — for each Goods Carriage for every month or Part of month Owned during PY

OR

B. **Actual Profit earned**

Which ever is Higher

INCOME TAX ACT & RULES

SECTION 44ADA

Specified Profession ✓ → Specified Assessee ✓ → Presumptive Basis ✓

Specified Professional as per Sec 44AA(1)

AND

Gross Receipts

If Cash Receipts **<= 5%** of Aggregate Gross Receipts

- Yes → **Upto 75 lakhs**
- No → **Upto 50 Lakhs**

Eligible Persons –

RESIDENT →
- Individual
- Partnership Firm
- ~~**LLP**~~

Specified Profession is defined in Sec. 44AA(1) and also notified by the Board

Computation of Income

A. **Aggregate receipts by -**

Banking Mode or Online Mode

(+)

Other Modes

50 % of Gross Receipts

OR

B. **Actual Profit earned**

Which ever is Higher

NOW LET's DISCUSS WHETHER PRESUMPTIVE PROVISIONS ARE **OPTIONAL** **OR** **MANDATORY**

INCOME TAX ACT & RULES

DUE DATES & LATE FEE

Section	Report / Return / Fee	Due Date	Remarks
44AB	Tax Audit Report	30th September	Audit without report u/s. 92E
		31st October	Audit with report u/s. 92E
139(1)	Original Return	31st October	Audit without report u/s. 92E
		30th November	Audit with report u/s. 92E
139(4)	Belated Return	31st December	No Return filed u/s. 139(1)
139(5)	Revised Return	31st March	Return filed u/s. 139(1) **OR** Return filed u/s. 139(4)

139(8A)	Updated Return	Upto 48 M Delay	No Return filed **OR** Return filed u/s. 139(1) **OR** 139(4) **OR** 139(5)

234F & 234I	Fee for Default in furnishing return of income	Total Income > 5,00,000 Total Income <= 5,00,000	Rs. 5,000/- Fee Rs. 1,000/- Fee	Applicable for both returns filed u/s. 139(4) / 139(5)

INCOME TAX ACT & RULES

PENALTIES

Section	Nature of Default / Offence	Quantum of Penalty	Covered by Sec. 273B	Remarks
271A	Failure to keep, maintain, or retain books of account and documents as required under Section 44AA.	**Flat ₹25,000**	**YES** (Penalty waived if genuine operational / accidental cause shown)	Applies to businesses or professionals who fail to maintain basic financial records.
271B	Failure to get accounts audited or submit tax audit reports under Section 44AB by the due date.	**Lower of:** • **0.5%** of total Sales / Turnover / Gross Receipts, **OR** • **₹ 1,50,000**	**YES** (Waived if delay is due getting records from partners, illness of CA, etc.)	Extremely common penalty. A maximum cap of ₹1.5 Lakhs acts as a major safeguard for high-turnover businesses.
271AAD	Maintaining false entries (fake invoices) or deliberate omission of entries in books to evade tax.	**100%** of the aggregate amount of false / omitted entries. (Same penalty applies to the bookkeeper AND anyone who "aids/causes" the false entry).	**NO** (Strict liability. Since the act is deliberate, no "reasonable cause" defense applies).	Heavy anti-fraud weapon targeting fake GST/ITC billing and unrecorded cash sales.
271J	Furnishing incorrect / false information in any audit report or valuation certificate.	**₹ 10,000** per report or certificate.	**YES** (Waived if the professional shows bona fide reliance on client data).	Targets professionals: Chartered Accountants (CAs), registered valuers, and merchant bankers.
273B	**N/A** (This is a relief section, not a levy section)	Acts as a relief provision to completely drop penalties under eligible sections if a "reasonable cause" is proved.	**N/A**	It shifts the burden of proof to the taxpayer to show they had a valid, non-wilful reason for non-compliance.

INCOME TAX ACT & RULES

273B INSTANCES OF REASONABLE CAUSE

Section	Nature of Default / Offence	Quantum of Penalty	Covered by Sec. 273B	Remarks
273B	**N/A** (This is a relief section, not a levy section)	Acts as a relief provision to completely drop penalties under eligible sections if a "reasonable cause" is proved.	**N/A**	It shifts the burden of proof to the taxpayer to show they had a valid, non-wilful reason for non-compliance.

Sl. No.	Reasonable Cause as accepted by Courts / Tribunals
1.	Resignation of the tax auditor and consequent delay;
2.	Bona fide interpretation of the term 'turnover' based on expert advice;
3.	Death or physical inability of the partner-in-charge of the accounts;
4.	Labour problems such as strike, lock out for a long period, etc.;
5.	Loss of accounts because of fire, theft, etc. beyond the control of the assessee;
6.	Non-availability of accounts on account of seizure;
7.	Natural calamities, commotion, riots, disturbances, etc.;
8.	Resignation of the accountant and his consequent non-cooperation;
9.	Official E filing portal (of the Income-tax department) failure.

ACCOUNTING STANDARDS

ACCOUNTING

SYSTEM	METHODS	ASSUMPTIONS	POLICIES	PRINCIPLES
Manual	Cash	Consistency	Depreciation	Prudence
Electronic	Accrual	Accrual	Inventory	Materiality
Digital	Hybrid	Going concern	Revenue recognition	Substance over form

ACCOUNTING STANDARDS

NEED AND APPLICABILITY OF ACCOUNTING STANDARDS

To harmonize the diverse accounting policies and practices in use in India; and
keeping in view the international developments,
the ICAI has issued Accounting Standards {AS}
AS apply for both Corporate and Non-corporate Entities
AS is applicable for financials statements audited u/s. 44AB
AS is classified as Large Non-co., entities and MSME Non-co., entities
MSME includes Individuals, Proprietorship, Partnership and LLP Firms

Wef. 01.04.2024 - Level II, III and IV entities is merged and shall be read as **'Micro, Small and Medium Sized Entity'** and Level I entity shall be read as a **'Large Entity'**. Large entity is a Non-company entity that is not an MSME

<u>MSME's means Non-Company entities-</u>

(a) Not listed or are not in the process of listing,
(b) Not a bank, financial institutions or insurance company,
(c) T.O. < 250 Cr. in immediate preceding accounting year
(d) Borrowings < 50 Cr. at any time in immediate preceding accounting year and
(e) which is not a holding or subsidiary of an entity which is not a MSME.

ACCOUNTING STANDARDS

APPLICABILITY OF AS FOR NON-COMPANY ENTITIES

Sl. No.	Particulars	Accounting Standards	No. of AS
1	AS's wholly applicable to MSME's	1, 2, 4, 5, 7, 9, 12, 13 & 16	09
2	AS's wholly exempted to MSME's	3, 14, 17, 20, 21, 23, 24, 25 & 27	09
3	AS's in which some paras are not applicable to MSME's	10, 11, 15, 18, 19, 22, 26, 28 & 29	09
	Total		**27**

Sl. No	List of AS's wholly applicable to MSME's	
	AS	Particulars
1	01	Disclosure of Accounting Policies
2	02	Valuation of Inventories
3	04	Contingencies and Events Occurring After the Balance Sheet Date
4	05	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
5	07	Construction Contracts
6	09	Revenue Recognition
7	12	Accounting for Government Grants
8	13	Accounting for Investments
9	16	Borrowing Costs

Sl. No	List of the AS's wholly exempted to MSME's	
	AS	Particulars
1	03	Cash Flow Statements
2	14	Accounting for Amalgamations
3	17	Segment Reporting
4	20	Earnings Per Share
5	21	Consolidated Financial Statements
6	23	Accounting for Investments in Associates in Consolidated Financial Statements
7	24	Discontinuing Operations
8	25	Interim Financial Reporting
9	27	Financial Reporting of Interests in Joint Ventures

ACCOUNTING STANDARDS

APPLICABILITY OF AS FOR NON-COMPANY ENTITIES

Sl. No	List of the AS's (Relaxations/exemptions from certain requirements)		
	AS	Particulars	Relaxations/exemptions from certain requirements
1	10	Property, Plant and Equipment	Para 87 - Relating to Encouraged Disclosure
2	11	The Effects of Changes in Foreign Exchange Rates	Para 44 - Relating to Encouraged Disclosure
3	15	Employee Benefits	Para11 to 16 - recognition and measurement of short-term accumulating compensated absences which are non-vesting Para 46 & 139 - discounting of amounts that fall due more than 12 months after the balance sheet date Para 50-116- Recognition and measurement principles Para 117 to 123 -presentation and disclosure requirements
4	18	Related Party Disclosures	Whole standard is not applicable if, a) Turnover ≤ **50Cr** in the immediately PAY; b) Borrowings ≤ **10Cr** at any time in immediately PAY; and c) which is not a Holding and subsidiary of an MSME not covered above.
5	19	Leases	Para 22 (c), (e), (f), Para 25 (a), (b), (e), Para 37 (a), (f), (g), - All paras relating to disclosure. Para 38 & Para 46 (b), (d), (e)
6	22	Accounting for Taxes on Income	Para 9 - Relating to Recognition Para 20 - Relating to Measurement Para 27 and 28 - Relating to presentation and disclosure
7	26	Intangible Assets	Para 90(d),90(d)(iii); 90(d)(iv) and 98 - Disclosure
8	28	Impairment of Assets	Whole standard is not applicable if, a) Turnover ≤ **50Cr** in the immediately PAY; b) Borrowings ≤ **10Cr** at any time in immediately PAY; and c) which is not a Holding and subsidiary of an MSME not covered above If above criteria is satisfied then below paras are exempted Para - 121(c)(ii),121(d)(i),121(d)(ii),121(g) & 123 - relating to disclosures.
9	29	Provisions, Contingent Liabilities and Contingent Assets	Para 66 & 67 - Relating to disclosure

ACCOUNTING STANDARDS

APPLICABILITY OF AS FOR NON-COMPANY ENTITIES

NOTES FORMING PART OF ACCOUNTS

A. 1) Background of the Assessee:

M/s __________________________ is a Partnership Firm, with 5 Partners and the Concern is engaged in the Business of Electrical Consultants and Contractors during the previous year.

2) Basis of preparation of financial statements

The accounts are prepared under the historical cost convention on accrual basis of accounting, in accordance with the generally accepted accounting principles in India. The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI), to the extent applicable.

The Partnership Entity is a Micro, Small and Medium Size Entities (MSMEs) as defined in the "Revised Scheme for Applicability of Accounting Standards'' to Non corporate Entities issued by ICAI w.e.f. 01st April 2024. Accordingly, the Entity has complied with Revised Scheme for applicability of Accounting Standards applicable to MSME.

ACCOUNTING STANDARDS

APPLICABILITY OF AS FOR NON-COMPANY ENTITIES

NOTES FORMING PART OF ACCOUNTS

B. Summary of Significant Accounting Policies:

1. AS 1 - Disclosure of Accounting Policies

The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements, Such accounting policies should represent a true and fair view of the state of affairs of the enterprise as at the Balance sheet date and of the profit or loss for the period ended on that date. Changes in accounting policies, if any, are made only when required by statute or to provide more reliable and relevant information.

2. AS 2 – Inventories

Inventories should be valued at the lower of cost and net realizable value (NRV). The cost of inventories includes all costs of purchase, conversion, and other costs incurred to bring the inventories to their present location and condition. NRV is defined as the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Accepted cost formulas for assigning cost to inventory include FIFO (First-In, First-Out) and Weighted Average Cost.

3. AS 4 - Contingencies and Events Occurring After the Balance Sheet Date

Contingencies are conditions or situations with uncertain outcomes that may affect financial results. Events after the balance sheet date are those that occur between the balance sheet date and the date of approval of the financial statements. If such events provide additional evidence of conditions existing at the balance sheet date (adjusting events), the financial statements are adjusted accordingly. Non-adjusting events are are indicative of conditions that arose after the balance sheet date, these are disclosed if material.

ACCOUNTING STANDARDS

APPLICABILITY OF AS FOR NON-COMPANY ENTITIES

4. AS 5 - Net Profit or Loss for the Period, Prior Period Items, and Changes in Accounting Policies

All items of income and expense recognized during the period are included in the determination of net profit or loss for the period, unless otherwise required by an accounting standard. Prior period items, which arise from errors or omissions in earlier periods, are separately disclosed in the statement of profit and loss to reflect their impact clearly. Changes in accounting policies are made only if required by statute, accounting standards, or if the change results in a more appropriate presentation of financial statements.

5. AS 7 - Construction Contract

Revenue from construction contracts is recognized in accordance with Accounting Standard 7 (AS 7) using the percentage of completion method. Under this method, contract revenue and costs are recognized in the profit and loss account in proportion to the stage of completion of the contract activity at the reporting date. The stage of completion is determined with reference to the cost incurred to date compared to the estimated total cost.

6. AS 9 - Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the enterprise and the revenue can be measured reliably.

For goods, revenue is recognized when the significant risks and rewards of ownership pass to the buyer. For services, Revenue from service transactions is usually recognised as the service is performed, either by the proportionate completion method or by the completed service contract method.

Interest income is recognized on a time proportion basis, royalties on an accrual basis as per agreement terms, and dividends when the right to receive payment is established.

ACCOUNTING STANDARDS

APPLICABILITY OF AS FOR NON-COMPANY ENTITIES

7. AS 10 - Property, Plant and Equipment

Property, Plant, and Equipment (PPE) are tangible fixed assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used over more than one accounting period. PPE is initially recognized at cost, including purchase price, import duties, and any directly attributable costs to bring the asset to working condition. Subsequent costs are capitalized only if they enhance the future economic benefits.

Depreciation is charged systematically over the asset's estimated useful life, reflecting the pattern in which the asset's economic benefits are consumed. Common depreciation methods used is Straight Line Method (SLM) or Written down value method (WDV).

8. AS 11 - Foreign Currency Transactions

Foreign exchange transactions are recorded in reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and foreign currency at the date of transaction.

Exchange differences arising on foreign exchange transactions settled during the year are recognized in the income and expenditure account for the year.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rate on that date; the resultant exchange differences are recognized in statement of income and expenditure. Non-monetary items are recorded at historical exchange rates.

9. AS 12 - Government Grants

Government grants are recognized when there is reasonable assurance that the enterprise will comply with the conditions attached to them and the grants will be received. Grants related to revenue are recognized in the profit and loss account on a systematic basis over the periods in which the related costs, for which the grants are intended to compensate, are incurred. Grants related to assets are deducted from the carrying amount of the asset or shown as deferred income and recognized in the profit and loss account over the useful life of the asset.

ACCOUNTING STANDARDS

APPLICABILITY OF AS FOR NON-COMPANY ENTITIES

10. AS 13 - Investments

Investments are classified as long-term or current based on the Company's intention. Long-term investments are carried at cost less any permanent decline in value, while current investments are valued at the lower of cost or market value. Provision for diminution in the value of long-term investments is made only if such a decline is other than temporary.

11. AS 15 - Employee Benefit

The Policy is to recognise a liability when an employee has provided service in exchange for employee benefits to be paid in the future and an expense when the enterprise consumes the economic benefit arising from services provided by an employee in exchange for employee benefits.

Employee benefit includes short-term employee benefits, such as wages, salaries and social security contribution, paid annual leave, profit-sharing and bonuses (if payable within twelve months of the end of the period), non-monetary benefits for current employees ; post-employment benefits such as gratuity, pension, other retirement benefits; other long-term employee benefits, including long-service leave or sabbatical leave and termination benefits. An employee may provide services to an enterprise on a full-time, part-time, permanent, casual or temporary basis and also includes whole-time directors and other management personnel.

12. AS 16 - Borrowing Cost

Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction, or production of a qualifying asset. Such borrowing costs are capitalized as part of the cost of the asset. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs commences when expenditures and borrowing costs are being incurred and activities to prepare the asset are in progress, and ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

ACCOUNTING STANDARDS

APPLICABILITY OF AS FOR NON-COMPANY ENTITIES

13. AS 18 - Related Parties

This Policy is applied in reporting related party relationships and transactions between a reporting enterprise and its related parties. Related parties are identified based on the criteria prescribed in AS 18, which includes relationships involving control, significant influence, key management personnel, and their relatives. This policy is intended to highlight any potential influence that related parties may have on the financial results and position of the Enterprise.

14. AS 19 - Leases

Leases are classified either as finance leases or operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee, title may or may not eventually be transferred, while operating leases are those where the lessor retains significant risks and rewards.

Assets taken on finance lease are capitalized at the lower of fair value or present value of minimum lease payments, with a corresponding liability recognized. Such assets are depreciated as per the Company's policy, and lease payments are apportioned between finance charges and reduction of liability. In the case of operating leases, lease payments are recognized as an expense on a straight-line basis over the lease term.

15. AS 22 - Taxes on Income

Tax expenses comprises both current and deferred taxes. Deferred income taxes reflects the impact of current year timing difference between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

ACCOUNTING STANDARDS

APPLICABILITY OF AS FOR NON-COMPANY ENTITIES

16. AS 26 - Intangible Assets

An Intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

An intangible asset is recognized if it is probable that future economic benefits attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably.

Intangible assets are amortized over the estimated useful life on Written down value (WDV) basis, commencing from the date of asset is available to the company for its use.

17. AS 28 - Impairment of Assets

An asset should not be carried in the financial statements at more than its recoverable amount. If the carrying amount of an asset exceeds its recoverable amount, the asset is said to be impaired, and the difference must be recognized as an impairment loss in the profit and loss account.

The company assesses at each reporting date whether there is any indication that an asset may be impaired.

18. AS 29 - Provisions, Contingent Liabilities and Contingent Assets

Provision is recognised when as enterprises has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Contingent Liabilities are not recognised in the Financial Statements. Contingent Assets is neither recognised nor disclosed in the Financial Statements.

ACCOUNTING STANDARDS

APPLICABILITY OF AS FOR NON-COMPANY ENTITIES

ACCOUNTING POLICIES WHOLLY EXEMPTED TO MSME

AS No.	Accounting Standards
AS 3	Cash Flow Statements
AS 14	Accounting for Amalgamations
AS 17	Segment Reporting
AS 20	Earning per Share
AS 21	Consolidated Financial Statements
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
AS 24	Discontinuing Operations
AS 25	Interim Financial Reporting
AS 27	Financial Reporting of Interests in Joint Ventures

ACCOUNTING STANDARDS

APPLICABILITY OF AS FOR NON-COMPANY ENTITIES

C. Notes to Accounts

1. Accounting Convention
The financial statements have been prepared under the historical cost convention on mercantile system of accounting.

2. Valuation of Inventory
Inventories are valued at the lower of cost and net realizable value (NRV).

3. Contingencies and Events Occurring After the Balance Sheet Date
There are no contingencies or events occurring after the balance sheet date requiring disclosure as per Accounting Standard 4 (AS 4) in the current financial year.

4. Net Profit or Loss for the Period, Prior Period Items, and Changes in Accounting Policies
All items of income and expense recognized during the period are included in the determination of net profit or loss for the period,

5. Revenue Recognition
Revenue is recognized on accrual basis.

6. Property, Plant and Equipment
Fixed Assets are valued at cost less accumulated depreciation.
Depreciation is provided on WDV method as per the rates prescribed under the Income Tax Act, 1961.

7. Investments
Investments are classified as long-term or current based on their nature and intended holding period. Long-term investments are stated at cost. Current investments are stated at lower of cost and quoted/fair value.

8. Employee Benefits
Employee related expenses constituting salary are recognized on Accrual basis in Profit and Loss Statement.

ACCOUNTING STANDARDS

APPLICABILITY OF AS FOR NON-COMPANY ENTITIES

9. Provisions, Contingent Liabilities and Contingent Assets
Provisions have been made in the financial statements towards income tax during the year amount to Rs.______________/- {P.Y. ________/-}

10. AS 7, AS 11, AS 12, AS 16, AS 18, AS 19, AS 26, and AS 28 are applicable to the entity. However, there are no transactions or events related to these standards during the current financial year requiring disclosure.

11. Previous years figures are regrouped or reclassified wherever necessary

12. Previous years figures are rounded off to nearest rupee.

As per our report of even date

for ______________________ & ASSOCIATES
Chartered Accountants – FRN ____________

for ______________

____
Partner

Place: Bengaluru
Date:

CA. _________________ - Mem. No. ________
Partner

Place: Bengaluru
Date:

UDIN:

ACCOUNTING STANDARDS

FORM OF FINANCIAL STATEMENTS FOR NON-COMPANY ENTITIES

Name of the Non-Corporate Entity ....
Balance Sheet as at ....

(Amount in Rs. XX)

	Particulars	Note	31 March 20XX	31 March 20XX
I	**OWNERS' FUNDS AND LIABILITIES**			
1	**Owners' Funds**			
(a)	Owners' Capital Account			
	(i) Owners'/Partners' Capital Account	3a	-	-
	(ii) Owners'/Partners' Current Account	3b	-	-
(b)	Reserves and surplus	4	-	-
			-	-
2	**Non-current liabilities**			
(a)	Long-term borrowings	5	-	-
(b)	Deferred tax liabilities (Net)	6	-	-
(c)	Other long-term liabilities	7	-	-
(d)	Long-term provisions	8	-	-
			-	-
3	**Current liabilities**			
(a)	Short-term borrowings	5	-	-
(b)	Trade payables	9	-	-
(c)	Other current liabilities	10	-	-
(d)	Short-term provisions	8	-	-
			-	-
	Total		-	-
II	**ASSETS**			
1	**Non-current assets**			
(a)	Property, Plant and Equipment and Intangible assets			
(i)	Property, Plant and Equipment	11	-	-
(ii)	Intangible assets	11	-	-
(iii)	Capital work in progress	11	-	-
(iv)	Intangible asset under development	11	-	-
(b)	Non-current investments	12	-	-
(c)	Deferred tax assets (Net)	6	-	-
(d)	Long Term Loans and Advances	13	-	-
(e)	Other non-current assets	14	-	-
			-	-
2	**Current assets**			
(a)	Current investments	12	-	-
(b)	Inventories	15	-	-
(c)	Trade receivables	16	-	-
(d)	Cash and bank balances	17	-	-
(e)	Short Term Loans and Advances	13	-	-
(f)	Other current assets	18	-	-
			-	-
	Total		-	-
	Brief about the Entity	1		
	Summary of significant accounting policies	2		
	The accompanying notes are an integral part of the financial statements			

Name of the Non-Corporate Entity ....
Statement of Profit and Loss for the year ended ....

(Amount in Rs.)

	Particulars	Note	31 March 20XX	31 March 20XX
I	Revenue from operations	19	-	-
II	Other Income	20	-	-
III	**Total Income (I+II)**		-	-
IV	**Expenses:**			
(a)	Cost of Material Consumed	21	-	-
(b)	Purhcase of Stock-in- Trade	21	-	-
(c)	Changes in inventories of finished goods, work in progress and stock-in trade	22	-	-
(d)	Employee benefits expense	23	-	-
(e)	Finance costs	24	-	-
(f)	Depreciation and amortization expense	25	-	-
(g)	Other expenses	26	-	-
	Total expenses		-	-
V	**Profit/(loss) before exceptional and extraordinary items, partners' remuneration and tax (III- IV)**		-	-
VI	Exceptional items (specify nature & provide note/delete if none)		-	-
VII	**Profit/(loss) before extraordinary items, partners' remuneration and tax (V-VI)**		-	-
VIII	Extraordinary Items (specify nature & provide note/delete if none)		-	-
IX	**Profit before, partners' remuneration and tax (VII-VIII)**		-	-
X	Partners' remuneration			
XI	Profit before tax (IX- X)			
XII	Tax expense:			
(a)	Current tax		-	-
(b)	Excess/ Short provision of tax relating to earlier years			
(c)	Deferred tax charge/ (benefit)	6	-	-
			-	-
XIII	**Profit/(Loss) for the period from continuing operations (IXI-XII)**		-	-
XIVII	Profit/(loss) from discontinuing operations		-	-
XVIII	Tax expense of discontinuing operations		-	-
XIVI	**Profit/(loss) from discontinuing operations (after tax) (XIVII-XVIII)**		-	-
XVII	**Profit/(Loss) for the year (XIII+XIVI)**		-	-
	The accompanying notes are an integral part of the financial statements			

ACCOUNTING STANDARDS

FORM OF FINANCIAL STATEMENTS FOR NON-COMPANY ENTITIES

Announcement regarding applicability of 'Guidance Note on Financial Statements of Non-Corporate Entities' and 'Guidance Note on Financial Statements of Limited Liability Partnerships' for annual reporting periods 2025-26 onwards - (31-03-2026)

Accounting Standards Board
The Institute of Chartered Accountants of India
March 31, 2026

Announcement

Announcement regarding applicability of 'Guidance Note on Financial Statements of Non-Corporate Entities' and 'Guidance Note on Financial Statements of Limited Liability Partnerships' for annual reporting periods 2025-26 onwards

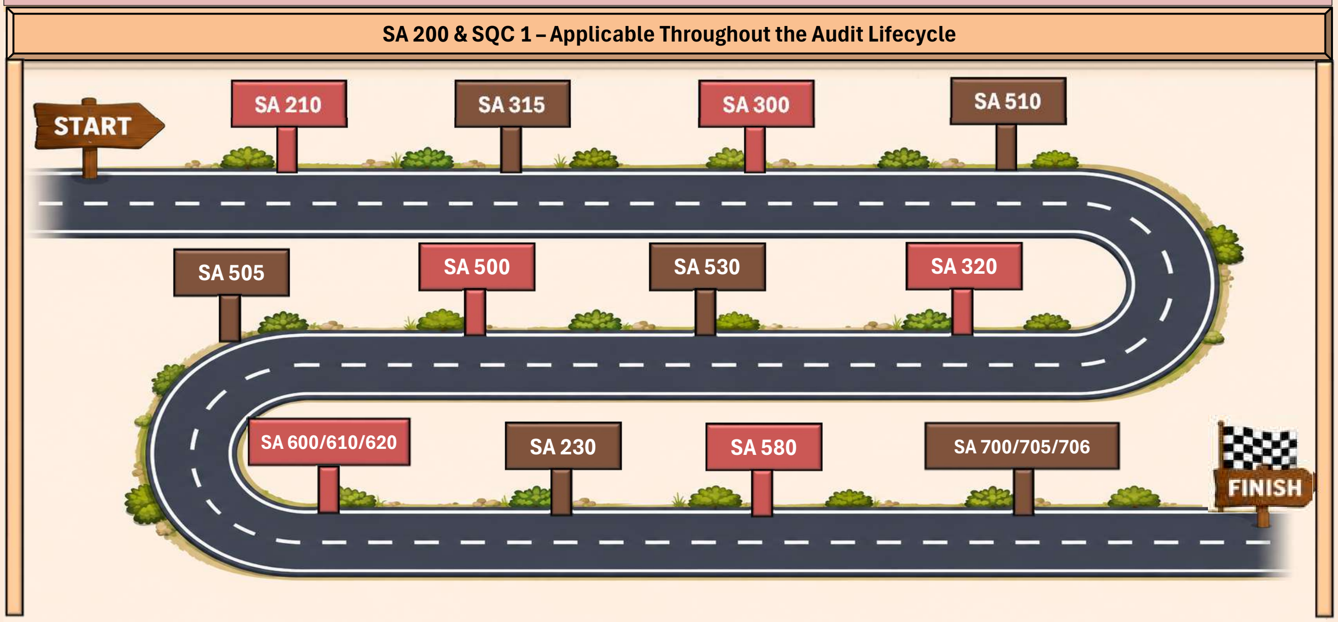
The Institute of Chartered Accountants of India (ICAI), in August 2023, issued the *Guidance Note on Financial Statements of Non-Corporate Entities and the Guidance Note on Financial Statements of Limited Liability Partnerships.*

The Council at its 451st meeting held on 30th-31st March, 2026, has decided that these Guidance Note(s) shall be applicable to Non-Corporate Entities and Limited Liability Partnerships in a phased manner, as under:

	Applicable from	Criteria
Phase I:	Accounting periods beginning on or after April 1, 2025.	Entities whose turnover exceeds Rs. 5 crores
Phase II	Accounting periods beginning on or after April 1, 2026.	All entities

AUDITING STANDARDS

ROAD MAP FOR AUDITING



AUDITING STANDARDS

LIST OF AUDITING STANDARDS ISSUED BY THE ICAI

SA No.	Standard Name (Concise)
SQC 1	**Standard on Quality Control (SQC) for Firms**
SA 200	Overall Objectives of Auditor
SA 210	Agreeing Audit Engagement Terms
SA 220	Quality Management for Audit
SA 230	Audit Documentation
SA 240	Fraud in Audit
SA 250	Laws and Regulations
SA 260	Communication with Those Charged with Governance
SA 265	Internal Control Deficiencies
SA 299	Joint Auditors
SA 300	Planning an Audit
SA 315	Risk Assessment and Understanding the Entity
SA 320	Materiality in Audit
SA 330	Responses to Assessed Risks
SA 402	Service Organisation Considerations
SA 450	Evaluation of Misstatements
SA 500	Audit Evidence
SA 501	Specific Audit Evidence

SA No.	Standard Name (Concise)
SA 505	External Confirmations
SA 510	Opening Balances
SA 520	Analytical Procedures
SA 530	Audit Sampling
SA 540	Accounting Estimates
SA 550	Related Parties
SA 560	Subsequent Events
SA 570	Going Concern
SA 580	Written Representations
SA 600	Group Audits
SA 610	Using Internal Auditors
SA 620	Using an Auditor's Expert
SA 700	Forming an Audit Opinion
SA 701	Key Audit Matters
SA 705	Modified Opinion
SA 706	Emphasis of Matter & Other Matter
SA 710	Comparative Information
SA 720	Other Information

AUDITING STANDARDS

SQC1 - STANDARD ON QUALITY CONTROL 1

Introduction & Objective -

What is SQC 1 ?	It is the blueprint for quality control that applies to all firms performing audits, reviews, and other assurance services.
The Core Objective	To provide the firm with reasonable assurance that :
	1. The firm and its personnel comply with professional standards and legal/regulatory mandates. 2. The reports issued by the firm or engagement partners are appropriate under the circumstances.

