Form 3CD

Showing changes made Vide notification dated 1st Oct 2020 @ & 1st April 2021 #

Hyderabad branch of SIRC of ICAI – 16th Sept 2023

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Rule 6G - (3) R**eport of audit furnished under this rule** **may be revised** by the person by getting revised report of audit from an accountant, duly signed and verified by such accountant, and furnish it before the end of the relevant assessment year for which the report pertains, if there is payment by such person after furnishing of report under subrule (1) and (2) **which necessitates recalculation of disallowance U/s. 40 or S. 43B.**

Sl No.		**Particulars**
1.		Name of the assessee *If co. name changes – Give earlier name for 2 years - S.12 of Co's Act.*
2.		Address – *That communicated to IT Dept. for asst purposes on date of signing of audit report.*
3.		PAN or Adhar No (WRE 1/9/2019)
		Basic details included for identification of the assessee. It may be noted that if the audit is in respect of a branch, name & address of such branch must be mentioned.
4.		Whether the assessee is liable to pay indirect tax like excise duty, service tax, sales tax, goods and services tax, customs duty, etc. If yes, please furnish the registration number, GST number or any other identification number allotted for the same
		If auditor prima facie opines that any IDT is applicable on B/P of the assessee but assessee is not registered under the said law, he should report the same appropriately.
5.		Status
		Refers to different classes of assesses included in the Act – individual, HUF, company, firm (includes LLP), AOP, BOI, local authority & artificial juridical person.
6.		Previous year from ___ to _____
		Relates to FY pertaining to the audit - typically from 1st April to 31st March of the next year but care has to be taken in case of closure of businesses, new businesses, amalgamations, demergers, etc.
7.		Assessment Year
8.		Indicate the relevant clause of **section 44AB** under which the audit has been conducted
		a. Business > 100 Lacs [Rs.200 lacs if income offered under presumptive basis] *b. Profession > 50 Lacs from FY 2016-17* ***(Thin line of difference between B &P)*** *c. S.44AE/BB/BBB - Lower than presumptive profit declared* *d. S.44ADA - Lower than presumptive profit declared* *e. S.44AD - Lower than presumptive profit declared* ***Third proviso to sec 44AB – audit under any other law*** ***(Form 3 CA Cases)***
8	a.	Weather opted to 115BA / BAA / BAB @ BAC / BAD #

9.	a.	If firm or association of persons, indicate name of partners/members and their profit-sharing ratios
		Name of partners or members of a firm or AOP will be covered here. In case a person is in a representative capacity (e.g., A's HUF is a partner and A is in representative capacity on behalf of the HUF), then name of beneficial partner/member should be mentioned (A's HUF). *Further, profit sharing ratio includes the ratio at which losses would be shared.*
	b.	If there is any change in the partners / members or in their profit sharing ratio since last date of the preceding year, the particulars of such change
		All changes that occur during the year, no matter how often, to be mentioned.
10.	a.	Nature of business or profession (if more than one business or profession is carried on during the PY, nature of every business or profession)
	b.	If there is any change in the nature of business or profession, the particulars of such change
		Select business code applicable from the list provided. If there are any changes in the nature of B/P to be carried out, it needs to be mentioned. *Temporary discontinuance of business need not be mentioned.*
11.	a.	Whether books of account are prescribed under **section 44AA,** if yes, list of books so prescribed. *No for all except specified professionals - Cash book, Journal, Ledger and for Doctors also Daily case register &Inventory of medicines although required – No need to give here as they are not Books of accounts.*
	b.	Lists of books of account maintained **and the address at which the books of account are kept.**
		Every person, upon crossing a specified limit of turnover, needs to compulsorily maintain certain books of accounts as prescribed like cash book, journal, ledger, etc. *Further, certain specified professionals have addl. records prescribed that they must maintained.* ***Ex., Doctors must maintain daily case register where details of patient visits are recorded.*** ***For Cos, if books maintained at other than Regd. Office - File AOC-5 within 7 days***
	c.	List of books of account and nature of relevant documents examined
		Tax auditor lists the books and records that were checked by him. ***No drop down in IT Schema*** ***[(Evidence – Original or copy – Underlying documents apart from Books)*** GN ***- Bills, Vouchers, Receipts, Dr./Cr. notes, Inventory Register, Agreements, Orders Etc.***
12.		Whether the profit or loss account includes any profits and gains assessable on presumptive basis, if yes, indicate the amount and the relevant **section (44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, Chapter XII-G,** First Schedule or any other relevant section)
		Amount of profit that relates to a business s.t presumptive scheme of taxation must be reported here. *In case of multiple businesses, only the amount of profit that relates to the businesses s.t the presumptive scheme of taxation will be reported section-wise.* *GN – 3 situations possible –* *1. Single books – properly segregate/ apportion & Arrive at reasonable & fair profit of presumptive.* *2. Separate books – No problem for presumptive* *3. Single P&L a/c – No books for presumptive –* ***A'r qualify that profit*** *as per presumptive* ***is not verified. Hence unable to comment.***
13.	a.	Method of accounting employed in the previous year

	b.	Whether there had been any change in the method of accounting employed vis-à-vis the method employed in the immediately preceding previous year.
	c.	If answer to (b) above is in affirmative, give details of such change, and the effect thereof on the profit or loss.
		The method of accounting, whether cash or mercantile must be mentioned. *Companies however are compulsorily required to maintain their accounts on accrual basis as per S.128 of the Companies Act*
	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)**
	e.	If answer to (d) above is in the affirmative, give details of such adjustments
		I.T Tax Act has prescribed certain ICDS ranging from ICDS I to ICDS X. The effect of these ICDS must be taken in the computation of tax to arrive at the net tax liability – The increase in profit, decrease in profit and net effect is mentioned as per each ICDS.
	f.	Disclosure as per ICDS
		ICDS also contain certain disclosure requirements and this is the clause under which such disclosures are ultimately made.
14.	a.	Method of valuation of closing stock employed in the previous year
	b.	In case of deviation from the method of valuation prescribed under **section 145A**, and the effect thereof on the profit and loss
		This method of valuation would be on the basis of the method of accounting regularly employed by the assessee s.t certain prescribed adjustment on account of tax, duty, cess, etc. (like excise duty, VAT) incurred in procuring the inventory. ***(Yes/No ??)*** ***# If Yes -> Effect Nil*** ***If No -> Not Applicable*** ***GN: No impact on increase/decrease in Profit – Illustration provided- But no guidance provided for filling the column***
15		Give the following particulars of the capital asset converted into stock-in-trade:
	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.
		An asset held as a capital asset would attract income under the head capital gains at the time of its sale and an asset held as stock-in-trade would attract income under the head profits and gains of business. *When it is decided to treat a capital asset as part of the stock of the business, it is treated as a 'transfer' U/s.2(47) for income tax purposes and will attract capital gains s.t certain conditions & exceptions U/s.45(2).*

16.		Amounts not credited to the profit and loss account, being –
	a.	The items falling within the scope of **section 28**; *Report incomes taxable U/s.28 but not credited to P&L EX: benefit u/s 28(iv) tax on which is deducted u/s 194R.*
	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; *[Items reported under cl.17 below must be reported here with proper cross referencing]*
	e.	Capital receipt, if any.
		S. 28 is charging section for income under 'PGBP'. This clause intends to capture & report those incomes which ordinarily wouldn't be a business income but is deemed to be business income under I.T Act. Ex: compensation received on a/c of termination of employment, profit on sale of import license, remuneration received by a partner from a partnership firm, etc. Even export benefits like pro forma credits, duty drawbacks, refund of customs, etc. would be covered under this clause if not credited to P&L. Further, a capital receipt would not normally attract tax unless the transaction is specifically covered in the provisions. Thus, if such receipt is not appearing in P&L it will be covered here.
17.		Where any land or building or both is transferred during the previous year for a consideration **less than** value adopted or assessed or assessable by any authority of the State Government referred to in section 43CA or 50C, please furnish (i) details of property, (ii) consideration received or accrued (iii) value adopted or assessed or assessable, (iv) Whether provisions of second proviso to subsection (1) of S. 43CA or fourth proviso to S.56(2)(x) applicable? [Yes/No] #
		a. Transfer may happen without regn. – so see other circumstances – GN para 26.6 *b. Report not all L/b transferred but only if transaction value < S.R. value* *c. 194IA in Form 26AS could give a lead.* ***If Consideration > GV/110% - No need to report as it is deemed to be full value of consideration*** *[GN : para 26.7 (page 108) – whether leasehold/right/development rights/TDR/FSI etc. -> whether L or B? {Evaluate based on facts & circumstances of transactions}*
18.		Particulars of depreciation allowable as per IT Act, 1961 in respect of each asset or block of asset, as the case may be, in the following form:-
	a.	Depreciation of asset/block of assets
	b.	Rate of depreciation
	c. ca. cb. cc.	Actual cost of written down value, as the case may be *Adjustment made to the WDV U/s. 115BAC/115BAD (for AY 2021-2022 only)…….#* *Adjustment made to WDV of Intangible asset due to excl. value of goodwill of a B/P..#* *Adjusted WDV ………#*
	d.	Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustment on account of: (i) CenVAT 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 currency, & subsidy /grant/reimbursement, by whatever name called
	e.	Depreciation allowable

