

TAX AUDIT

CA Mahendra Sanghvi

Objective of Tax Audit under section 44AB

- Inserted w.e.f. 01/04/1985
- To ascertain the compliance of various provisions of the Income-tax Act
- Assure that the books of account and other records are properly maintained to reflect the **true income**.
- Particulars in Form No. 3CD are **true and correct**.
- Facilitate the administration of tax laws by a proper presentation of information before the tax authorities. Compute correct total income and save the time of Assessing Officer.

Recent Amendments - 44AB, 44AD , 44ADA & Form 3CD

Proviso to Section 44AB(a)

- Finance Act 2020 inserted proviso to section 44AB(a) w.e.f. 01/04/2020
- Threshold increased from ₹ 1 Crores to ₹ 10 Crores, provided following conditions are satisfied:
 - a) aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five percent of the said amount; **AND**
 - b) aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment,
- For the purposes of this clause, the payment or receipt, as the case may be, by a cheque drawn on a bank or by a bank draft, which is not account payee, shall be deemed to be the payment or receipt, as the case may be, in cash;

Points for consideration

- Capital Introduced by Partners / Proprietor to consider for calculation ?
- Contra Entries

Presumptive Taxation – Section 44AD & 44ADA

- Finance Act 2023 inserted proviso after sub-clause (ii) of clause (b) of Explanation to section 44AD w.e.f. 01/04/2024
- Threshold increased from **₹ 2 Crore to ₹ 3 Crores** provided the amount or aggregate of the amounts received during the previous year, in cash, does not exceed **five** per cent of the **total turnover or gross receipts** of such previous year
- Similarly Finance Act 2023 inserted proviso after Section 44ADA(1)
- For professionals - threshold increased **from ₹ 50 Lakhs to ₹ 75 Lakhs** provided amount or aggregate of the amounts received during the previous year, in cash, does not exceed five per cent of **the total gross receipts** of such previous year,
- Receipt by cheque /bank draft which is not account payee shall be deemed to be receipt in cash

Amendment in Form 3CD

CBDT has issued Notification No. 27/2024 dated 05/03/2024 , followed by Corrigenda by way of Notification No.34/2024 dated 19/03/2024

Following clauses are amended

- **Clause 8A** - whether an assessee has opted for special provisions u/s 115BA/115BAA/115BAB/115BAC/115BAD, to include reporting requirement in relation to section 115BAE
- **Clause 12** - Whether profit and loss account includes profit computed on presumptive basis, to include specific reporting requirement in relation to section 44ADA;
- **Clause 18(ca)** - relating to particulars of depreciation, sub-clause (ca) has been substituted to require adjustment to the WDV under the different provisos to section 115BAA/115BAC/115BAD for the specified assessment years;
- **Clause 19** - relating to amounts admissible under different sections, to include reporting requirement in relation to section 35ABA and “any other relevant section”
- **Clause 21(a)** - compound an offence under any law for the time being in force, in India or outside India, expenditure incurred to provide any benefit or perquisite to a person and acceptance of such benefit or perquisite by such person is in violation of any law or rule or regulation or guideline governing the conduct of such person, etc.;
- **Clause 22** - to include reporting requirement in respect of any other amount not allowable u/s 43B(h) relating to amount payable to micro and small enterprises; and
- **Clause 32(a)** - relating to details of brought forward loss/depreciation, to include reference to losses/allowances not allowed under section 115BAE and amount adjusted by way of withdrawal of additional depreciation on account of opting for taxation under section 115BAE.

Audit Applicability

Eligible Assessee & Eligible Business – S.44AD

- Explanation to S.44AD – provides for meaning
- **"eligible assessee" means, –**
 - (i) an individual, Hindu undivided family or a partnership firm, who is a resident, **but not a limited liability partnership firm** as defined under clause (n) of sub-section (1) of section 2 of the Limited Liability Partnership Act, 2008 (6 of 2009); **and**
 - (ii) who has not claimed deduction under any of the sections 10A, 10AA, 10B, 10BA or deduction under any provisions of Chapter VIA under the heading "C. – Deductions in respect of certain incomes" in the relevant assessment year;
- **"eligible business" means, –**
 - (i) any business except the business of plying, hiring or leasing goods carriages referred to in section 44AE; **and**
 - (ii) whose total turnover or gross receipts in the previous year does not exceed an amount of **[two crore rupees]**.