The 6 Pillars of Quality Control - "LEAD ME"

L	Leadership Responsibilities
E	Ethical Requirements
A	Acceptance & Continuance of Clients
D	Development of Human Resources
M	Monitoring
E	Engagement Performance

AUDITING STANDARDS

SQC1 - STANDARD ON QUALITY CONTROL 1

Leadership Responsibilities for Quality –
Ultimate Responsibility
Quality over Profit
Reward Systems

Ethical Requirements –
Core Values
Independence is Not-Negotiable
Annual Declaration

Acceptance and Continuance of Clients –
Client Integrity
Firm Capability
Ethical Alignment

Development of Human Resources –
Capability & Competence
Team Assignment

Monitoring –
Continuous Evaluation
Feedback Loop

Engagement Performance –
Consistency
Consultation
Engagement Quality Control Review

SQC 1 is not just paperwork; it is a shield.
It ensures that a firm protects its brand reputation,
stays compliant with regulatory bodies, and
consistently issues accurate, reliable financial reports.

AUDITING STANDARDS

SA 210 – APPOINTMENT LETTER

Appointment Letter to be obtained every year -

On the letterhead of the client

To,

________________,
________________,
________________.

Dear Sir,

Subject: Appointment of Tax Auditors for the Financial Year 2025-26.

We are happy to inform you that you have been appointed as Auditors to do the Tax Audit of the Books of Account of our concern for the Financial Year 2025-26. The professional fees for the same shall be mutually agreed upon by us before commencement of the audit work. We request you to send us a letter of acceptance for the same.

Thanking you,

Yours Faithfully,

for ________________

____
Proprietor / Partner / Director

Place: ____________
Date: ____________

AUDITING STANDARDS

SA 210 - ENGAGEMENT LETTER (REFER APPENDIX IX OF GNTA)

SL. No.	Particulars	Remarks
1.	Scope of Work	To audit financials u/s 44AB for PY and issue report
2.	Auditor's Responsibility	To conduct audit as per SA and issue report
3.	Management Responsibility	To prepare BOA, Financials and Form 3CD & provide information
4.	Matters to be communicated to those charged with Governance	To communicate with audit committee / board of directors / management (wherever applicable)
5.	Working Papers	Property of the auditors and the same will be with the auditors.
6.	Confidentiality of Information	Confidentiality of the client information will be maintained
7.	Independence	Assessee should ensure auditors independence is not impaired
8.	Limitation of Damages	Liability of auditor is restricted to the audit fee paid by entity.

SL. No.	Particulars	Remarks
9.	Indemnification	Entity to protect auditor from third party claims, damages, etc.
10.	Fees	Fee structure and breakup to be discussed and finalized
11.	Invoicing	Invoices to be cleared within the agreed time and to the designated bank account.
12.	Governing Law, Jurisdiction & Dispute Resolution	Disputes (if any), to be resolved amicably, otherwise it shall be dealt as per the laws of India
13.	Anti Money Laundering & Prevention of Corruption	Both parties comply with the AML and POC activities
14.	Entire Agreement	This is complete agreement about the engagement.
15.	End-use	The report is addressed to the entity and not to other parties
16.	Termination of Agreement	Agreement can be terminated by anyone with 30 days written notice.

AUDITING STANDARDS

SA 315 – UNDERSTANDING OF THE ENTITY

"Understanding the entity provides the foundation for identifying and assessing risks of material misstatement, enabling the auditor to design appropriate audit procedures.“

Understanding the Entity (SA 315)

- **Nature of the Entity** - Business model, products/services, locations, ownership and governance.
- **Industry, Regulatory & External Environment** - Industry trends, competition, laws, regulations and economic factors.
- **Objectives, Strategies & Business Risks** - Business goals and risks that may lead to material misstatements.
- **Internal Control System** - Control environment, risk assessment process, information system, control activities and monitoring controls.
- **Accounting Policies** - Understand significant accounting policies and their appropriateness.
- **Measurement & Review of Financial Performance** - KPIs, budgets, MIS reports, variance analysis and management reviews.
- **IT Environment** - ERP/accounting software, IT controls, automated processes and cybersecurity aspects.
- **Related Parties** - Identify related party relationships and significant transactions.
- **Fraud Risk Factors** - Incentives, opportunities and management override risks.
- **Significant Transactions & Events** - Unusual, complex or non-routine transactions requiring special attention.

AUDITING STANDARDS

SA 300 – AUDIT PLANNING

- **The Core Objective** - "To plan the audit so that it will be performed in an effective manner."
- **The Two Pillars of Planning** - Planning is divided into two distinct documentation levels: the Strategy and the Plan.

The Overall Audit Strategy (The "Big Picture")	The Audit Plan (The "Detailed Execution")
Scope: Identifies the financial reporting framework and industry-specific reporting requirements.	**Risk Assessment:** Detailed nature, timing, and extent of risk assessment procedures (under SA 315).
Timing: Sets the deadlines for reporting and key communications with management/TCWG.	**Further Procedures:** Specific test of controls and substantive procedures at the assertion level (under SA 330).
Direction: Sets materiality thresholds and allocates resources to high-risk areas.	**Compliance:** Mapping out other specific procedures required by other auditing standards.

- **Planning is Continuous** - It is a continuous process till the completion of the audit
- **Involvement of Key Engagement Partners** - Planning should not be entirely delegated to junior staff
- **Direction and Supervision** - Plan must outline the nature and extent of supervision of team members

AUDITING STANDARDS

SA 510 – OPENING BALANCES

"Verify opening balances and ensure they do not materially affect the current year's financial statements."

Key Audit Procedures

- Review Previous Year's Financial Statements
- Perform Additional Audit Procedures where required
- Assess Impact of Misstatements in opening balances
- Conclude on Opening Balances before relying on current year's figures

If Previous Auditor Exists

- Review predecessor auditor's report
- Consider qualifications or emphasis of matter
- Obtain access to relevant working papers (where permitted)

If Previous Financial Statements Were Not Audited

- Perform additional substantive procedures
- Verify opening balances independently
- Obtain alternative audit evidence

AUDITING STANDARDS

MATERIALITY, SAMPLING AND AUDIT EVIDENCE

MATERIALITY → **SA 320**

SAMPLING → **SA 530**

AUDIT EVIDENCE → **SA 500**

Sampling, Materiality and Audit Evidence are inter connected. They aren't isolated tasks; they are a chain reaction.

Materiality dictates ⇨ Sampling size, which ultimately determines the quality of Audit Evidence.

AUDITING STANDARDS

SA 320 - MATERIALITY FOR TAX AUDIT

Financial Materiality vs. Tax Compliance Limits

A tax audit requires two layers of filtering : Quantitative Materiality (for the financial balances) and Absolute/Legal Materiality (for statutory tax clauses).

A. The Quantitative Level (Financial Statements)

If you are auditing an entity whose financial statements are not audited under any other law (filing Form 3CB), you must first compute an overall financial materiality threshold using standard ICAI benchmarks to evaluate "true and fair" views:

Profit-Making Business	:	5% to 10% of Profit Before Tax (PBT).
Loss-Making / Low-Margin Business	:	0.5% to 1% of Total Revenue/Turnover.
Professionals	:	1% to 2% of Gross Receipts.

B. The Absolute Level (Form 3CD Compliance) — The Game Changer

For the clauses in Form 3CD, statutory limits override the auditor's calculated financial materiality. If an amount violates an Income Tax threshold, it is automatically material, even if it is pennies compared to the company's total revenue.

Absolute Threshold Rules:

Sec. 40A(3) : Any cash payment exceeding ₹10,000 in a single day to a single person must be verified. If a company has a ₹500 Crore turnover, a ₹12,000 cash payment is financially insignificant, but it is legally material for tax reporting.

Sec. 269SS / 269T : Any cash loans or deposits taken or repaid amounting to ₹20,000 or more must be reported.

Sec. 43B(h)/MSMED Act : Dues to micro and small enterprises outstanding beyond 45 days must be meticulously reviewed down to the exact rupee.

AUDITING STANDARDS

SA 530 - SAMPLING UNDER TAX AUDIT

The Strategy: Hybrid Testing Engine

- Zero-Sampling Zone (100% Testing Required) : Any clause with absolute statutory legal limits or high exposure to automated department flags cannot be sampled. Check all transactions for:
  - Clause 21(d) : Cash payments exceeding ₹10,000 (Sec 40A(3)).
  - Clause 31 : Acceptance or repayment of loans/deposits exceeding ₹20,000 (Sec 269SS/T).
  - Clause 34 : TDS compliance, matching book expenses directly against Form 26AS/AIS data.
- The Sampling Zone (SA 530 Rules Apply) :
  - Traditional sampling is reserved strictly for checking the genuineness and business purpose of routine operational costs under Section 37(1) (e.g., repairs, traveling, printing or general marketing expenses).

AUDITING STANDARDS

SA 530 - SAMPLING UNDER TAX AUDIT

Form 3CD Clause	Audit Area	Sampling Allowed?	Practical Application Strategy
Clause 19	Statutory Allowances (Sec 32, 35, etc.)	**No**	100% verification of asset additions.
Clause 21(a)	Capital, Personal or Advertisement Expenses	**Yes (Partial)**	100% check on high-value items. verify no hidden capital assets or personal expenses exist.
Clause 21(b)	Amounts inadmissible under Sec 40(a).	**No**	100% matching of non-resident payments and professional fees against TDS returns.
Clause 22	Interest inadmissible under MSMED Act.	**No**	100% aging report of accounts payable to flag any micro/small enterprise outstanding beyond 45 days.
Clause 34	TDS and TCS	**No**	100% verification of expenses to ascertain the applicability, remittance and returns filed.
Clause 44	Goods and Service Tax Compliance	**No**	100% review of expenses and vendors to have the breakup of registered and non-registered entities.

AUDITING STANDARDS

SA 500 - AUDIT EVIDENCE

Audit Evidence (SA 500) – The Ultimate Output
This is the final destination. Sampling and materiality are just tools to get you here.

- The Core Mantra: Evidence must be Sufficient (quantity) and Appropriate (quality—relevant and reliable).

- The Reliability Hierarchy: Rank how you gathered the evidence for the audience:

  1. External Sources - (Direct bank confirmations -- Most reliable)
  2. Auditor-Generated - (Physical inspection -- Reliable)
  3. Internal Client Sources - (Client-generated spreadsheets -- Least reliable, requires testing of controls first)

ASSURANCE TYPES

Type of Assurance	Work	Confidence Level	Audit Risk Allowed	Risk Associated	Conclusion	Reality	Cost & Time
Limited Assurance	Review	Moderate	Moderate	Low	Expression	Achievable	Low to Moderate
Reasonable Assurance	Audit	High	Low	High	Opinion	Achievable	High
Absolute Assurance	Audit	Very High	Very Low	Very High	Opinion	Not Possible	Very High

AUDITING STANDARDS

SA 505 – EXTERNAL CONFIRMATIONS

"External confirmations provide independent and reliable audit evidence by obtaining direct responses from third parties."

Key Procedures

- Identify balances/transactions requiring confirmation.
- Determine the type of confirmation (Positive or Negative).
- Maintain control over the confirmation process.
- Send requests directly to external parties.
- Follow up on non-responses.
- Evaluate confirmation replies for reliability.
- Investigate exceptions and differences reported.
- Perform alternative procedures where confirmations are not received.
- Assess whether sufficient appropriate audit evidence has been obtained.
- Document the confirmation process and conclusions.

Types of Confirmations

- Positive Confirmation – Reply required in all cases.
- Negative Confirmation – Reply required only if information is incorrect.

Typical Areas for External Confirmation

- Bank Balances
- Trade Receivables
- Trade Payables
- Loans & Borrowings
- Investments held by Custodians
- Legal Confirmations from Advocates
- Security Deposits
- Guarantees & Letters of Credit

AUDITING STANDARDS

RELYING THE WORK OF AN EXPERT

Feature	SA 600: Using the Work of Another Auditor	SA 610: Using the Work of Internal Auditors	SA 620: Using the Work of an Auditor's Expert
Who are they?	An independent, external auditor who audits a **component** (subsidiary, branch, division) included in the group financials.	Employees of the client entity belonging to the company's internal audit function.	A specialized professional/firm in a field **other than** accounting or auditing (e.g., actuary, engineer, geologist).
Expertise Area	Accounting and Auditing.	Accounting, Auditing, and Internal Controls.	**Non-Accounting/Auditing** fields (e.g., property valuation, legal claims, pension liabilities).
Relationship to Client	Completely **independent** of the client.	**Not independent**; they are internal employees of the client entity.	Can be an **external professional** or an internal specialist belonging to the audit firm.
Core Prerequisite Check	Assess their professional competence and ensure they are aware of group reporting deadlines and ethical requirements.	Evaluate their **Competence, Objectivity** (organizational status), and whether they use a **Systematic & Disciplined** approach.	Assess their professional competence, capabilities, and **objectivity/independence** relative to the client.
Level of Reliance	**High reliance** on their final opinion for that component, after reviewing their summary of work.	**Limited reliance**. Cannot use them for high-risk areas or tasks involving significant professional judgment.	**High reliance** on their technical findings, but the auditor must actively **evaluate the adequacy** of their assumptions and source data.
Reference in the Audit Report?	**Yes, permitted** in some jurisdictions. The principal auditor can state that the component was audited by another auditor (dividing responsibility).	**No.** Never mentioned or cited anywhere in the external audit report.	**No** in standard reports. Only referenced if it is highly relevant to explaining a **modified opinion** or a Key Audit Matter (KAM).
Ultimate Responsibility	**Shared or Sole** depending on local legal frameworks (e.g., in India, responsibility is divided unless reasons exist to doubt their work).	**Solely on the Principal Auditor.** Reliance never reduces the external auditor's legal liability.	**Solely on the Principal Auditor.** The expert's opinion does not absorb any liability if the financial statements are misstated.

AUDITING STANDARDS

SA 230 – AUDIT DOCUMENTATION

Core Objective - "To prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was planned and performed in accordance with SAs and applicable legal requirements."

What Must Be Documented? - Every standard audit file needs to capture the specific details of the work performed:

- Who & When : Who performed the audit work and the date it was completed, as well as who reviewed the work and the date of the review.
- Identifiers : The specific items or matters tested (e.g., sample selections, invoice numbers).
- Case Laws : In case, report is prepared based on certain judicial decisions, the copy of the same to be documented.
- Certificates : Certificate obtained by the client and management representation letter
- Signed Trial Balance: Trial balance based on which financials are prepared to be obtained by the management duly signed.
- Contradictory Info : If you find evidence that contradicts or is inconsistent with your final conclusion, you must document how you addressed and resolved that contradiction.

Timeline & Ownership Rules

Assembly of Final Audit File	Gathering, administrative sorting and closing out the file. No new tests or conclusions can be added	**Within 60 days** from the date of the auditor's report.
Retention Period	How long the firm must securely keep the working papers.	**Minimum of 7 years** from the date of the auditor's report.
Ownership	**Sole property of the auditor**.	The auditor may, at their discretion, make portions available to the client.

AUDITING STANDARDS

SA 580 – MANAGEMENT REPRESENTATION LETTER

a Mngt. Rep. Letter acts as your primary shield.
while it never replaces solid audit evidence,
confirms that Mngt. has given you accurate data,
holds responsibility for the financials, and
has disclosed hidden liabilities or transactions.

Basic Things to ensure while obtaining Management Representation Letter {MRL} -

Official Letterhead	It must be printed directly on the client's official letterhead.
Addressed to	Addressed explicitly to you or your CA firm by name.
Signature by	Signed by top management individuals who hold ultimate operational and financial authority (typically the Managing Director, CEO, or CFO or Managing Partner or Proprietor).
Date of MRL	The MRL must be dated on or just before the date you sign the Tax Audit Report (Form 3CA/3CB). Never date it after your report.

A. Core Management Acknowledgements -
Responsibility for Books
Basis for Preparation of Financial Statements
Share Capital, Sales/TO/Gross Receipts, etc.,
Completeness of Information
Absence of Fraud

B. Specific Tax Audit Disclosures –
Method of Accounting & ICDS
Personal Vs. Business Expenses
Payment to Related Parties
Cash Transactions
Statutory Dues (TDS/GST/PF)

C. Valuation & Ownership Declarations –
Inventory Valuation
Fixed Assets & Depreciation

MRL is not absolute proof. Auditor has to cross verify

Refer Appendix IXA of GN for Draft MRL format

AUDITING STANDARDS

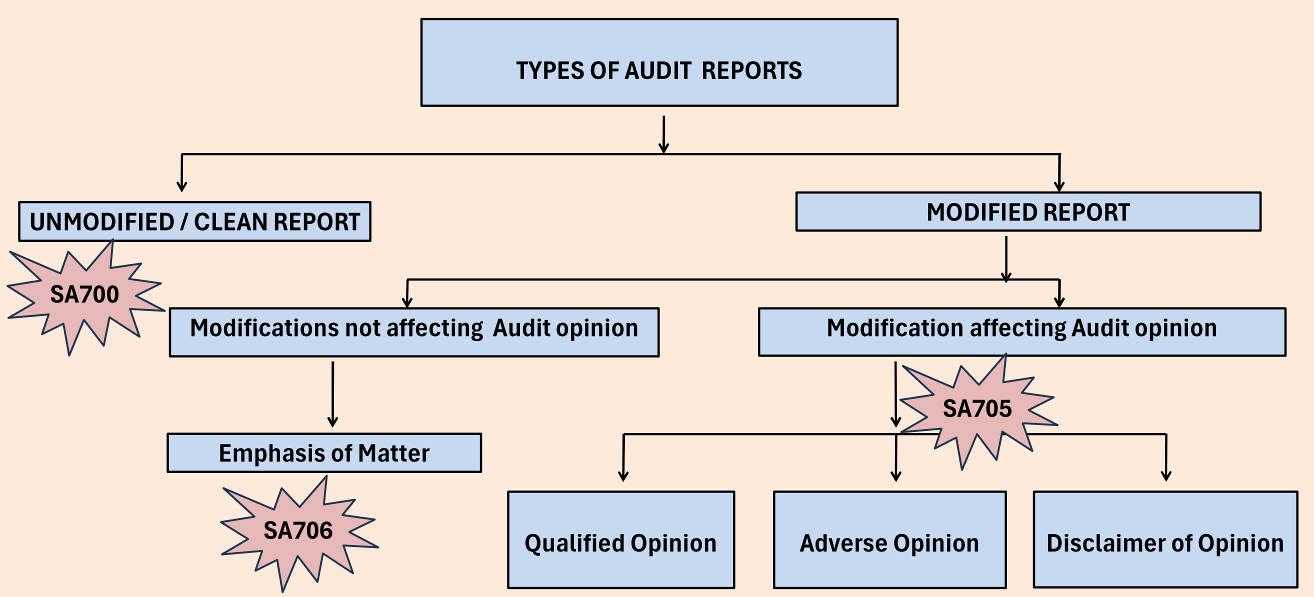
"TRUE AND FAIR" VS "TRUE AND CORRECT"

Particulars	True and Fair View (The Accounting lens)	True and Correct (The Compliance Lens)
Applicability	Standard Statutory Financial Audits (Form 3CB / Companies Act).	Tax Audit Particulars (Form 3CD).
Focus	Overall financial health, substance over form and reasonable presentation.	Factual alignment, exact matching with books and rigid adherence to statutory tax rules.
Flexibility	Allows for management estimates, accounting judgments and standard quantitative materiality.	Zero tolerance for statutory limits; if a clause asks for a number, it must be factually exact.
No Absolute Assurance	Both approaches are bounded by the inherent limitations of auditing (SA 200).	
Standard Framework	Both require professional skepticism and robust documentation under SA 230.	

The phrase "true and correct" in Form 3CD does not mean the auditor is giving absolute assurance.
However, this is one of the most widely misunderstood areas of professional practice.
There is a massive legal and conceptual distinction between the standard statutory audit phrase **"true and fair"** and the tax audit phrase **"true and correct."**

AUDITING STANDARDS

AUDIT REPORT



AUDITING STANDARDS

SA 700 – AUDIT REPORT

Core Objective:	Scope:
• Form an opinion on financial statements based on audit evidence obtained. • Express that opinion clearly through a written report describing its basis.	Applies to a complete set of general-purpose financial statements.

Section	Key Content / Requirement
1. Title	Must explicitly state: *"Independent Auditor's Report"*.
2. Addressee	As required by law/engagement (e.g., *To the Members of XYZ Ltd.*).
3. Opinion Section	Placed **first**. Identifies entity, periods, and states the opinion. Unmodified Opinion - SA700 Modified Opinion – SA 705
4. Basis for Opinion	States audit conducted per SAs; references independence and ethics code.
5. Going Concern	Highlights material uncertainty related to going concern (SA 570), if any.
6. Key Audit Matters (KAM)	Applies to listed entities (SA 701); highlights matters of most significance.
7. Emphasis of Matter (EoM)	Draws attention to a matter **appropriately presented/disclosed in the FS**. States opinion is *not* modified. – as per SA 706
8. Management's Responsibility	Preparation of FS, internal controls, and assessing going concern.
9. Auditor's Responsibility	To obtain reasonable assurance; describe audit objectives and procedures.
10. Other Reporting Duties	Statutory requirements (e.g., CARO, Companies Act disclosures in India).
11. Sign-off Details	Signature, Location, Date, Firm Reg. No. and **UDIN**

AUDITING STANDARDS

AUDIT REPORT

SA 706 - EMPHASIS OF MATTER

An **Emphasis of Matter** (EOM) paragraph is **not** a modified opinion. It is used to draw attention to a critical issue already disclosed by management in financials or Form 3CD notes.

Key rules of an EOM :

- ❖ **Clear Disclosure Required**
- ❖ **Opinion is Unchanged**

Common instances in a Section 44AB tax audit include :

- Deviation in Depreciation Practice
- Material Valuation Methodology Adjustments
- Massive Outstanding Tax Disputes
- Adoption of Special Tax Regimes
- Going Concern Issues with Valid Explanations

The Core Difference: Qualified vs. Emphasis of Matter

- **Qualified Report = Something is wrong or unverified - Auditor disagrees with Management.**
- **Emphasis of Matter = Everything is right, but look closely - Auditor agrees with Management.**

AUDITING STANDARDS

AUDIT REPORT

SA 705 – MODIFIED OPINION

This SA establishes three types of modified opinions, namely,

a qualified opinion,

an adverse opinion, and

a disclaimer of opinion.

The modifications depend on two factors: whether the issue is **Material** (significant) and whether it is **Pervasive** (widespread enough to break the credibility of the entire report).

The decision regarding which type of modified opinion is appropriate depends upon:

Nature of Matter Giving Rise to the Modification	Auditors Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but Not Pervasive	**Material and Pervasive**
Financial statements are materially misstated	Qualified Opinion	Adverse Opinion
Inability to obtain sufficient appropriate audit evidence	Qualified Opinion	Disclaimer of Opinion

AUDITING STANDARDS

AUDIT REPORT

SA 705 – MODIFIED OPINION

Type A: Qualified Audit Report ("Except For" Opinion)

Issued when misstatements or lack of evidence are **material but NOT pervasive**. The problem is isolated to specific areas, but the rest of the report is correct.

- **Misstatement :** The client refuses to report a specific known related-party payment under Clause 21(b) or Section 40A(2)(b). The amount is large enough to matter, but it doesn't make the entire Form 3CD unreliable.
- **Scope Limitation :** The client did not maintain or provide records for cash expenses under Section 40A(3), preventing the auditor from verifying if payments exceeded ₹10,000. The auditor qualifies the report stating they could not verify that specific clause.

Type B: Adverse Audit Report ("True & Correct View Defeated")

Issued when misstatements are both **material AND pervasive**. This happens when the records or the Form 3CD particulars are fundamentally broken or intentionally misstated across the board.

- **System Breakdown :** A systemic breakdown in accounting where the method of accounting (e.g., Mercantile vs. Cash) has been selectively switched across different divisions to drastically underreport revenue, fundamentally violating Income Computation and Disclosure Standards (ICDS).
- **Fabrication of Accounts :** Fabricating major business transactions, omitting core bank accounts from the general ledger or refusing to report widespread, pervasive tax disallowances that completely distort the taxable income calculation.

AUDITING STANDARDS

AUDIT REPORT

SA 705 – MODIFIED OPINION

Type C: Disclaimer of Opinion ("Unable to Conclude")

Issued when the auditor is **unable to obtain sufficient appropriate audit evidence**, and the potential effects of undetected misstatements could be both **material and pervasive**. The auditor essentially states: "We cannot form an opinion."

- **Destruction of Records :** Major events like a cyberattack destroying the cloud ledger without backup, or physical books being completely lost to fire/seizure before verification could take place.
- **Severe Management Restriction :** Management completely refuses to provide access to basic verification logs, sub-ledgers or primary tax portals (like the GST or TDS returns history), preventing the audit from functioning at all.

Reporting Note: When modifying a tax audit report, the auditor must clearly describe the specific reasons and exact financial amounts involved under the **"Assessee's Responsibility"** and **"Auditor's Responsibility"** fields inside Form 3CA/3CB. Vague statements like "Subject to management's verification" are not legally acceptable by the Income Tax Department.

GUIDANCE NOTE ON TAX AUDIT

CONTENTS OF GUIDANCE NOTE ON TAX AUDIT

1. Introduction & Background, Definition of Sales, Turnover, Gross Receipts
2. Provisions of Sec. 44AB & Other Provisions
3. Form of Financial Statements
4. Accounting Standards
5. Audit Procedure & Audit Report
6. Form 3CA, 3CB & 3CD
7. Signature and Stamp / Seal of the Signatory
8. Furnishing of Tax Audit Report
9. Appendices
10. Clarification regarding Authority

GUIDANCE NOTE ON TAX AUDIT

SALES

Sales is the most straightforward term.
It refers specifically to the aggregate amount for which transactions of goods are effected by a business.

- **Context :** Strictly used in the context of trading, manufacturing, or retail businesses dealing with physical inventory.
- **Includes :** Sales of scrap or by-products (often shown under "miscellaneous income").
- **Excludes:** Trade discounts allowed in the invoices themselves and sales returns.

TURNOVER

Turnover is a broader commercial term.
It refers to the total value of both goods sold and services rendered as part of your core business operations during the financial year.

- **Context :** Businesses (like contract-based services, agency models, or hybrid trading-cum-service entities).
- **Includes :** Core operational revenue, delivery/freight charges billed to customers.
- **Excludes:** Interest income, dividends, or rental income and sale proceeds of capital assets/investments.
- **Special Cases** :
  (i) For Futures & Options (F&O) trading, "turnover" is calculated as the absolute sum of all profits and losses, not the total contract value.
  (ii) For Share Brokers, only the brokerage earned is considered turnover (unless trading on their personal account).

GUIDANCE NOTE ON TAX AUDIT

TREATMENT OF DISCOUNTS, RETURNS AND ASSETS IN TURNOVER

Deductible from Turnover (Reduces Turnover):
Trade Discounts : Trade discounts allowed directly in the sales invoice.
Turnover Discounts : Quantity-based discounts, even if issued periodically via separate credit notes.
Special Rebates : Allowed only if they act as a trade discount (not if they are sales commissions).
Sales Returns : Price of returned goods, even if they relate to sales from previous years.

NOT Deductible (Does NOT Reduce Turnover):
Cash Discounts : Out-of-invoice discounts given for early payment (treated as financing charges).

Excluded from Turnover:
Capital Assets : Sale proceeds from fixed assets and investment properties.
Investment Securities: Sale of shares, debentures, or securities held as investments.
Exception : Sale proceeds must be included in turnover if these securities are held as stock-in-trade (trading business).

GUIDANCE NOTE ON TAX AUDIT

GROSS RECEIPTS

Gross Receipts is the widest term of the three.

It encompasses all receipts arising from the business or profession, including core revenue plus auxiliary operational inflows.

- **Context :** Primarily used for professions (e.g., doctors, CAs, lawyers, engineers) but also applies to businesses to capture receipts that don't fit under "sales" or "turnover".
- **Includes:** Professional fees, commission income, service charges, reimbursement of expenses.
- **Excludes:** Capital receipts, loans or deposits taken, and sale proceeds of personal assets.

QUICK COMPARABLE TABLE

Attribute	Sales	Turnover	Gross Receipts
Core Definition	Value of physical goods sold.	Aggregate value of goods sold + services rendered.	Total revenue inflows from operations + auxiliary business income.
Primary Target	Manufacturing & Trading.	Service providers, distributors, and traders.	Professionals and agency/commission-based models.
Examples of Exclusions	GST (if accounted separately), trade discounts.	Sale of fixed assets, interest/dividend income.	Loans/advances received, capital investment receipts.

GUIDANCE NOTE ON TAX AUDIT

INCLUSIONS IN GROSS RECEIPTS

Export Perks: Government cash assistance and duty drawbacks.

Financial Business Revenue: Gross interest for money lenders, chit fund commissions, and lease/hire-purchase receipts.