	f.	Written down value at the end of the year
		I.T Act prescribes depreciation to be charged as per the 'block of assets system' s.t certain conditions. This clause checks that the depreciation has been arrived at correctly.
19.		Amounts admissible under **sections: 32AC, 32AD, 33AB, 33ABA, 35(1)(i), 35(1)(ii), 35(1)(iia), 35(1)(iii), 35(1)(iv), 35(2AA), 35(2AB), 35ABB, 35AC, 35AD, 35CCA, 35CCB, 35CCC, 35CCD, 35D, 35DD, 35DDA, 35E**;
		These sections allow for special deductions for prescribed businesses. The tax auditor checks whether the assessee has complied with all the necessary conditions to claim a deduction under these sections. Some of these sections may require a certificate by a CA certifying the eligibility.
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
		The assessee would be allowed a deduction in respect of a payment made to an employee in the nature of a bonus or commission only if such bonus or commission was available exclusively to such employee in relation to the services rendered by him.
	b.	Details of contribution received from employees for various funds as referred to in **section 36(1)(va)**
		These funds include superannuation funds created for the benefit of the employee. The contributions made by the employer to such funds shall be allowed as a deduction only if they are made within the due date as specified in the applicable law. **Now ESI/PF Due date – 15th** ***No disallowance to be reported – Facts only*** ***Employees contribution if delayed by one day will be permanently disallowed*** *Clause 26 on S.43B does not need such elaborate details*
21.	a.	Please furnish the details of amounts debited to P&L a/c, being in the nature of capital, personal, advertisement in political souvenir, Clubs, Penalty, Exp. For purpose prohibited by law.
		The nature of these expenses are such that they may either be fully disallowed or only allowed s.t certain conditions. If they form a part of the P&L a/c, they have to be disclosed here.
	b.	Amounts inadmissible under **section 40(a)(i), 40(a)(ia), 40(a)(ic), 40(a)(iia), 40(a)(iib), 40(a)(iii), 40(a)(iv), 40(a)(v)**
		These sections broadly relate to disallowances made iro an expenditure or a part of an expenditure where tax was required to be deducted at source but the assessee failed to do so. ***May rely on expert as per SA 620***
	c.	Amounts debited to profit and loss account being, interest, salary, bonus, commission or remuneration inadmissible under **section 40(b)/40(ba**) and computation thereof;
		This is applicable to firm, AOP or BOI assessees where payments are made to the partners/members in the nature of salary, remuneration, interest, etc. The Act has prescribed certain limits upto which such expenditure can be allowed in the hands of the firm/AOP/BOI and if the expenditure exceeds this limit, the same is not allowed as a deduction.

	d.	Disallowance/deemed income under **section 40A(3)**
		This section places a disallowance on any expenditure incurred by any mode other than an account payee cheque/bank draft or through a bank account using ECS or any other prescribed mode if it > Rs. 10,000 per day per person s.t exceptions prescribed in Rule 6DD.
	e.	Provision for payment of gratuity not allowable under **section 40A(7);**
		S.40A(7) does not cover Provision made for payment for any contribution to approved gratuity fund (covered U/s.43B), or for payment of gratuity that has become payable during PY.
	f.	Any sum paid by the assessee as an employer not allowable under **section 40A(9);**
		Any payment incurred by an employer towards setting up of any fund, trust, Company, AOP, BOI, Society, etc will not be allowed as a deduction subject to certain exceptions.
	g.	Particulars of any liability of a contingent nature;
		Report only contingent liabilities debited to P&L and not that disclosed in notes to accounts.
	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 total income;
		The section prescribes a method of calculation of an amount of expenditure which will be disallowed as it is deemed to be incurred towards earning exempt income. *1. **Rule 8D need not be commented as it is AO's purgative - Para 37.7 GN.*** ***2. Also Assessee may or may not adopt Rule 8D – GN Page 154 para 37.12*** ***3. If 14A principles are not followed TA to give*** ***- Qualified opinion / Adverse opinion/ Disclaimer opinion***
	i.	Amount inadmissible under the proviso to **section 36(1)(iii)**
		Where the assessee borrows a loan for business purposes, the interest thereon would normally be allowed as a deduction. However, if such loan was used to acquire an asset, the interest shall not be allowed for the period between the date of borrowing of the loan to the date on which the asset was put to use.
22.		Amount of interest inadmissible under **section 23** of the Micro, Small and Medium Enterprises Development Act, 2006.
		MSME Act prescribes an amount of interest that would not be allowed as a deduction in the computation of taxable income of the assessee.
23.		Particulars of payments made to persons specified under **section 40A(2)(b)**
		This section basically disallows expenditure incurred by way of payment to specified persons (relatives) if AO finds them to be excessive in nature.
24.		Amounts deemed to be profits and gains under **section 32AC or 32AD or 33AB or 33ABA or 33AC.**
		These sections allow for a special deduction to certain assesses s.t certain conditions. In case of a breach of these conditions, the whole or a part of the deduction allowed earlier would be included as deemed income.
25.		Any amount of profit chargeable to tax under **section 41** and computation thereof.

		This section relates to deemed profits arising out of: *a. Where a deduction has been allowed in an earlier year in respect of an expenditure but the assessee has received some benefit whether by cash or by reduction in actual liability in the current year, such benefit will be chargeable to tax under this section.* *b. Where an asset has been sold by an assessee engaged in the power generation and distribution and such sale consideration exceeds the WDV.* *c. Where an asset used in scientific research is sold for consideration > its original cost* *d. Where a bad debt that was allowed earlier is subsequently recovered.* *e. Where an amount has been withdrawn from a special reserve created by a financial company on which deduction was earlier allowed* *f. Where such amounts/benefits as above is received even after closure of business.* Hence, barring by limitation would not tantamount to cessation of liability u/s 41(1). *CIT v. Sugauli Sugar Works (P.) Ltd. [1999] 236 ITR 518/102 Taxman 713 (SC*
26		In respect of any sum referred to in **clauses (a), (b), (c), (d), (e), (f) or (g) of section 43B,** the liability for which:-
		This section allows certain expenditure like cesses, taxes, duties, interest to bank, etc. to be claimed only on actual payment of the same if it is made before the due date of filing the return for the respective AY.
	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; (b) not paid during the previous year;
	b.	Was incurred during 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);** (b) not paid on or before the aforesaid date (State whether sales tax, customs duty, excise duty, or any other indirect tax, levy, cess, impost, etc., is passed through the profit and loss account.)
27.	a.	Amount of Central Value Added Tax credits availed of or utilised during the previous year and its treatment in the profit and loss account and treatment of outstanding Central Value Added Tax credits in the accounts.
		The details of the CENVAT credit carried forward from the previous year, its utilization and the balance left needs to be provided along with its treatment in the accounts of the as assessee.
	b.	Particulars of income or expenditure of prior period credited or debited to the profit and loss account.
		This clause would be relevant only for the persons following the mercantile system of accounting.
28.		Whether during the previous year the assessee has received any property, being share of a company not being a company in which the public are substantially interested, without consideration or for inadequate consideration as referred to in **section 56(2)(viia),** if yes, please furnish details of the same.