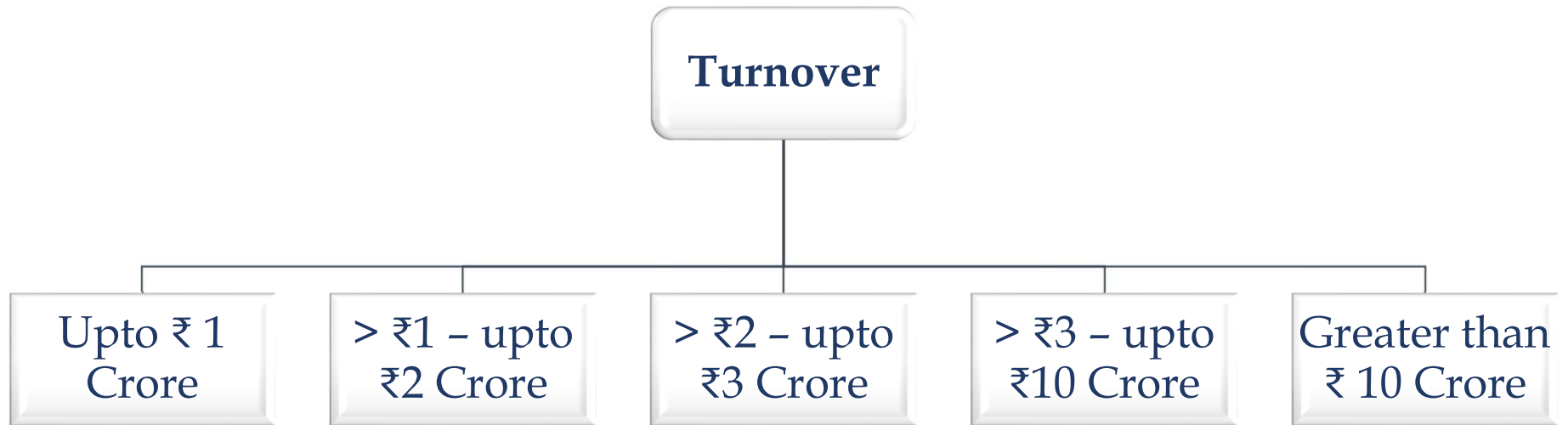
...Eligible Assessee & Eligible Business – S.44AD

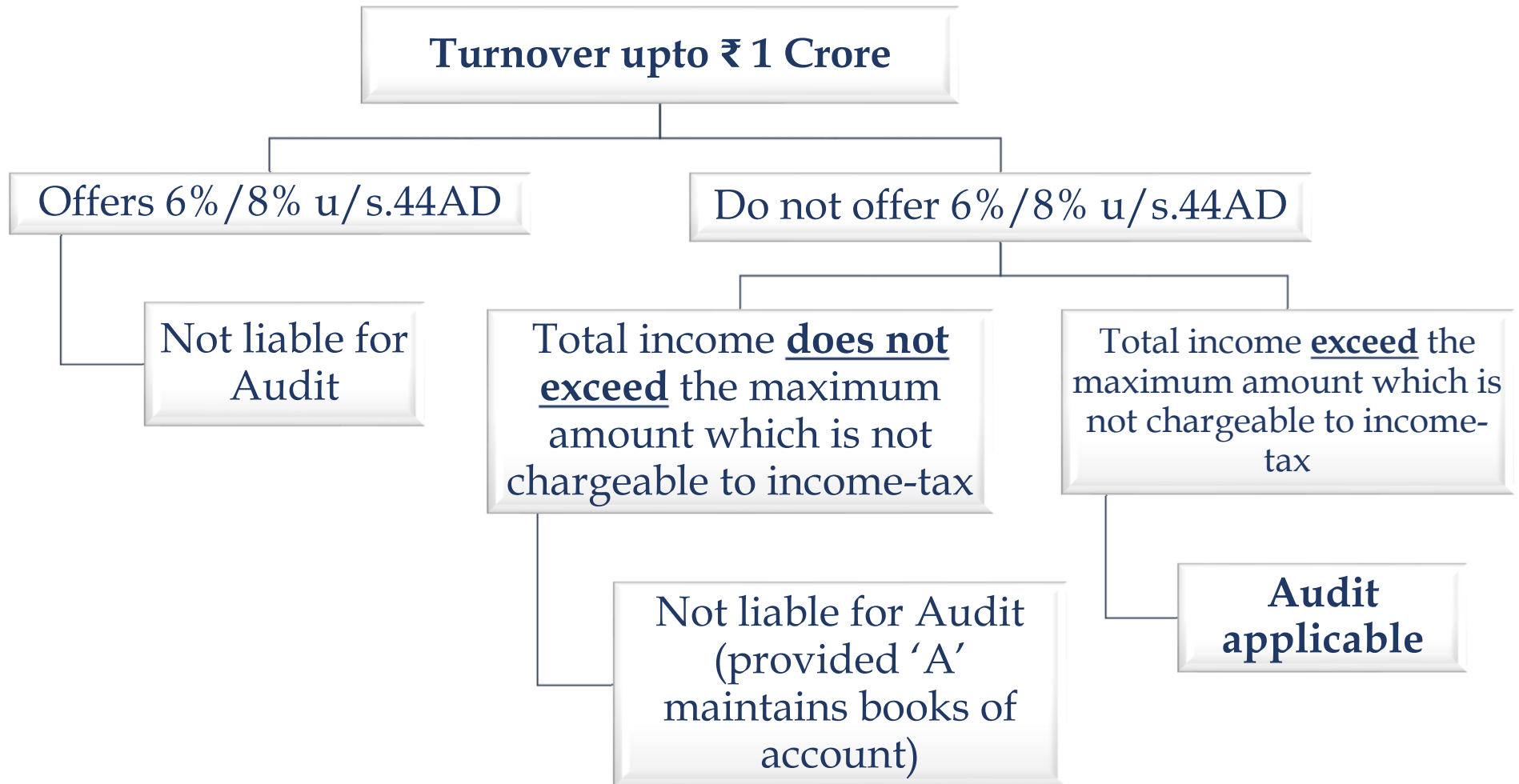
- **Following provisos shall be inserted after sub-clause (ii) of clause (b) of Explanation to section 44AD by the Finance Act, 2023, w.e.f. 1-4-2024:**