Asset Trading: Total sales value of Virtual Digital Assets (Crypto) and Carbon Credits.

Incidental Receipts: Scrap sales, insurance claims (except for fixed assets), liquidated damages, and forfeited customer advances.

Adjustments: Net foreign exchange gains on exports, and the net surplus only from separate expense reimbursement accounts.

Perks: The value of any business-related benefit or perquisite received.

EXCLUSIONS FROM GROSS RECEIPTS

Capital & Investment Sales: Sale proceeds from fixed assets (including forfeited advances) and sale of investments.

Non-Business Income: Rental income, dividends, and interest income (unless any of these are classified as core business income).

Pure Expense Reimbursements: Custom duties collected by clearing agents, advertisement charges recovered by recruitment agents, and booking amounts collected from clients by travel or advertising agents (provided they are exact, pass-through reimbursements).

Exception: Consolidated fees for package tours or bulk-booked advertising space must be included in turnover.

Partnership Receipts: A partner's share of profits, interest, salary, or commission received from their partnership firm.

Accounting Write-Backs & Capital Adjustments: Remission of liabilities (Section 41), write-back of old creditor balances/provisions, and bad debts recovered (to avoid double-counting).

Other Receipts: Agricultural income and general capital receipts not credited to the P&L statement.

GUIDANCE NOTE ON TAX AUDIT

DETERMINING TURNOVER FOR SHARES & DERIVATIVE TRANSACTIONS

- **Context** : Section 44AB requires tax audits based on turnover, but share trading has unique transaction methods.
- **The Golden Rule :** The full contract note value is not always the turnover.
- **Disclaimer** : These rules are solely for determining Tax Audit applicability under Section 44AB. They do not decide whether your income is classified as "Business Income" or "Capital Gains."

SPECULATIVE TRANSACTIONS (INTRADAY TRADING)

Turnover = Aggregate of Absolute Differences

- **What it is :** Transactions settled without actual delivery of shares (contracts squared up by paying/receiving differences).
- **How to Calculate Turnover :**
  - o Sum of all positive and negative differences.
  - o Treat each transaction as independent.
  - o Do not net off losses against profits.
- **Example :**
  - o Trade A: Profit of ₹15,000
  - o Trade B: Loss of ₹10,000
  - o Speculative Turnover = ₹25,000 (not ₹5,000)

GUIDANCE NOTE ON TAX AUDIT

DERIVATIVES, FUTURES & OPTIONS (F & O)

The 5-Point Turnover Formula

1. **Differences** : Total of all favorable (profits) and unfavorable (losses) differences of squared-off trades.
2. **Option Premium :** Premium received on the sale of options is added to the TO (unless included in net profit calculations).
3. **Reverse Trades** : Differences arising from any reverse trades must be included.
4. **Open Positions** : Un-squared-off trades at year-end are excluded; their TO is counted in the FY they are actually closed.
5. **Delivery-Settled Derivatives :**
   - o The difference between trade price and settlement price.
   - o Note: If the underlying asset is held as stock-in-trade, the transferor must include the entire sale value in their turnover.

DELIVERY BASED TRANSACTIONS

Turnover = Total Sale Value

- **What it is :** Transactions where actual physical delivery of shares or commodities takes place (intended or by default).
- **How to Calculate Turnover :**
  - o The total value of the sales is considered the turnover.
- **Example :**
  - o If you sell 1,000 shares of Company X at ₹500 each and take/give delivery:
  - o Turnover = ₹5,00,000 (the entire sale proceeds).

GUIDANCE NOTE ON TAX AUDIT

CLARIFICATION REGARDING AUTHORITY

Clarification Regarding Authority Attached to Documents Issued by the Institute

1. **Guidance Notes (Recommendatory)**

   Status: They are not strictly mandatory but are highly advisory. They help accountants apply standards or handle industry-specific auditing issues.

   If you don't follow them: You must perform alternate procedures that still achieve the Guidance Note's core objectives, document your rationale for doing so and evaluate if a disclosure is required in your audit report.

2. **Accounting & Auditing Standards (Mandatory)**

   Status: These establish the rules for preparing financial statements and conducting audits.

   Compliance: They are strictly mandatory from their specified effective dates.

The Gist :

Standards are mandatory rules you must follow. Guidance Notes are strong recommendations; you can use alternative methods instead, but you have to justify and document why you did so.

FORM 3CA

RULE 6G(1)(a)

Audit report in a case where the accounts of a person have been audited under any other law

Para (1) – Assessee Details, Audit conducted under provisions of .... law , copy of audit report annexed along with a copy each of

(a) Audited P&L / I&E Statement

(b) Balance Sheet

(c) Any documents to be part of financials as per the relevant act

Para (2) – Statement of particulars, annexed in Form 3CD

Para (3) – True and Correct in Form 3CD, subject to observations / qualifications, if any

FORM NO.3CA

[See rule 6G(1)(a)]

Audit report under section 44AB of the Income-tax Act, 1961,

in a case where the accounts of the business or profession of a person

have been audited under any other law

*I/we report that the statutory audit of M/s. ____________________ (Name and address of the assessee with Permanent Account Number or Aadhaar Number) was conducted by *me / us / M/s. ______________________________ in pursuance of the provisions of the ______________________________Act, and*I/we annex hereto a copy of *my / our / their audit report dated ____________________along with a copy of each of : -

(a) the audited *profit and loss account / income and expenditure account for the period beginning from ----------------------to ending on ----------------------------.

(b) the audited balance sheet as at, ______; and

(c) documents declared by the said Act to be part of, or annexed to, the *profit and loss account /Income and expenditure account and balance sheet.

2. The statement of particulars required to be furnished under section 44AB is annexed herewith in Form No. 3CD.

3. In *my / our opinion and to the best of *my / our information and according to examination of books of account including other relevant documents and explanations given to *me / us, the particulars given in the said Form No. 3CD are true and correct subject to the following observations/qualifications, if any:

a.

b.

c.

....

**(Signature and stamp/Seal of the signatory)

Place: ______________ Name of the signatory ....

Date: ______________ Full address ....

FORM 3CB

RULE 6G(1)(b)

Audit report in a case where the accounts of a person have to be audited under IT Act, 1961

Para (1) – Assessee Details

Para (2) – Fin. Stat. in accordance with BOA Maintained

Para (3) - (a) Observations / Comments / Discrepancies / Inconsistencies

(b) subject to above –

(A) Obtained all information & explanation

(B) Opinion about proper maintenance of BOA

(C) Opinion about (i) B/S - State of affairs

(ii) P&L- Profit / Loss

Para (4) – Statement of particulars, annexed in Form 3CD

Para (5) – True and Correct in Form 3CD, subject to observations / qualifications, if any

FORM NO.3CB

[See rule 6G(1)(b)]

Audit report under section 44AB of the Income-tax Act, 1961,

in the case of a person referred to in clause (b) of sub-rule (1) of rule 6G

1. *I / we have examined the balance sheet as on, _____, and the *profit and loss account / income and expenditure account for the period beginning from ---------------------to ending on ----------------., attached herewith, of ______________________________(Name), ____________________(Address), _______________(Permanent Account Number).

2. *I / we certify that the balance sheet and the *profit and loss / income and expenditure account are in agreement with the books of account maintained at the head office at ______________ and ** ____________ branches.

3.(a) *I / we report the following observations / comments / discrepancies / inconsistencies; if any:

(b) Subject to above, -

(A) *I / we have obtained all the information and explanations which, to the best of *my / our Knowledge and belief, were necessary for the purpose of the audit.

(B) In *my / our opinion, proper books of account have been kept by the head office and branches of the assessee so far as appears from*my / our examination of the books.

(C) In *my / our opinion and to the best of *my / our information and according to the explanations given to *me / us, the said accounts, read with notes thereon, if any, give a true and fair view: -

(i) in the case of the balance sheet, of the state of the affairs of the assessee as at 31st March; and

(ii) in the case of the *profit and loss account / income and expenditure account of the *profit / loss or *surplus / deficit of the assessee for the year ended on that date.

4. The statement of particulars required to be furnished under section 44AB is annexed herewith in Form No.3CD.

5. In *my/our opinion and to the best of *my / our information and according to explanations given to *me / us, the particulars given in the said Form No.3CD are true and correct subject to following observations/ qualifications, if any:

a.

b.

c.

....

***(Signature and stamp/seal of the signatory)

Place: ______________ Name of the signatory ....

Date: ______________ Full address ....

FORM 3CA/3CB

Para(3) of Form 3CB –Observations/Comments/ Discrepancies/Inconsistencies

- **Accounting Standards Non-Compliance**
- Books of account are **not maintained** as required.
- Books are **not produced** for audit.
- **Scope limitation** prevents verification.
- **Material records** are unavailable.
- The auditor is **unable to obtain sufficient appropriate audit evidence**.
- Reliance is placed on **management representations** due to absence of supporting records.
- **Quantification** of the financial impact is **not possible**.
- Stock records are **not maintained**, affecting quantitative reporting.
- Details required for Form 3CD are **not available**.
- Information furnished by the assessee is **incomplete or inconsistent**.
- **External Confirmation** in respect of Sundry Debtors, Sundry Creditors, Loans, Advances and Deposits is not provided by the assessee.
- It is observed that many of the expenses are accounted on the basis of **self-made vouchers** and for which supporting documents are not available.
- Opening Balances have been considered from **unaudited Financial Statements**.
- Opening Balances are not available, since it is the **first year** of commencement of business.

Most common clauses under Form 3CD

- Clause 11 – Books of account
- Clause 13 – Accounting method & ICDS
- Clause 14 – Valuation
- Clause 18 – Depreciation
- Clause 21 – Disallowances
- Clause 22 – MSME
- Clause 26 – Section 43B
- Clause 31 – Cash transactions
- Clause 34 – TDS/TCS
- Clause 35 – Quantitative details
- Clause 44 – GST details

FORM 3CA/3CB

Para(3) of Form 3CA & Para (5) of Form 3CB – Observations / Qualifications in Form 3CD

Clause	Particulars	Typical Observation / Qualification / Remark
3(a)	Nature of Business	Multiple businesses not disclosed, change in business not reported.
8A	Section 139(1) due date	Delay in filing if applicable.
11	Books of Account	Books not maintained as prescribed u/s 44AA, incomplete books, books maintained electronically but inaccessible.
12	Presumptive taxation	Conditions of presumptive scheme not fulfilled.
13	Method of Accounting	Change in accounting policy, ICDS deviations, inconsistent method, impact not ascertainable.
14	Valuation of Closing Stock	Non-compliance with Section 145A, inconsistent valuation method, impact not quantifiable.
16	Payments not credited to P&L	Government grants, escalation claims etc. omitted.
17	Land/Building Transfer	Stamp duty valuation differences, applicability of sections 43CA/50C/56(2)(x).
18	Depreciation	Asset register unavailable, ownership not proved, depreciation working based on management data.
19	Deductions under Chapter III	Conditions of deduction not verified fully.
20	Employee Benefits	Actuarial valuation not obtained, provision based on estimates.
21(a)	Capital expenditure debited	Unable to verify complete segregation between capital and revenue expenditure.
21(b)	Personal Expenses	Personal element estimated where records are inadequate.
21(c)	Penalties/Fines	Nature of expenditure based on available records.
21(d)	Section 40(a)	TDS applicability disputed, auditor reports based on information provided.
21(e)	Section 40A(3)/(3A)	Cash payments not fully verifiable.

FORM 3CA/3CB

Para(3) of Form 3CA & Para (5) of Form 3CB – Observations / Qualifications in Form 3CD

Clause	Particulars	Typical Observation / Qualification / Remark
21(f)	MSME Interest	Based on management representation where supplier status unavailable.
22	MSME Outstanding	Supplier declarations not available, reporting based on management representation.
24	Deemed Income	Information based on books available.
26	Section 43B	Payment evidence not fully available before report date.
27	CENVAT/GST	Reconciliation differences, records pending reconciliation.
28	Section 56	Fair market value based on documents provided.
29A/29B	Sections 56(2)(x), 56(2)(viib)	Valuation reports not available or relied upon.
31	Cash Loans/Deposits	PAN or confirmations not available, reporting based on books.
32	Losses	Earlier year's assessment not completed.
34	TDS/TCS	Returns not filed/reconciled, reporting based on records produced.
35	Quantitative Details	Stock records not maintained, quantities not verifiable.
36A	Dividend Distribution	Based on information available.
38	Cost Audit	Cost audit not conducted though applicable or report not available.
39	Excise/GST Audit	GST audit not applicable/records not available (earlier years).
40	Ratios	Derived from books produced.
41	Demand/Refund	Based on orders furnished by management.
44	GST Break-up	GST reconciliation incomplete, figures based on books and returns available.

FORM 3CD CLAUSES

List of 3CD Clauses

PART A — Clause 1 to 8A

PART B — Clause 9 to 44

Cl. No	Clause Particulars
1	Name of the Assessee
2	Address
3	Permanent Account Number or Aadhar Number
4	Registration number of GST or any other identification number allotted for the same
5	Status
6	Previous year
7	Assessment year
8	Indicate the relevant clause of section 44AB under which the audit has been conducted.
8A	Whether the assessee has opted for taxation under section 115BA/115BAA/115BAB/ 115BAC/115BAD/115BAE

Cl. No.	Clause Particulars
9	Particulars of Members / Partners
10	Nature of Business or Profession
11	Books of Account and Relevant Documents
12	Presumptive Income
13	Method of Accounting
14	Valuation of Closing Stock
15	Conversion of Asset into Stock-in-trade
16	Items of Income not Credited to P&L Account
17	Valuation of Property
18	Particulars of Depreciation
19	Amounts admissible under section 32AC – 35E
20	Bonus, Commission, PF recoveries, etc

FORM 3CD CLAUSES

List of 3CD Clauses

PART B → Clause 9 to 44

Cl. No	Clause Particulars
21	Amount Inadmissible debited to profit & loss account
22	Amount to be reported in respect of payment made to Micro and Small Enterprises
23	Payments to specified persons under section 40A(2)(b)
24	Deemed Profits u/s. 32AC/32AD/33AB/33ABA/33AC
25	Profit chargeable under section 41
26	Payment under section 43B
27	Cenvat Credits and Prior Period Expenses / Income
28	Omitted
29	Amounts includable u/s. 56(2)(ix) and (x)
30	Hundi Loans, Primary Adjustment, Interest U/s. 94B, GAAR
31	Loans or Deposits or Specified sum U/s. 269SS, 269ST & 269T
32	Set-off of Brought Forwards Losses

Cl No	Clause Particulars
33	Deduction under Chapter VIA and Chapter III
34	TDS and TCS deducted or collected, return and interest
35	Quantitative details of Trading or Manufacturing Concern
36	Receipt of Dividend and Buy back of Shares
37	Cost Audit Report
38	Excise Audit Report
39	Service Tax Audit Report
40	Analytical Ratios
41	Details of Demand and Refund under Other Laws
42	Information relating to Form 61 , 61A & 61B
43	Country by Country Reporting details
44	GST Compliance

FORM 3CD CLAUSES

PART A

CONTENTS

1.	Name of the Assessee	Name of the assessee (as at year ending) whose accounts are being audited u/s 44AB should be furnished as specified in PAN. In case of Branch, Branch name to be mentioned along with the name of the assessee.
2.	Address	Address to be mentioned under this clause should be same as has been communicated by the assessee to the Income Tax Department for assessment purpose as on date of signing of audit report. In case of difference, the same should be given as an observation.
3.	Permanent Account Number or Aadhar Number	The Permanent Account Number (PAN) allotted to the assessee should be indicated & it is a mandatory field. Aadhar is an optional field.
4.	Registration number of GST or any other identification number allotted for the same	the auditor is primarily required to furnish the details of registration numbers as provided to him by the assessee. The reporting is however, to be done in the manner or format specified by the e-filing utility in this context. If the assessee has registrations state wise, the same need to be mentioned. Registrations under Indirect Taxes has to be mentioned here.
5.	Status	Status as per Sec. 2(31) need to be mentioned, like Indl., HUF, Company, Firm, AOP, BOI, a Local Authority, Trust, or Artificial Judicial Person.

FORM 3CD CLAUSES

PART A

CONTENTS

6.	Previous year	From ______ to ________ the period of the previous year has to be stated. In case of **amalgamations, demergers, reconstitution, new business, closure of existing business,** etc. the date of beginning / ending of the previous year may be different, accordingly, the relevant date of beginning and ending of the previous year may be mentioned in this clause.
7.	Assessment year	The assessment year relevant to the previous year for which the accounts are being audited should be mentioned
8.	Indicate the relevant clause of section 44AB under which the audit has been conducted.	44AB(a) - If total sales, turnover or gross receipt in business exceeds **Rs. 1 Crore** 44AB(a) - Proviso where aggregate cash receipts and payments not exceeding **5%, (TO > Rs. 10 Crores)** 44AB(b) - If gross receipts in profession exceed **Rs.50 lakh** 44AB(c)(i) - profits lower than deemed profit **u/s. 44AE** 44AB(c)(ii) - profits lower than deemed profit **u/s. 44BB** 44AB(c)(iii) - profits lower than deemed profit **u/s. 44BBB** 44AB(d) - profits lower than deemed profit **u/s. 44ADA** 44AB(e) - profits lower than deemed profit **u/s. 44AD** Third proviso to Sec. 44AB – Audit under **any other law**

FORM 3CD CLAUSES

PART A

CONTENTS		
8a.	Whether the assessee has opted for taxation under section 115BA/115BAA/115BAB/ 115BAC/115BAD/115BAE	Opting to file the return under **"New Tax Regime"** 115BA - Form 10-IB – Manufacturing Domestic Company 22% 115BAA - Form 10-IC – Domestic Company 25% 115BAB - Form 10-ID – New Manufacturing Domestic Company 15% 115BAC - Form 10-IEA – Indl., HUF. AOP, BOI, AJP Slab Rate 115BAD - Form 10-IF – Resident Co-operative Society 22% 115BAE - Form 10-IFA – Resident New Manufacturing Co-operative Society 15%

8a.

- Tax auditor has to verify whether, the assessee has filed the relevant form to claim the New Tax Regime.
- If the assessee has not filed the form as on the date of signing the audit report, a written representation has to be obtained from the assessee, that the same will be filed before filing the ITR.
- Where reporting is made solely on the basis of assessee's representation, the fact should be stated in paragraph (3) of Form 3CA or paragraph (5) of Form 3CB.
- While reporting admissible depreciation under clause 18(e) of Form No. 3CD, additional depreciation under Section 32(1)(iia) is not to be considered, and a note is given to that effect;
- Report amount admissible under Sections 32AD, 33AB, 33ABA, 35(1)(ii), 35(1)(iia), 35(1)(iii), 35(2AA), 35(2AB), 35AD, 35CCC as "Nil" against Clause 19 of Form No. 3CD; and
- Report amount admissible under Section 10AA or under Chapter-VIA (except under Section 80JJAA) as "Nil" against Clause 33 of Form No. 3CD.
- MAT shall not be applicable to the company which exercises option under section 115BAA and 115BAB

FORM 3CD CLAUSES

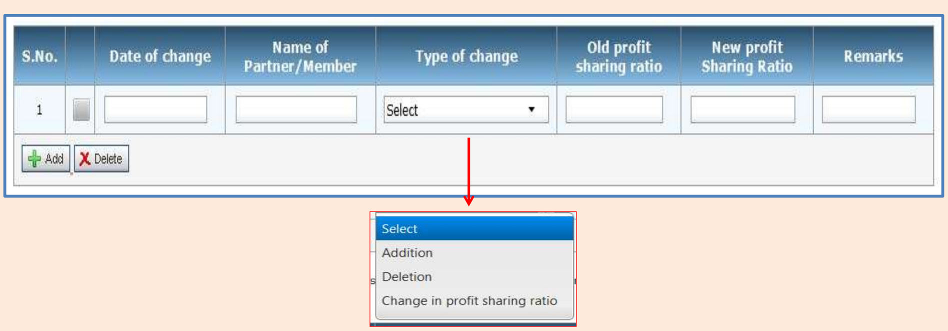
PART B

9	Particulars of Members / Partners

Clause 9(a)
If firm or Association of Persons, indicate names of partners/members and their profit sharing ratios.

Clause 9(b)
If there is any change in the partners or members or in their profit sharing ratio since the last date of the preceding year, the particulars of such change.

Format in e-utility Clause 9(b)



FORM 3CD CLAUSES

PART B

9	Particulars of Members / Partners	

- This applies to **Firm, Association of Persons (AOPs) and LLPs**
- **"Profit Sharing Ratio"** would include Loss sharing ratio also as "Loss" is nothing but negative profit.
- All the changes occurring during the entire previous year must be stated.
- **Change in remuneration not to be reported -** The Clause would not cover any change in relation to payment of remuneration or interest to partners or members without change in Profit/ Loss Sharing ratio

FORM 3CD CLAUSES

PART B

10	Nature of Business or Profession	

a) Nature of business or profession. (if more than 1 business / profession is carried on during the P.Y, nature of every business/ profession)

b) If there is any change in the nature of business or profession, the particulars of such change.

- **Permanent discontinuance** of a particular product line of business need to be reported and **not temporary suspension**.
- **Effect on Carry forward of losses** :- From A.Y. 2000-01 losses will be carried forward, even if the Business or Profession is discontinued ***(Sec 72(1)(i))***
- The **Codes for business or profession** for all main activities (principal line of each of the businesses) should be reported.

FORM 3CD CLAUSES

PART B

11	Books of Account and Relevant Documents

Clause 11 (a)

Whether books of account are prescribed under Section 44AA, if yes, list of books so prescribed.

Clause 11 (b)

List of books of account maintained and the address at which the books of accounts are kept.

(In case books of account are maintained in a computer system, mention the books of account generated by such computer system. If the books of accounts are not kept at one location, please furnish the addresses of locations along with the details of books of accounts maintained at each location)

Clause 11 (c)

List of books of account and nature of relevant documents examination

- Books are prescribed for Specified Professionals only
- No Books of account are prescribed for persons carrying on business or non-specified profession
- Books are prescribed as per Sec. 44AA and Rule 6F
- Cash book, Journal and Ledger to be maintained
- Auditor has to obtain the list of books and documents maintained by the assessee and also the address where it has been maintained
- Books of account and documents should be kept as to enable the AO to compute total income.
- In case books are maintained on cloud or online, place where server is located has to be mentioned.
- All documents like, bills, vouches, receipts, debit notes, agreements, returns, certificates, examined to be noted

FORM 3CD CLAUSES

PART B

12	Presumptive Income

Where the profits and gains of the business are assessable to tax under presumptive basis, the amount of such profits and gains credited / debited to the profit and loss account should be indicated under this clause.

Sl. No.	Section	Business Covered
1.	44AD	Eligible business of an eligible assessee resident in India
2.	44ADA	Profession referred to in section 44AA(1)
3.	44AE	Plying, hiring or leasing of goods carriage of assessee owning not more than 10 vehicles
4.	44B	Shipping business of non-resident not being cruise
5.	44BB	Prospecting for or extraction of mineral oils, by non-resident
6.	44BBA	Business of operation of aircraft by non-resident
7.	44BBB	Business of civil construction in connection with turnkey project approved by Central Government
8.	44BBC	Business of operation of cruise ships in case of non-resident

Sl. No.	Section	Business Covered
9.	44BBD	Non-resident providing service or technologies for setting up electronic manufacturing facility in India
10.	Chapter XII-G	Tonnage income of shipping business
11.	First Schedule	Insurance Business
12.	Any Other relevant section	Any residuary section not listed above and will include any section that may be enacted in future for presumptive taxation.

In case of composite business, if the books of accounts are commonly maintained, apportionment of the common expenses should be on reasonable estimate.

FORM 3CD CLAUSES

PART B

13	Method of Accounting

Clause 13 (a) Method of accounting employed in the previous year

SECTION 145

Income to be computed under:

Profits and Gains from Business or Profession: | **Income from Other Sources**

Assessee may follow either:

CASH SYSTEM **OR** **MERCANTILE SYSTEM**

EXCEPTION: COMPANY – Accrual Basis (Sec 128) of Companies Act,2013

Exemptions :
Individuals and Hindu Undivided Families (HUFs) who are **not subject to tax audit** under Section 44AB.
Taxpayers opting for **presumptive taxation** schemes (like Sec 44AD, 44ADA)

HYBRID SYSTEM NOT PERMITTED

Method of Accounting once adopted Must be followed **REGULARLY & CONSISTENTLY**

Note : Different methods permitted for different businesses

Clause 13 (b) Whether there had been any change in the method of accounting employed vis-a-vis the method employed in the immediately preceding previous year.

- A change in an accounting policy will not amount to a change in the method of accounting and hence such change in the accounting policy need not be mentioned under sub-clause (b).
  Example : change in the method of valuation of stock will amount only to a change in an accounting policy

FORM 3CD CLAUSES

PART B

13	Method of Accounting

Clause 13(c) If answer to (b) above is in the affirmative, give details of such change, and the effect thereof on the profit or loss.

Serial number	Particulars	Increase in profit (Rs.)	Decrease in profit (Rs.)

Clause 13(d) Whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2).

CASH SYSTEM Followed for PGBP or IFOS X

MERCANTILE SYSTEM Followed for PGBP or IFOS ✓

Sec 145(2)
- From 01.04.2015 onwards, Central Government may notify Income Computation & Disclosure Standards (ICDS)

10 ICDS have been issued by the Government.

Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts

ICDS No	ICDS Name	Particulars
ICDS I	**Accounting Policies**	Concept of Prudence and Materiality is not recognised
ICDS II	**Valuation of Inventories**	Inventories must be valued using the **inclusive method** (Section 145A). Costs must include taxes, duties, or cesses even if they are subsequently recoverable
ICDS III	**Construction Contracts**	Revenue and costs must be recognized using the **Percentage of Completion Method (POCM)**. The Completed Contract Method is completely barred.

FORM 3CD CLAUSES

PART B

13	Method of Accounting

ICDS No	ICDS Name	Particulars
ICDS IV	Revenue Recognition	**Service Revenue :** Revenue from rendering services must be recognized using POCM; The Completed Service Method is not allowed unless the duration of the service is under 90 days. **Interest on Accrual :** Interest income accrues purely on a **time basis**. Cannot be postponed due to non-performing asset (NPA) concerns or collection uncertainties. **Dividend :** Dividends are recognized generally when declared or right to receive is established
ICDS V	Tangible Fixed Assets	Does not recognize component accounting (splitting an asset into separate parts for varying depreciation). Depreciation calculations entirely ignore any upward asset revaluations recorded in the commercial books.
ICDS VI	Effects of Changes in Foreign Exchange Rates	**Monetary Items**: Foreign currency monetary items (like receivables/payables) must be converted using the closing exchange rate on the last day of the financial year. Resulting exchange differences are recognized as income or expense. **Non-Monetary Items**: Non-monetary items (like inventory or fixed assets) must continue to be carried at the historical exchange rate on the transaction date.
ICDS VII	Government Grants	**No Capital Reserve**: Grants cannot be credited to a capital reserve. **Asset Reductions**: Grants related to a specific depreciable asset must be deducted from the actual cost or Written Down Value (WDV) of that asset. **Revenue Recognition Timing**: Other revenue grants must be recognized as income over the periods necessary to match them with the related costs.
ICDS VIII	Securities	**Bucket Valuation Method**: Securities held as stock-in-trade must be valued at the lower of cost or NRV **category-wise** (Shares, Debt, etc.), rather than asset-by-asset. **Unlisted Securities**: Unlisted or thinly traded securities must always be valued strictly at their actual acquisition cost
ICDS IX	Borrowing Costs	**Qualifying Asset Rules**: Borrowing costs directly related to the acquisition of fixed assets must be capitalized until the asset is first put to use.
ICDS X	Provisions, Contingent Liabilities, and Contingent Assets	**Reasonably Certain Assets**: Contingent assets and related inflows are recognized as taxable income when the inflow becomes **"reasonably certain“** **Contingent Liabilities :** Cannot be recognized unless a binding legal obligation exists by the end of the financial year.

FORM 3CD CLAUSES

PART B

13	Method of Accounting

For Clause 13(d), The tax auditor should obtain draft computation of total income and disclosures required under ICDS. Based on information and books of account, the tax auditor should consider whether any adjustment is required to be made to the profit or loss.

Clause 13(e) If answer to (d) above is in the affirmative, give details of such adjustments:

ICDS	Increase in profit (Rs.)	Decrease in profit (Rs.)	Net Effect (Rs.)

In case an adjustment is required for complying with ICDS, the details of such adjustments have to be given in clause 13(e) i.e., amount of increase or decrease in profit relating to each ICDS and total.

Clause 13(f) Disclosure as per ICDS:

ICDS	Remarks

This Clause requires disclosure of significant income computation and disclosure policies adopted by a person for computation of income chargeable under the head ‘profits and gains from Business or Profession’ or ‘income from other sources’

FORM 3CD CLAUSES

PART B

14	Valuation of Closing Stock

(a) Method of valuation of Closing stock employed in the previous year.

(b) Details of deviation, if any, from the method of valuation prescribed under Section 145A, and the effect thereof on the profit or loss, please furnish:

Serial Number	Particulars	Increase in profit (Rs.)	Decrease in profit (Rs.)