		NA from AY 18-19 - *Where assessee receives certain shares of a private limited company where the FMV of such shares minus the amount paid to acquire such shares exceeds Rs. 50,000, such excess shall be chargeable to tax under IOS.* ***[From AY 2018-19 rigours of this provision have been enlarged and covered U/s.56(2)(x), which is to be answered by the Tax Auditor in question no.29B of Form 3CD]***
29.		Whether during the previous year the assessee received any consideration for issue of shares which exceeds the fair market value of the shares as referred to in **section 56(2)(viib),** if yes, please furnish details of the same.
		If a closely held company issues shares at a price that exceeds the FMV, the difference will be taxed as IOS.
29A.	a.	Whether any amount is to be including in 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
		Advances received irt transfer of a capital asset are shown as IOS where the advances are forfeited and the capital asset is not ultimately transferred.
29B	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)
		Where the assessee receives Money or any property where its FMV minus the amount paid to acquire such property exceeds Rs. 50,000, such excess shall be chargeable to tax under IOS.
	b.	If yes, please furnish the following details: (i) Nature of income (ii) Amount thereof
30.		Details of any amount borrowed on hundi or any amount due thereon (including interest on the amount borrowed) repaid, otherwise than through an account payee cheque **[Section 69D]**
		Hundis are financial instruments not recognised by formal law.
30A.	a.	Whether primary adjustment to transfer price, as referred to in **sub-section (1) of 92CE**, has been made during the previous year? (Yes/No)
		The transfer pricing provisions under IT Act in general aim to value transactions with associated enterprises at an arm's length price. This clause aims to capture such relevant information within the tax audit report.
	b.	If yes, please furnish the following details:- a. Under which clause of **sub-section (1) of 92CE** primary adjustment is made? b. Amount (in Rs.) of primary adjustment c. Whether the excess money available with the associated enterprise is to be repatriated to India as per the provisions of **sub-section (2) of section 92CE?** (Yes/No)

		d. If yes, whether the excess money has been repatriated within the prescribed time (Yes/No) If no, the amount (in Rs.) of imputed interest income on such excess money which has not been repatriated within the prescribed time.
30B.	a.	Whether the assessee has incurred expenditure during the previous year by way of interest or of similar nature exceeding one crore rupees as referred to in **sub-section (1) of section 94B**? (Yes/No)
		Where an Indian Company borrows a sum of money from an associated enterprise, the deduction in respect of interest payable on such borrowed amount under the I.T Act shall be restricted to 30% of EBITDA. The interest in excess of 30% shall be allowed to be set off in subsequent years s.t certain conditions. This clause places a check for compliance in this regard.
	b.	If yes, please furnish the following details:- i. Amount (in Rs.) of expenditure by way of interest or of similar nature incurred: ii. Earnings before interest, tax, depreciation and amortization (EBITDA) during the previous year (in Rs.): iii. Amount (in Rs.) of expenditure by way of interest or of similar nature as per (i) above which exceeds 30% of EBITDA as per (ii) above: iv. Details of interest expenditure brought forward as per **sub-section (4) of section 94B** v. Details of interest expenditure carried forward as per **sub-section (4) of section 94B**
30C.	a.	Whether the assessee has entered into an impermissible avoidance arrangement, as referred to in **section 96**, during the previous year? (Yes/No)
	b.	If yes, please specify:- i. Nature of the impermissible avoidance arrangement: ii. Amount (in Rs.) of tax benefit in the previous year arising, in aggregate, to all the parties to the arrangement";
		An impermissible avoidance arrangement would be an arrangement where the main purpose is to obtain a tax benefit and is not at arm's length, results in tax evasion (directly or indirectly), lacks commercial substance or is carried out in a manner that does not otherwise occur if the arrangement was for bona fide purposes.
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 PAN / Adhar No. of the lender or depositor, ii. Amount of loan or deposit taken or accepted, iii. whether the same was squared up during the year,

		iv. maximum amount outstanding at any time during the previous year, v. whether the same was taken or accepted by cheque or bank draft (specify if account payee) or use of ECS through a bank account
	b.	Particulars of each specified sum in an amount exceeding the limits specified in **section 269SS** taken or accepted during the previous year: i. Name, address and PAN / Adhar No. (if available) of the person from whom specified sum is received, ii. amount of specified sum taken or accepted, iii. whether the specified sum was taken or accepted by cheque or bank draft (specify if account payee) or use of ECS through a bank account
		Taking loan or advance or any amount irt an immovable property (specified sums) of Rs. 20,000 or more, otherwise than by way of an a/c payee cheque or bank draft or use of a bank account through ECS or thro any other prescribed mode would attract a penalty equal to the amount borrowed. Details of all loans or specified sums taken exceeding Rs. 20,000 are provided herein.
	ba.	Particulars of each specified sum in an amount exceeding the limits specified in **section 269ST** taken or accepted during the previous year: i. Name, address and PAN / Adhar No. (if available) of the person from whom specified sum is received, ii. Nature of transaction, iii. Amount of Receipt (in Rs.) iv. Date of Receipt
	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 (if available) of the payer; ii. Amount of receipt (in Rs.)
	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:- a. Name, address and PAN / Adhar No. (if available) of the payee; b. Nature of transaction;

		c. Amount of payment (in Rs.); d. Date of payment;
	bd	Particulars of each payment 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, made by a cheque or bank draft, not being an account payee cheque or an account payee bank draft, during the previous year:- a. Name, address and PAN / Adhar No. (if available) of the payee; b. Amount of payment (in Rs.)
		Section 269ST says that a person is not allowed to receive more than Rs. 2 lakh from either: *(i) From a person in a day (in total);* *(ii) In respect of single transaction; or* *(iii) In respect of transactions relating to a single event/occasion;* *If such amount is paid through any mode other than an account payee cheque / bank draft or use of ECS through a bank account or thro any other prescribed mode. The reporting of non-compliance with this section will be made in this clause.*
	c.	Particulars of each repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in **section 269T** made during the previous year: i. Name, address, PAN/ Adhar No (if available) of payee, ii. amount of repayment, iii. maximum amount outstanding at any time during the previous year, iv. whether the repayment was made by cheque or bank draft (specify if account payee) or use of ECS through a bank account
	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 ECS through a bank account during the previous year: i. Name, address, PAN / Adhar No (if available) of the payer, ii. amount of loan or deposit or any specified advance received otherwise than by a cheque or bank draft or use of ECS through a bank account during the previous year.
	e.	Particulars of repayment of loan or deposit or any specified advance in 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, PAN / Adhar No. (if available), of the payer, ii. amount of loan or deposit or any specified advance received by a cheque or a bank draft which is not an account payee bank cheque or bank draft during the previous year.
		Repayment of a loan or any amount irt purchase of an immovable property (specified advance) being Rs. 20,000 or more, otherwise than by way of an account payee cheque or

		bank draft or use of a bank account through ECS or thro any other prescribed mode would attract a penalty equal to the amount borrowed. Details of all repayments of loans or specified sums paid exceeding Rs. 20,000 during the year are provided herein.
32.	a.	Details of brought forward loss or depreciation allowance to the extent available:

Sl No.	AY	Nature of loss/ allowance (in Rs.),	Amount as returned (if the assessed depreciation is less & no appeal pending then take assessed) (in Rs),	All losses/all owances not allowed u/s 115BAA/BAC/BAD	Amount as adjusted by withdrawal of additional depreciation on account of opting for taxation under section 115BAC/BAD (To be filled in for AY 2021-2022 only)	Amount as assessed (give reference to relevant order)	Remarks

Format of Table changed to accommodate 115BAA … adjustments to give up losses & allowances & addl. Depn.

		Such amounts need to be revised for any change arising out of a rectification order, assessment order, etc.
	b.	Whether a change in the shareholding of the company has taken place during 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.**
		This provision is applicable to a private limited company with the following exceptions: *i. Less than 51% of the voting power only has changed hands* *ii. Change in shareholding is due to death of a shareholder* *iii. Change in shareholding is due to shares gifted by a shareholder to a relative* *iv. Where the holding Company is a foreign company and the change in shareholding is due to amalgamation/demerger where less than 51% of the shareholding has changed*
	c.	Whether the assessee has incurred any speculation loss referred to in **section 73** during the previous year. If yes, please furnish details of the same.
		A speculation loss cannot be set off against any income other than a speculation gain. Further, a loss in speculation business will be allowed to be carried forward for only 4 years. This clause keeps the above provisions in check.
	d.	Whether the assessee has incurred any loss referred to in **section 73A** in respect of any specified business during the previous year, if yes, please furnish details of the same.
	e.	In case of a company, please state that whether the company is deemed to be carrying on a speculation business as referred in explanation to **section 73**, if yes, provide details of speculation loss if any incurred during the previous year.