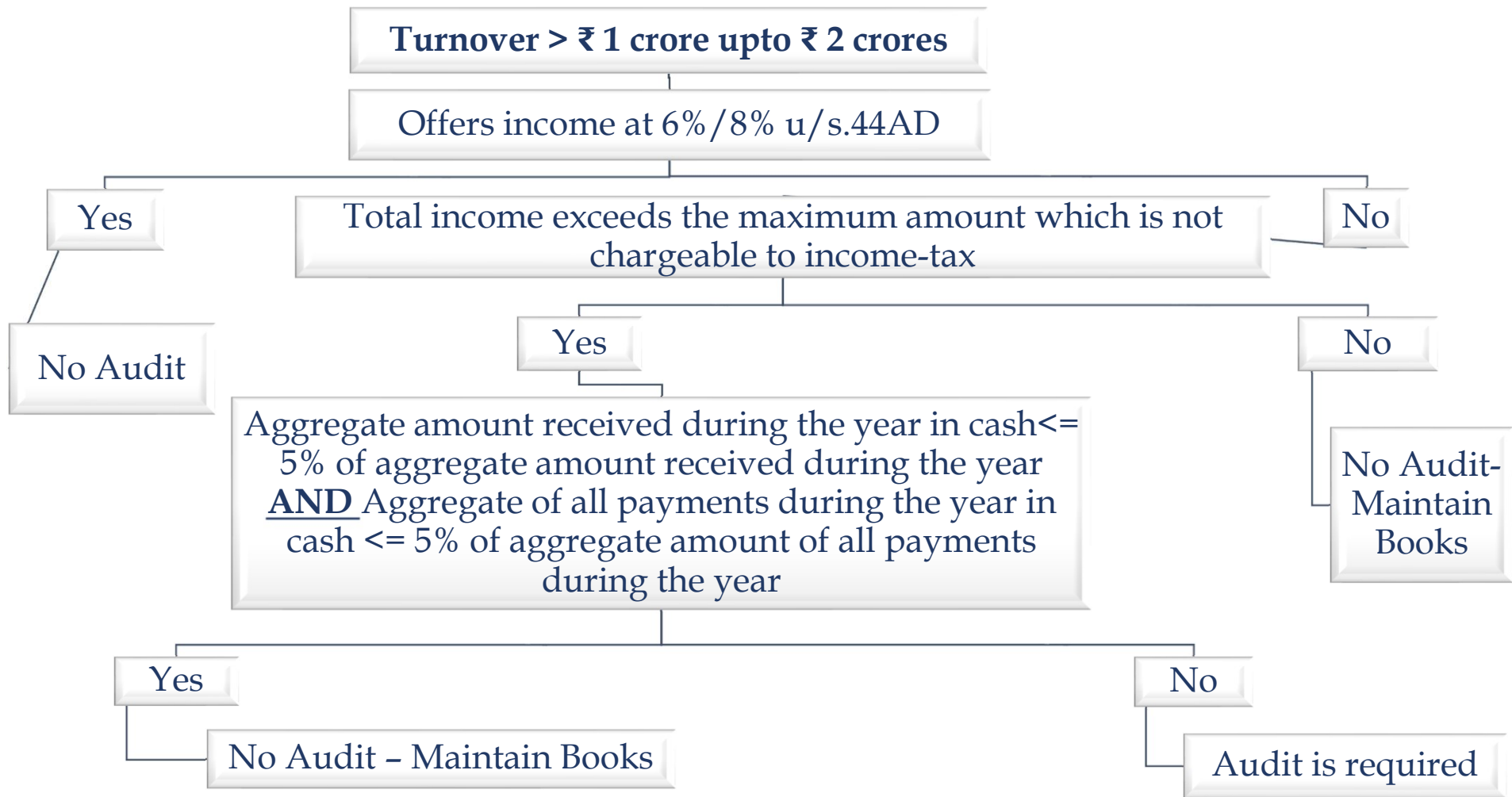
Provided that where the amount or aggregate of the amounts received during the previous year, in cash, does not exceed five per cent of the total turnover or gross receipts of such previous year, this sub-clause shall have effect as if for the words "two crore rupees", the words "three crore rupees" had been substituted:

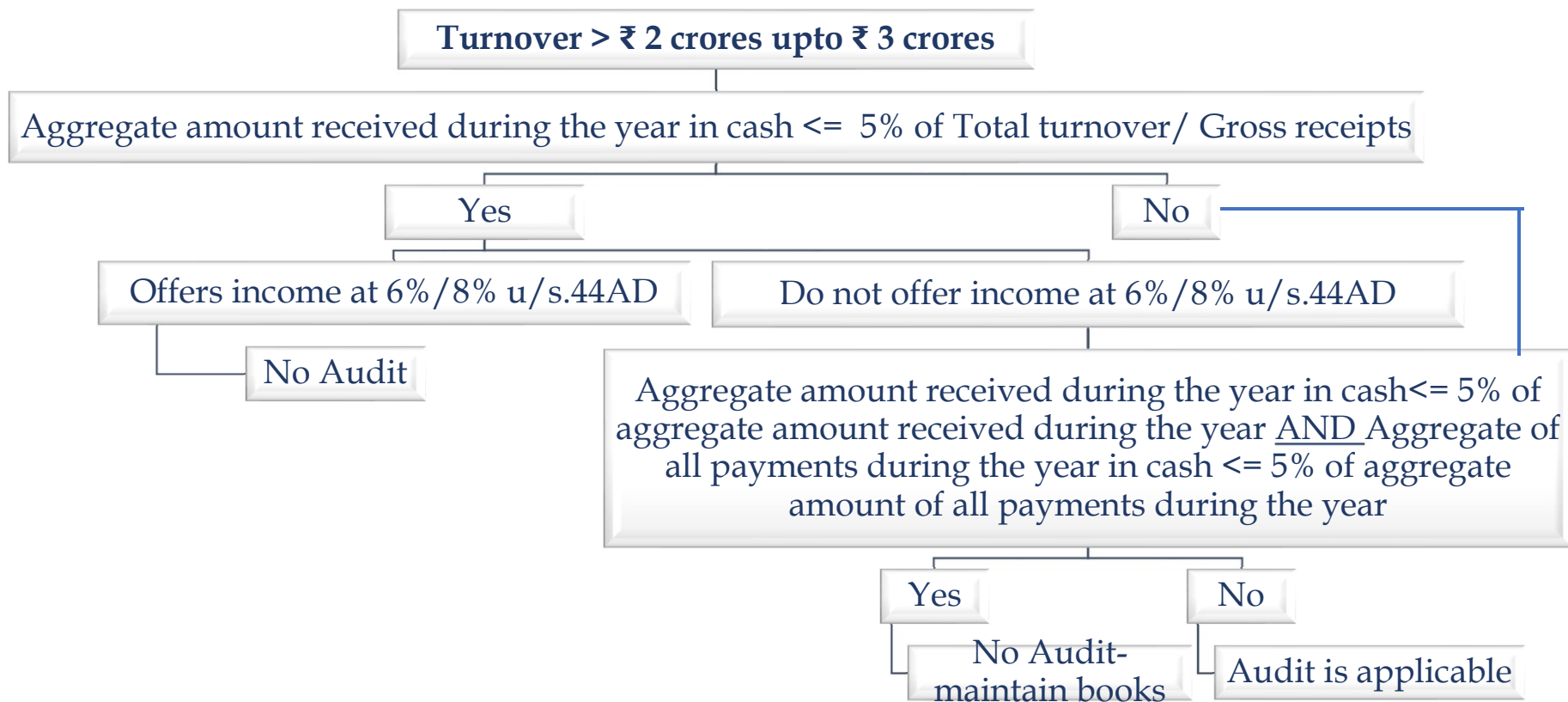
- Further Sub section (6) of Section 44AD states that provisions of Section 44AD shall not apply to :
 - (i) a person carrying on profession as referred to in sub-section (1) of section 44AA;
 - (ii) a person earning income in the nature of commission or brokerage; or
 - (iii) a person carrying on any agency business.

Applicability of Tax Audit- 44AB vs. 44AD









Turnover > ₹ 3 crore upto ₹ 10 crores

Aggregate amount received during the year in cash \leq 5% of aggregate amount received during the year **AND Aggregate of all payments during the year in cash \leq 5% of aggregate amount of all payments during the year**

Yes

Audit Not Applicable

No

Audit applicable

GOLMAL - 44AB /44AD

- Mr. Gopal, Mr. Lucky, Mr. Madhav and Mr. Laxman - eligible assessee carrying an eligible business, have provided following details to his CA Mr. Wasooli for FY 2023-24. They want to know if Tax Audit is applicable.

Particulars	Gopal	Lucky	Madhav	Laxman
Sales	99 Lakhs	1 .01 Crore	2.21 Crore	2.21 Crore
Cash Sales	0	0	11 Lakhs	10 Lakhs
Debtors	50 Lakhs	50 Lakhs	2.10 Crore	2.11 Crore
Profit to be offered u/s.44AD (6%/8%)	6,94,000	7,06,000	17,68,000	17,68,000
Cash Receipt /Total Receipt (%)	1%	1%	100%	100%
Cash Payment/Total Payment (%)	1%	1%	100%	100%
Cash Receipt / Total Sales (%)	--	--	5.52%	4.52%
Actual Profit	1,25,000	1,26,000	18,00,000	18,00,000
Other Income	8,00,000	8,00,000	8,00,000	8,00,000
Liabe for Audit	Yes	No	Yes	No

Tax Audit – Case Study 1

- Mr. Champak has provided following details to his CA for FY 2023-24. Mr. Champak wants to find out his turnover for FY 2023-24 for purpose of tax audit.

Particulars	Amount ₹
Sales (Gross)	10.10 Crore
Sale of Car	2 Lakhs
Sales Return out of Sales of FY 2023-24	10 Lakhs
Sales Return out of Sales of FY 2022-23	5 Lakhs
Interest & Remuneration from Partnership Firm wherein he is Partner	25 Lakhs
Sale of Shares 40 (STCG 2 L & LTCG 12L)	40 Lakhs

Tax Audit - Case Study 2

- Dr. Hathi, Practicing Doctor, is also having Mithai Shop. He has provided following details to his CA for FY 2023-24. Dr. Hathi wants to know if he liable for Tax Audit for FY 2023-24.