- Closing Stock to be valued based on AS-2, Valuation of Inventories.
- Two methods of valuation of stock is, either FIFO Basis Method or Weighted Average Method as per AS-2.
- Stock is valued at lower of Actual Cost or Net Realisable Value computed in accordance with ICDS.
- Valuation of purchase, sale, services and inventory shall include any, tax, duty, cess or fee paid or payable.
- Method of accounting will be either exclusive method or inclusive method.
- Adjustments have to be made with respect to taxes, when exclusive method is followed.

FORM 3CD CLAUSES

PART B

15	Conversion of Asset into Stock-in-trade

Following particulars of the capital asset converted into stock-in-trade has to be given

(a) Description of capital asset

(b) Date of acquisition

(c) Cost of acquisition

(d) Amount at which the asset is converted into stock-in-trade

- Such conversion is treated as transfer u/s 2(47)
- U/s 45(2) notional capital gain arises from such transfer and chargeable to tax in the year in which such stock-in-trade is sold.
- No requirement of details of taxability of ‘capital gain’ or ‘business income’ from such deemed transfer.
- Accounting standards to be followed:

  AS-2/Ind AS -2 for valuation of stock-in-trade

  AS-10/Ind AS 16 for valuation of fixed assets.

  AS-22 for provision of Income Tax as temporary timing difference.
- Sec 47(iv), 47(v) & 47A are also to be considered.

FORM 3CD CLAUSES

PART B

16	Items of Income not Credited
Sub clause	**Particulars**
a	the items falling within the scope of section 28;
b	the proforma credits, drawbacks, refund of duty of customs or excise or service tax, or refund of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned;
c	escalation claims accepted during the previous year;
d	any other item of income;
e	capital receipt, if any.

- Under this clause, various amounts falling within the scope of section 28 which are not credited to the profit and loss account are to be stated.

Section 28

No	Particulars	No	Particulars	No	Particulars
(i)	Business Profits	(iiic)	Duty Drawback	(va)	Non-Compete Receipts
(ii)	Termination Compensation	(iiid)	DEPB Transfer Profit	(vi)	Keyman Insurance
(iii)	Export Incentives	(iiie)	DFRC Transfer Profit	(via)	Inventory Conversion
(iiia)	Import Licence Profit	(iv)	Business Perquisites	(vii)	35AD Asset Receipts
(iiib)	Export Cash Assistance	(v)	Partner's Remuneration		---

FORM 3CD CLAUSES

PART B

16	Items of Income not Credited

Clause (a) - **Benefits** covered under **Section 194R** and taxable under Section 28(iv), if not credited to the P&L Account, should be reported under Clause 16(a).

Clause(b) - Report **admitted claims** (e.g., pro forma credits, drawback, and refunds of customs duty, excise duty, service tax, sales tax/VAT, GST, or others) not credited to the P&L Account under Clause 16(b).

Description	Other Desc.	Amount

Clause (c) - the **escalation claims** accepted during the relevant previous year but not credited to the profit and loss account are to be stated.

Clause (d) - Report **any other income** identified from records or verification but not credited to the P&L Account.

Clause (e) - Report **capital receipts** of an income nature not credited to the P&L Account (e.g., capital subsidies, compensation, profit on sale of fixed assets/investments, forfeited deposits, and asset-related government grants).

Description	Amount

FORM 3CD CLAUSES

PART B

17	Valuation of Property

Where any **land or building or both** is transferred during the previous year for a consideration less than the value adopted or assessed or assessable by any authority of a State Government referred to in **<u>Section 43CA or 50C</u>**, please furnish:

Details of property	Address of property	Consideration received or accrued	Value adopted or assessed or assessable	Whether provisions of second proviso to sub-section (1) of section 43CA or fourth proviso to clause (x) of sub-section (2) of section 56 applicable? [Yes/No]

<u>Issues/ Points to be considered......</u>

- Obtain a list of all properties transferred during the P.Y. and verify the same from the financial statement.
- Under the heading "Consideration Received or Accrued", the tax auditor should furnish the amount of consideration received or accrued, during the relevant P. Y. in respect of land/building transferred during the year as disclosed in the books of account.

FORM 3CD CLAUSES

PART B

17	Valuation of Property

Capital Asset Transferred is Land, Building or Both

Sale Consideration < Stamp Duty Value (SDV)

Difference is <= 10%

Sale Consideration = FVOC

Difference > 10%

SDV = FVOC

Stamp Duty Value (SDV) as on Date of Agreement may be taken as FVOC if:

Date of Agreement ≠ Date of Registration ✓

Part or full consideration has been received on or before the date of agreement in "Specified Banking or Online Mode" ✓

The asset may be long term capital asset or short-term capital asset and it may be depreciable or non depreciable asset

FORM 3CD CLAUSES

PART B

17	Valuation of Property	

1. Classification of Leasehold rights, development rights, TDR or FSI as Land or Building –

There is no fixed statutory or blanket rule classifying leasehold rights, development rights, TDR (Transferable Development Rights), or FSI (Floor Space Index) strictly as "land" or "building".

The ICAI explicitly states that the tax auditor must apply professional judgment to evaluate whether these rights fall under the provisions of Clause 17 based on the specific facts and circumstances of each transaction.

2. How to Evaluate These Rights -

Leasehold Rights : If the transaction involves the assignment of a long-term lease (e.g., a 99-year lease) where the bundle of ownership rights resembles a complete transfer of the property, it is often evaluated closely alongside land/building. However, brief or standard rental leases do not qualify as a transfer of land or building.

Development Rights / TDR / FSI : While these are legally recognized as "benefits arising out of land" (and thus immovable property under the General Clauses Act), multiple judicial tribunals (such as various ITAT rulings) have held that a transfer of mere development rights or TDR is a transfer of a bundle of rights, not a direct transfer of "land or building" itself. Therefore, many positions hold that Sections 50C and 43CA do not strictly apply to them unless the underlying land/structure itself changes hands.

3. What the Auditor Should Do -

Analyze the Agreement : Examine the transfer deed to see if it transfers the actual title of the land/building or merely the economic/development rights associated with it.

Review Stamp Duty Applicability : Check if the local stamp valuation authority has assessed the transaction specifically under the head of land or building.

Disclose via Observations : If there is a difference of opinion between the assessee and the auditor, or if auditor is relying on a specific judicial precedent to exclude/include these rights, clearly state the view as an **observation/qualification in Form 3CA/3CB.**

FORM 3CD CLAUSES

PART B

18	Particulars of Depreciation	

Clause 18 :

Particulars of depreciation allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following form:-

(a**) Description** of asset/block of assets.
(b) **Rate** of depreciation
(c**) Actual cost or written down value**, as the case may be.
ca) Adjustment made to the written down value—
(i) under the proviso to sub-section (3) of section 115BAA (for A.Y. 2020-21 only).
(ii) under the first proviso to sub-section (3) of section 115BAC or the proviso to sub-section (3)of 115BAD (for A.Y.2021-22 only).
(iii) under the second proviso to sub-section (3) of section 115BAC (for A.Y.2024-25 only).
(cb) Adjustment made to written down value of Intangible asset due to excluding value of goodwill of a business or profession.
cc) Adjusted **written down value**.
d) **Additions/deductions** during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of –
(i) Central Value Added Tax credits claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st March, 1994,
(ii) change in rate of exchange of currency, and
(iii) subsidy or grant or reimbursement, by whatever name called.
(e) **Depreciation allowable**
(f) **Written down value** at the end of the year

FORM 3CD CLAUSES

PART B

18	Particulars of Depreciation	

- Intangible assets being goodwill of a business or profession does not qualify for depreciation from 01.04.2021 i.e. AY 2021-22 (The Finance Act 2021). Goodwill was eligible for depreciation till AY 2020-21
- Subsidy received in a later year for an asset acquired earlier **reduce the WDV of the asset in the year of receipt**
- **Sections 115BA/115BAA/115BAB/115BAC/115BAD/115BAE :**
  → **Additional depreciation u/s 32(1)(iia) cannot be claimed.**
- **Domestic company opting u/s 115BA:** Depreciation on blocks eligible for **>40%** is restricted to **40%+ of WDV**, w.e.f. **1 April 2016**.
- **Depreciation is mandatory**; WDV is reduced by depreciation **whether or not claimed**. **Explanation 5 to Sec. 32.**
- **"Used"** means actual use and is not kept ready for use.
- Assets used partly for Business purpose, deduction u/s 32(1) restricted to proportionate part.
- Payment in Cash to a person in a day **> 10,000/-** should not be considered for Cost of Acquisition
- **Foreign Exchange Fluctuation – Sec. 43A & AS-11 :**
  → **Sec. 43A:** Adjustment on **payment basis.**
  → **AS-11 (Revised):** Adjustment on **accrual basis.**
- The tax auditor should verify the GST input credit deducted from the cost of capital goods tallies with the credit availed on this account.
- Tax auditor has to verify the correctness of **additional depreciation** claimed (if any)
- Depreciation is not available for an asset sold during the year, the sale value is reduced from the Opg. WDV.

FORM 3CD CLAUSES

PART B

19	Amounts admissible under section 32AC – 35E	

Amounts admissible under Sections:

Section	Amount debited to profit and loss account	Amounts admissible as per the provisions of the Income Tax Act, 1961 and also fulfils the conditions, if any specified under the relevant provisions of Income Tax Act, 1961 or Income Tax Rules, 1962 or any other guidelines, circular, etc., issued in this behalf.

Section	Amount debited to P&L Account/Payment	Amounts admissible/Quantum of deduction
33AB	Tea Development	sum= amount or aggregate of amounts so deposited; OR Sum= 40% of profits of business; whichever is least
33ABA	Site Restoration Fund Deposit in ministry of petroleum & natural gas for extraction, etc	Sum=amount or aggregate of amounts so deposited; OR Sum= 20% profits of business; whichever is least
35(1)(i)	Revenue expenditure in respect of scientific research related to the business in PY	100% of the expenditure
35(1)(ii)	Sum paid to approved research association, university, college or other institution	100% of the contribution made
35(1)(iia)	Sum paid to an Indian company to be used by it for scientific research	100% of the sum paid
35(1)(iii)	Sum paid to approved institutions undertaking social science & statistical research	100% of the sum paid

FORM 3CD CLAUSES

PART B

19	Amounts admissible under section 32AC – 35E	

Section	Amount debited to P&L Account/Payment	Amounts admissible/Quantum of deduction
35(1)(iv)	Capital expenditure on scientific research related to business	100% of the capital expenditure incurred
35(2AA)	Sum paid to National Laboratory, University or IIT or specified person for scientific research	100% of the sum paid
35(2AB)	Company engaged in bio-technology or in Mfg. or production of any article or thing other than in 11th Sch.	100% of the expenditure incurred
35ABA	Capital expenditure incurred for acquiring any right to use spectrum for telecommunication services	Appropriate fraction of capital expenditure incurred {1 / Number of PY's for which spectrum is valid}
35ABB	Capital expenditure incurred to obtain license for acquiring any right to operate telecommunication services.	Appropriate fraction of capital expenditure incurred {1 / Number of PY's for which license is valid}
35AD	Capital expenditure incurred by Specified Business	100% of the capital expenditure incurred
35CCC	Expenditure on agricultural extension project notified	100% of the expenditure incurred
35CCD	Company incurring expenditure on skill development project	100% of the expenditure incurred
35D	Amortisation of Preliminary Expenses incurred	An amount equal to 1/5th of such expenditure

FORM 3CD CLAUSES

PART B

19	Amounts admissible under section 32AC – 35E	

Section	Amount debited to P&L Account/Payment	Amounts admissible/Quantum of deduction
35DD	Company incurring expenditure for the purposes of amalgamation or demerger of an undertaking.	An amount equal to 1/5th of such expenditure
35DDA	Assessee incurring expenditure by way of payment to an employee in connection with voluntary retirement.	An amount equal to 1/5th of such expenditure
35E	A resident assessee engaged in any operations relating to prospecting or extraction or production of, any mineral, in respect of any eligible expenditure incurred.	An amount equal to 1/10th of such expenditure
Any other relevant section	Deduction for expenditure as per stipulated terms and conditions specified under any other relevant section	Deduction to be claimed as provided under any other relevant section. For AY 2026-27, There is no other relevant section.

Where under any section, an assessee is eligible for deduction under one or more of the sub-sections, the tax auditor should verify the amount of deduction available under each sub-section separately, i.e. the amount deductible in respect of the amount debited to Profit & Loss Account

"The tax auditor is also required to report whether the conditions specified in the above Sections have been fulfilled by the assessee or not."

FORM 3CD CLAUSES

PART B

20	Bonus, Commission, PF recoveries, etc.,	

Clause 20(a)
Any sum paid to an employee as bonus or commission for services rendered, where such sum was otherwise payable to him as profits or dividend**. *[Section 36(1)(ii)].***

Auditor has to review payments made to employee-shareholders or director-shareholders to ensure:
The bonus or commission is reasonable and tied to actual services rendered (like hitting operational targets).
The payment is not just a tool designed to empty out corporate profits to avoid corporate tax.

Clause 20(b)
Details of contributions received from employees for various funds as referred to in Section 36(1)(va)

Serial number	Nature of fund	Sum received from employees	Due date for payment	The actual amount paid	The actual date of payment to the concerned authorities

Sec. 2(24)(x) – any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or employees state insurance fund or any other fund for welfare of employees
Sec. 36(1)(va) – if sum referred u/s. 2(24)(x) is paid by the assessee on or before the due date specified in the respective act.

"Due Date specified under the act is 15th of the following month"

FORM 3CD CLAUSES

PART B

21(a)	Amount debited to P&L A/c. being in the nature of capital, personal and advertisement expenditure	

Clause 21(a)(i) - Capital Expenditure
- Capital expenditure **is not allowable** in computing business income unless specifically provided in any sections of the Act.
- The nature of receipt in the hands of the recipient is not a determining factor to decide the nature of payment in the hands of payer.
- **Preliminary expenses** incurred by the assessee which is capital expenditure is debited to profit and loss account and therefore should be reported.

Clause 21(a)(ii) - Personal Expenditure
- Personal expenses debited to the profit and loss account **are not deductible** in the computation of total income
- Certain **personal expenses** may be booked under business heads such as **travel, communication or entertainment**. Should identify such expenses from supporting documents, employee discussions or internal audit reports and report them as **inadmissible.**

Clause 21(a)(iii) - Advertisement expenditure in any souvenir, brochure, tract, pamphlet or the like published by a political party
- Expenditure on advertisements in **souvenirs, brochures, tracts, pamphlets, or similar publications of a political party** is **not allowable**.
- **Trade/Labour Union Exception:** If the publication is issued by a **separate legal entity** (e.g., a trade or labour union), the expenditure is **not disallowable** under this clause
- **Section 80GGB** relating to deductions for contributions to political parties/electoral trusts (reported in **Clause 33 of Form 3CD**)

Clause 21(a)(iv) & (v) - Expenditure incurred at clubs being cost for club services and facilities used, entrance fees and subscriptions
- Report payments made to clubs for services and facilities used during the year, includes entrance fees, membership subscriptions, catering, and other club charges.
- Verify whether the expenditure is for business purposes or personal in nature.
- Personal club expenses should be reported separately under Clause 21(a).
- Business-related club expenses should be reported under this clause

FORM 3CD CLAUSES

PART B

21(a)	Amount debited to P&L A/c. being in the nature of capital, personal and advertisement expenditure	

Clause 21(a)(vi)& (via) - Expenditure for any purpose which is an offence or is prohibited by law or expenditure by way of penalty or fine for violation of any law (enacted in India or outside India) and Expenditure by way of any other penalty or fine not covered above :

- Report all expenditure incurred for an offence, prohibited by law or by way of penalty/fine for violation of any law, whether in India or outside India.
- This clause covers only penalty or fine for violation of law and not the payment for contractual breach or liquidator damages.
- **Only amounts paid in the nature of a penalty are disallowable; compensatory payments are allowable.**

Clause 21(a)(vii) Expenditure incurred to compound an offence under any law for the time being in force, in India or outside India

- Compounding of an offence is a settlement mechanism, by which, the person is given an option to pay a fee in lieu of penal action or prosecution, thereby avoiding a prolonged litigation.
- The Laws where compounding is generally done is Income-tax law, Company law, Labour laws, some sections of Indian Penal Code, FEMA,.

Clause 21(a)(viii) - Expenditure incurred to provide any benefit or perquisite, in whatever form, to a person, whether or not carrying on a business or exercising a profession, and acceptance of such benefit or perquisite by such person is in violation of any law or rule or regulation or guideline, as the case may be, for the time being in force, governing the conduct of such person

- Report any expenditure incurred to provide a benefit or perquisite where acceptance of such benefit or perquisite violates any applicable law, rule, regulation, or guideline governing the recipient.
- The tax auditor should obtain the list of beneficiaries from the management and reconcile it with the list of beneficiaries covered under Section 194R to form an opinion as to whether any benefits and perquisites are inadmissible

Clause 21(a)(ix) - Expenditure incurred to settle proceedings initiated in relation to contravention under such law as notified by the Central Government in the Official Gazette in this behalf.

As per Notification No. 38/2025 dated 23.04.2025, expenditure incurred to settle proceedings relating to contraventions or defaults under the SEBI Act, Securities Contracts (Regulation) Act, Depositories Act, and Competition Act is not allowable as a deduction.

FORM 3CD CLAUSES

PART B

21(b)	Amounts inadmissible u/s. 40(a)	

Clause 21(b) - amounts inadmissible under section 40(a)

i) Payments to Non-Residents

- Disallowance: Interest, royalty, fees for technical services or any other sum payable to a non-resident/foreign company is disallowable if TDS is not deducted or not deposited by the due date under Section 139(1).
- Subsequent Allowance: The expenditure is allowed in the year in which the TDS is subsequently deducted and paid.
- **Exception:** No disallowance if the payer is **not treated as an assessee in default** under **Section 201(1)** (i.e., the payee has included the income in its return and paid the applicable tax).

ii) Payments to Residents

- 30% of the expenditure is disallowed where TDS on payments to residents is not deducted or, after deduction, not deposited by the due date under Section 139(1).
- Deduction is allowed in a subsequent year if the TDS is deducted and paid after the due date.
- No disallowance where the payer is not deemed to be an assessee in default under Section 201, subject to obtaining Form 26A.
- The tax auditor should verify Form 26A and reconcile it with the relevant TDS returns (Forms 24Q/26Q/27Q)

iv) Any sum paid on account of wealth tax

It is pertinent to note that Wealth-tax Act, 1957 is abolished w.e.f. 01.04.2016 vide the Finance Act, 2016.

v) Under sub-clause (iib) in section 40(a), any amount paid by way of a Royalty, License Fees, Service Fees, Privilege Fees, Service Charges or any other fees or charge by whatever name called, which is levied exclusively on or which is appropriated directly or indirectly from a State Government undertaking by the State Government shall not be allowed as a deduction from the income under the head "profit and gains from business or profession.

FORM 3CD CLAUSES

PART B

21(b)	Amounts inadmissible u/s. 40(a)	

Clause 21(b) - amounts inadmissible under section 40(a)

vi) Any payment which is chargeable under the head "salaries", if it is payable outside India or to a non-resident and if the tax has not been paid thereon nor deducted therefrom under Chapter XVII-B.

- Salary paid outside India or to a non-resident is disallowable where TDS has not been deducted or, after deduction, has not been paid.
- Reporting should include the **name and address of the payee** and the **date of payment**.

vii) Any payment to a provident or other fund established for the benefit of employees of the assessee, unless the assessee has made effective arrangement to secure that tax shall be deducted at source from any payment made from the fund which are chargeable to tax under the head "Salaries".

viii) Any tax actually paid by an employer referred to in clause (10CC) of section 10.

- the tax paid by the employer on non-monetary perquisites provided to employees shall not be deductible
- The amount of such tax paid by the employer has to be reported, in case it is debited to the profit and loss account under clause 21(b)(viii).

FORM 3CD CLAUSES

PART B

21(c)	Interest, Salary, Bonus, etc., to Partners	

Clause 21(c) : Amount debited to profit and loss account being, interest, salary, bonus, commission or remuneration inadmissible under section 40(b)/40(ba) and computation thereof

As per Sec 40(b) : expenditure not allowable in case of a firm/LLP

The following expenditure incurred by a firm is inadmissible :

i. Salary, bonus, commission or remuneration paid to a Non-working partner
ii. Remuneration to working partner and interest to any partner not authorized by the partnership deed
iii. on the aggregate remuneration to all working partners as authorized by the partnership deed, exceeding the amount computed as under :

On the first Rs. 6,00,000 of the book-profit **OR** in case of a loss	➢	Rs. 3,00,000 **OR** 90% of the book profit, whichever is higher
On the balance of the book-profit	➢	60% of the book profit

iv. on interest to any partner as authorized by the partnership deed, exceeding 12% simple interest per annum
v. **"Book Profit"** - means the net profit, as shown in the P&L account for relevant tax year + aggregate amount of remuneration to all partners of the firm, if such amount has been deducted while computing Net profit.

As per Sec 40(ba) : expenses not allowable in case of an AOP or BOI.

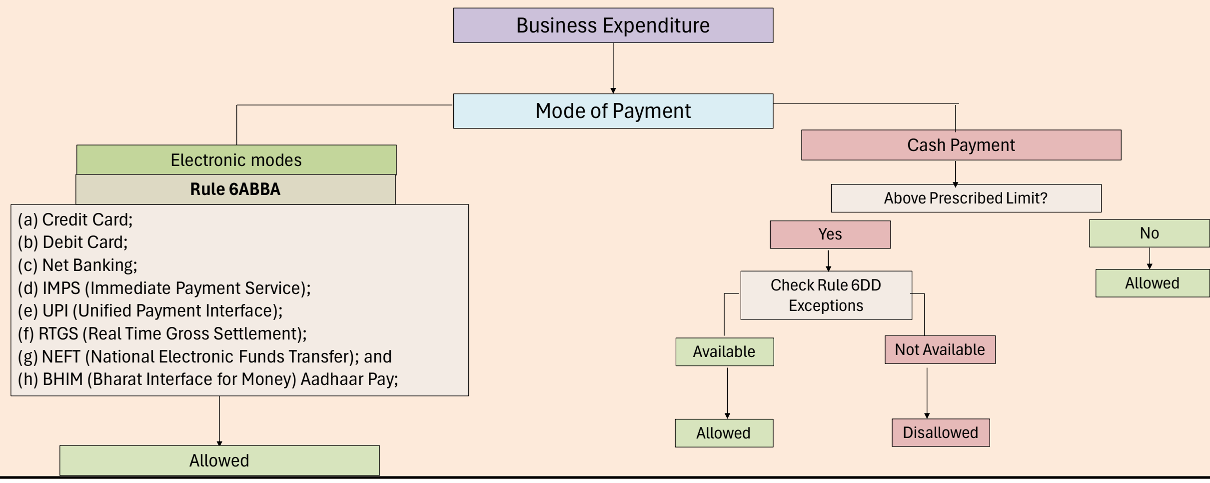
The expenditure incurred by an association of persons or a body of individuals in the nature of interest, salary, bonus, commission or remuneration, made to a member of such association or body.

FORM 3CD CLAUSES

PART B

21(d)	Amounts inadmissible u/s. 40A(3)

Section	Covers	Payment
40A(3)	Cash payment exceeding the prescribed limit for expenditure claimed during the year	Payment in the same year
40A(3A)	Liability allowed in an earlier year but subsequently paid in cash beyond the prescribed limit	Payment in a subsequent year



FORM 3CD CLAUSES

PART B

21(d)	Amounts inadmissible u/s. 40A(3)

Particulars	Sec 40A	Sec 40A(3A)
General cash payment to a person in a day	Exceeds ₹10,000	Exceeds ₹10,000
Cash payment for **plying, hiring or leasing of goods carriages**	Exceeds ₹35,000	Exceeds ₹35,000
Consequence	Disallowance of expenditure	Deemed business income
If Covered by Rule 6DD	No disallowance	No deemed income

Per Person, Per Day (aggregate of payments)

Rule 6DD - Situations	Conditions
Government Payments	Payments to Government where cash is mandatory.
Banking Constraints	No banking facility available. Banks closed due to holiday/strike
Agriculture & Rural Sector	Payments to farmers, cultivators, growers or producers of agricultural, forest, animal husbandry, dairy, poultry, fishery or horticultural produce.
Village & Cottage Inds.	Payments for products manufactured without power in cottage industries.
Transport & Travel	Payments required on the day of travel where banking is impracticable
Agent Payments	Cash given to an agent who is required to make cash payments on behalf of the principal.
Banking Instruments	Payments made through prescribed banking/electronic modes (not regarded as cash).
Foreign Currency	Payments by an **authorised dealer or money changer** for purchase of foreign currency or travellers' cheques
Employee Benefits	Payments of **terminal benefits** to employees or their legal heirs (up to **₹50,000**)

- Obtain an **assessee certificate** confirming payments were made through prescribed banking/electronic modes as required under Sections 40A(3) and 40A(3A).
- When Relied on the certificate – state it as an Observation in the audit report

FORM 3CD CLAUSES

PART B

21(e)	Amounts inadmissible u/s. 40A(7)	

Clause 21(e)
provision for payment of gratuity not allowable under section 40A(7)

General Rule: Provision for gratuity is **not allowable** as a deduction. *(Sec. 40A(7)(a))*
Exception : Deduction is allowed only if:
- ❖ Contribution is made to an **approved gratuity fund** (**approved by the PCIT/CIT** for the relevant PY) or
- ❖ Gratuity has **actually become payable** during the previous year. *(Sec. 40A(7)(b))*

Report any **inadmissible gratuity provision** under this clause if it does not satisfy Section 40A(7).

21(f)	Amounts inadmissible u/s.40A(9)	

Clause 21(f)
any sum paid by the assessee as an employer not allowable under section 40A(9)

General Rule: Employer's contribution to any **fund, trust, society, AOP, BOI or institution** is **not allowable**.
Exception : Deduction is permitted only for contributions to:
Recognised Provident Fund (RPF), Approved Superannuation Fund (ASF), Approved Gratuity Fund (AGF), Notified Pension Scheme (NPS), Contributions required under any other law.

Note: Contributions to **Employees' Welfare Co-operative Society** or similar funds are **not deductible**, unless mandated by law. Report contributions disallowable under **Section 40A(9)** in the tax audit report.

FORM 3CD CLAUSES

PART B

21(g)	Contingent Liabilities	

Clause 21(g)
particulars of any liability of a contingent nature

- ❖ Contingent Liability is defined in (ICDS) to mean a possible obligation (as opposed to 'present obligation') existence of which will be confirmed only on occurrence or non-occurrence of an event beyond the control of the assessee.
- ❖ Report only contingent liabilities debited to the Profit & Loss Account; disclosures made only in the Notes to Accounts are not reportable under this clause.

21(h)	Amount inadmissible in terms of Sec 14A	

Clause 21(h)
Amount of deduction inadmissible in terms of section 14A in respect of the expenditure incurred in relation to income which does not form part of the total income

- ❖ Expenditure incurred to earn **exempt income** is **not deductible**.
- ❖ provisions also apply where the assessee claims that **no expenditure** has been incurred in relation to exempt income.
- ❖ Disallowance applies **even if exempt income has not accrued, arisen or been received**, provided expenditure is incurred in relation to such income.
- ❖ Section 14A disallows expenditure incurred in relation to income exempt under Sections 10 to 10C, such as agricultural income and share of profit from a partnership firm.
- ❖ In the case of a partnership firm, interest and remuneration received by the partner are taxable, whereas the share of profit is exempt. The quantum of disallowance depends on the facts and circumstances of each case..

FORM 3CD CLAUSES

PART B

21(i)	Amount inadmissible under proviso to Sec. 36(1)(iii)	

Clause 21(i)
amount inadmissible under the proviso to section 36(1)(iii).

- ❖ **Interest on capital borrowed** for the purposes of business or profession is **allowable as a deduction**.
- ❖ **Exception:** Interest on borrowings used for acquiring a capital asset is not deductible from the date of borrowing until the asset is first put to use.
- ❖ Interest includes finance charges, service fees and other charges relating to borrowed funds or credit facilities as defined under Section 2(28A).

FORM 3CD CLAUSES

PART B

22	Amount to be reported in respect of payment made to micro or small enterprises	

Discussed in detail under the head Miscellaneous Provisions

23	Payments to specified persons under section 40A(2)(b)	

Particulars of any payment made to persons specified under Section 40A(2)(b).

Name of Related Party	PAN of Related Party	Aadhaar number of person(if available)	Relation	Nature of Transaction	Payment Made (Amount)

Add Delete

- ❖ "Specific Person" means relative, partners, members, directors or person having substantial interest.
- ❖ Substantial interest means a person having 20% or more voting rights in case of a company and 20% of profits in case of other entities.
- ❖ Any Payment made by AOP to its member for supply of goods should be reported.
- ❖ Tax auditor should obtain, from assessee, the list of 'specified persons'
- ❖ Expenditure / payment made to them to be scrutinized with reference to Sec. 40A(2).
- ❖ If information is not available about specified persons with the client, suitable disclaimer may be given

FORM 3CD CLAUSES

PART B

23	Payments to specified persons under section 40A(2)(b)	

- Amounts to be reported whether or not debited to Profit and Loss Account.
- In case of a large Assessee, it may not be possible to verify the list of all persons covered by this Section. Therefore, the information supplied by the assessee can be relied upon.
- Further the auditor may refer to the details given in the annual accounts for related party transactions as per AS-18, if available, for examining and reporting under this clause.
- The auditor while using the information as per AS-18, should consider the difference in the definitions of 'related party' as per AS-18 and 'persons specified' in section 40A(2)(b) of the Act.
- **Circular No. 143, dated 20-8-1974,** issued by the Board, clarifies that tax auditor can rely upon the list of persons covered u/s 13(3) as given by the managing trustee of a Public Trust.