33.		Section-wise details of deductions, if any, admissible under Chapter VIA or Chapter III **(Section 10A, 10AA).**
		The tax auditor will have to verify whether the assessee has fulfilled the conditions necessary to claim the section-wise deductions.
34.	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 details
		These sections broadly relate to compliances in respect of TDS payable on certain expenses. The tax auditor reports the expenditure on which tax was required to be deducted, whether such tax was actually deducted and paid on time. In case of a failure to comply on time, the details of penalty in respect of such late payments will also be covered.
	b.	Whether the assessee is required to furnish the statement of tax deducted or tax collected. If yes, please furnish the details
	c.	Whether the assessee is liable to pay interest under **section 201(1A**) or **section 206C(7).** If yes, please furnish details.
35.	a.	In the case of a trading concern, give quantitative details of principal items of goods traded: (i) Opening Stock; (ii) purchases during the previous year; (iii) sales during the previous year; (iv) closing stock; (v) shortage/excess, if any
		The name of the stock item and its unit of measurement is to be provided
	b.	In the case of a manufacturing concern, give quantitative details of the principal items of raw materials, finished products and by-products: **A. Raw Materials:** a. opening stock; b. purchases during the previous year; c. consumption during the previous year; d. sales during the previous year; e. closing stock; f. yield of finished products; g. percentage of yield; h. shortage/excess, if any. **B. Finished products/by-products:** a. opening stock b. purchases during the previous year; c. quantity manufactured during the previous year; d. sales during the previous year; e. closing stock; f. shortage/excess, if any.

36.		~~In the case of a domestic company, details of tax on distributed profits under **section 115-O** in the following form:-~~ ~~a. total amount of distributed profits;~~ ~~b. amount of reduction as referred to in **section 115-O (1A)(i)**;~~ ~~c. amount of reduction as referred to in **section 115-O (1A)(ii);**~~ ~~d. total tax paid thereon;~~ ~~e. dates of payments with amounts.~~
		~~*Where a domestic company has paid dividend to its shareholders, it is liable to pay dividend distribution tax thereon. This dividend also includes deemed dividend s.t certain conditions.*~~
36A.		a. 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) b. If yes, please furnish the following details:- (i) Amount received (in Rs.): (ii) Date of receipt
		The provisions of deemed dividend are attracted when a private limited company advances an amount to a shareholder (or to a concern in which he has a substantial interest) having more than 10% voting power in the company s.t certain conditions.
37.		Whether any cost audit was carried out, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the cost auditor.
		GN: For the relevant year only – So comment if report received by TAR date. *The tax auditor is required to go through the audit reports in respect of audits conducted under other acts and report on such matters separately.*
38.		Whether any audit was conducted under the Central Excise Act, 1944, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor. ***GN: For the relevant year only – So comment if report received by TAR date.***
39.		Whether any audit was conducted under **section 72A** of the Finance Act, 1994 in relation to valuation of taxable services, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor.
40.		Details regarding turnover, gross profit, etc. for the previous year and preceding previous year: 1. Total turnover 2. Gross profit/turnover 3. Net profit/turnover 4. Stock-in-trade/turnover 5.Material consumed/finished goods produced
		Calculation of such ratios would not be applicable for persons engaged in profession/ service industry. *Preceding PY ratios to be given only if in such year TAR was given - GN*

41.		Please furnish 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.
		There are various other legislations like indirect tax, profession tax, etc. that the assessee may be s.t and such acts may have their own authorities to pass a demand or refund order. The details of orders of such authorities need to be provided in this clause. ***Orders received in the PY pertaining to earlier years is to be considered. If order is received after 31st March -then consider it in subsequent year's TAR - GN***
42.	a.	Whether the assessee is required to furnish statement in Form No. 61 or Form No. 61A or Form No. 61B? (Yes/No)
		The forms mentioned in this clause relate to Specified Financial Transactions where reporting needs to be done in respect of certain prescribed transactions when they are entered into by such assessees as are prescribed in S. 285BA.
	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
43.	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)
		The report mentioned in this clause relates to providing information in respect of the international group of entities of which the assessee is a part and where the parent entity of such international group is not resident in India.
	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
44		Break-up of total expenditure of entities registered or not registered under the GST

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	

Break-up of total expenditure of entities registered or not registered under the GST. This clause attempts to provide a break-up of the total expenditure into various fields that are relevant from the GST point of view like expenditure in relation to exempt goods / services under GST, payments to entities under the Composition Scheme, Payments to entities not registered under GST etc. A similar schedule is available as a part of the ITR forms to be filled up by those not liable for tax audit.

Sections referred to in Tax Audit Report

Sl No.	TAR Cl.	Section	Particulars
1		**44AB**	Audit of a/cs of certain persons carrying on B/P - by a CA - Furnishing report within due date
2	8a.	115BA	Tax on income of certain 74[manufacturing] domestic companies.
3	8a.	115BAA	Tax on income of certain domestic companies @ 22%.
4	8a.	115BAB	Tax on income of new manufacturing domestic companies @ 15%.
5	8a.	115BAC	Following section 115BAC shall be inserted by the Finance Act, 2020, w.e.f. 1-4-2021 : Tax on income of individuals and Hindu undivided family.
6	8a.	115BAD	Following section 115BAD shall be inserted by the Finance Act, 2020, w.e.f. 1-4-2021 : Tax on income of certain resident co-operative societies.
7	11a.	**44AA**	Maintenance of Books of accounts by certain person carrying on B/P
8	12	**44AD**	Presumptive Taxation - Business
9	12	44AE	Plying, Hiring or leasing goods carriage - **Upto 10 Goods Carriage owned**
10	12	44AF	Business of retail trading of goods (Applicable till A.Y. 2010-11)
11	12	44B	Profits of Shipping business (Non Residents)
12	12	44BB	Profits of business of exploration, etc., of mineral oils (Non Residents)
13	12	44BBA	Profits of business of operation of aircraft (Non Residents)
14	12	44BBB	Profits of foreign companies engaged in business of civil construction, etc., in certain turnkey power projects
15	13d.	**145(2)**	Accounting Standards Notification - ICDS
16	14b.	145A	Method of Accounting in Certain Cases - Valuation of Inventory, Purchase, Sale etc
17	15	**45(2)**	CG on Capital Asset converted to SIT
18	16a.	**28**	Charging section - "Profits & Gain of Business or Profession".
19	17	**43CA**	SR Value or actual sale price in document WIH [or such lower Value as determined by Valuation officer s.t certain condition like in S.50C]
20	17	**50C**	S. 50C - Stamp Duty Value to be Full Value of consideration in certain cases
21	17	**56(2)(X)**	Receipt of money or property by any person without consideration or for inadequate consideration > Rs. 50,000 is charged to tax under "IOS". -WEF AY 20-21, 56(2)(x) applicable for transfer to Non-residents also vide S. 9(1)(viii). -10% Tolerance Limit acceptable in case of transfer of Land or building or both: Sale Consideration > SR Value/110% (105% Upto AY 2020-21) – Also for S.50C & 43CA
22	19	32AC	Investment Allowance
23	19	32AD	Investment in new plant or machinery in notified backward areas in certain States
24	19	33AB	Tea, Coffee and Rubber Development account
25	19	33ABA	Business of prospecting for, extraction or production of, petroleum or natural gas
26	19	35(1)(i)	Scientific research related to the business
27	19	35(1)(ii)	Amount paid to research association having the objective of scientific research or to a university, college or other institution (150%)
28	19	35(1)(iia)	Amount paid to a company to be used by it for scientific research (125%)
29	19	35(1)(iii)	Amount paid to research association with the object of research in social science or statistical research or to a university, college or other institution to be used for research in social science or statistical research (125%)
30	19	35(1)(iv)	Expenditure of capital nature on scientific research related to the assesse's business.
31	19	35(2AA)	Amount paid to National Laboratory or IIT for scientific research (200%)
32	19	35(2AB)	Company engaged in the business of biotechnology or in any business of manufacturing incurs any expenditure on scientific research (200%)
33	19	35ABB	Expenditure for obtaining license to operate telecommunication services
34	19	35AC	Expenditure on eligible projects or schemes (Social & economic welfare)
35	19	35AD	Deduction in respect of expenditure on specified business.
36	19	35CCA	Expenditure by way of payment to associations and institutions for carrying out rural development programmes
37	19	35CCB	Expenditure by way of payment to associations and institutions for carrying out programmes of conservation of natural resources
38	19	35CCC	Expenditure on agricultural extension project
39	19	35CCD	Expenditure on skill development project
40	19	35D	Amortization of certain preliminary expenses
41	19	35DD	Amortization of expenditure in case of amalgamation or demerger
42	19	35DDA	Amortization of expenditure incurred under voluntary retirement scheme
43	19	35E	Deduction for expenditure on prospecting, etc., for certain minerals
44	20a.	36(1)(ii)	Bonus / Commission to Employees paid for services rendered otherwise payable to him as profits or dividend.
45	20b.	**36(1)(va)**	ESI/PF - Employees contribution paid within due date
46	21a.	37	**Exp. wholly & exclusively for B/P allowed** - Except Capex & Personal - That Prohibited by Law (in India or Outside for assessee or Others) - CSR & Penalties - Advt. in Souvenier of Political Parties
47	21b.	**40(a)**	Amounts not deductible "in all circumstances"
48	21b.	**40(a)(i)**	Exp [except salary which is covered U/s.40(a)(iii)] paid to a NR in India or to any person outside India, without TDS (#) (100% disallowance)
49	21b(ii)(A).	**40(a)(ia)**	Expenses (including salary from AY 15-16) paid to a resident in India, without TDS (#) - Disallowance restricted to 30% WEF AY 2015-16.
50	21b(iii).	**40(a)(ic)**	FBT (Abolished)