Particulars	Sales	Deemed Profit	Actual Profit		
			Case 1	Case 2	Case 3
		Presumptive Taxation			
Professional Income - 44 ADA	40,00,000	20,00,000	21,00,000	15,00,000	21,00,000
Mithai Business - 44AD	70,00,000	4,20,000	7,00,000	7,00,000	6,00,000

Tax Audit – Few Examples

- Turnover of NAMO LLP for FY 2023-24 is ₹ 30,00,000. It has incurred Loss of ₹ 3,00,000. Tax Audit applicable?
- Turnover of RAGA & Co (Partnership Firm) for FY 2023-24 is ₹ 30,00,000. It has incurred Loss of ₹ 3,00,000 (before interest & remuneration to partners) Tax Audit applicable?
- Turnover of SHAH & Co (Proprietor Mr. Amit Shah) for FY 2023-24 is ₹ 30,00,000. It has incurred Loss of ₹ 3,00,000. Tax Audit applicable?
- Turnover of SHINDE & Co (Partnership Firm) for FY 2023-24 is ₹ 30,00,000 (all cash sales). It has incurred Profit of ₹ 2,00,000 (after interest & remuneration to partners) - Tax Audit applicable?

Applicability of Form No 3CA or 3CB

- In the case of a person (carrying on business /profession) who is required by or under any other law to get his accounts audited - **Form No. 3CA**
- Like Audit under Companies Act, LLP Act, etc
- In the case of a person (carrying on business /profession) who is not required by or under any other law to get his accounts audited - **Form No. 3CB.**

Points for consideration:

- NAMO Private Limited is incorporated on 01/02/2024 and its turnover for financial year 2024-25 is ₹ 240 Crore. Its Auditors, CA Gandhi & Co wants to know if he is required to issue form 3CA or Form 3CB for year ended 31/03/2025 and 31/03/2026?
- RAGA Private Limited is subject to audit under GST Act and its turnover for financial year 2018-19 was ₹ 90 Crore. Its Auditors, CA Amit Shah & Co has issued form 3CA for year ended 31/03/2019.
- A Company having a different financial year under the Companies Act 2013

SA 700 - Forming an opinion & reporting on Financial Statements

- ICAI - pursuant to the issuance of the Revised SA 700, Forming an Opinion and Reporting on Financial Statements, prescribed a revised format of the auditor's report on financial statement
- Form 3CA/3CB are uploaded online and does not have any specific field to mention said para's
- ICAI in Guidance note has specifically stated that having regard to the importance of these respective responsibility paragraphs from the perspective of the readers of the tax audit report responsibility clause should be mentioned **under clause (3) of Form No. 3CA or Clause (5) of Form No. 3CB.**
- ICAI - in its study on compliance in reporting in tax audit report has observed that many tax audit reports did not have said paragraphs and in few cases TAR contains reference about attached notes / reports which contains said paragraphs

Clause 1 & 2 of Form 3CD

Clause 1 : Name of the Assessee

- Name as Specified in PAN should be stated
- Trade name if any should be reported
- Name Change - In case of change in the name has taken place during the financial year, name at the end of the financial year should be stated. If the change in name has taken place after the close of the financial year but before signing of tax audit report, name as at the year ending date should be mentioned. In either case, fact of name change should be suitably clarified as an observation in audit report.

Clause 2 : Address

- The address be the same as has been communicated by the assessee to the Income-tax Department as on the date of signing of the audit report. (Verify the profile of the auditee from Income Tax Website)
- In case of Company - Address of Registered Office
- In case of Tax Audit of Branch - Address of Branch

Clause 3 of Form 3CD

Clause 3 : Whether the assessee is liable to pay indirect tax like excise duty, service tax, sales tax, goods and service tax, customs duty, etc. If yes, please furnish the registration number

- Obtain from the assessee the list of indirect taxes applicable to him (MR)
- Obtain a copy of the registration certificate clearly mentioning the registration number under that relevant law
- **In case the auditor prima facie is of the opinion that any indirect taxes laws is applicable on the business or profession of the assessee but the assessee is not registered under the said law, he should report the same appropriately.**
- The term “Indirect taxes” is not defined in the Income-tax Act nor under any other law. The levy of indirect taxes on various transactions may differ from State to State. It is recommended that the auditor should obtain from the assessee the list of indirect taxes applicable to him.

Clause 8 of Form 3CD

Indicate the relevant clause of section 44AB under which the audit has been conducted

- **Clause 44AB(a)- Total sales/turnover/gross receipts of business exceeding specified limits**
- Clause 44AB(b)- Gross receipts of profession exceeding specified limit
- Clause 44AB(c)- i-Profits and gains lower than deemed profit u/s 44AE
- Clause 44AB(c)- ii- Profits and gains lower than deemed profit u/s 44BB
- Clause 44AB(c)- iii- Profits and gains lower than deemed profit u/s 44BBB
- Clause 44AB(d)- Profits and gains lower than deemed profit u/s 44ADA
- Clause 44AB(e)- When provisions of section 44AD(4) are applicable
- **Third proviso to sec 44AB : Audited under any other law**
- **Clause 44AB(a)- Proviso where aggregate cash receipts and cash payments of business exceeding specified limit**

In case of auditee being Company/LLP required to get their accounts audited under any other law - should select third proviso to section 44AB as the applicable section for tax audit instead of section 44AB(a)

Clause 8A of Form 3CD

Whether the assessee has opted for taxation under section 115BA/115BAA/115BAB/115BAC/115BAD/115BAE?