FORM 3CD CLAUSES

PART B

24	Deemed Profits u/s. 32AC/32AD/33AB/33ABA/33AC	

Relevant Sections -

Sl. No.	Section	Particulars
1	32AC	Investment in new plant or machinery
2	32AD	Investment in new plant & machinery in Backward areas as prescribed
3	33AB	Tea development account, coffee development account and rubber development account
4	33ABA	Site Restoration Fund
5	33AC	Reserves for shipping business

- Clause 33 requires the Tax Auditor to report any amounts that are deemed to be profits and gains of business or profession due to the violation of conditions or withdrawal of funds from specified statutory incentives/reserves.
- Assessees originally claim deductions under these sections for investing in new plants/machinery or creating mandatory reserves (e.g., Tea/Coffee/Rubber or Site Restoration funds).
- If those assets are sold prematurely or reserves are misutilized/not utilized within the prescribed timeframe, the law reverses the tax benefit and treats it as taxable income in the current year. –
- **Amalgamation / Demerger Exceptions:** The auditor must remember that transfers of assets under a scheme of amalgamation or demerger generally do not trigger deemed profit provisions, provided the successor company continues to meet the statutory terms.

FORM 3CD CLAUSES

PART B

24	Deemed Profits u/s. 32AC/32AD/33AB/33ABA/33AC	

Deemed Profit Situations under the Relevant Sections -

Sl. No.	Section	Nature of Original Deduction	When is it "Deemed Profit"?
1	32AC	Investment in new Plant & Machinery (Mfg)	Asset sold / transferred within 5 years of installation.
2	32AD	Investment in new Plant & Machinery in backward areas	Asset sold / transferred within 5 years of installation.
3	33AB	Tea / Coffee / Rubber Development Account	Funds utilized for non-specified purposes, or remaining unutilized on closure.
4	33ABA	Site Restoration Fund (Petroleum / Natural Gas)	Funds utilized for non-specified purposes, or remaining unutilized on closure.
5	33AC	Reserves for Shipping Business (historical)	Reserves misutilized or not utilized within the prescribed 8-year lock-in period.

Wrt. Sec. 32AC & 32AD – any transfer of assets due to amalgamation or demerger of business will not be treated as deemed income

Balance period out of 5 years will be available for amalgamated or resulting company.

FORM 3CD CLAUSES

PART B

25	Profits Chargeable under section 41	

Sl. No.	Section	Situation	Nature of Deemed Profits
1	41(1)(a)	Allowance or deduction is made in respect of loss, allowance or deduction	Recovery in cash or in any manner in respect of loss or expenditure incurred earlier or remission or cessation of trading liability
2	41(1)(b)	Assessee's business has been succeeded by way of amalgamation, demerger, etc.,	Successor in business receives cash or any benefit subsequently
3	41(2)	Power generating and distributing units sold, discarded, demolished or destroyed tangible assets on which depreciation is claimed u/s. 32(1)(i).	Moneys payable in respect of such building, machinery, plant or furniture together with scrap value to the extent of deprn. claimed. Surplus beyond actual cost is STCG.
4	41(3)	Capital expenditure claimed on capital asset used for scientific research.	Amount received on sale of such assets without using further. Exceeding the actual expenditure
5	41(4)	Bad Debts allowed in the books	Amount received on bad debts allowed.
6	41(4A)	Amount withdrawn from special reserve created u/s 36(1)(viii) by specified entity.	Amount withdrawn from special reserve

FORM 3CD CLAUSES

PART B

26	Payments under section 43B	

In respect of any sum referred to in Clause (a), (b), (c), (d), (e), (f) (g) or (h) of Section 43B, the liability for which :-

A. Pre-existed on the first day of the Previous Year but was not allowed in the assessment of any preceding Previous Year and was

(a) Paid during the Previous Year;

Sl. No.	Section	Nature of Liability	Amount

(b) Not paid during the Previous Year

Sl. No.	Section	Nature of Liability	Amount

B. Was incurred in the previous year and was

(a) paid on or before the due date for furnishing the return of income of the previous year under Section 139(1);

Sl. No.	Section	Nature of Liability	Amount

(b) Not paid on or before the aforesaid date

Sl. No.	Section	Nature of Liability	Amount

State whether sales-tax, customs duty, excise duty or any other indirect tax, levy, cess, impost, etc. is passed through the profit & loss account – Expenses on which tax or duties are levied and which is not considered for ITC, is passed through the profit & loss account.

FORM 3CD CLAUSES

PART B

26	Payments under section 43B	

Sums payable, shall be allowed as a deduction only in the tax year in which such sums are actually paid Irrespective of –

a) Any provision to the contrary in this act or

b) Method of accounting regularly followed or

c) The Tax year in which the liability was incurred

Sums payable shall be

a) Tax, duty, cess or fee levied under any law for the time being in force

b) Contribution of the employer to a provident fund or superannuation fund or gratuity fund or any fund for the welfare of employees;

c) Any sum referred to in section 36(1)(ii) - Bonus or Commission paid to an employee for services rendered.

d) Interest on loans or borrowings from specified financial entities

da) Interest on loans or borrowings from notified NBFC's by Central Government.

e) Interest on loans or borrowings from a scheduled bank or a co-operative bank (not being agricultural co-op. bank)

f) Amount payable by employer *in lieu* of any leave at the credit of the employee;

g) Amount payable to the Indian Railways for use of railway assets

h) Amount payable by the assessee to a micro or small enterprise beyond the time limit specified in MSME Act,2006

FORM 3CD CLAUSES

PART B

26	Payments under section 43B

- In every clause of section 43B deduction of expense is allowed if it is paid on or before due date of filing income tax return but in clause (h), deduction is allowed only if it is paid as per limits provided in MSME Act, 2006. It shall be further allowed in the F.Y in which it is actually paid.
- Provisions of section 43B is applicable for every entity engaged in business or profession except the entities who opts for presumptive taxation scheme and files their return of income on presumptive basis u/s 44AD, 44ADA and 44AE.
- Conversion of interest into a loan or advance does not amount to actual payment and deduction is not allowed
- No deduction in case of waiver of interest as it is not representing actual payment.
- Conversion of interest due to bank into equity shares of the assessee company does not amount to actual payment
- Providing bank guarantee in respect of any sum payable can't be equated to actual payment
- Irrespective on the method of accounting, deduction is allowed only on actual payment basis
- Payment to ESI and PF relating to employees contribution even paid after due date will be disallowed permanently
- Emoluments paid to employees for good work, reward can't be equated to bonus or commission
- Payment for use of railway assets would not include basic rail freight, as freight is for service and not for use of asset
- Payment for hire of railway wagons, rail sidings, lease rent payable for use of railway land or buildings will be considered as payment to railways for use of railway assets
- Payment for use of hoardings / display panels put on railway premises depend upon the terms of the contract
- In case of GST liability under RCM, if liability is not paid before 139(1) due date, the same has to be reported.

FORM 3CD CLAUSES

PART B

27(a)	Central Value Added Tax Credits

Clause no. 27(a)

Amount of Central Value Added Tax / Input Tax credits availed of or utilized during the previous year and its treatment in the profit and loss account and treatment of outstanding balance in the accounts.

CENVAT / ITC	Amount	Treatment in Profit & Loss / Accounts
Opening Balance		
Credit Availed		
Credit Utilized		
Closing / outstanding Balance		

- Here the factual reporting about CENVAT credits availed or or utilized during the year as well its treatment in profit and loss account with opening and closing balance to be stated.
- In case accounts are maintained on Exclusive Method, it may not have any impact on profit and loss account
- Since, the introduction of GST, Only Six items are under excise – petroleum crude, diesel, petrol, aviation turbine fuel, natural gas and tobacco.
- E-filing utility refers to Central Value Added Tax Credits / Input Tax Credit, which differs from notified form
- Question is whether GST Inputs availed and utilized has to be reported under this clause ? – Better to report.

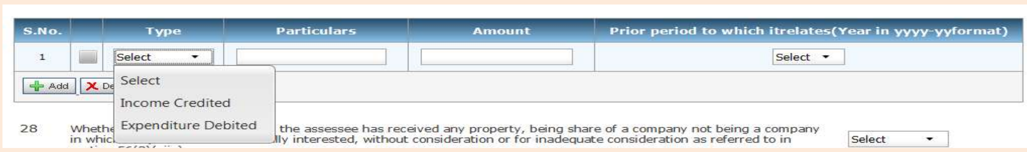
FORM 3CD CLAUSES

PART B

27(b)	Prior Period Expenditure	

Clause 27(b)

Particulars of income or expenditure of prior period credited or debited to the profit and loss account.



- ❖ This Clause is applicable on the assessee following Mercantile System of Accounting.
- ❖ There is difference between expenditure/income of any earlier year debited/credited to P/L A/c & the expenditure/income relating to earlier year, which is crystallized during the relevant year.
- ❖ Material adjustments necessitated by circumstances which though related to previous periods but determined in the current period, will not be considered as prior period items.
- ❖ U/s 145 - Material Charges (expense) or credit (income) which arise in the current year as a result of error or omission in the account of earlier years will be considered as prior period items. AS-5 issued by ICAI need to be considered for the purposes of this Clause.
- ❖ In the circumstances, auditor is of the view that it is not a prior period item, the same may be disclosed in the observation para of the audit report.

FORM 3CD CLAUSES

PART B

29A	Amount includible under section 56(2)(ix)	

Clause 29A - Advance received on capital asset forfeited to be reported under this clause, as under

a) Whether any amount is to be included as income chargeable under the head income from other sources as referred to in clause (ix) of sub-section (2) of section 56? **(Yes/No)**

b) If yes, please furnish the following details:

i. Nature of income

ii. Amount thereof

- ❖ Any advance rec'd towards transfer of capital asset, forfeited to be reported
- ❖ Personal capital asset is not required to be reported
- ❖ If the advance amount is already reduced from the cost of asset on subsequent transfer, no need to report here
- ❖ If forfeited advance amount is treated as IFOS, the same need not be reduced from the actual cost or wdv, etc.,

FORM 3CD CLAUSES

PART B

29B	Amount includible under section 56(2)(x)	

Clause 29B – Income of gifts exceeding Rs. 50,000 is to be reported under this clause, as under:

a) Whether any amount is to be included as income chargeable under the head income from other sources as referred to in clause (x) of sub-section (2) of section 56? **(Yes/No)**

b) If yes, please furnish the following details:

i. Nature of income

ii. Amount (in Rs.) thereof

Where any person receives in any previous year
from any person or persons
money, or
immovable property, or
movable property and
conditions stated in the clause is satisfied,
then it is treated as income of the recipient

FORM 3CD CLAUSES

PART B

29B	Amount includible under section 56(2)(x)	

(i)Money

- Received without consideration (gift)
- If total > ₹50,000 → Entire amount taxable

- Received ₹60,000 as gift
👉 Since > ₹50,000 → ₹60,000 taxable

(ii) Immovable Property (Land/Building)

(A) Without consideration (gift)
- If stamp duty value > ₹50,000
👉 Full value taxable

No payment

- Property value = ₹3,00,000
👉 Since value > ₹50,000
👉 Full ₹3,00,000 is taxable
No payment → full value taxed

(B) For less consideration
- If difference > higher of:
₹50,000 OR
10% of consideration
👉 Difference taxable

- You paid = ₹4,00,000
- Actual value (SDV)= ₹5,00,000
👉 Difference = ₹1,00,000

Now check limit:
- ₹50,000 or 10% of ₹4,00,000 (= ₹40,000) → higher = ₹50,000
👉 ₹1,00,000 > ₹50,000 ✓
👉 ₹1,00,000 is taxable
Paid less → only extra benefit (difference) taxed

(iii)Other Property (Shares, Jewellery, etc.)

(A) Without consideration
- If FMV > ₹50,000
👉 Full value taxable

No payment

- Jewellery value = ₹80,000
👉 Since > ₹50,000
👉 Full ₹80,000 is taxable
No payment → full value taxed

(B) For less consideration
- If difference > ₹50,000
👉 Difference taxable

- You paid = ₹1,00,000
- Actual value (FMV) = ₹1,70,000
👉 Difference = ₹70,000
👉 Since ₹70,000 > ₹50,000 ✓
👉 ₹70,000 is taxable
Paid less → only extra benefit (difference) taxed

FORM 3CD CLAUSES

PART B

29B	Amount includible under section 56(2)(x)	

When Are Gifts Fully Exempt?

Personal Exemptions

(a) From a **Relative**

(b) On occasion of **Marriage**

(c)Under **Will / Inheritance**

(d)In contemplation of **donor's death**

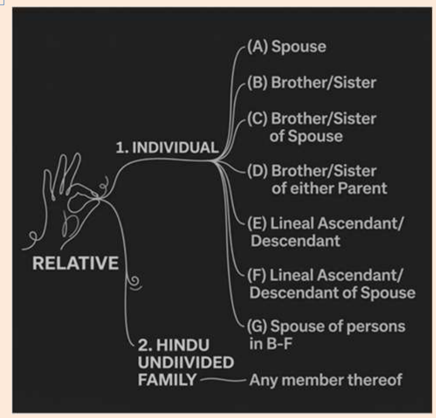
(e) From a **Local Authority**

Special Cases

(f) From or by Registered Non-Profit Org under Sec 355(g)→ **Exempt** (unless covered under Sec 355(h))

(g) Transaction not regarded as transfer under Sec 70

(h) Received by Trust for benefit of relatives (i) Any prescribed class (Govt. notified)



Property means		
1. Immovable property being L or B or Both	4. Archeological collections	7. Any work of art
2. Shares and securities	5. Drawings & paintings	8. Bullion or
3. Jewellery	6. Sculptures	9. Virtual digital asset

FORM 3CD CLAUSES

PART B

30	Hundi Loans	

Details of the amount borrowed on hundi (including interest) and
detail of repayment of such borrowings
other than by an account payee cheque, are
required to be reported under this clause.

30A	Primary adjustment to transfer pricing under section 92CE(1)	

If primary adjustment is made to transfer pricing, then this clause will be applicable

Circumstances that warrants primary adjustments u/s. 92CE(1) are -

1. Adjustment Self-made by the assessee in the return of income
2. Adjustment Made by the Assessing Officer and accepted by the assessee
3. Arising pursuant to an Advance Pricing Agreement (APA)
4. Arising as a result of Safe Harbour Rules and the assessee has opted for and applied those rules.
5. Determined through Mutual Agreement Procedure (MAP) and the assessee accepts

Circumstances when secondary adjustment is mandated -

Value of primary adjustment exceeds 1 Crore

FORM 3CD CLAUSES

PART B

30A	Primary adjustment to transfer pricing under section 92CE(1)	

Section 92CE(2) provides that where due to the primary adjustment,
(i) There is an increase in the total income or
(ii) A reduction in the loss of the asesseе,

- ❖ The difference between actual price and ALP is regarded as excess money with AE and needs to be repatriated
- ❖ Repatriation of the money to be done within the time prescribed, {90 days}
- ❖ Where excess money is not repatriated to India within the specified date, it is deemed as an advance to AE
- ❖ Interest is to be computed on the advance money at the specified rate
- ❖ AE has an option not to repatriate the difference amount by paying tax @ 18% on secondary adjustment value.
- ❖ Auditor has to verify all these transactions and report accordingly, he can rely on the audit report of another CA.

30B	Expenditure incurred exceeding limit under section 94B(1)	

- ❖ This clause applies in the situation where, an assessee has paid interest to AE > 1 Crore in PY
- ❖ Assessee being an Indian company or a PE of a foreign company
- ❖ Interest paid is allowed as a deduction under PGBP in respect of debt borrowed from a non-resident AE
- ❖ Excess interest shall not be deductible
- ❖ Excess interest is computed as the Lower of
  - (i) 30% of EBIDTA or
  - (ii) Interest paid or payable to AEs for that previous year
- ❖ Any disallowed interest under any provisions of IT Act, should not be considered for this purpose
- ❖ Interest disallowed on account of transfer pricing u/s. 92 should not be considered.
- ❖ Auditor has to verify all these transactions and report accordingly, he can rely on the audit report of another CA.

FORM 3CD CLAUSES

PART B

30C	Impermissible avoidance agreement (GAAR) under section 96	

- ❖ Where an assessee has entered into an impermissible avoidance agreement, then this clause applies
- ❖ Chapter XA, sec. 95 to 102 deals with General Anti-Avoidance Rule {GAAR}
- ❖ This chapter deals with Impermissible Avoidance Agreement {IAA}
- ❖ The main objective of GAAR is to target abusive transactions in order to avoid tax
- ❖ The provisions of GAAR are triggered when an agreement is declared as IAA by PCIT or CIT
- ❖ An arrangement is treated as IAA, if its main purpose is to obtain tax benefit “Main Purpose Test” and satisfies one or more of the “Additional Tests.”
- ❖ Additional Tests are
  - (i) Abnormal Rights / Obligations Test
  - (ii) Misuse Test
  - (iii) Lack of Commercial Substance Test’
  - (iv) Abnormal Manner Test
- ❖ Auditor should examine whether the PCIT of CIT has in any earlier previous years declared any agreement as IAA
- ❖ Auditor has to verify all these agreements and report accordingly, he can rely on the audit work of another CA.

FORM 3CD CLAUSES

PART B

31(a)/(b)	Loans / Deposits taken / accepted and specified sum taken / accepted

Clause 31(a) : Particulars of **each loan or deposit** in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year :
i) name, address and permanent account number or Aadhaar Number (if available with the assessee) of the lender or depositor;
ii) Amount of each loan or deposit taken or accepted and code of the nature of such amount, as given in Note 1; [Dropdown to be provided];
iii) whether the loan or deposit was squared up during the previous year;
iv) maximum amount outstanding in the account at any time during the previous year;
v) whether the loan or deposit was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;
vi) in case the loan or deposit was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.

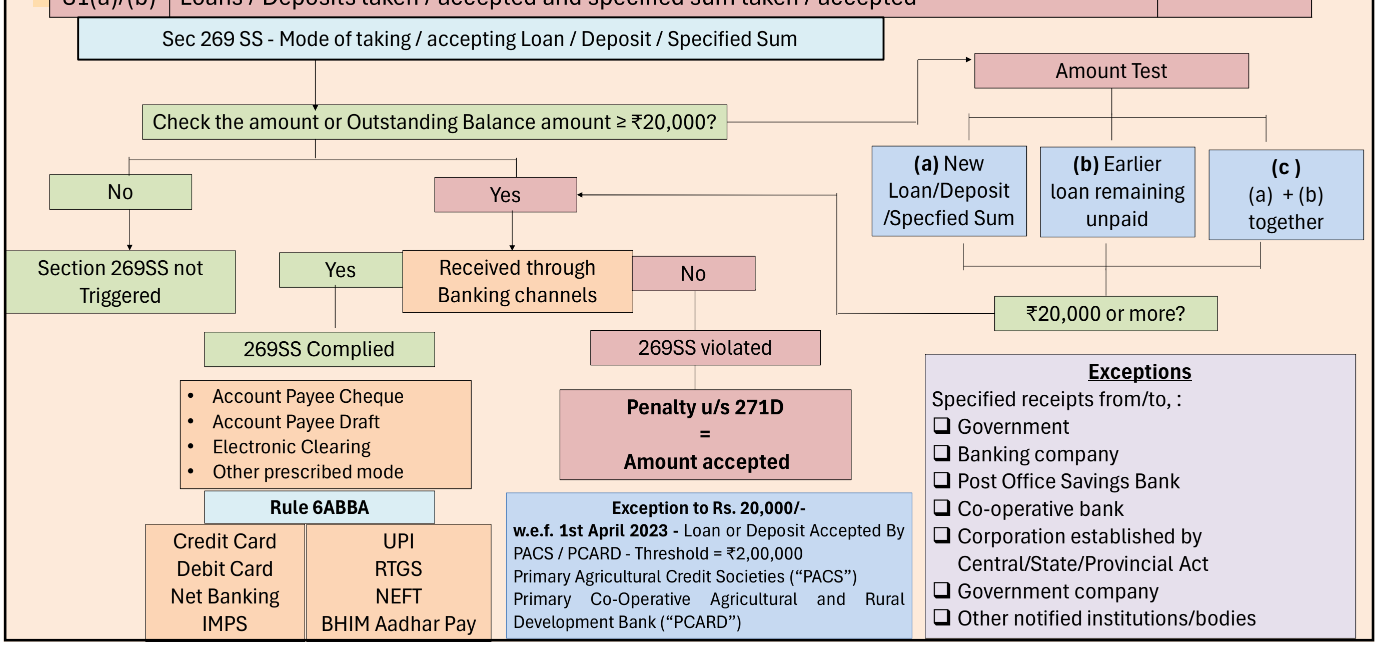
Clause 31(b) : Particulars **of each specified sum** in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year:—
(i) name, address and Permanent Account Number or Aadhaar Number (if available with the assessee) of the person from whom specified sum is received;
(ii) Amount of each specified sum taken or accepted and code of the nature of such amount, as given in Note 1; [Dropdown to be provided];
(iii) whether the specified sum was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;
(iv) in case the specified sum was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.
(Particulars at (a) and (b) need not be given in the case of a Government company, a banking company or a corporation established by the Central, State or Provincial Act.)

Sub-clause (a) and (b) of clause 31 are relating to section 269SS wherein sub-clause (a) seeks details of loan or deposit, whereas sub-clause (b) requires reporting on receipt of 'the specified sum'.

FORM 3CD CLAUSES

PART B

31(a)/(b)	Loans / Deposits taken / accepted and specified sum taken / accepted



FORM 3CD CLAUSES

PART B

31(ba)/(bb)/(bc)/(bd)	Particulars of receipt/payment in an amount exceeding the limit specified in Sec. 269ST

Clause 31(ba) :
Particulars of **each receipt in an amount exceeding the limit specified** in section 269ST, in aggregate from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion from a person, during the previous year, where such receipt is **otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account:-**
(i) Name, address and Permanent Account Number or Aadhaar Number (if available with the assessee) of the payer;
(ii) Nature of transaction;
(iii) Amount of receipt (in Rs.);
(iv) Date of receipt;

Clause 31(bc) :
Particulars of **each payment made in an amount exceeding the limit** specified in section 269ST, in aggregate to a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion to a person, **otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account** during the previous year:-
(i) Name, address and Permanent Account Number or Aadhaar Number (if available with the assessee) of the payee;
(ii) Nature of transaction;
(iii) Amount of payment (in Rs.);
(iv) Date of payment;

Clause 31(bb) :
Particulars of **each receipt in an amount exceeding the limit specified** in section 269ST, in aggregate from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion from a person, received by a cheque or bank draft, **not being an account payee cheque or an account payee bank draft**, during the previous year:—
(i) Name, address and Permanent Account Number or Aadhaar Number (if available with the assessee) of the payer;
(ii) Amount of receipt (in Rs.);

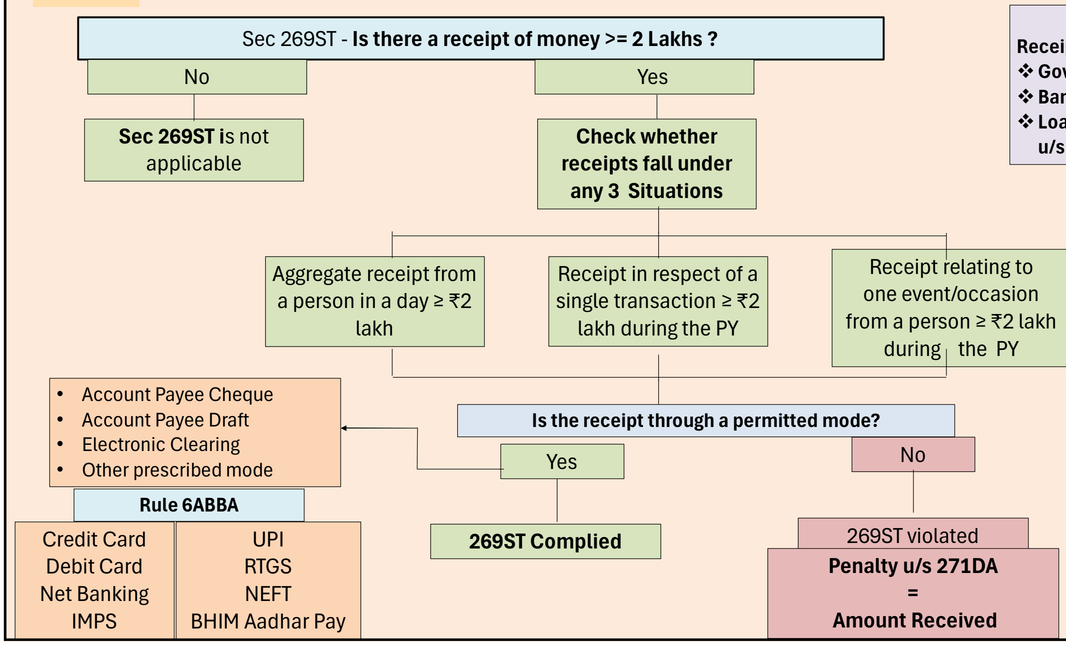
Clause 31(bd) :
Particulars of **each payment in an amount exceeding the limits** specified in section 269ST, in aggregate to a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion to a person, made by a cheque or bank draft, **not being an account payee cheque or an account payee bank draft, during the previous** year:—
(i) Name, address and Permanent Account Number or Aadhaar Number (if available with the assessee) of the payee;
(ii) Amount of payment (in Rs.);

Section 269ST does not distinguish between receipt on capital account and revenue account

FORM 3CD CLAUSES

PART B

31(ba)/(bb)/(bc)/(bd)	Particulars of receipt/payment in an amount exceeding the limit specified in Sec. 269ST



Exceptions

Receipt By:
- **Government**
- **Banking/Cooperative/Post Office**
- **Loan/Deposit/Specified Sum covered u/s 269SS**

Exception - Other notified receipts :
- Receipt by a **Business Correspondent** on behalf of a banking company/co-operative bank.
- Receipt by a **White Label ATM operator** from retail outlet sources on behalf of a bank/co-operative bank.
- Receipt by **an issuer of pre-paid payment instruments** from an agent.
- Receipt **by a credit card issuing company/institution** against bills raised for one or more credit cards.
- Receipt not includible **in total income u/s 10(17A).**

FORM 3CD CLAUSES

PART B

31(c)	Loans/Deposits repaid – payee details	

Clause 31(c) :

Particulars of each repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269Tmade during the previous year:—

(i) name, address and Permanent Account Number or Aadhaar Number (if available with the assessee) of the payee;
(ii) Amount of each repayment of loan or deposit or any specified advance and code of the nature of such amount, as given in Note 1;
(iii) maximum amount outstanding in the account at any time during the previous year;
(iv) whether the repayment was made by cheque or bank draft or use of electronic clearing system through a bank account;
(v) in case the repayment was made by cheque or bank draft, whether the same was repaid by an account payee cheque or an account payee bank draft.

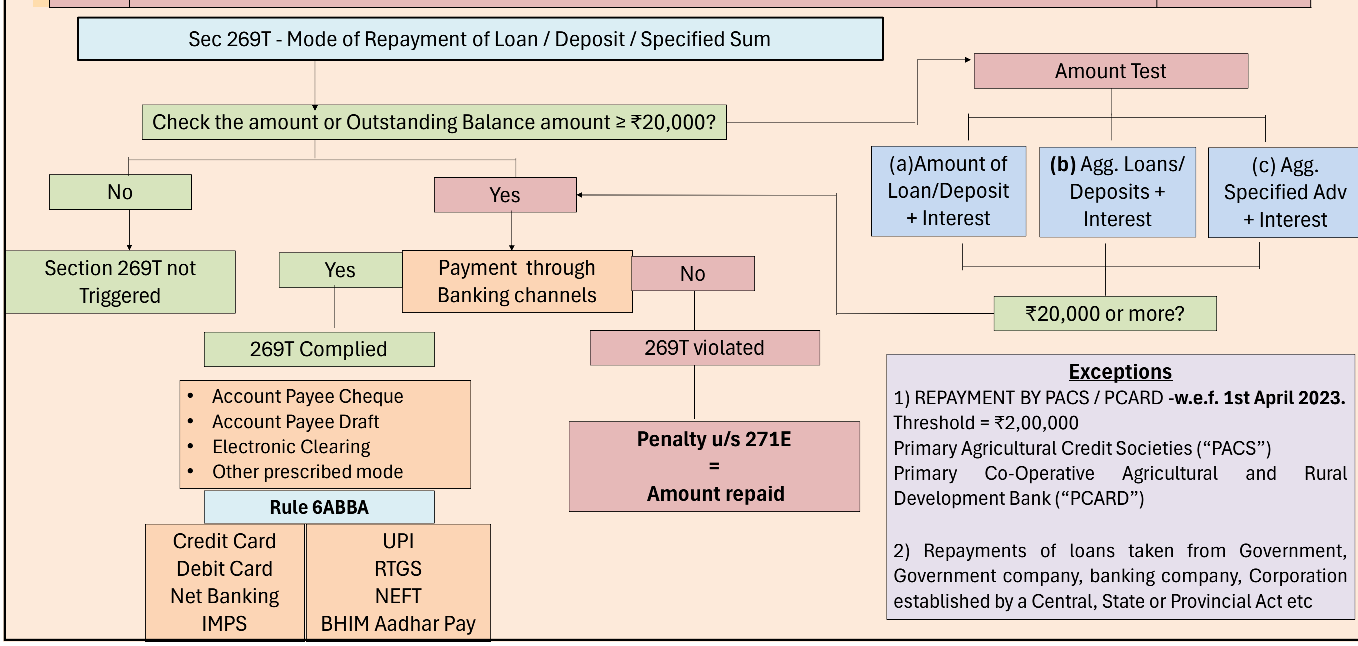
"Loan" or deposit" means any deposit of money which is repayable after notice or repayable after a period and, in the case of a person other than a company, includes loan or deposit of any nature.
"**Specified advance"** means any sum of money in the nature of advance, by whatever name called, in relation to transfer of an immovable property, whether or not the transfer takes place

- ❑ Section 269T does not exclude Government companies, banking companies from the scope of its applicability. As such, details of repayment made to such entities are to be shown in the case of these entities also.
- ❑ Loan or deposits discharged by means of transfer entries or journal entries in the books of account constitute repayment of loan or deposits otherwise than by account payee cheque or account payee bank draft. Hence, such entries have to be reported under this clause.
- ❑ The entries that relate to transactions with a supplier and customer on account of purchase or sale of goods /services will not be treated as loans or deposits repaid.