Form 3CD

Sections referred to in Tax Audit Report

Sl No.	TAR Cl.	Section	Particulars
51	21b(iv).	**40(a)(iia)**	Wealth Tax (Abolished wef AY 2016 - 17)
52	21b(v).	**40(a)(iib)**	Royalty, Service Charge, fee, etc. levied exclusively on, or any amount appropriated from a State Govt. Undertaking, by the state Govt. [WEF AY 2014-15.]
53	21b(vi).	**40(a)(iii)**	Salary to a NR in India or to any person outside India, without TDS
54	21b(vii).	**40(a)(iv)**	Payment to PF or other fund estd. for assessees' Employee benefit, unless proper arrangement of TDS on any taxable payment out of such fund, have been made.
55	21b(viii).	**40(a)(v)**	TDS paid by employer
56	21bb.	200(1)	Duty of person deducting tax
57	21(ii)(b)	**139**	Return of Income
58	21c.	**40(b)**	In case of firm
59	21c.	**40(ba)**	Amounts not deductible in case of AOP or BOI
60	21d.	**40A(3)**	Expenses > 10K/day# other than by a/c payee cheque/draft, s.t Rule 6DD exception
61	21(d)(b)	**40A(3A)**	Expenses provided in earlier year but paid otherwise than in a/c payee cheque / draft, s.t Rule 6DD exception in subsequent year – Taxed in subsequent year.
62	21e.	40A(7)	Provision for gratuity unless actually payable to employee in the year of retirement or contribution to approved gratuity fund.
63	21f.	40A(9)	Expenses for setting up or formation of or as contribution to any fund, trust or AOP, BOI, society or other institution. (Other than contribution to RPF, approved SAF or notified pension scheme or approved gratuity scheme)
64	21h.	**14A**	Expenditure incurred in relation to Exempt income
65	21i.	**36(1)(iii)**	Interest paid on capital borrowed for B/P. (^) - (Proviso: Interest paid till date of capitalization of Asset in respect of Loan for acquisition of an asset for extension of existing business shall not be deductible.)
66	22	**23**	**of MSMEDA Act**
67	23	**40A(2)(b)**	AO opines that payment made to specified related persons is excessive.
68	24	33AC	Reserves for shipping business – (Govt Co or a Public Co.,)
69	25	41	Profits chargeable to tax
70	26	**43B**	Certain deductions to be only on actual payment.
71	26b.	139(1)	Return of Income
72	28	56(2)(viia)	Shares received for inadequate consideration or without consideration: [Less cash outflow towards investment]
73	29	**56(2)(viib)**	Shares issued at premium exceeding its FMV [More cash inflow towards PUC]
74	29A.	**56**	Charging Section - 'Income From Other Sources'
75	30	69D	Amount borrowed or repaid on hundi
76	30A.	92CE	Secondary Adjustments In Transfer Pricing: An Analysis And Emerging Issues
77	30B.	94B	Thin Capitalisation
78	30C.	96	An impermissible avoidance arrangement means an arrangement, the main purpose of which is to obtain a tax benefit - GAAR
79	31	**269SS**	Mode of taking or accepting certain loans, deposits and specified sums.
80	31ba.	**269ST**	Mode of undertaking transactions
81	31c.	**269T**	Mode of repyament of certain loans or deposits.
82	32b.	79	C/f or S/o of losses in the case of certain companies
83	32c.	73	Losses in speculation business
84	32d.	73A	C/f and set off of losses by "Specified business U/s.35AD"
85	33	10A	Special Provision in respect of newly established undertaking in FTZ, etc.
86	33	10AA	Special provisions in respect of newly established Units in SEZ
87	34c.	201(1A)	Interest on non - deduction / non - remittance of TDS
88	34c.	206C(7)	Interest on non - collection / non - remittance of TCS
89	36A	2(22)e	Deemed Dividend
90	39	72A	C/F & Set-off of accumulated loss & unabsorbed Depn. Allowance in amalgamation or demerger etc.
91	43a.	286	Furnishing of report(CbC) iro International group
1	Chapter XII-G		Special Provisions Relating To Income Of Shipping Companies
2	Chapter VIA		Deductions U/s. 80
3	Chapter III		Incomes Which Do Not Form Part Of Total Income
4	Chapter XVII-B		TDS
5	Chapter XVII-BB		TCS

GN AY 23-24 - 9th Edition - Released on 1st Sep. 2023 – Important changes

- **Illustrative formats of FS for NCE/ LLPs – Removed**

  GN on FS of NCE effective for FS of FY 24-25 referred (Until then TG prescription to continue)

- **F&O TO –** Sum of favorable & unfavorable differences **– only for - squared-off items of FY – to determine TA Limit.**

- **If TO > Limit & Carrying on business**, TA is required even if their Income is exempt.

  Eg – S.11/10(23C)/Agricultural – New - was considered exempt but now struck off /deleted.

- **Latest amendments thro FA 2023 incorporated.**
  - S.43B MSME, S.44AD/ADA Limit
  - **Use New risk-free interest rates by adopting Alternative Reference Rates (ARR) instead of LIBOR**
    - WEF Dec. 2021 - For all Pound sterling, Euro, Swiss franc, & Jap. yen & 1-week / 2-month US $ settings, &
    - WEF June 30, 2023, in case of remaining US $ settings.

- **Deleted unnecessary info in GN 2022 (Adhika Prasanga)**
  - **What IT Dept. can do:** ~~142(2A) Spl. Audit, 271J penalty, 131 TA'r can be summoned, **UDIN** not generated in 60 days renders TAR invalid.~~
  - ~~FAQ ref. where 1 TA'r can sign 600 TARs if firm having 10 Partners & only 1 TA signing~~

    Para 6.1.7 of Ann VII - Council Guidelines inserted - No. of tax audit per partner in a CA Firm may be **distributed between partners in any manner whatsoever**. However, **it should be as per SQC 1:** Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.
  - ~~Para 25.2: Companies cannot Follow Cash system of accounting.~~
  - ~~Para 15.13: Revision of tax audit report is not mandatory in circumstances mentioned in Rule 6G(3)~~
  - ~~DTC has decided to issue, at annual intervals, a revised version of GN on TA, offering guidance for each AY~~

- **SA 700** - Ref in Para 1 – FS give T & F view in accordance with the applicable

  Earlier - Accounting Standards issued by ICAI / AS referred vide S.133 of CA 2013

  Now – Financial Reporting Framework

- Cl.27.a. **CENVAT details** – After intro of GST - CENVAT is applicable only to Certain petroleum products & tobacco – Hence reporting is NA for all others.