- the auditor should mention the selection or the choice of the assessee as on the date of signing of the Report.
- For the purpose of reporting under clause 8a, the tax auditor should verify whether the relevant form being 10-IB, 10-IC, 10-ID, 10-IE and 10-IF furnished under section 115BA, 115BAA, 115BAB, 115BAC and 115BAD respectively for availing new tax regime is already filed by the assessee.
- **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.**

Clause 9 of Form 3CD

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

(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

- details of partners or members during the entire previous year will have to be furnished
- Need to verify the instrument or agreement or any other document evidencing partnership or association of persons including any supplementary documents or other documents effecting such changes

Clause 11 of Form 3CD

(a) Whether books of account are prescribed under section 44AA, if yes, list of books so prescribed.

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

- The CBDT under Rule 6F has prescribed the books of account and other documents to be kept and maintained by a person carrying on certain professions specified in sub-section (1) of section 44AA.
- Only in such cases YES should be mentioned in clause (a).
- In case books of accounts are maintained in computer system, said facts should be mentioned. In such case, address of server is to be mentioned.
- Location where books of account are mentioned should be mentioned. In case multiple location – location wise details should be mentioned.

Clause 14 of Form 3CD

Clause 14(a): Method of valuation of closing stock employed in the previous year.

- The term "closing stock" will include all items of inventories.
- AS-2 and Ind AS-2 define the term "inventories" to include finished goods, raw materials, work-in-progress, materials, maintenance supplies, consumables and loose tools.
- Therefore, **method of valuation** of all items of inventories will have to be given.

Clause 14(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:

- Section 145A - Inclusive method vs. Exclusive Method

Clause 16 of Form 3CD

Clause 16: Amounts not credited to the profit and loss account, being,-

- (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.*

- Conversion of Stock into Capital Asset
- Benefit u/s 28(iv) of the Act, tax on which is deducted u/s 194R - such income should be reported under clause 16(a). Auditor may come to knowledge about such income on verification of Form 26AS
- Employees contribution to PF/ESIC - Cross Reference in Clause 20(b)

...Clause 16 of Form 3CD...

- Dealer in immovable property – if property transferred at price lower than stamp duty value (difference more than 110% of consideration) - clause 16(d) and clause 17
- Compensation for surrendering certain rights.
- Government grant in relation to a specific fixed asset where such grant is shown as a deduction from the gross value of the asset by the concern in arriving at its book value.

Amendments in Clause 21 of Form 3CD

Clause	Old Clause	Amended Clause
21a(vi)	Expenditure by way of penalty or fine for violation of any law for the time being in force	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)
21a(vii)	Expenditure by way of any other penalty or fine not covered above.	Expenditure incurred to compound an offence under any law for the time being in force, in India or outside India
21a(viii)	Expenditure incurred for any purpose which is an offence or which is prohibited by law	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.

...Amendments in Clause 21...

- to align the reporting in line with Explanation 3 to section 37 as inserted vide the Finance Act, 2022
- specific requirement to report penalties and fines paid for violation of law in force in India as well as in a **country outside India**
- This clause covers only penalty or fine for violation of law and not the payment for contractual breach or liquidator damages.
- Auditor is not required to express any opinion as to the allowability or otherwise of the amount of such expense by way of penalty/Compounding fee.
- If in the opinion of the assessee, any penalty or fine or part of it is compensatory in nature, the tax auditor should, in addition to reporting in this clause, report the assessee's stand in para 3 of Form No. 3CA or para 5 of Form No. 3CB, as the case may be.
- In case amount is reported under this clause and auditor is of the view that it is disallowable u/s.37(1) and TDS is not deducted on said payment – Auditor shall not report said amount in clause 21(b) i.e. disallowance u/s.40(a)(ia) - Appropriate disclosure in para 3- Form 3CA or para 5 – Form 3CB.

Clause 22 of Form 3CD - MSME

Amount of interest inadmissible under Section 23 of the Micro, Small and Medium Enterprises Development Act, 2006 or any other amount not allowable under clause (h) of section 43B of the Income-tax Act, 1961

- Since Section 22 of the MSME Act requires disclosure of information, the tax auditor should cross check the disclosure made in the financial statements.
- The tax auditor should obtain a full list of suppliers of the assessee who fall within the purview of the definition of “Supplier” under section 2(n) of the Micro, Small and Medium Enterprises Development Act, 2006. It is the responsibility of the auditee to classify and identify those suppliers who are covered by this Act.

...Amendment in Clause 22...

- **Details of amount payable as on 31/03/2024**

Name of Supplier	Registered under MSME	Category of Enterprise		Date of Registration	Date of Transaction	Date of payment
Sodhi	Yes	Small	Service Provider	01/04/24	31/12/23	05/04/24
Bhide	Yes	Micro	Service Provider	01/04/23	31/12/23	01/04/24
Popat	No	Small	Service Provider	NA	31/12/23	01/04/24
Hathi	Yes	Medium	Service Provider	01/04/23	01/04/23	01/04/24
Iyer	Yes	Small	Trader	01/04/23	01/04/23	01/04/24
Jethalal	Yes	Small	Service Provider	01/04/23	31/03/24	01/06/24

MSME – Case Study 1

Gada electronics (Prop. Jethalal Gada) is liable to get its books of account audited u/s.44AB of the Act. As on 31.03.24 provision is made for audit fees of ₹ 5 Lakhs payable to Babita Iyer & Co. (CA - registered as Small Enterprise under MSME). Audit of Gada electronics is completed on 31.08.24. Auditor raises invoice on 01.09.24. Mr. Jethalal files his ROI on 01.10.24 without making any disallowance u/s.43B(h). Payment of audit fees is made on 01.04.25.