FORM 3CD CLAUSES

PART B

31(c)	Loans/Deposits repaid – payee details	



Exceptions

1) REPAYMENT BY PACS / PCARD -**w.e.f. 1st April 2023.**
Threshold = ₹2,00,000
Primary Agricultural Credit Societies ("PACS")
Primary Co-Operative Agricultural and Rural Development Bank ("PCARD")

2) Repayments of loans taken from Government, Government company, banking company, Corporation established by a Central, State or Provincial Act etc

FORM 3CD CLAUSES

PART B

31(d)	Loans/Deposits repayment received – payer details	

Clause 31(d) :
Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year:—
(i) name, address and Permanent Account Number or Aadhaar Number (if available with the assessee) of the payer;
(ii) repayment of loan or deposit or any specified advance received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year.

Under this sub-clause, the details of repayment received by the assessee from a person in respect of loan or deposit or specified advance exceeding the limit specified in section 269T received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year based on the examination of books of account & other relevant documents have to be provided.

31(e)	Loans/Deposits repayment received	

Clause 31(e) :
Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received by a cheque or bank draft which is not an account payee cheque or account payee bank draft during the previous year:—
(i) name, address and Permanent Account Number or Aadhaar Number (if available with the assessee) of the payer;
(ii) repayment of loan or deposit or any specified advance received by a cheque or a bank draft which is not an account payee cheque or account payee bank draft during the previous year.

Under this sub-clause, the tax auditor has to verify details of repayment received by the assessee from a person in respect of loan or deposit or specified advance exceeding the limit specified in section 269T received by a cheque or bank draft which is not an account payee cheque or account payee bank draft during the previous year based on the examination of books of account and other relevant documents

FORM 3CD CLAUSES

PART B

31(a) to (e)	IMPORTANT POINTS TO BE CONSIDERED	

Important points to consider when Reporting under Clause 31(a) :

- **Sale proceeds** collected by the selling agent will **not be** considered as loan or deposit.
- When there is a **mixed account**, the transactions relating to loans and deposits should be **segregated** from other accounts and the transactions relating to loans and deposits should be **stated** under this clause.
- **Opening credit balance** of loan taken in earlier years is **not specifically** required to be disclosed.
- Even if the loans are **taken free of interest**, the information will still have to be **given**
- **Security deposits** against contracts, etc. will be covered by the definition of 'deposit' and therefore, such information will have to be **given.**
- Loans and deposits taken or accepted by means of **transfer entries or journal entries** in the books of account constitute acceptance of deposits or loans otherwise than by account payee cheques
- **Interest accrued** during the year and credited to deposit or loan account **is not required to be reported** under this clause.
- **Share application money advance** supported by appropriate documentation is neither deposit nor loan and subsequent allotment of shares or repayment of application money as a part of allotment process does not alter the character of application money and provision of Section 269SS and section 269T **are not attracted** in such a case.
- **Co-operative societies are not exempt** from compliance with the provisions of Section 269SS/269T

Important points to consider when Reporting under Clause 31(b) :

The tax auditor should ascertain whether the assessee has any immovable property which has been transferred or was proposed to be transferred during the year and review the relevant agreements, documents etc.

FORM 3CD CLAUSES

PART B

31(a) to (e)	IMPORTANT POINTS TO BE CONSIDERED	

Important points to consider when Reporting under Clause 31(ba)/(bb)/(bc)/(bd) :

- Sub-clause 31(ba) and (bb) – Furnish transactions exceeding Rs 2 lakh, where assessee has received the amount from a person
- Sub-clause 31(bc) and (bd) - Furnish transactions exceeding Rs 2 lakh, where the payment has been made by the assessee to a person
- A single invoice may relate to multiple transactions and vice- versa, multiple bills may relate to a single transaction.
- Where catering and flower decoration contracts relate to the same event, the transactions may be separate, but section 269ST applies if the Aggregate receipts exceed the prescribed limit and are received through non permitted modes
- For NBFCs/HFCs, each loan repayment instalment constitutes a separate "single transaction" under Section 269ST; instalments of the same loan are not aggregated. The same principle applies to instalments of insurance premium received by insurance companies.
- The tax auditor should verify whether the receipt or payment has been correctly classified as:
  (i) **Receipt/payment otherwise than through** account payee cheque, account payee bank draft, electronic clearing system through a bank account, or other prescribed electronic modes; or
  (ii) **Receipt/payment through a cheque or bank draft that is not account payee**

Important points to consider when Reporting under Clause 31(c)/(d)/(e) :

- ❑ Company assessee: "Loan or deposit" excludes amounts repayable on demand.
- ❑ Non-company assessee: "Loan or deposit" covers loans or deposits of any nature, including those repayable on demand.

The tax auditor must check the complete movement of loans and deposits, including the outstanding loan and deposits at the beginning of the year, loans taken and deposits accepted during the year and loans and deposits repaid during the year.

FORM 3CD CLAUSES

PART B

32(a)	Brought forward loss / depreciation	

Clause 32(a) - Details of brought forward loss or depreciation allowance in the following manner, to the extent available

Sl. No	Assess ment Year	Nature of loss/ allowance	Amount as returned	All losses/allowances not allowed under section 115BAA/ 115BAC/ 115BAD/ 115BAE	Amount as adjusted by withdrawal of additional depreciation on account of opting for taxation under section 115BAC/115BAD/115BAE(To be filled in only for assessment year 2021-22 and 2024-25 only, as applicable)	Amount as assessed		Remarks
						Amount	Order u/s & date (according to E-utility)	

The tax auditor should carefully verify:

- ● Income-tax returns filed (including original, revised, or updated returns),
- ● Assessment orders, appellate orders, and orders giving effect thereto,
- ● Rectification or revision orders.

❑ Any assessment, rectification, revision or appeal proceedings pending at the time of tax audit have to be disclosed in the remarks column by way of information

FORM 3CD CLAUSES

PART B

32(a)	Brought forward loss / depreciation

Sec tion	Nature of Loss to be Carried Forward	Income Against Which Brought Forward Loss Can Be Set Off	Maximum Period for Carry Forward of Losses	Return to be filed within 139(1)
32(2)	Unabsorbed depreciation	Income under any head other than salaries	Indefinite period	No
71B	Unabsorbed loss from house property	Income from house property	8 assessment years	No
72	Unabsorbed business loss	Profits and gains from business or profession	8 assessment years	Yes
73	Loss from speculation business	Income from any speculation business	4 assessment years	Yes
73A	Loss from specified business u/s 35AD, in case of an assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A)	Profit from any specified business, irrespective of whether such business is eligible for deduction u/s 35AD	Indefinite period	Yes
74	Long-term capital loss	Long-term capital gains	8 assessment years	Yes
	Short-term capital loss	Short-term/Long-term capital gains	8 assessment years	Yes
74A	Loss from the activity of owning and maintaining race horses	Income from the activity of owning and maintaining race horses.	4 assessment years	Yes

FORM 3CD CLAUSES

PART B

32(a)	Brought forward loss / depreciation

- ❑ Losses can be carried forward only if the return is filed within the due date under section 139(1), except for house property loss and unabsorbed depreciation.

- ❑ **Losses which cannot be set-off or carried forward**
  1) Loss from gambling, betting, card games, etc.
  2) Loss from an exempt source [for example, share of loss of partnership firm cannot be set-off against any other business income]

- ❑ If any undisclosed income is determined in the case of the assessee then no adjustment or set- off shall be allowed against such undisclosed income. The set - off shall not be available in case of both brought forward losses as well as the unabsorbed depreciation.

- ❑ Also, in relation to section 115BAA, 115BAC and 115BAD, the tax auditor has to check whether the reporting in clause 18(ca) aligns with the reporting in column (6) in the table in clause 32.

- ❑ Auditor may verify the Income Tax Portal data through ‘e -Proceedings – Loss Carry Forward Status’ or last year’s ITR data to cross -check accuracy of reporting.

- ❑ For claiming setoff, return need not be filed before Duedate.

FORM 3CD CLAUSES

PART B

32(b)	Change in Shareholding

Clause 32(b) - Whether a change in shareholding of the company has taken place in the previous year due to which the losses incurred prior to the previous year cannot be allowed to be carried forward in terms of section 79.

Section 79 restricts the **carry forward and set-off of business losses** in closely held companies when there is a significant change in shareholding.
Business losses can be carried forward **only if at least 51% of the voting power remains with the same shareholders** on the last day of the year in which the loss is set off as compared to the year in which the loss was incurred.

This provision **does not apply** where the change in voting power is due to:

Exception	Condition
Death of a shareholder	Exempt
Gift of shares to a relative	Exempt
Amalgamation/Demerger of foreign holding company	At least **51%** of the shareholders continue in the resulting foreign company
Resolution Plan Approved under IBC, 2016	Exempt

Tax auditors maintain working papers including:
- Shareholding schedules (legal + beneficial) for current and prior year.
- Proof of continuity of shareholding in cases covered under clause (f).
- Management representation for complex group structures or indirect holding situations.

- ❖ The comparison of the composition of the shareholding is to be done with reference to the last day of the current previous year and the last day of every previous year in which the loss was incurred.
- ❖ The comparison must be carried out for each year of loss separately, and the allowability must be evaluated year-by-year, rather than in aggregate.

FORM 3CD CLAUSES

PART B

32(c)	Speculation Loss

Clause 32(c) - Whether the assessee has incurred any **<u>speculation loss referred to in Section 73</u>** during the previous year, if yes, please furnish the details of the same.

Sec 73

Speculation loss → **Setoff** → **Speculation Gains/Profits**

Speculation loss ≠ **Normal Profits and Gains**

Option Sec 71 v/s. Sec 73

Balance → **C/F to 4 Assessment Years** → **Setoff against Speculative Profits / Gains**

Unabsorbed depreciation and capital expenditure on scientific research relating to a speculation business are not treated like speculation losses.

Section 43(5) - means a transaction in which a contract for the purchase or sale of any commodity, including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrips:

Not a Speculative Transaction
- **Hedging contracts** in raw materials or merchandise
- **Hedging contracts** in stocks and shares
- **Eligible derivative transactions** on a recognized stock exchange
- **Eligible commodity derivative transactions** on a recognized stock exchange
- **Trading in derivatives** on a recognized IFSC exchange (where consideration is in foreign currency)

FORM 3CD CLAUSES

PART B

32(d)	Loss incurred under section 73A

Clause 32(d) - Details of Losses incurred in respect of a Specified business as referred to under section 73A

Sec 73A

Specified Business loss → **Setoff** → **Specified Business Gains/Profits**

Specified Business loss ≠ **Normal Profits and Gains**

Balance → **C/F to Indefinite Period** → **Setoff against Specified Business Profits / Gains**

The loss from one specified business can be set off against the profits of any other specified business.

Sec 35AD : Specified Business

Cold chain facility	Affordable housing project
Agricultural produce warehouse	Container freight station
Two-star hotel	Natural gas /Crude Oil pipeline
100-bed hospital	Fertilizer manufacturing plant

- Under clause 32(d), the tax auditor has to verify from the books of account and other relevant documents as to whether the assessee is carrying on specified business as referred to under section 35AD
- In case the assessee carries on more than one specified businesses and losses have been incurred in more than one such business, the details of the loss incurred with respect of each business is to be specified separately.

FORM 3CD CLAUSES

PART B

32(e)	Deemed Speculation Business

Clause 32(e) - Details of speculation loss, if any, incurred from deemed Speculation business as referred to in Explanation to section 73

Company purchases & sells shares of other companies

Is the company an excluded company?

Yes
- ❑ Banking Company
- ❑ Loans & Advances Business
- ❑ Principal Share Trading
- ❑ Mainly Passive Income (Interest, HP, CG, OS)

No → Deemed Speculation Business → **Sec 73 Applies**

- Under this clause, the tax auditor has to furnish the details regarding the speculation losses incurred, if any,
- The auditor may obtain information in the following format from the assessee and verify the same from the books of account, income tax returns of earlier years and other relevant documents:

Sr No	Applicable section	Nature of loss	AY of incurring loss	Amount of Loss	Amount set off during current AY	Amount to be carried forward
1	2	3	4	5	6	7

FORM 3CD CLAUSES

PART B

33	Deductions under Chapter VIA or Chapter III

- Section-wise details of deductions, if any, admissible under **Chapter VIA** or **Chapter III (Section 10A, Section 10AA)**

Section under which deduction is claimed	Amounts admissible as per the provision of the Income Tax Act, 1961 and fulfils the conditions, if any, specified under the relevant provisions of Income Tax Act, 1961 or Income Tax Rules,1962 or any other guidelines, circular, etc, issued in this behalf.

- Chapter VIA of the Act deals with deductions in respect of certain payments, deduction in respect of certain incomes & other deductions which have to be given effect to by the way of allowance from gross total income of the assessee.
- Chapter III relates to income which don't form part of total income, the reporting under this Clause is required only with respect to exemptions claimed u/s 10A & Section 10AA
- Since, the introduction of New Tax Regime for different type of persons, most of the deductions are not available to the assesses.
- Section 80CCD(2) and 80JJAA are some of the sections under which deductions are available even under NTR

FORM 3CD CLAUSES

PART B

34(a)	Deduction or Collection of tax – Chapter XVII-B or XVII-BB

(a) Whether the assessee is required to deduct or collect tax as per the provisions of Chapter XVII-B or Chapter XVII-BB, if yes please furnish:

Tax deduction and collection Account Number (TAN)	Section	Nature of Payment	Total amount of payment or receipt of the nature specified in column (3)	Total amount on which tax was required to be deducted or collected out of (4)	Total amount on which tax deducted or collected at specified rate out of (5)	Amount of tax deducted or collected out of (6)	Total amount on which ta was deducted or collected at less than specified rate out of (7)	Amount of tax deducted or collected on (8)	Amount of tax deducted or collected not deposited to the credit of the Central Government out of (6) and (8)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

In-built checks provided,

For example, Column (5)- 'Total amount on which tax was required to be deducted or collected out of (4)', should not exceed the amount specified in column (4).

The detail is to be provided in accordance with the nature of payment.

The tax auditor is required to provide the detail irrespective of any default on the part of assessee in complying with the provisions of Chapter-XVII-B or XVII-BB.

With regard to applicability of section 194BA, (w.e.f 01.04.2023), the auditor should examine rule 133 and circular issued in this regard.

The auditor may take the status of the demand payable as per the TDS CPC (popularly known as TRACES) for the purpose of reporting in clause 34.

FORM 3CD CLAUSES

PART B

34(a)	Deduction or Collection of tax – Chapter XVII-B or XVII-BB	

As per Guidance note issued by the ICAI

- Rates of deduction is to be considered as per the law relevant to the P. Y.
- Refer relevant provisions, rules, circulars, notifications and such certificates obtained from the auditee to verify the cases where tax has been short deducted at source.
- **In case the payer deducts/recipient collects tax at source at a rate lower than the specified rate on the basis of certificate issued u/s 195 or 197, the lower rate or nil rate, as the case may be will be considered as the specified rate for the purpose of reporting under this Clause.**
- As per the provisions of Sections 195/ 197, certificate can be issued for no deduction or lower deduction of tax at source.
- In case of payment to non-residents, the applicable rate of TDS is to be read along with the Double Taxation Avoidance Agreement.

❑ There is no specific column to mention non- deduction of tax at source in the specified format. However, the amount may be calculated as follows

Non- deduction = Column (5) less [(6) plus (8)]

❑ Since the reference to Chapter XVII-B is made, it is clear that TDS under Income-tax Act is only covered. TDS under other laws (e.g. TDS on works contracts under State VAT laws) are not covered. The tax auditor is also not responsible for reporting timely deposit with the State Government of Profession Tax deducted from salaries of employees - **ICAI's Issues on Tax Audit.**

❑ If tax auditor does not agree with the auditee's views on deductibility/non-deductibility of tax in particular cases, it would be advisable to state both views (his views as well as the auditee's views)

FORM 3CD CLAUSES

PART B

34(b)	Furnishing of tax deducted or collected statement	

(b) whether the assessee is required to furnish the statement of tax deducted or tax collected. If yes, please furnish the details:

Tax deduction and collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing, if furnished	Whether the statement of tax deducted or collected contains information about all details/transactions which are required to be reported. **If not, please furnish list of details/transactions which are not reported.;**

❖ Information given in clause 34(a) and (b) should be reconciled with the disallowances reported under section 40(a) in clause 21(b)

❖ The Tax Auditor cannot merely rely on information provided by the client but have to examine books of account to determine the transaction on which provisions of Chapter-XVIIB and Chapter XIIBB apply.

❖ Where it is practically not possible for the tax auditor to verify all the transactions to report compliance with provisions of Chapter XVII-B or XVII-BB, where the tax audit is time bound like in Banks.

❖ Option provided in Form 3CA and Form 3CB under Qualification Type -
"TDS returns could not be verified with the books of account"

❖ If transactions are voluminous and it is not possible for auditor to verify 100%, suitable observations can be made in paragraph (3) of Form 3CA or paragraph (5) of Form 3CB

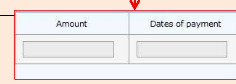
FORM 3CD CLAUSES

PART B

34(c)	Interest under Section 201(1A) or 206C(7)

(c) whether the assessee is liable to pay interest under Section 201(1A) or Section 206C(7). If yes, please furnish:

Tax deduction and collection Account Number (TAN)	Amount of interest u/s 201(1A) / 206C(7) is payable	Amount paid out of column (2) along with date of payment.


Amount	Dates of payment

- ❖ Sec. 201(1A)- Levy of simple interest on **failure to deduct** tax or payment thereof to the credit of Central Government
- ❖ Sec. 206C(7)- Levy of simple interest on **failure to collect** tax or payment thereof to the credit of Central Government
- ❖ If the assessee is liable to pay interest u/s 201(1A) or 206C(7), the auditor should verify such amount from the books of account & also from the statement generated by the department in form no. 26AS.
- ❖ In case the assessee had disputed the levy or calculation of interest under TRACES, or in Form No. 26AS, the auditor may re-calculate the amount of interest u/s 201(1A) or Section 206C(7) up to the date of audit report for reporting under this Clause & also mention the fact in his observations provided in form no. 3CA & form no. 3CB.
- ❖ Under mercantile system of accounting, interest if not paid till 31st March and provision is also not made, its impact on true and fair view should be considered.

FORM 3CD CLAUSES

PART B

35(a)/(b)	Quantitative details of a trading / manufacturing concern

(a) In the case of a trading concern, give quantitative details **of principal items** of goods traded :

Item name	Unit	opening stock	purchases during the previous year	sales during the previous year	Closing Stock	Shortage/ excess, if any

(b) In the case of a manufacturing concern, give quantitative details of the **principal items** of raw material, finished products and by- products:

(A) Raw materials:

Item name	Unit name	Opening stock	Purchases during the previous year	Consumption during the previous year	Sales during the previous year	Closing Stock	Yield of finished products	Percentage of yield	Shortage / excess, if any

(B) Finished Products / By-producs :

Item name	Unit name	Opening stock	Purchases during the previous year	Consumption during the previous year	Sales during the previous year	Closing Stock	Shortage/ excess, if any

FORM 3CD CLAUSES

PART B

35(a)/(b)	Quantitative details of a trading / manufacturing concern	

- ***"Principal Items"*** :- Items which constitute more than ***10% of the aggregate value*** of purchase, consumption or turnover.
- The tax auditor should obtain certificates from the assessee in respect of the principal items of goods traded, the balance of the opening stock, purchases, sales and closing stock and the extent of shortage/ excess/damage and the reasons thereof.
- Quantitative details of principal items of raw materials and finished goods should be given. Therefore information about petty items need not be given.
- The tax auditor (if he is issuing Form No. 3CB also) should attend the physical stock-taking conducted by the management if the inventories are material unless such attendance is impracticable due to matters such as nature and location of the inventory.
- If the assessee is engaged in the manufacture of goods where the input of raw materials and the output of finished goods are recorded in different units of measurement, unless an alternative method is available to convert the end product into the same unit of measure as the inputs, the yield and shortage cannot be ascertained.
- If the end product is a standard item and can be converted back and related to the input of the raw material in the same unit of measurement, it should be done to ascertain the shortage, yield etc. If it is not possible, the tax auditor should state the fact under this Clause.
- In case of companies, verify that these details tally with details given in annual accounts in the notes to accounts.

FORM 3CD CLAUSES

PART B

36A	Receipt of dividend under section 2(22)(e)	

Clause 36A - Dividend received u/s 2(22)(e) is required to be reported under this clause, as under:

Whether the assessee has received any amount in the nature of dividend as referred to in sub-clause (e) of clause (22) of section 2? (Yes/No)

If yes, please furnish the following details:-

i. Amount received (in Rs.)

ii. Date of receipt

- Amount should be received from a Private Limited Company
- Amount paid as loan or advance to a shareholder being a beneficial owner holding >=10% of voting power
- Amount paid as loan or advance to any concern in which the shareholder is a member or a partner having substantial interest
- Made on behalf, or for the individual benefit of the shareholder
- The company should have accumulated profits to the extent of loan or advance or payment
- The section mentions about beneficial owner, In case registered shareholder is not beneficial owner, auditor has to obtain an undertaking to this effect and the same to be mentioned in the tax audit report
- Accumulated profits have to be determined as on the date of the payment.
- Trade advances in the course of business, will not fall under the provision of section 2(22)(e)

FORM 3CD CLAUSES

PART B

36B	Amount received for buyback of shares u/s. 2(22)(f)	

Clause 36B - Received any amount for Buyback of shares u/s 2(22)(f) is required to be reported under this clause, as under:

Whether the assessee has received any amount for buyback of shares as referred to in sub-clause (f) of clause (22) of section 2? (Yes/No)

If yes, please furnish the following details:-

i. Amount received (in Rs.)

ii. Cost of acquisition of shares bought back

This section is applicable only for PY 2025-26, AY 2026-27

Format in e-utility.....

S.No.		Amount received (in Rs.)	Date of receipt
1			

FORM 3CD CLAUSES

PART B

37, 38, 39	Cost Audit Report, Excise Audit Report, Service Tax Audit	

- The tax auditor should ascertain whether cost audit or excise audit was carried out in PY;
- Obtain a copy of the report;
- Make note of the disqualification or disagreement on any matter / item / value / quantity as may be reported or identified by the auditor;
- Auditor need not express any opinion in a case where such audit has been ordered but the same has not been carried out;
- In case audit is not completed by the time of giving report, he has to mention that audit report was not available with the assesse for giving his comments;
- Auditor has to give information only pertaining to the relevant previous year of audit, even though the cost or excise audit period is more than a PY;
- With service tax subsumed with GST, this is no longer in operation. There is no relevance of this clause.

FORM 3CD CLAUSES

PART B

40	Details of goods traded, manufactured or services rendered – Analytical Ratios

Details regarding turnover, gross profit, etc., for the previous year and preceding previous year:

Serial Number	Particulars	Previous year	Preceding previous year
1	Total turnover of the assessee		
2	Gross profit/turnover		
3	Net profit/turnover		
4	Stock-in-trade/turnover		
5	Material consumed/ finished goods produced		

(The details required to be furnished **for principal items of goods** traded or manufactured or services rendered)

- These ratios have to be calculated for assesses who are engaged in manufacturing or trading activity
- In case of service provider, only information at Sl. No. (1) and (3) to be furnished
- All the ratios mentioned above to be calculated in terms of values only
- Gross Profit/Gross Margin : Sales (-) Cost {before considering administration, selling, distribution and finance expn.s)
- Sales Turnover : As per the definition as stated earlier in the slides
- Net Profit : Net profit here is net profit before tax
- In case computation is negative at any point, it is considered as Gross Loss or Net Loss as the case may be
- Stok-in-trade : It would include only finished goods and not stock of raw materials, WIP, stores, spare parts, etc.,
- Previous year figures are to be taken from last previous year audit report to make ratios comparable.

FORM 3CD CLAUSES

PART B

40	Details of goods traded, manufactured or services rendered – Analytical Ratios

Format in e-Utility

Serial Number	Particulars	Previous Year			Preceding previous Year		
(a)	Total turnover of the assessee						
(b)	Gross profit / Turnover	Gross Profit	Turnover	(%)	Gross Profit	Turnover	(%)
(c)	Net profit / Turnover	Net Profit	Turnover	(%)	Net Profit	Turnover	(%)
(d)	Stock-in-Trade / Turnover	Stock-in-Trad	Turnover	(%)	Stock-in-Trad	Turnover	(%)
(e)	Material consumed / Finished goods produced	Materials con	Finished Goods Pr	(%)	Materials cons	Finished Goods Pr	(%)

(The details required to be furnished **for principal items of goods** traded or manufactured or services rendered)

FORM 3CD CLAUSES

PART B

41	Details of demand and refund

Please furnish the **details of demand raised or refund issued** during the previous year **under any tax laws other than Income Tax Act, 1961 and Wealth tax Act, 1957** along with details of relevant proceedings

- Legislative intention of this Clause probably is to determine whether such demand is claimed as expenditure or not or whether the refund is included in income or not.
- Generally, under other tax laws the Indirect tax laws such as Central Excise Duty, Service Tax, Customs Duty, Value Added Tax, CST, Professional Tax, Goods and Service Tax, etc should be covered
- The tax auditor doesn't need to furnish details in respect of those proceedings in which neither demand is raised nor refund is issued.
- Obtain a copy of all the demand / refund orders issued by the governmental authorities during the P.Y. under any tax laws other than Income Tax Act and Wealth Tax Act.
- Where the demand / refund order pertains to a period other than the relevant P.Y. but issued during the P.Y., the same should also be reported.
- If there is any adjustment of refund against any demand, the auditor shall also report the same.
- The tax auditor should cross verify the details of demand, if any pending, from clause (vii) of Companies Auditor Report Order (CARO) Rules, 2016
- The reporting by the tax auditor is subject to availability of information from the assessee.
- In case of refunds, the tax auditor should also verify whether the interest on such refund has been shown as income or not?
- The tax auditor should also report the consequential penalty if debited to P&L A/c in Clause No. 21

FORM 3CD CLAUSES

PART B

42	Information pertaining to Form No. 61 / 61A / 61B

Clause 42- Details w.r.t. Form 61 (details of No PAN/ Form 60 received), Form 61A (statement of Specified Financial Transactions), Form 61B (Statement of Reportable Account), is to be reported here, as under:

a) Whether the assessee is required to furnish statement in Form No.61 or Form No. 61A or Form No. 61B? (Yes/No)

b) If yes, please furnish:

Income-tax Department Reporting Entity Identification Number	Type of Form	Due date for furnishing	Date of furnishing, if furnished	Whether the Form contains information about all details/ transactions which are required to be reported. If not, please furnish list of the details/transactions which are not reported.