GST Finalization

from

Tax Audit Perspective

CA Shankara Narayanan V

GPVS & Associates

Chennai & Bengaluru

Time Lines for Annual Return

Annual Return

FY	Due Date	Extended Date	Impact u/s 73 (10) & (2)
2017-18	31st Dec 2018	31st Jan 2020*	~~31st Oct 2022~~ ~~30th Jun 2023~~ 30th Sep 2023
2018-19	31st Dec 2019	31st Dec 2020	~~30th Sep 2023~~ 31st Dec 2023
2019-20	31st Dec 2020	31st Mar 2021	~~31st Dec 2023~~ 31st Mar 2024
2020-21	31st Dec 2021	28th Feb 2022	30th Nov 2024

Time Lines for Annual Return

Annual Return

FY	Due Date	Extended Date	Impact u/s 74 (10) & (2)
2017-18	31st Dec 2018	31st Jan 2020*	31st July 2024
2018-19	31st Dec 2019	31st Dec 2020	30th June 2025
2019-20	31st Dec 2020	31st Mar 2021	30th Sep 2025
2020-21	31st Dec 2021	28th Feb 2022	31st Aug 2026

TN	MH	KA		Overall
Turnover & Outward	Turnover & Outward	Turnover & Outward	=	Turnover & Outward
ITC & RCM	ITC & RCM	ITC & RCM		ITC & RCM

Form 3CD – Para 27

- 27. (*a*) Amount of ITC availed of or utilised during the previous year and its treatment in the profit and loss account and treatment of outstanding ITC in the accounts.

  ……………………….

ITC as per

GSTR-2B FY 2022-23

Booked and Availed in 2022-23

Booked in 2022-23

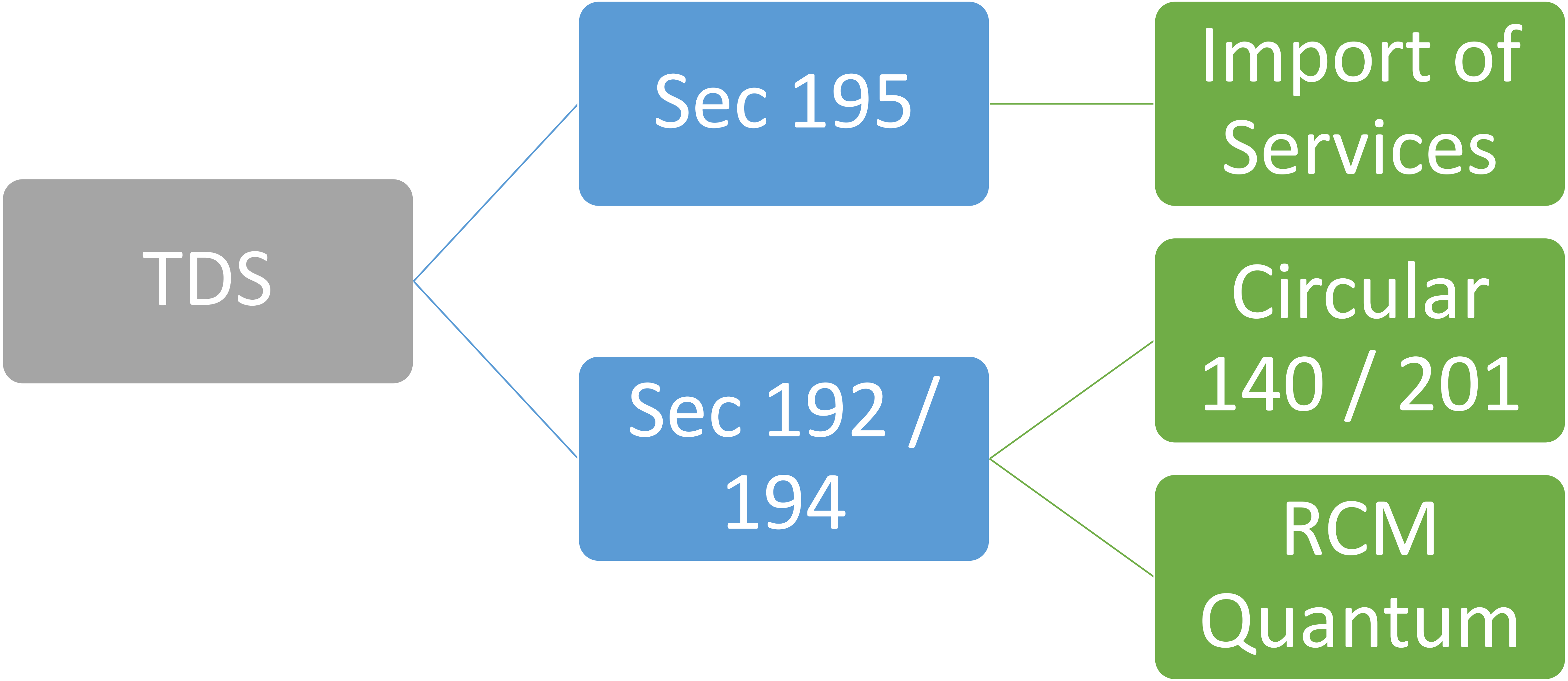
Availed in 2023-24

Booked in 2023-24

Availed in 2023-24

34. (*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 was deducted or collected at specified rate out of (5)	Amount of tax deducted or collected out of (6)	Total amount on which tax 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)


TDS
Sec 195
Import of Services
Sec 192 / 194
Circular 140 / 201
RCM Quantum

Inventory & ITC

- Inventory Physical Verification
  - Shortage – ITC Reversal

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

(i) Opening Stock; ……………………..

(ii) purchases during the previous year; ……………………..

(iii) sales during the previous year; ……………………..

(iv) closing stock; ……………………..

(v) shortage/excess, if any ……………………..

Inventory & ITC

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

A. Raw Materials :

(i) opening stock; ....

(ii) purchases during the previous year; ....

(iii) consumption during the previous year; ....

(iv) sales during the previous year; ....

(v) closing stock; ....

(vi) yield of finished products; ....

(vii) percentage of yield; ....

(viii) shortage/excess, if any. ....

Inventory & ITC

B. Finished products/by-products :

(i) opening stock; ....

(ii) purchases during the previous year; ....

(iii) quantity manufactured during the previous year; ....

(iv) sales during the previous year; ....

(v) closing stock; ....

(vi) shortage/excess, if any. ....