- Whether Mr. Jethalal is right in not disallowing any amount u/s.43B(h) for amount debited to P&L as audit fees in ROI for A.Y. 2024-25?
- Will it make any difference if ROI is uploaded by Mr. Jethalal on 20/10/24?
- For A.Y. 2025-26, the audit fees is outstanding, Mr. Jethalal wants to know if disallowance needs to be made u/s.43B(h)?

MSME – Case Study 2

In Case 1;, say the provision was not for audit fees but was for commission payable to Mr. Sunder (wherein the Mr. Sunder after rendering his services has raised invoice on 31.03.2024). Mr. Sunder is registered as Micro Enterprise under MSME. For A.Y. 2024-25, Mr. Jethalal has filed ROI on 01.10.24 making disallowance of Rs.5 Lakhs u/s.43B(h) as amount is not paid to Mr. Sunder. Subsequently, on 01.12.2024, Mr. Jethalal has made part payment of commission of ₹ 25,000 to Mr. Sunder in cash and balance payment is made by cheque.

- For A.Y. 2025-26, Mr. Jethalal wants to claim deduction u/s.43B(h) of entire ₹ 5 lakhs. Mr. Jethalal wants to know whether disallowance u/s.40A(3A) of Rs.25,000 is to be made in A.Y. 2025-26?

MSME – Case Study 3

In Case 1: say Gada electronics has not deducted TDS on audit fees for A.Y. 2024-25.

- Babita Iyer & Co., auditor will report in Form 3CD in clause 21(b) (non deduction of TDS) or clause 22 (MSME) or both
- In hands of Mr. Jethalal, disallowance will be u/s.40(a)(ia) or 43B(h) or both?
- Say in A.Y. 2024-25, Mr. Jethalal in Computing total income, made 30% disallowance u/s.40(a)(ia) and did not make any disallowance u/s.43B(h). He has deducted and deposited TDS in A.Y. 2025-26, but payment to auditors is still not made, can he claim deduction u/s.40(a)(ia) and can avoid disallowance u/s.43B(h)?

MSME – Case Study 4

In Case 2: say Gada electronics has not deducted TDS on commission for A.Y. 2024-25.

- Babita Iyer & Co., auditor will report in Form 3CD in clause 21(b) (non deduction of TDS) or clause 22 (MSME) or both?
- In hands of Mr. Jethalal, disallowance will be u/s.40(a)(ia) or 43B(h) or both?
- Say in A.Y. 2024-25, Mr. Jethalal in Computing total income, made 30% disallowance u/s.40(a)(ia) and makes 70% disallowance u/s.43B(h). He has deducted and deposited TDS in A.Y. 2025-26 and made payment to Sunder. Effect in computation for A.Y. 2025-26?

Clause 26 of Form 3CD - 43B

- Section 43B is applicable in respect of expenditure for which a deduction is otherwise allowable under the Act. Therefore, where any expenditure is reported under any other clause indicating that deduction is otherwise not allowable, there is no need of reporting such expenditure under this clause.
- The due date of filing of the ROI would usually be subsequent to the signing of the tax audit report. The tax auditor would be able to give information in respect of matters only up to the date of signing of the tax audit report. The payment made subsequent to that date but before the date of filing of the return, will still be eligible for deduction under section 43B.

...Clause 26 of Form 3CD - 43B...

- Converted interest, by whatever name called, in the wake of its conversion into a loan or borrowing or advance, will be eligible for deduction in the computation of income of the previous year in which the converted interest is 'actually paid'.
- Amounts of the nature referred to in section 43B being credited to the profit and loss account although the relevant provisions for such liability had not been allowed as a deduction in any previous year in view of the specific provisions of section 43B requiring actual payment as a condition precedent to allowance. The amounts so credited to the profit and loss account are not chargeable to tax since the conditions referred to in section 41(1) have not been satisfied.
- Loan against fixed deposit - Interest payable on said loan

Clause 27 (b) – Prior Period Items

- AS5/INDAS 8 - expenses or income which arise in the current year as a result of errors or omissions in the accounts of the earlier years will be considered as prior period items/prior period errors
- In cases wherein expenditure relates to the earlier year, however the liability is materialised or crystallised during the year, - Such expenditure will not be reported in said clause

Clause 29 – Amount includible u/s. 56(2)(ix)

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)

- Forfeiture of amounts received as advance towards transfer of a capital asset is required to be reported under this clause.
- Forfeiture of amounts received towards sale of stock-in-trade would be taxable under section 28(i) and would not be required to be reported since the amount would be credited to profit & loss account.