Form No.	Due Date
61	31st October (where declarations in Form No. 60 is rec'd between 01st Apr to 30th Sep}
	30th April, (where declarations in Form No. 60 is rec'd between 01st Oct to 31st Mar}
61A	31st May of the immediately following financial year
61B	31st May of the immediately following financial year

FORM 3CD CLAUSES

PART B

42	Information pertaining to Form No. 61 / 61A / 61B

PAN REQUIREMENT

Sl.no	Nature of transaction	Value of transaction
1	Make application for issue of a Credit Card	All such Transactions
2	Opening of Account with Depository or Custodian	All such Transactions
3	Acquire Bonds from RBI	> **50,000**
4	Purchase of Mutual Fund Units	> **50,000**
5	Sale or purchase of Securities	> **1 Lakh** per transaction
6	Cash Deposit with Bank or Post office (in 1 or more account of a person)	**Agg >= 10 Lakh** in a FY
7	Cash Withdrawal with Bank or Post office (in 1 or more account of a person)	**Agg >= 10 Lakh** in a FY
8	Sale or Purchase of Motor Vehicle / Motor Cycle	> **5 Lakh**
9	Sale or Purchase of Unlisted Shares	> **1 Lakh** per Transaction
10	Acquiring Bonds and Debentures	> **50,000**
11	Purchase/ Sale/ Gift/ JDA of Immovable property	Consideration ord SDV > **20 Lakh**
12	Opening an Account with Bank or Coop Bank	All such transactions
13	Time Deposit with – Bank, Co-op Bank, Post Office, Nidhi, NBFC	> **50,000** Or **Agg** > **5 Lakh** in a FY
14	Insurance Policy	Premium > **50,000** in a FY
15	**Cash Payments to:** Hotel / Restuarant / Banquet hall **OR** Convention Centre / Event Management	> **1 Lakh** at any one time
16	Sale or Purchase of Goods or service (Any Nature)	> **2 Lakh** per Transaction

SPECIFIED FINANCIAL TRANSACTION U/R. 114E

Sl. No.	Nature of Transaction	Threshold Limit
1(a)	Cash payment for bank drafts / pay orders / banker's cheque (one or more account) in a FY	Agg ≥ ₹10 lakh (PAN) Agg ≥ ₹5 lakh (No PAN)
1(b)	Purchase of prepaid instruments issued by RBI, paid in cash or otherwise in a FY	Agg ≥ ₹10 lakh
1(c)	Cash deposit / cash withdrawal in one or more current account in a FY	Agg ≥ ₹50 lakh
2	Cash deposits (one or more SB account) in a FY	≥ ₹10 lakh (PAN) ≥ ₹5 lakh (No PAN)
3	One or more New Time Deposits in a FY	Agg ≥ ₹10 lakh
4	One or more Credit Card payments in a FY	Agg ≥ ₹1 lakh (in cash) or Agg ≥ ₹10 lakh (other modes)
5	Investment in bonds / debentures in a FY	Agg ≥ ₹10 lakh
6	Investment in shares (including Share Application Money) in a FY	Agg ≥ ₹10 lakh
7	Buyback of shares in a FY	Agg ≥ ₹10 lakh
8	Purchase of foreign currency in a FY through Debit card or Credit card or Travellers cheque	Agg ≥ ₹10 lakh (PAN) Agg ≥ ₹5 lakh (No PAN)
9	Purchase/ sale/ gift/ JDA of Immovable property	Consideration or SDV ≥ ₹45 lakh
10	Purchase of Stamp paper per transaction	≥ ₹2 lakh (PAN) ≥ ₹1 lakh (No PAN)
11	Insurance premium in a FY (one or more account)	≥ ₹5 lakh (PAN) ≥ ₹2.5 lakh (No PAN)
12	Cash sale of goods/services	> ₹2 lakh

FORM 3CD CLAUSES

PART B

43	Details of report under section 286(2)

(a) Whether the assessee or its parent entity or alternate reporting entity is liable to furnish the report as referred to in sub-section (2) of section 286 (Yes/No)
(b) If yes, please furnish the following details:
  (i) Whether report has been furnished by the assessee or its parent entity or an alternate reporting entity
  (ii) Name of parent entity
  (iii) Name of alternate reporting entity (if applicable)
  (iv) Date of furnishing of report

- ❖ This provision is applicable to Multi National Entities having presence in more than one country.
- ❖ These are called International Group consisting of Parent Entity and Constituent Entity
- ❖ Parent Entity, if resident in India has to file County by Country (CbC) Report
- ❖ The Report has to be filed when total Consolidated Group Revenue in any accounting year is **> 6,400 Crores in INR**
- ❖ Reporting Entity can be Parent Entity or Constituent Entity or Alternate Reporting Entity
- ❖ Reporting Entity to file the Report in Form 3CEAD by 31st Mar / 31st Dec, (depending on the accounting year)
- ❖ Constituent Entity to file Intimation in Form 3CEAC by 31st Jan / 31st Oct, if Parent Entity is a Non-resident
- ❖ If there are more than one Constituent Entity in India, International Group will designate one of them as Alternate Reporting Entity by intimation in Form 3CEAE
- ❖ Auditor has to verify all these transactions and report accordingly, he can rely on the work of another CA.

FORM 3CD CLAUSES

PART B

44	Goods and Service Tax (GST) Compliance	

Break-up of total expenditure of entities registered or not registered under the GST :

Sl. No.	Total amount of Expenditure incurred during the year	Expenditure in respect of entities registered under GST				Expenditure relating to entities not registered under GST
		Relating to goods or services exempt from GST	Relating to entities falling under composition scheme	Relating to other registered entities	Total payment to registered entities	
1	2	3	4	5	6	7

- ❖ Breakup of total expenditure including purchases have to be given
- ❖ Expenditure includes both revenue and capital expenditure, which should be given separately
- ❖ Details to be given expenditure wise to reconcile the same with the Financial Statements
- ❖ Non-cash expenses like, Depreciation, Bad debts w/off, remuneration to employees need not be reported
- ❖ Goods exempt from GST include goods or services which attracts NIL rate of tax and includes Non-taxable supply
- ❖ Composition taxable person, not eligible to collect tax on supplies
- ❖ Vendor master GSTIN wise has to be maintained for easy reconciliation and extract of data
- ❖ Expenditure to be cross verified with GSTR 2B and AIS finally.

FORM 3CD CLAUSES

PART B

44	Goods and Service Tax (GST) Compliance	

The data to be maintained of total expenditure in the following manner

Sl. No.	Description	Amount	Amount
1.	Total value of expenditure in P&L for the year		XXXX
2.	**Add :** Total value of capital expenditure not included in P&L for the year		XXXX
3.	Total revenue and capital expenditure incurred during the year		XXXX
4.	**Less :** Total value of non-cash charges considered as expenditure	XXXX	
5.	**Less :** Total value of expenditure excluded for being transactions in securities and transactions in money	XXXX	
6.	**Less :** Total value of expenditure excluded by virtue of Schedule III to CGST Act, 2017	XXXX	XXXX
7.	**Balance being value of expenditure for clause 44 (To be reported in column 2)**		XXXX

CODE OF ETHICS

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1. Tax Audit Assignments
2. Communication with Previous Auditor
3. Minimum Audit Fees
4. Conduct of a Member being an employee
5. Maintenance of BOA
6. Appointment in case of non-payment of Undisputed Fees
7. Specified number of audit assignment
8. Appointment of an auditor - Exclusions
9. Directions in case of unjustified removal of auditors
10. Non-payment of undisputed Audit fees

CODE OF ETHICS

1. TAX AUDIT ASSIGNMENTS

Form of Practice	No. of Audits	Type of Tax Audits
Individual	**60**	Corporate or Non-corporate assesses
Proprietorship	**60**	Corporate or Non-corporate assesses
Firm of Chartered Accountants	**60 (Per Partner)**	Corporate or Non-corporate assesses

60 Audits is per Chartered Accountant irrespective of the Form of Practice he / she is into

Audits U/s. 44AD, 44AE & 44ADA shall not be considered for the specified number (60) of tax audit assignments.
Specified number of tax audit for each year's audit would be taken as a separate assignment.
The audit of the head office and branch offices of a concern shall be regarded as one tax audit assignment.
The audit of one or more branches of the same concern by one CA in practice shall be construed as only one tax audit.
If a CA **Revises** the Tax Audit Report **Originally** certified by him, it will not be considered as additional Tax Audit.
Part time practitioner in the firm shall not be considered for determining the specified limit of audits.
A CA in practice needs to maintain Tax Audit Register relating to each AY in the prescribed format.
CA firm can distribute the tax audit assignments per partner in accordance with SQC 1.

CODE OF ETHICS

2. COMMUNICATION WITH PREVIOUS AUDITOR

- A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he :-

Clause (8): accepts a position as auditor previously held by another chartered accountant without first communicating with him in writing;

- Recourse in case of Qualified Audit Report
- Fees pending due to non-availability of Previous Auditor
- Course of action in case of change of Auditor ship
- Duty of Retiring Auditor
- Certificate of Posting not a conclusive proof of communication
- Positive Evidence of Delivery required
- Premises found Locked
- Firm not found at the given Registered address
- Special Audit under Income Tax Act, 1961
- Communication required for all kinds of audit
- Communication in case of Assignments done by other professionals
- Lack of time in acceptance of Government Audits / Bank Audits

CODE OF ETHICS

3. MINIMUM AUDIT FEES

ICAI has revised Code of Ethics effective from 01.04.2026. This is the Thirteenth edition of the Code of Ethics released by ICAI. The revised Code of Ethics is segregated into three volumes, Volume-I is domestic provisions and Council Guidelines, Volume-II is converged with IESBA Code 2024 edition and Volume-III is Ethics Standards for Sustainability Assurance.

Volume I has 5 Chapters and **Chapter 4** deals with "**Guidelines on Ethical Issues, 2026**". Chapter 4 has further discussed under 10 more chapters regarding various aspects of ethical guidelines for members. Chapter 4 is covered from Page No. **159 to 166** in the Material.

Chapter 9 under the "Guidelines on Ethical Issues, 2026" deals with "Minimum fee in respect of Professional Services"

CHAPTER IX

"Minimum fee in respect of Professional Services"

- A member of the Institute in practice shall not charge fees less than the minimum fees mandated by the Central or State government or a Regulator, or prescribed by the Council **for any professional service** prescribed under **any law, rule or regulation** for the time being in force.

Different Situations	Appointment Date	Fees Fixation Date	Minimum Fees Applicability
	Before 01.04.2026	Before 01.04.2026	Recommendatory
	Before 01.04.2026	On or After 01.04.2026	Mandatory
	On or After 01.04.2026	On or After 01.04.2026	Mandatory
This situation will not arise, dt of appointment is the starting point	On or After 01.04.2026	Before 01.04.2026	Not Applicable

CODE OF ETHICS

3. MINIMUM AUDIT FEES

AUDIT AND OTHER ASSIGNMENTS

Rate per day would depend on the complexity of the work and the number of days spent by each person :

Particulars	Class 'A' Cities (₹)	Class 'B' Cities (₹)	Class 'C' Cities (₹)
(i) Principal	18,000/- & Above per day	12,000/- & Above per day	8,000/- & Above per day
(ii) Qualified Assistants	10,000/- & Above per day	7,000/- & Above per day	5,000/- & Above per day
(iii) Semi Qualified Assistants	5,000/- & Above per day	4,000/- & Above per day	3,000/- & Above per day
(iv) Other Assistants	3,000/- & Above per day	2,000/- & Above per day	1,000/- & Above per day

Subject to Minimum Indicative Fees as Under :

(i) Tax Audit	40,000/- & Above	30,000/- & Above	22,000/- & Above
(ii) Company Audit			
(a) Small Pvt. Ltd. Co. (Turnover up to ₹2 crore)	50,000/- & Above	35,000/- & Above	25,000/- & Above
(b) Medium Size Pvt. Ltd. Co./Public Ltd. Co.	80,000/- & Above	55,000/- & Above	35,000/- & Above
(c) Large Size Pvt. Ltd. Co./Public Ltd. Co.	See Note 1	See Note 1	See Note 1
(iii) Review of TDS Compliance	25,000/- & Above	18,000/- & Above	12,000/- & Above
(iv) Transfer Pricing Audit	See Note 1	See Note 1	See Note 1

Note 1 – Fees to be charged depending on the complexity and the time spent on the particular assignment.

CODE OF ETHICS

4. CONDUCT OF A MEMBER BEING AN EMPLOYEE

- A member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

5. MAINTENANCE OF BOOKS OF ACCOUNT

- A member of the Institute in practice or the firm of Chartered Accountants of which he is a partner, shall maintain and keep in respect of his / its professional practice, proper books of account in electronic or physical form.
- The minimum requirements for maintenance of books of account are:-

  (i) a Cash Book;

  (ii) a Ledger; and

  (iii) Bill Register.

6. APPOINTMENT IN CASE OF NON-PAYMENT OF UNDISPUTED FEES

- A member of the Institute in practice shall not accept the appointment as auditor of an entity in case the undisputed audit fee of another CA has not been paid, except that of a Sick Unit.
- Sick Unit is a unit registered for not less than five years, which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

CODE OF ETHICS

7. SPECIFIED NUMBER OF AUDIT ASSIGNMENTS

- A member OR Firm of CA's in practice can do **upto 40** audit assignment of companies

  One Person Company and Dormant Companies are excluded.

8. APPOINTMENT OF AUDITOR - EXCLUSIONS

- Auditor having personal interest in the business of the assessee;
- Settlor or Trustee can't be auditor of the Trust;
- Partner or member of HUF cant be auditor of Firm or HUF;
- Officer or employee of the assessee;
- CA holding Part time COP;
- Auditor is holding any security of, or interest in, the assessee ;

  Provided - Relative of the auditor may hold security or interest upto Rs. 1.0 Lakhs;
- Auditor and / or the relative is indebted to the assessee not exceeding Rs. 5.0 Lakhs;
- Auditor and / or the relative is given a guarantee to the assessee for an amount not exceeding Rs. 1.0 Lakh;
- A person convicted by a court of an offence involving fraud and a period of 10 years has not elapsed from the date of such conviction

CODE OF ETHICS

9. DIRECTIONS IN CASE OF UNJUSTIFIED REMOVAL OF AUDITORS

- A member of the Institute in practice shall follow the direction given, by the Council or an appropriate Committee or on behalf of any of them, to him being the incoming auditor(s) not to accept the appointment as auditor(s), in the case of unjustified removal of the earlier auditor(s).

10. NON-PAYMENT OF UNDISPUTED AUDIT FEES

Type of Audit	Undisputed Audit Fees is due for
Audit of Public Interest Entity for carrying out Statutory audit or under various other statutes	**One** immediately preceding year, having audited by him, has not been paid
Any other Entity	**Two** immediately preceding years, has not been paid
Company for which insolvency resolution process has been initiated and the RP has been appointed.	The above prohibition shall not apply.

PIE means - (a) A listed entity; (b) An entity one of whose main functions is to take deposits from the public;

(c) An entity: (i) Defined by regulation or legislation as a public interest entity; or (ii) Having borrowings of 500 crores of rupees or more (to be assessed at both the beginning and end of the year).

The provision for audit fee in accounts signed by both - the auditee and the auditor along with applicable taxes and other expenses, if any, incurred by the auditor in connection with the audit, shall be considered as "undisputed audit fees".

PEER REVIEW

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2. Engagement Letter
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4. Minimum Audit Fees
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E - UTILITY & TECHNOLOGY

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E - UTILITY & TECHNOLOGY

1. Form 3CA/3CB

Form 3CA/3CB – E Filing Utility

Section	Field
General Information	Audit report form
	Return Type
	UDIN
Assessee Information	Name
	Post office
Auditor's Information	Name of the Auditor – Full Name
	First Name
	Middle Name
	Surname
	Membership No.
	Firm Name, if any
	Firm registration no.
	PAN of the proprietor/firm
	Designation

Section	Field
Auditors' Information	Address
	State
	Pin code
	Area / Locality
	Post office
	City / Place
	District
Audit Report Information	Accounting period – Start date
	Accounting period – End date
	Place of signing
	Statement of operations
	Results of operations
	Number of branches of the assessee, if any
	Place at which Head Office is located

E - UTILITY & TECHNOLOGY

1. Form 3CA/3CB

Qualifications / Observations in Form 3CD – E Filing Utility

- All the information and explanations which to the best of my/our knowledge and belief were necessary for the purpose of my/our audit has not been provided by the assessee.
- Amount of expense related to exempt income u/s 14A of Income-tax Act, 1961 could not be ascertained
- Creditors under Micro, Small and Medium Enterprises Development Act, 2006 are not ascertainable
- Documents necessary to verify the reportable transaction were not made available.
- Fair market value of shares u/s 56(2)(viib) is not ascertainable
- GP ratio is not ascertainable from the financial statements prepared by the assessee.
- Information regarding demand raised or refund issued during the previous year under any tax laws other than Income-tax Act, 1961 and Wealth tax Act, 1957 was not made available.
- It is not possible for me/us to verify whether the loans/deposits of Rs. 20,000 or more accepted or repaid otherwise than by an account payee cheque, bank draft, ECS or electronic modes prescribed in Rule 6ABBA, as the necessary information is not in the possession of the assessee.
- Prior period expenses are not ascertainable from books of account.
- Proper books of account, to enable reporting in form 3CD, have not been maintained by the assessee.
- Proper stock records are not maintained by the assessee.
- Records necessary to verify personal nature of expenses not maintained by the assessee
- Reports of audits carried by Excise/Service tax Department were not made available
- TDS returns could not be verified with the books of account.
- Valuation of closing stock is not possible.

E - UTILITY & TECHNOLOGY

2. Form 3CD

❖ CLAUSE 4 – INDIRECT TAXES

Sr. No	Relevant Indirect tax Law which requires registration	Place of Business/ profession/service unit for which registration is in place/ or has been applied for	Registration/ Identification number
1	2	3	4

❖ CLAUSE 11(b) – ADDRESS FOR MAINTENANCE OF BOA

Sr No.	Principal place of maintenance of books of account	Details of books maintained
1	2	3

❖ CLAUSE 21(a) – PERSONAL EXPENDITURE

Sl. No.	Nature and particulars of expenditure	Account head under which debited	Amount of expenditure	Remarks
1	2	3	4	5

❖ CLAUSE 21(a) – EXPENDITURE AT CLUBS

Sr. No.	Name of the Club	Nature of Amount paid			
		Entrance/ admission Fees	Subscription expenses	Cost of Club Services and facilities used	Remarks
(1)	(2)	(3)	(4)	(5)	(6)

❖ CLAUSE 21(b)(i)(A) – TDS NOT DEDUCTED - RES

Sr. No	Date of payment	Amount of payment	Nature of payment	Name and address of the payee	PAN of the payee, if available
1	2	3	4	5	6

❖ CLAUSE 21(b)(i)(B) – TDS DEDUCTED BUT NOT PAID - RES

Sr. No.	Date of payment	Amount of payment	Nature of payment	Name and address of the payee	PAN of the payee, if available	Amount of tax deducted
1	2	3	4	5	6	7

❖ CLAUSE 21(b)(ii)(A) – TDS NOT DEDUCTED - NR

Sr. No	Date of payment	Amount of payment	Nature of payment	Name and address of the payee	PAN of the payee, if available
1	2	3	4	5	6

❖ CLAUSE 21(b)(ii)(B) – TDS DEDUCTED BUT NOT PAID - NR

Sr. No.	Date of payment	Amount of payment	Nature of payment	Name and address of the payee	PAN of the payee, if available	Amount of tax deducted	Amount out of (7) deposited, if any
1	2	3	4	5	6	7	8

E - UTILITY & TECHNOLOGY

2. Form 3CD

❖ CLAUSE 21(b)(vi) – TDS ON SALARY PAID TO NR O/S INDIA

Sr No.	Date of payment	Amount of payment	Name of payee	PAN of the payee, if available	Address
1	2	3	4	5	6

❖ CLAUSE 21(c) – BRICS TO PARTNERS

Particulars	Section	Amount debited to P & L A/C	Amount admissible	Amount inadmissible	Remarks
1	2	3	4	5	6

Sr. No.	Nature of payments made to partner/member	Section 40(b)/ 40 (ba)	Amount debited to profit and loss account	Amount admissible u/s 40(b)/ 40(ba)	Amount inadmissible u/s 40(b)/ 40(ba) [difference between (d) and (e)	Remarks, if any
(a)	(b)	(c)	(d)	(e)	(f)	(g)

❖ CLAUSE 21(g) – LIABLITY OF CONTINGENT NATURE

Nature of liability	Amount	Remarks
1	2	3

❖ CLAUSE 21(d) – CASH PAYMENTS

Sl. No.	Nature and particulars of expenditure	Date of payment	Payment or aggregate payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft	Total amount of expenditure	Name and Permanent Account number of the payee, if available	Remarks
1	2	3	4	5	6	7

❖ CLAUSE 22 – LIST OF MSMES

Sl. No.	Name of Supplier	Whether Registered under MSMED Act	Udyam Regn Number	Category (Micro/ Small)	Major Activity (Manufacture/ Service/ Trading etc)	Date of Regn. under MSMED	Amount Due to the supplier on Last Day of Previous Year	Amount Claimed as allowable expense for the Previous Year	Amount which is not allowable as expense for the Previous Year	Remarks

E - UTILITY & TECHNOLOGY

2. Form 3CD

❖ CLAUSE 22 – MSME U/S 15 OF MSMED ACT

Sl. No.	Name of Micro/ Small Supplier	Total Purchase of Goods/ Services during the year	Of this amount, paid within due date u/s 15 of MSMED Act	Amount Not Paid withing the Specified Time Limit	Interest not allowable as deduction

❖ CLAUSE 22– MSME DUES OUTSTANDING CLAIMED AS DEDUCTION

SI. No.	Name of Micro/ Small Supplier	Bill No	Amount	Date of Acceptance/ Deemed Acceptance	Is there any Written Agreement regarding due date of payment*	Due Date in case of Written	In case where there is no written agreement. Appointed Day	Date of Actual Payment	Mode of Payment	Remarks

❖ CLAUSE 23 – PAYMENT TO RELATED PERSONS

Name of the related person	PAN of related person	Aadhaar Number of the related person, if available	Relation	Date	Nature of transaction	Payment made (Amount)
1	2	3	4	5	6	7

❖ CLAUSE 26 – DEDUCTION ON PAYMENT BASIS

S. No.	Section	Nature of liability	Amount
1	2	3	4

❖ CLAUSE 27(a) – CENVAT

Particulars	CENVAT Amount (Rs.)	Treatment in Profit & Loss /Accounts
Opening balance		
CENVAT Availed		
CENVAT utilized		
Closing/Outstanding Balance		

E - UTILITY & TECHNOLOGY

2. Form 3CD

❖ CLAUSE 27(d)– PRIOR PERIOD INCOME & EXPENSES

Sr. No.	Type	Particulars	Amount	Prior Period to which it relates (Year in yyyy-yy format)
1	2	3	4	5

❖ CLAUSE 31(a) – LOAN OR DEPOSIT TAKEN OR ACCEPTED U/S. 269SS

Sr. No.	Name of the lender or depositor	Address of the lender or depositor	PAN/ Aadhaar No. of the lender or depositor, if available	Amount of loan or deposit taken or accepted	Code of the nature of such amount, as given in Note 1 (please see para 57.13 of the Guidance Note)	Whether the loan/ deposit was squared up during the previous year	Maximum amount outstanding in the account at any time during the Previous year	Whether the loan/ deposit was taken or accepted otherwise than by an account payee bank cheque or account payee bank draft
1	2	3	4	5	6	7	8	9

❖ CLAUSE 31(b) – SPECIFIED SUM TAKEN OR ACCEPTED U/S 269SS

Sr. No.	Name of the lender or depositor	Address of the lender or depositor	PAN/ Aadhaar number of the person from whom specified sum is received, if available	Amount of specified sum taken or accepted	Code of the nature of such amount, as given in Note 1 at the end of Clause 31 (Please See para 57.13 of Guidance Note)	Whether the specified sum was taken or accepted otherwise than by an account payee bank cheque or account bank draft or use of electronic clearing system through a bank account	In case the specified sum was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee bank cheque or an account payee bank draft
1	2	3	4	5	6	7	8

E - UTILITY & TECHNOLOGY

2. Form 3CD

❖ CLAUSE 31(bb)& (bd)– RECEIPT OR PAYMENT > 269ST LIMIT

S. N.	Name of the payer	Address of the payer	PAN/ Aadhaar number of the payer, if available	Nature of transaction	Date of receipt	Amount of receipt	Mode of receipt		Transaction/ Document/ Event reference
							Whether otherwise than by cheque, bank draft or use of electronic clearing system through a bank account	Whether otherwise than by account payee cheque, account payee bank draft	
1	2	3	4		5	6	7	8	9

S. N.	Name of the payee	Address of the payee	PAN/ Aadhaar number of the payee, if available	Nature of transaction	Date of payment	Amount of payment	Mode of payment		Transaction/ Document/ Event reference
							Whether otherwise than by cheque, bank draft or use of electronic clearing system through a bank account	Whether otherwise than by account payee cheque, account payee bank draft	
1	2	3	4		5	6	7	8	9

❖ CLAUSE 31(c) – REPAYMENT OF L /D /SPECIFIED SUM U/S 269T

Sr. No.	Name of the payee	Address of the payee	PAN or Aadhaar Number of the payee, if available	Amount of the repayment	Code of the nature of such amount, as given in Note 1 at the end of Clause 31 (Please See para 57.13 of Guidance Note)	Maximum amount outstanding in the account at any time during the previous year	Whether the repayment was made by cheque or bank draft or use of electronic clearing system through a bank account	In case the repayment was made by cheque or bank draft, whether the same was repaid by an account payee cheque or an account payee bank draft

❖ CLAUSE 31(d) – REPAYMENT OF L /D /SPECIFIED SUM U/S 269T

Sr. No.	Name of the payer	Address of the payer	PAN or Aadhaar Number of the payer, if available	Amount of repayment of loan or deposit or any specified advance received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year
1	2	3	4	5

❖ CLAUSE 31(e) – REPAYMENT OF L /D /SPECIFIED SUM U/S 269T

Sr. No.	Name of the payer	Address of the payer	PAN or Aadhaar Number of the payer, if available	Amount of repayment of loan or deposit or any specified advance received by a cheque or bank draft which is not an account payee cheque or account payee bank draft during the previous year
1	2	3	4	5

E - UTILITY & TECHNOLOGY

2. Form 3CD

❖ CLAUSE 32– BROUGHT FORWARD LOSS OR DEPRECIATION ALLOWANCE

S. No.	Nature of loss	Amount of loss incurred for the current year	Brought forward loss of the earlier year(s)	Total loss to be carried forward to the subsequent year	Break-up of the speculation loss in terms of the number of years for which it has been carried forward	Whether the speculation loss has been set off against any other income other than profit & loss, if any, of speculation business
1	2	3	4	5	6	7

❖ CLAUSE 32(d)– SPECIFIED BUSINESS LOSSES

Sr. No.	Nature of specified business	Amount of loss incurred, if any, during the previous year, with regard to the specified business mentioned in (b)	Loss from specified business brought forward from the earlier year	Amount of loss being set off against other specified business	Year of loss	Amount of loss being carried forward to the next assessment year	Whether loss set off against any other income other than from specified business as per sec. 35AD of the Act
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)

❖ CLAUSE 32(e)– SPECULATION LOSSES

Sr No	Applicable section	Nature of loss	AY of incurring loss	Amount of Loss	Amount set off during current AY	Amount to be carried forward
1	2	3	4	5	6	7

❖ CLAUSE 41 – DEMAND OR REFUND UNDER ANY OTHER ACT

S. No.	Financial Year to which the Demand / refund relates	Name of the applicable Act	Demand/ Refund Order No., if any	Date of Demand raised/ refund issued	Amount of demand raised/ refund issued	Remarks
1	2	3	4	5	6	7

❖ CLAUSE 44 – GST EXPENDITURE

Expenditure head	Name of the entity to whom payment is made	GSTIN of the entity	Value debited to expenditure account	Value for which input tax credit is taken	Total amount paid to the vendor	Reason for NIL GST	General Remarks, if any

E - UTILITY & TECHNOLOGY

3. PROCEDURE FOR E-FILING

- **Report of audit u/s 44AB shall be furnished electronically**

- Notification No. 34 /2013/ F.No.142/5/2013-TPL dated 1st May, 2013 provided that where an assessee is required to furnish a report of audit under Sections 44AB, 92E or 115JB of the Act, he shall furnish the same electronically.

Procedure

CA to register as Tax Professional → Assessee will Add CA to his profile → CA will upload Tax Audit Report → Assessee will Approve the Form filed by CA

E - UTILITY & TECHNOLOGY

4. INCOME TAX RETURN (ITR)

Entity	Applicable ITR (Tax Audit Cases)
Individual (Business/Profession)	ITR-3
HUF (Business/Profession)	ITR-3
Partnership Firm	ITR-5
LLP	ITR-5
AOP / BOI	ITR-5
Company	ITR-6

Practical Reconciliations before Filing

- Books vs Financial Statements
- Financial Statements vs Form 3CD
- Form 3CD vs ITR
- Books vs GST Returns
- Books vs Form 26AS
- Books vs AIS/TIS
- Books vs GSTR-9/9C

Inter Link between Form 3CD and ITR

Clause in Form 3CD	Subject / Particulars	Relevant ITR Schedule & Row
Clause 18	Depreciation & Amortization	**Schedule DPM / DOA / DEP**
Clause 19	Expenditure on Scientific Research / Capital Assets	**Schedule ESR**
Clause 21(a)	Capital & Personal Expenses, Fines, Penalties, Illegal Expenses	**Schedule BP** *(Inadmissible Expenses under Sec 37)*
Clause 21(b)	Disallowances under Section 40(a) (Non-deduction/payment of TDS)	**Schedule BP** *(Item No. 7 / Schedule 40)*
Clause 22	Interest payable/disallowed under **MSMED Act, 2006** (Sec 23 MSMED)	**Schedule BP** *(Disallowance u/s 40A / Sec 43B(h))*
Clause 23	Payments to Specified Persons under Section 40A(2)(b)	**Schedule BP** / Information disclosures
Clause 26	Statutory Liabilities / Payments allowable only on actual payment (Sec 43B)	**Schedule BP**
Clause 32(a)	Brought Forward Loss / Unabsorbed Depreciation	**Schedule CFL** & **Schedule BFLA**
Clause 33	Chapter VI-A Deductions (Sec 80IA, 80IB, 80JJAA, 80M, etc.)	**Schedule VIA / Schedule 80JJAA**
Clause 34	Compliance with TDS / TCS Provisions (Tax deducted vs. deposited)	**Schedule TDS / TCS** & Form 26AS / AIS
Clause 44	Breakdown of Total Expenditure in respect of entities registered under GST	**Schedule P&L** / GST Returns

E - UTILITY & TECHNOLOGY

5. TECHNOLOGY		
1.	Operating Software	Word, Excel
2.	Accounting Software	Tally, Zoho Books, SAP, etc.,
3.	GST	Relyon, Winman, etc.,
4.	Payroll	Greytip, Teamnest, etc.,
5.	E-TDS	Win TDS, RPU, Saral, etc.,
6.	ITR Filing	Winman, IT Portal, etc.,
7.	Financial Statements	Black Horse
8.	UDIN	ICAI UDIN Portal
9.	Legal Research Databases	Taxmann, Taxsutra, Lexlegis, etc.,
10.	AI Softwares	Perplexity, ChatGPT, Gemini AI, Claude, etc.,

E - UTILITY & TECHNOLOGY

6. UNIQUE DOCUMENT IDENTIFICATION NUMBER {UDIN}

What	UDIN (Unique Document Identification Number) is an **18-digit** system-generated unique number mandated by the ICAI.
When	It must be generated at the time of signing or within **60 calendar days** of signing any certified document or audit report. For Tax Audits on the e-filing portal, it must also be updated **within 15 days** of uploading the report. (As per FAQs issued by IT Dept.)
Why	It prevents non-CAs from forging CA signatures and help stakeholders and regulators to instantly verify document authenticity.
How	Log into udin.icai.org using your ICAI membership credentials to generate UDIN

Step - by - Step Process

Step 1	Log in to UDIN Portal
Step 2	Select **"Generate UDIN"** from the dashboard menu to open the entry form.
Step 3	Select Document Category Choose the applicable category from the dropdown: **Tax Audit (for Tax Audit Reports)**
Step 4	Enter Key Financial & Client Details like Date of signing, Client Name and PAN / Aadhar / GSTIN, Financial figures (e.g., Turnover, Net Profit to Turnover ratio, Asset Value)
Step 5	Verify via OTP
Step 6	Download and Mention the 18-digit UDIN on the physical or digital copy of the report
Step 7	Link or update UDIN on the Income Tax e-Filing portal - Log in to the Income Tax e-Filing Portal using your **CA credentials** - **View/Update UDIN Details**. - Single PAN/TAN' tab - list of all audit reports accepted by assessees that are awaiting UDIN updation will display. - Update UDIN- Enter 18 digit UDIN and AY - Declare and Submit

E - UTILITY & TECHNOLOGY

6. UNIQUE DOCUMENT IDENTIFICATION NUMBER {UDIN}

Your Firm Registration Number (FRN) *
UDINs generated under FRN will be shared with the respective Firm In-charge.
--Select--
Required Field Can't be Blank.