Form 3CD

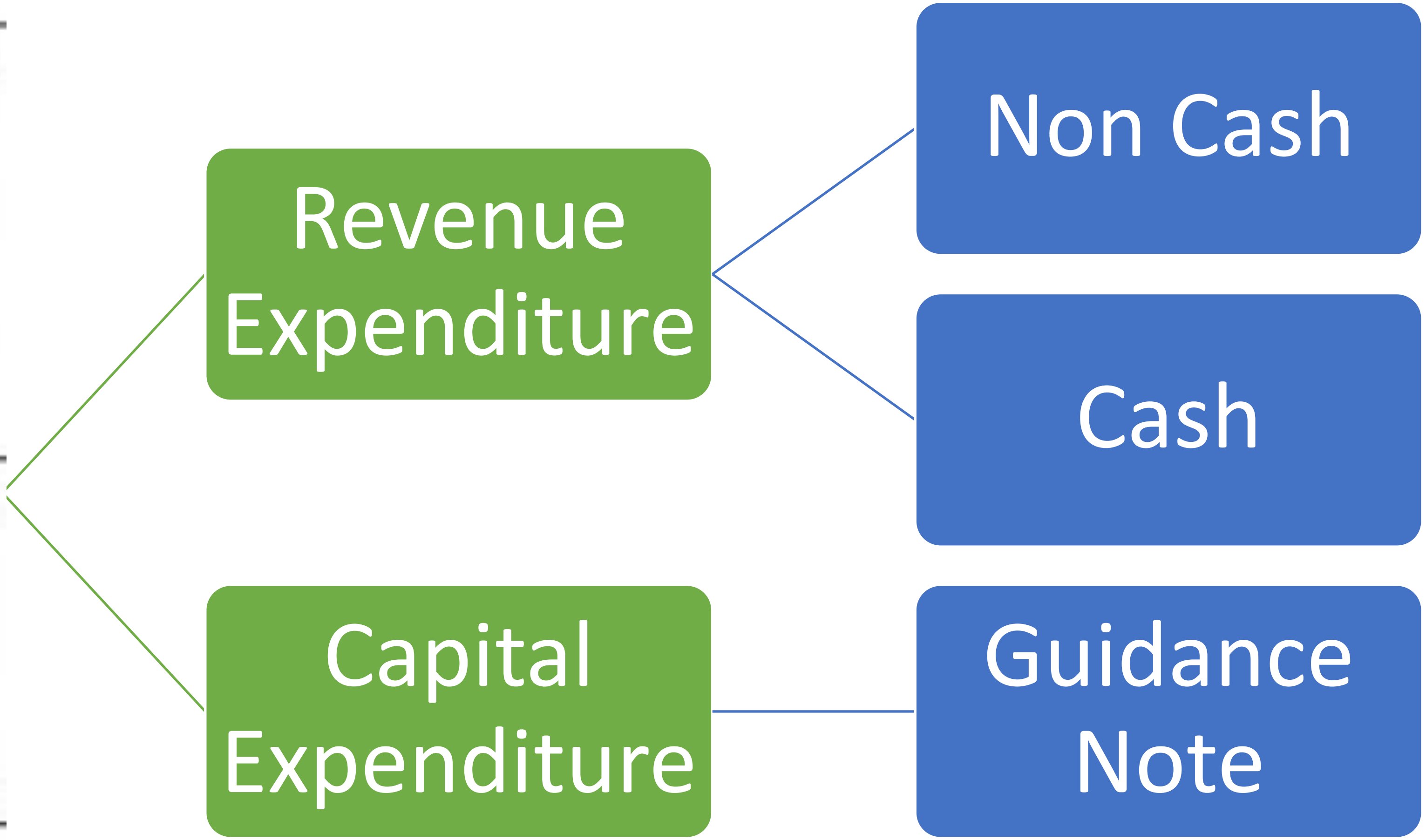
- Clause 44

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)

Form 3CD

- Clause 44

Sl. No.	Total amount of Expenditure incurred during the year
(1)	(2)



Form 3CD

- Clause 44 - Issues

Expenditure in respect of entities 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
(3)	(4)	(5)	(6)

- Supplier Details
- Procurement of Taxable & Exempt – same dealer
- Composition Dealer Accounting
- Unregistered vs Composition Accounting
- PAYMENT vs BOOKED Expenditure

Most awaited AMENDMENT – SECTION 50 SUBSTITUTED

- *Provided that the interest on tax payable in respect of supplies made **<u>during a tax period and declared in the return for the said period furnished after the due date</u>** in accordance with the provisions of section 39, except where such return is furnished after commencement of any proceedings under section 73 or section 74 in respect of the said period, shall be payable on that portion of the tax which is paid by debiting the electronic cash ledger."*

Applicable w.e.f 1st July 2017

Most awaited AMENDMENT – SECTION 50 (3) – 45th GST Council Meeting Finance Act, 2022

ITC Wrongly availed and Utilised

18% Interest (earlier 24%)

↓

ITC Wrongly availed but NOT Utilised

No Interest

↓

Head Interchange – Rule 88B

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ICDS & Tax Audit

compiled by

CA BHANU NARAYAN RAO Y.V.

Background

- ICDS were issued in order to bring uniformity in accounting methods while computing of income in accordance with the provisions of Income Tax Act 1961,
- Reducing the irregularities.
- The ICDS were developed using Generally Accepted Accounting Principles (GAAPs)
- The Form 3CD (Tax Audit Report) has been revised for making disclosures in compliance with ICDS.

Introduction of ICDS

- Income Computation and Disclosure Standards (ICDS) were issued by the Government of India in exercise of powers conferred to it under section 145(2) of The Income Tax Act, 1961.
- The Ministry of Finance published 12 draft ICDS, out of which 10 ICDS were notified by the government on 31 March 2015. The notified ICDS were applicable from the assessment year 2016-17 and onwards.
- However, in January 2016, Income-tax Simplification Committee recommended deferment of ICDS. On July 6, 2016, via a press release, the application of ICDS was postponed by one year, to become applicable from AY 2017-18 and onwards.
- On September 29, 2016, Revised ICDS were notified with effect from AY 2017-18.
- On March 23, 2017, the Central Board of Direct Taxes has issued certain clarifications by way of Frequently Asked Questions.
- Form 3CD (Tax Audit Report) is revised for making mandatory disclosures in compliance with ICDS.

APPLICABILITY OF ICDS

- **ICDS is to be followed by all assesses (except individuals or Hindu Undivided Families who are not covered under tax audit provisions) following the Mercantile System of accounting.**
- **ICDS is applicable for computation of income chargeable under the following heads:**

i)Profits and gains of business or profession; and

ii)Income from other sources.

- **ICDS is not applicable for the maintenance of books of account.**
- **In case of conflict between the provisions of the Income-tax Act, 1961, ('the Act')/ Rules and ICDS, the provisions of the Act/Rules shall prevail.**

Method of Accounting - 145

- **What is Section 145?**
- **Section 145 of the Income Tax Act, 1961 provides the method of accounting by the individual taxpayer. To maintain a similar process of recording income, expenses, assets and liabilities of every business, certain standards are designed which are known as the methods of accounting.**
- **The methods of accounting are divided into two types:**
- **Cash Method**
- **Time of recording a transaction in books of accounts is when there is inflow or outflow of cash. In simple words, cash coming in is called as cash inflow and cash going out is called as cash outflow.**
- **Mercantile Method**
- **A transaction is recorded when there is an income, or an expense accrues. In this method, the transactions are recorded despite whether the cash is received or paid.**

Method of Accounting....contd.

- **Section 145(1):**
  - Income chargeable under the head" Profits and gains of business or profession" or" Income from other sources" shall be computed in accordance with the method of accounting regularly employed by the assessee: Provided that in any case where the accounts are correct and complete to the satisfaction of the Assessing Officer.
  - Section 145(1) provides that income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" shall be computed by either cash or mercantile system of accounting regularly employed by the individual who is paying taxes.

Change in Method of Accounting

- A question which arises is whether a taxpayer can opt to change his method of accounting from mercantile to cash basis. An accounting method is different from an accounting policy. A change in accounting method itself does not amount to a change in accounting policy, but is a change in the method itself. Therefore, Paragraph 5 of ICDS I, which deals with change in accounting policy, and the requirement of reasonable cause for such change, would not apply.
- In the context of section 145, various courts have held that an assessee is entitled to change the method of accounting, if such change is bona fide. If such method of accounting is a permissible method and is regularly followed thereafter, the change of method cannot be rejected.
- Refer to the decisions of the Bombay High Court in the case of Molmould Corporation v CIT [1993] 202 ITR 789 (Bombay) and the Madras High Court in the case of CIT v Carborandum Universal Limited [1984]149 ITR 759 (Madras).
- Even if such a change is made from or after assessment year 2017-18, the year from which ICDS come into effect, an assessee is entitled to change his method of accounting, provided he follows such changed method regularly thereafter.