Clause 33 - Deductions

- Deductions admissible under Chapter VIA, section 10A and section 10AA will have to be with reference to the items appearing in the books of account audited by the tax auditor.
- While working out the amount of admissible deduction, the tax auditor has to ascertain that those condition(s) stand fulfilled or not
- For section 80-IA, 80-IB, 80-IC, 80JJAA etc. where separate audit report or certificate is required to be issued -to obtain audit report with reference to the accounts of these undertakings.
- Clause 8a - Section 115BA, 115BAA, 115BAB, 115BAC, 115BAD and 115BAE - admissible deductions should only be mentioned

Clause 40 – Ratios

- Stock-in-trade - not to include stores and spare parts or loose tools, stock of raw material and work-in-progress - objective here is to compute the stock-turnover ratio.
- Stock-in-trade - include only finished goods
- These ratios have to be calculated only for assesseees who are engaged in manufacturing or trading activities. In case of assesseees in service sector mention Not Applicable (and not NIL).
- Sale of scrap should form part of Turnover for calculation of ratios.
- The net profit to be shown here in this clause is net profit before tax.

Clause 44 - GST

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

SI 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

- Information is not required to be furnished for each head of expenditure but the total expenditure including purchases in the prescribed format may be given
- Depreciation under section 32, deduction for bad debts u/s 36(1)(vii) etc. which are non-cash charges on the P&L a/c should not be reported under this clause in any of the Columns from 3 to 7
- Schedule III to the CGST Act, 2017 - neither supply of goods nor service - Salaries not to report in Columns from 3 to 7

Certain Disclaimers

- **Clause 18:** Section 43(1) - for acquisition of fixed assets above Rs. 10,000/- otherwise than by account payee cheque or bank draft, necessary evidence is not in the possession of the assessee.
- **Clause 21(a)- Personal expenditure:-** Business Promotion Expenses, Entertainment Expenses and Travelling Expenses are considered as of personal
- **Clause 21(d) :-** Records produced for verification of payments **through account payee cheque were not sufficient - Section 40A(3) & 40A(3)A:-** It is not possible for us to verify whether the payments exceeding Rs.10,000/- or Rs.35,000/- in case of payments made to transporters have been made otherwise than by account payee cheque or bank draft, as the necessary evidence is not in the possession of the assessee.

...Certain Disclaimers...

- **Clause 22:** Creditors under Micro, Small and Medium Enterprises Development Act, 2006 are not ascertainable - The disclosure regarding the Micro, Small and Medium Enterprises given in notes to accounts to financial statements is to the extent made available to us.
- **Clause 31:** Section 269SS/269ST/269 T:- It is not possible to verify the taking or accepting loan or deposit, or repayment of the same were made by account payee cheque drawn on a bank or account payee bank draft as the necessary evidence are not possession of the assessee.
- **Clause 35 - Proper Stock Records** are not maintained by the assessee - Quantitative day to day stock records of consumption are not produced for our verification. The quantitative stock is reconciled from the stock details of purchase register, sales register and stock taken by the management.

...Certain Disclaimers...

- **Claus 34: TDS** - We have verified the compliance with the provisions of Chapter XVII-B regarding the deduction of tax at source regarding the payment thereof to the credit of the Central Government in accordance with the Auditing Standards generally accepted in India which include test check and concept of materiality.
- **Clause 14(b)- Section 145A:-** The assessee follows exclusive method of accounting for purchase , sales and inventory. However, as per various judicial pronouncements and the Guidance Note on Tax Audit issued by the Institute of Chartered Accountants of India there is no impact on the loss of the assessee.
- **Clause 42** - We have verified the compliance to the provisions of section 139A(5)(c) in accordance with the Auditing Standards generally accepted in India which include test check and concept of materiality.
- **Clause 13** - GST on closing stock is not included in valuation. Since the same is factored in the valuation prescribed u/s 145A, it is not mentioned under the clause No. 13 of form 3CD.

...Certain Disclaimers...

- Physical copy of Form No. 3CB and Form no. 3CD contains certain explanatory and other notes to the various clauses which do not find place in the electronic Form no 3CD. In view of this, the electronic Form no. 3CD should be read together with all the notes appearing in the physical Form no. 3CD and in case of any conflict, the information and details provided in physical copy shall prevail.

Other Important Points

- Appointment Letter
- Engagement Letter
- NOC from previous auditor
- Management Representation Letter
- UDIN

Penalties

- **Section 271B – Failure to get accounts audited** - If any person fails to get his accounts audited in respect of any previous year or years relevant to an assessment year or furnish a report of such audit as required under section 44AB, the AO may direct that such person shall pay, by way of penalty, a sum equal to **one-half per cent of the total sales, turnover or gross receipts**, as the case may be, in business, or of the gross receipts in profession, in such previous year or years or a sum of **one hundred fifty thousand rupees**, whichever is less.
- **Section 271J – Penalty for furnishing inaccurate information in reports or certificates** - Without prejudice to the provisions of this Act, where the Assessing Officer or [the Joint Commissioner (Appeals) or] the Commissioner (Appeals), in the course of any proceedings under this Act, finds that **an accountant** or a merchant banker or a registered valuer **has furnished incorrect information in any report** or certificate furnished under any provision of this Act or the rules made thereunder, the Assessing Officer or [the Joint Commissioner (Appeals) or] the Commissioner (Appeals) may direct that such accountant or merchant banker or registered valuer, as the case may be, shall pay, by way of penalty, a sum of **ten thousand rupees** for each such report or certificate.
- Professional Misconduct - ICAI

Questions/Doubts



Thank You

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