In case members are unable to generate UDIN under FRN Category, they may generate UDIN under "Not Applicable/Individual Capacity " Category. Therein the members may put FRN details under "Document Description" field while generating UDIN.

Document Type * — Certificates and Other Reports / Tax Audit / Audit and Assurance Functions

Particulars of Section / Form under which Report issued * — --Select--
Required Field Can't be Blank.

- Form 3CA - 3rd Proviso to Section 44AB
- Form 3CB - Section 44AB(a)
- Form 3CB - Section 44AB(b)
- Form 3CB - Section 44AB(c)
- Form 3CB - Section 44AB(d)
- Form 3CB - Section 44AB(e)

UDIN Generated For* — --Select--

- --Select--
- Original form/ report
- Revise form/ report

Nature of Tax Audit Assignment * — Assessee / Head Office of assessee / Branch of assessee

Assessment Year * — --Select--

PAN of the Assessee *
PAN will be used as fifth parameter for validation at e-filing portal.
Enter PAN of the Assessee

Date of Signing of Document * (DD-MM-YYYY) — DD-MM-YYYY

E - UTILITY & TECHNOLOGY

6. UNIQUE DOCUMENT IDENTIFICATION NUMBER {UDIN}

Auditor's Opinion on Financial Statements

Is Auditor's Opinion applicable to this audit report? * — Yes

Auditor's Opinion * — --Select--

- Unmodified Opinion
- Qualified Report
- Adverse Opinion
- Disclaimer of Opinion

Key Audit Matter (KAM)* — Yes No
Emphasis of Matter (EOM)* — Yes No
Other Matter* — Yes No
Material Uncertainty related to Going Concern* — Yes No

Entity Type* — --Select--

- Listed Entity
- Non-Listed Entity

Select the Type of Non-Listed Entity

Details of Preceding year's of Audit

Is capturing details of the preceding auditor applicable to this audit/form? * — Yes

Have you issued the audit report to the client previous/last year? * — --Select--

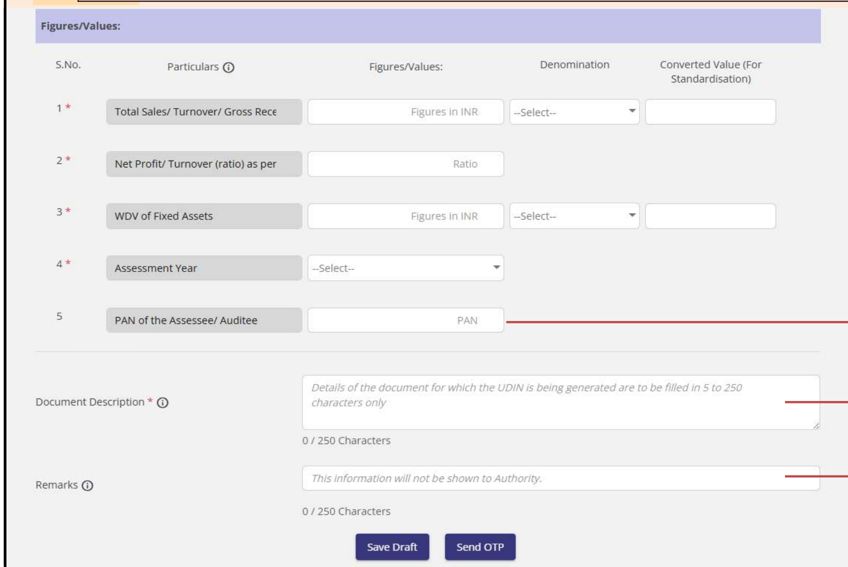
- --Select--
- Yes — Give UDIN of Previous year
- Audit done by partner in the same firm — Give MRN of Previous Year Auditor
- No — Give MRN of PY Auditor, NOC Details
- First Year of Audit

Preliminary Questions (if any)

Are cash transactions ≤ 5%?* — Yes

E - UTILITY & TECHNOLOGY

6. UNIQUE DOCUMENT IDENTIFICATION NUMBER {UDIN}



Figures/Values:

S.No.	Particulars	Figures/Values:	Denomination	Converted Value (For Standardisation)
1 *	Total Sales/ Turnover/ Gross Rece	Figures in INR	--Select--	
2 *	Net Profit/ Turnover (ratio) as per	Ratio		
3 *	WDV of Fixed Assets	Figures in INR	--Select--	
4 *	Assessment Year	--Select--		
5	PAN of the Assessee/ Auditee	PAN		

Document Description *

Details of the document for which the UDIN is being generated are to be filled in 5 to 250 characters only

0 / 250 Characters

Remarks

This information will not be shown to Authority.

0 / 250 Characters

Save Draft | Send OTP

MANDATORY

NOT MANDATORY

Certification of Tax Audit Report in Form 3CA/3CB and Form 3CD for the F.Y. XXXX-XX

Client Name - Tax Audit Report for the FY XXXX-XX

MISCELLANEOUS PROVISION

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MISCELLANEOUS PROVISION

1. MSMED ACT, 2006 - BACKGROUND

The Income Tax Act was amended to enforce timely payments to Micro and Small Enterprises (MSMEs) and align tax law with the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. Despite the MSMED Act, 2006 mandating timely payments to MSMEs (within 15-45 days), buyers were routinely delaying payments for months or even years. MSMEs faced severe cash flow problems, but there was no tax penalty for buyers who delayed payments while still claiming the expense as a deduction in their books.

Effective from AY 2024-25 (FY 2023-24 onwards), The Government introduced Section 43B(h) in Income Tax Act, 1961-

"Any sum payable to a Micro or Small Enterprise beyond the time limit specified in Section 15 of the MSMED Act, 2006 shall be disallowed as a deduction in the year it is booked.

The deduction is allowed only in the year when actual payment is made."

MSMED Act, 2006 -

Section 15 – Liability of buyer to make payment :- {in case of supplier supplies any goods or renders any services to the buyer}

- If payment terms exists - Payment to be made within the agreed date {In no case the period shall exceed **45 Days**}
- If payment terms doesn't exist - Payment within **15 Days** from the date of acceptance.

Section 16 – Rate of interest payable by the buyer :-

- If buyer fails to make payment, then he is liable to pay compound interest with monthly rest @ 3 times the existing RBI Rate,
- At present Rbi rate is 6.50 %, Hence buyer has to pay 3 X 6.5% = 19.50 % from the date of delay.

Section 23 – interest paid not to be allowed as deduction from income.

MISCELLANEOUS PROVISION

1. MSMED ACT, 2006 - MSME DEFINITION

CRITERION (Relevant up to A.Y. 2025-26)	**Micro Enterprises**	**Small Enterprise**	**Medium Enterprise**
Investment in Plant & Machinery or Equipment is **AND**	<= 1 Crore	<= 10 Crores	<= 50 Crores
Annual Turnover is	<= 5 Crores	<= 50 Crores	<= 250 Crores
CRITERION (Relevant from A.Y. 2026-27)	**Micro Enterprises**	**Small Enterprise**	**Medium Enterprise**
Investment in Plant & Machinery or Equipment is **AND**	<= 2.5 Crores	<= 25 Crores	<= 125 Crores
Annual Turnover is	<= 10 Crores	<= 100 Crores	<= 500 Crores

ESI & PF ACT

EMPLOYEE CONTRIBUTION -

INCOME : - Sec. 2(24)(x) – any sum received by the assessee from his employees as contribution to PF and ESI or any other funds for the welfare of such employees

EXPENDITURE : - Sec. 36(1)(va) – any sum received from employees as referred above to be paid on or before due date as specified in the relevant Act, rule, order or notification issued thereunder.

"Currently 15th of the following month of deduction from the employees."

MISCELLANEOUS PROVISION

1. MSMED ACT, 2006 - EXAMPLES WHERE THERE IS NO AGREEMENT IN WRITING

Sl. No.	Day of acceptance or deemed acceptance	Agreed upon payment date in writing	Due date of payment as per Section 15 of MSMED Act	Actual Date of Payment	Status in terms of Section 43B(h)
1.	20th March 2026	N.A.	05th April, 2026	**04th April, 2026**	Allowed in F.Y. 2025-26
2.	20th March 2026	N.A.	05th April,2026	31st March 2025	Allowed in A.Y. 2025-26
3.	20th March 2025	19th April 2025	19th April 2025	**19th April 2025**	Allowed in A.Y. 2025-26
4.	20th March 2025	19th April 2025	19th April 2025	10th May 2025	Disallowed in A.Y. 2025-26; Allowed in A.Y. 2026-27
5.	20th March 2025	19th April 2025	19th April 2025	10th June 2026	Disallowed in A.Y. 2025-26; Allowed in A.Y. 2027-28
6.	20th March 2025	20th June 2025	03rd May 2025	**02nd May 2025**	Allowed in A.Y. 2025-26
7.	20th March 2025	20th June 2025	03rd May 2025	08th May 2025	Disallowed in A.Y. 2025-26; Allowed in A.Y. 2026-27

MISCELLANEOUS PROVISION

1. MSMED ACT, 2006 - EXAMPLES WHERE THERE IS NO AGREEMENT IN WRITING

Sl. No	Day of acceptance or deemed acceptance	Agreed upon payment date in writing	Appointed Day	Due date of payment as per Section 15 of MSMED Act	Actual Date of Payment	Status in terms of Section 43B(h)
1	10th March, 2026	N.A.	25th March, 2026	24th April, 2026	30th March, 2026	Allowed in F.Y. 2025-26
2	21st March, 2026	N.A.	5th April, 2026	04th April, 2026	**29th March, 2026**	Allowed in F.Y. 2025-26
3	21st March, 2026	N.A.	5th April, 2026	04th April, 2026	**04th April, 2026**	Allowed in F.Y. 2025-26
4.	21st March, 2026	N.A.	5th April, 2026	04th April, 2026	10th April, 2026	Disallowed in F.Y. 2025-26; Allowed in F.Y. 2026-27

MISCELLANEOUS PROVISION

2. TAQRB OBSERVATIONS

Key Observations of Tax Audit Quality Review Board of ICAI – Deficiencies & Common Errors

Clause 4
Registrations under other indirect tax laws referred to in the CARO Report were not fully reported under this clause.

Clause 8
Companies whose accounts were audited under the Companies Act, 2013 incorrectly selected clause (a) (audit under section 44AB(a)) instead of the option "Audited under any other law" as required under the third proviso to section 44AB.

Clause 11
Incorrect reporting was noticed under this clause, including reporting prescribed books of account where none were prescribed, failure to report the location and mode of maintenance of books of account, and omission to report relevant supporting documents and records examined during the course of the audit.

Clause 13
- Required disclosures relating to the applicability and impact of ICDS were not reported.
- Inconsistencies were noticed in the reporting of inventory valuation vis-à-vis the requirements of the applicable ICDS.

Clause 18
- Additions and deletions reported in the Tax Audit Report were not reconciled with the corresponding figures reported in the audited financial statements.
- Uniform dates were reported for purchase, put-to-use, and sale of multiple assets, and in some cases, consolidated dates of additions were reported instead of the actual dates for individual assets.

Clause 20
- Incomplete reporting was noticed under Clause 20(b), including nonreporting of ESI contributions which was clearly reflected in the Annual report of the company.
- Incorrect reporting of due dates for statutory fund payments.

Clause 21(a)
- Penalty or fine for violation of law and other penalties/fines were reported together instead of being reported separately under the prescribed sub-headings.
- Late filing fees under section 234E were incorrectly reported as a penalty or fine under this clause, though such fees do not constitute a penalty.

MISCELLANEOUS PROVISION

2. TAQRB OBSERVATIONS

Clause 21(g)
Provisions created in the books of account were reported under this clause instead of liabilities of a contingent nature debited to the profit and loss account, as required.

Clause 22
Interest provided for or paid under the MSME Act was not reported under this clause as an inadmissible expenditure under section 23 of the MSME Act.

Clause 31(a)
- Loan details were reported on a consolidated basis without mentioning the names of the respective lenders.
- Observations/qualifications in Form 3CA/3CB were reproduced from the Guidance Note without appropriate modification to suit the audit report.

Clause 32(a)
The section under which the assessment order was passed and the date of the order were not reported in certain cases.

Clause 34(c)
Date-wise details of interest payments and the corresponding amounts were not reported under the relevant columns of this sub-clause.

Clause 35(c)
- Quantitative details of principal traded goods were not reported, despite trading being disclosed as a business activity.
- Where closing stock was reported as nil, quantitative details of opening stock, purchases, and sales during the year were not reported.

Clause 37
Reporting under this clause was based solely on management representations without obtaining and examining the cost audit report.

Clause 40
- In cases where the clause was not applicable, particularly for service sector entities, "Not Applicable" was not reported and the clause was left blank.
- Scrap sales were not considered for reporting under this clause in certain cases.
- Net profit after tax was incorrectly reported under this clause, instead of net profit before tax.
- The stock-in-trade/turnover ratio was computed using average stock instead of stock as prescribed in the Guidance Note.

Detailed observations are contained in the TAQRB publication-"*Study on compliances in reporting in tax audit report*"

MISCELLANEOUS PROVISION

3. SIGNATURE AND STAMP / SEAL OF THE SIGNATORY

Signatory: Must be signed by the authorized tax auditor (the person competent to sign Form No. 3CA or 3CB).

Mandatory Details: The auditor must provide their full name, address, ICAI membership number, firm registration number (FRN), place, and date.

Mode of Signature: For online/soft copy submission, the auditor must use their Digital Signature (DSC).

Delivery: The signed tax audit report (Form No. 3CA/3CB) along with the statement of particulars (Form No. 3CD) must be officially issued to the assessee.

4. FURNISHING OF TAX AUDIT REPORT

Primary Responsibility : The legal responsibility to furnish the tax audit report (Form 3CA/3CB and 3CD) electronically lies with the assessee (under Rule 12(2)), who must approve it using their digital signature.

Auditor's Digital Signature : The auditor must upload and digitally sign the forms. The automatically captured time/date of the electronic signature must match any manual date written on the hard copy.

Form vs. Schema Discrepancies : The electronic form/schema on the Income Tax website varies slightly from the official Form 3CD notified under the Income-tax Rules. Auditors cannot be held liable for these unavoidable software schema variations.

Joint Auditors : Because the e-filing portal currently allows only one auditor to upload the report, joint auditors should sign a hard copy, and one designated auditor should upload the consolidated report along with a joint auditor disclosure.

MISCELLANEOUS PROVISION

5. TAX AUDIT REGISTER

FORM OF TAX AUDIT PARTICULARS TO BE FURNISHED BY MEMBERS/FIRM

Record of Tax Audit Assignments

1. Name of the Member accepting the assignment
2. Membership No.
3. Financial year of audit acceptance
4. Name and Registration No. of the firm/ firms of which the member is a proprietor or partner.

Sl. No.	Name of the Auditee	AY of the Auditee	Date of Appointment	Date of Acceptance	Name of the firm on whose behalf the member has accepted the assignment	Date of communication with the previous auditor (if applicable)
1.						
2.						
3.						
4.						
5.						
6.						
7.						

MISCELLANEOUS PROVISION

6. TAX AUDIT IN CASE OF COMPANIES HAVING, ACCOUNTING YEAR ≠ FINANCIAL YEAR

In the case of companies having their accounting year which is different from the financial year, accounts of the financial year are required to be prepared and audited. The audit report shall be in Form No. 3CB. The above position has also been clarified by the CBDT in its **Circular No. 561 dated 22.5.1990.**

7. ALLOWABILITY OF INTEREST ON CAPITAL AND REMUNERATION

It is clarified that for the assessment years subsequent to the assessment year 1996-97, no deduction under section 40(b)(v) will be admissible unless the partnership deed either specifies the amount of remuneration payable to each individual working partner or lays down the manner of quantifying such remuneration. The above position has also been clarified by the CBDT in its **Circular No.739 dated 25-3-1996.**

8. TURNOVER IN THE CASE OF CONSIGNEE OR COMMISSION AGENTS

Whether sales by a commission agent or consignee count toward their own turnover depends entirely on **who owns the risks and rewards of the goods** right before the sale:

It is NOT part of their turnover - if the principal retains the ownership, risks, and rewards. The agent is just facilitating the sale.

It is part of their turnover - if the ownership, risks, and rewards have transferred to the agent or consignee.

The Gist : If you carry the risks and rewards of ownership, the sale counts as your turnover. If the principal still holds the risk, it counts as theirs.

MISCELLANEOUS PROVISION

9. INCOME FROM SHARES / SECURITIES – BUSINESS INCOME v/s CAPITAL GAINS

LISTED SHARES –

The CBDT issued these guidelines to reduce disputes and clarify how to treat the income vide **Circular No. 6/2016 dt. 29.02.2016**

Option A: Taxpayer chooses Business Income If you choose to treat the shares as stock-in-trade (business inventory), the profit is Business Income. The holding period doesn't matter here.

Option B: Taxpayer chooses Capital Gains (Held > 12 Months) If you held the listed shares for more than 12 months and want the profit treated as a Capital Gain, the Assessing Officer cannot dispute it.

The Catch: Once you choose this method, you are locked in. You must follow the same treatment in all future years

All Other Cases: If the situation doesn't fit the two rules above (like shares held for less than 12 months that you don't want to declare as business stock), the case will be decided on its individual facts based on older CBDT guidelines.

Instruction No. 1827 (1989) and **Circular No. 4 of 2007** states:

1. The Core Intention (The Main Test)

Investor: If your primary objective in buying the shares is to earn stable income through dividends, any eventual profit from selling them is treated as a Capital Gain.

Trader: If your primary objective is to buy and sell purely to make a quick profit from price movements, it is an "adventure in the nature of trade" and is treated as Business Income.

MISCELLANEOUS PROVISION

9. INCOME FROM SHARES / SECURITIES – BUSINESS INCOME v/s CAPITAL GAINS

LISTED SHARES –

2. Character of the Transaction (How you actually operate)The tax officer will look at your actual behavior using these metrics:
Volume and Frequency: Are you buying and selling daily in massive quantities? High frequency points toward a trading business.
Period of Holding: How long do you actually keep the shares before selling them? Holding them for very short periods points toward trading.
Ratio of Sales to Holding: A high turnover ratio (constantly churning your portfolio) indicates business activity.

3. Bookkeeping and Disclosure

Accounting Treatment: How have you presented these shares in your books of accounts? If you show them as "Investments" in your balance sheet, it supports a Capital Gains claim. If you show them as "Stock-in-trade" (inventory), it is strictly Business Income.
Source of Funds: Did you buy the shares using your own spare capital (indicates investment), or did you take commercial loans/borrowed funds to buy them (indicates trading)?
The Gist of Older Rules: It boils down to a "facts and circumstances" test. The tax department looks at your frequency of trading, your source of funds, your bookkeeping, and whether you were chasing dividends (investor) or fast price movements (trader) to decide how to tax you.

UNLISTED SHARES:
Income arising from transfer of unlisted shares would be considered under the head 'Capital Gain',
irrespective of period of holding,

MISCELLANEOUS PROVISION

10. PRACTICAL CHALLENGES

No.	Judgments	Section / Area	Contention	Outcome / Key Principle
1	**CIT v. Punjab State Electricity Board (2010) 326 ITR 472 (P&H)**	**Clause 21(a)**	Club membership and entrance fees for executives.	Entrance fees and annual subscriptions paid for club memberships of corporate employees/directors are allowable as commercial expediency under Section 37(1) and are not capital in nature (though specific reporting under Clause 21(a)(iv) remains required).
2	**CIT v. Muthoot Financiers (2015) 373 ITR 81 (Delhi HC)**	**Sec 269SS / 269T**	Capital introduced by partners into a firm is not a "loan or deposit"	Transactions between a firm and its partners (e.g., introduction or withdrawal of capital, profit distribution) do not fall under the purview of Section 269SS or Section 269T. A partner and firm are not strictly distinct creditors/borrowers for this purpose.
3	**CIT v. Triumph International Finance India Ltd. (2012) 345 ITR 270 (Bombay HC)**	**Sec 269SS / 269T**	Passing of journal entries constitutes a transaction "otherwise than by account payee cheque."	Settling liabilities through journal entries falls within the ambit of Section 269SS and 269T. However, if such entries are genuine commercial transactions, they constitute a "reasonable cause" under Section 273B, so no penalty under 271D/271E will apply.
4	**Karnataka Power Transmission Corp. Ltd. v. ITO [2016] 383 ITR 59 (Kar HC)**	**Sec 40(a)(ia)**	An ad-hoc or generic provision for expenses is created at year-end and the payee is unknown or unidentifiable.	In cases where the payee is not identifiable at the time of making a provision, TDS provisions under Chapter XVII-B cannot be enforced, and the provision cannot be disallowed under Section 40(a)(ia) solely for lack of TDS.
5	**CIT v. Nectar Beverages Pvt. Ltd. [2009] 314 ITR 396 (SC) & Narsing Construction Co. (ITAT Cuttack)**	**Sec 40(a)(ia)**	Depreciation claimed under Section 32 is a statutory allowance, not an expenditure/payment made to a third party..	Disallowance under Section 40(a)(ia) cannot be made on depreciation claimed on capital assets, even if TDS was not deducted on the purchase/creation of that asset. If TDS not deducted, considered as Assessee-in-default. Interest is liable to be paid. Form 26A to be obtained to avoid disallowance @ 30%/100%.

MISCELLANEOUS PROVISION

10. PRACTICAL CHALLENGES

No.	Judgments	Section / Area	Contention	Outcome / Key Principle
6	**CIT v. S.K. Tekriwal [2014] 361 ITR 432 (Calcutta HC)**	**Section 40(a)(ia)**	Principle: Section 40(a)(ia) targets complete failure to deduct tax, not short deduction resulting from bona fide rate classification errors (e.g., deducting under Section 194C @ 1% or 2% instead of Section 194J @ 10%).	RULING: Section 40(a)(ia) applies only to non-deduction of tax and cannot be invoked in cases of short deduction. The claim for expenditure cannot be disallowed merely because tax was deducted under a lower rate/different provision.
7	**Madras High Court (2024)** **Shalini Hospitals vs ACIT [2007]**	**Sec 44AB**	Whether these activities constitutes "business" or "profession" ?	Digital marketing constitutes "business", not "profession" - Use of computers does not convert business into profession Nursing home organized on commercial lines is "business", not profession
8	**CIT v. Ahmedabad New Cotton Mills Co. Ltd. AIR 1930 PC 56**	**Closing Stock**	If the valuation method of closing stock changes, the opening stock must also be adjusted to ensure fair comparison and prevent artificial profit changes.	The opening and closing stock must be valued on a consistent basis. If the valuation method is changed, the corresponding opening-stock adjustment is necessary so that the true profit of the year is correctly determined.
9	**CIT v. Siemens Aktiengesellschaft [2009] 310 ITR 320 (Bombay HC)**	**Reimbursement of expenses**	Pure expense reimbursements without any income element do not attract TDS.	Pure reimbursement of expenses without any profit element does not constitute income in the hands of the recipient; hence, non-deduction of TDS does not trigger expense disallowance.

No.	Area	Sl. No.	Situation		Sec. Disallowance	TDS Disallowance	Final Disallowance
10	**Amount Disallowable under different sections**	A	Payment in Cash +	TDS not Deducted	100%	30%	**100%**
		B	Personal Expenditure +	TDS not Deducted	100%	30%	**100%**
		C	MSME Pymt not made +	TDS not Deducted	100%	30%	**100%**
		D	Related party Pymt* +	TDS not Deducted	30%	30% of 70%	**30% + 30% of 70%**
			*Pymt. to related party - ₹1.0 Lakh, Unreasonable / Excessive disallowed - ₹ 30K				**Total 51% disallowed**

MISCELLANEOUS PROVISION

11. USEFUL WEBSITES

Sl. No.	Particulars	Webpage link
1.	Ministry of Corporate Affairs	https://www.mca.gov.in/content/mca/global/en/home.html
2.	Central Board of Direct Taxes	https://incometaxindia.gov.in/Pages/default.aspx
3.	ICAI	https://www.icai.org
4.	Direct Taxes Committee of ICAI	https://www.icai.org/post/direct-taxescommittee
5.	Accounting Standards Board of India	https://www.icai.org/post/accountingstandards-board
6.	Auditing & Assurance Standards Board of India	https://www.icai.org/post/auditing-assurancestandards-board
7.	Ethical Standards Board of ICAI	https://www.icai.org/post/ethical-standards-board

12. REFERENCE MATERIAL / PUBLIATIONS

Sl. No.	Particulars	Webpage link
1.	Income-tax Act, 1961	https://www.incometaxindia.gov.in/pages/acts/income-tax-act.aspx
2.	Information Technology Act, 2000	https://www.incometaxindia.gov.in/pages/acts/information-technology-act.aspx
3.	Income-tax Rules	https://www.incometaxindia.gov.in/pages/rules/income-tax-rules-1962.aspx
4.	Income-tax Forms	https://incometaxindia.gov.in/Pages/downloads/most-used-forms.aspx
5.	FAQ's on Tax Audit	https://www.incometaxindia.gov.in/Pages/faqs.aspx?k=FAQs+on+Tax+Audit
6.	Study on Compliance in Reporting Tax Audit Report	https://resource.cdn.icai.org/70872taqrbscrtar.pdf
7.	Accounting Standards/IND-AS	https://www.mca.gov.in/content/mca/global/en/acts-rules/ebooks/accountingstandards.html
8.	Code of Ethics	https://www.icai.org/post/applicabilityrevised-edition-code-of-ethics
9.	ICDS	https://www.incometaxindia.gov.in/communications/notification/notification872016.pdf

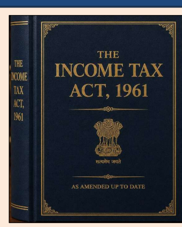
CHEKLIST FOR TAX AUDIT

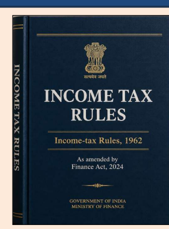
CONTENTS

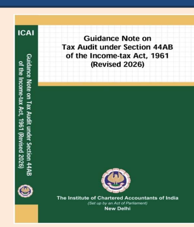
1. Letter of Appointment
2. Engagement Letter
3. Study Background of Assessee
4. Check the Permanent Documents – MOA, AOA, P/ship Deed, LLP Agreements, PAN, TAN, GST, etc.,
5. Audit Programme
6. Audit Schedule
7. Collecting Documents for Working Papers
8. Obtain external Certificates and also Certificates from Management
9. Signed Trial Balance
10. Financial Statements with Significant Accounting Policies and Notes to Accounts
11. Management Representation Letter
12. Check the Validity of DSC of Client
13. Check the Validity of DSC of CA
14. Update the No. of Tax Audit Certified in Tax Audit Register
15. Generate UDIN
16. ADD CA

SOURCE

REFERENCE MATERIAL







AI ASSISTANCE

Lexlegis.ai

Gemini

ChatGPT

TECHNICAL SUPPPORT

CA. Sanjay Kumar Agarwal and CA. Vaibhavi B P

CONCEPTUALISATION
VISUALISATION
PRESENTATION

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