Relationship of ICDS and AS

- **ICDS issued by the Government is to enable to frame the Accounting Policies keeping in view the relevant Accounting Standards.**

- **It is required to harmonize the computation of income as per Books of Accounts and provisions of Income Tax Act 1961.**

- **To prevent the A.O. to apply the best judgement rule to assess the income. Sec. 145(3).**

AOs power to alter Net Profit

- **If the P&L Account is not drawn up in accordance with Schedule III of Companies Act 2013.**
- **Accounting Polices, Accounting Standards, Method of Depreciation are different.**
- **By following different methods, lower profit is reported to the shareholders in AGM.**
- **To curb the above, the AO will recalculate the profit.**

Notified ICDS and Corresponding ASs/Ind.ASs

Name of ICDS	Corresponding Accounting Standard	Corresponding IND AS
ICDS – 1 Accounting Policy	AS – 1 Disclosure of Accounting Policy	IND AS – 1 Presentation of Financial Statements
ICDS -2 Valuation of Inventory	AS -2 Inventory	IND AS – 2 Inventories Accounting
ICDS -3 Construction Contracts	AS 7 – Construction Contracts	IND AS 115 AND IND AS 11
ICDS -4 Revenue Recognition	AS 9 – Revenue Recognition	IND AS 115 AND IND AS 18
ICDS – 5 Tangible Fixed Asset	AS 10 – Property, Plant and Equipment	IND AS 16 Property, Plant and Equipment
ICDS – 6 Effect of Foregin Exchange Rates	AS 11 – Effect of Foregin Exchange Rate	IND AS 21 – Effect of Foregin Exchange Rate
ICDS – 7 Government Grants	AS -12 Government Grants	IND AS 20 – Government Grant and Assitantance
ICDS – 8 Securities	AS 13 -Accounting for Investment	IND AS 40, 109, 105
ICDS – 9 Borrowing Cost	AS – 16 Borrowing Cost	IND AS -23 Borrowing Cost

Applicability to Non-Residents

- The provisions of ICDS apply to all taxpayers, irrespective of residence of the person.
- However, where a non-resident taxpayer falls under a presumptive tax scheme, such as sections 44B, 44BB, 44BBA, 44BBB on the same logic as that of presumptive tax schemes applicable to residents, the provisions of ICDS should not apply.
- In cases where the income is not determined under a presumptive tax scheme, but a flat rate of tax applies, such as under section 115A, the provisions of ICDS would apply, as the rate of tax is applied after determination of the income.
- Further, where a nonresident claims the benefit of a double taxation avoidance agreement (DTAA), by virtue of section 90(2), the provisions of the DTAA would prevail over the provisions of the Income- tax Act, including section 145(2) and ICDS notified thereunder.
- In other cases of incomes of non-residents, which do not fall under presumptive tax schemes or DTAA, the provisions of ICDS would apply.

Maintenance of Books of Account

- It has been stated in each ICDS that the ICDS would not apply for the purpose of maintenance of books of account. While this may be the position, a reconciliation may have to be prepared between the book profits and the ICDS income for the purposes of audit under section 44AB.

- Wherever there are substantial differences between AS being followed in the books of account and ICDS, which may also impact subsequent years' income, it may be advisable to prepare a parallel profit and loss account and balance sheet on the basis of ICDS, to ensure that ICDS and their consequences have been properly taken care of while making the adjustments.

- Details of adjustments required to be made to the profit or loss under ICDS are required to be provided in Form 3CD.

- A tax payer may consider preparing a reconciliation with profit and loss account and balance sheet to ensure that all adjustments required on account of ICDS have been considered.

ICDS for Trusts etc. regd. u/s 12AB

- ICDS would also not apply for the purposes of computing exemption under sections 11 to 13, where, as clarified by the CBDT vide its Circular no. 5-P (LXX-6) dated 19th June, 1968, the computation of exemption is based on the commercial concept of income. However, where such income loses exemption, the computation would be under the various heads of income, and to the extent of such income falling under the heads "Profits & gains from business or profession" and "Income from Other Sources", the provisions of ICDS would apply if the books of account are maintained on mercantile system.
- However, as per section 11(4A), if the trust or institution carries on business and the business is incidental to the objects of the trust or institution and separate books are maintained in respect of such business, the exemption provisions under sections 11 to 13 would apply. In such a case, the income from business has to be computed on commercial basis and provisions of ICDSs would apply. In such a case the trust would be required to compute its business income in accordance with ICDSs, even though it would be eligible for exemption under sections 11 to 13.

Conflict between ICDS and other specific provisions of the Income Tax Act/Rules

- **ICDS provides general principles for computation of income.**

- **In case of conflict, if any, between the provisions of the Act/ Rules and ICDS, the provisions of Act/Rules, which deal with specific circumstances, shall prevail.**

Food for thought.......

- **Clarifications on ICDS contained in the Circular no. 10/2017, dated 23rd March, 2017 issued by the CBDT.**

FAQ 1. Should the reporting in Form 3CD be made as per books of account or after adjustment as per the Income Computation & Disclosure Standards (ICDS)?

- The preamble of the ICDS provides that the ICDS are applicable for computation of income chargeable under the head ' profit and gains of business or profession' or 'Income from other sources' and not for maintenance of books of accounts.

- Further, the CBDT has clarified that the books of account are to be maintained in accordance with the accounting policies applicable to the assessee. Thus, it can be concluded that the reporting in Form 3CD shall be in accordance with the books of account maintained by the assessee. Any adjustment made to profit or loss under the ICDS shall be reported in Clause 13 e and 13 f of Form 3CD.

FAQ 2. Who has to follow ICDS?

- In exercise of the powers conferred by Section 145(2) of the Income-tax Act, 1961, the Central Government has notified the Income Computation and Disclosure Standards (also referred to as ICDS). ICDSs have been issued to bring uniformity in the accounting policies governing the computation of income for taxability under the Income-tax Act and to reduce litigations.
- Every assessee earning income taxable under the head ‘ profit and gains from business or profession’ or ‘Income from other sources’ or both is required to compute taxable income in accordance with notified ICDS. However, the ICDS shall be followed only if the assessee maintains accounts per the ‘Mercantile system’ of accounting.
- There is no threshold limit on the amount of turnover or taxable income for the applicability of ICDS. Thus, every assessee earning business income or residuary income shall be required to follow ICDS for the computation of income. The applicability of ICDS shall be subject to certain exceptions.

FAQ 2. Who has to follow ICDS?

The CBDT has clarified that the general provisions of ICDS shall apply to all persons, including banks, NBFCs, insurance companies, etc., unless there are sector-specific provisions contained in the ICDS or the Act.

For example, ICDS-VIII (Securities) contains specific provisions for banks and certain financial institutions, and Schedule I of the Act contains specific provisions for the insurance business.

FAQ no. 3 and answer thereto

Question 3: Does ICDS apply to non-corporate taxpayers who are not required to maintain books of account and/or those who are covered by presumptive scheme of taxation like sections 44AD, 44AE, 44ADA, 44B, 44BB, 44BBA, etc. of the Act?

Answer: ICDS is applicable to specified persons having income chargeable under the head `Profits and gains of business or profession' or `Income from other sources'. Therefore, the relevant provisions of ICDS shall also apply to the persons computing income under the relevant presumptive taxation scheme. For example, for computing presumptive income of a partnership firm under section 44AD of the Act, the provisions of ICDS on Construction Contract or Revenue recognition shall apply for determining the receipts or turnover, as the case may be.

Exception 1: Exemption to Individual or HUF not liable for tax audit

- An Individual or HUF, who is not required to get his books of account audited for the previous year under section 44AB, shall not be required to comply with the requirements of ICDS.
- A person opting for a presumptive taxation scheme is not required to maintain the books of account and get them audited. In this regard, the CBDT has clarified that the relevant provisions of ICDS shall apply to the persons (other than Individuals or HUF) opting for a presumptive taxation scheme. For instance, for computing the presumptive income of a partnership firm under section 44AD of the Act, the provisions of ICDS on construction contracts or revenue recognition shall apply for determining the receipts or turnover.

- The CBDT has clarified that the provisions of ICDS are applicable for the computation of income under the regular provisions of the Act. As MAT is computed on 'book profit' that is net profit as shown in the Profit and Loss Account prepared under the Companies Act subject to certain specified adjustments, the provisions of ICDS shall not apply to the computation of MAT.
- However, where the assessee is liable to pay AMT under the provisions of Section 115JC, the provisions of ICDS shall be applicable for the computation of AMT as AMT is computed on adjusted total income, which is derived by making specified adjustments to total income computed as per the regular provisions of the Act.

- Clause 13(d) requires the tax auditor to state whether any adjustment is required to be made to profits or losses to comply with the provisions of income computation and disclosure standards (ICDS). If the answer to clause 13(d) is affirmative, then such adjustments are required to be stated separately in respect to each ICDS. These adjustments shall be made only for computing the taxable income, and no corresponding adjustments shall be made to the financial statements maintained as per the Accounting Standards or Ind AS.

FAQ 4. How to compute the amount of increase or decrease in profit due to compliance with ICDS-IV?

In Clause 13(e) of Form 3CD, the disclosure shall be made about the profits increased or decreased after applying ICDS. The revised profits, after considering ICDS IV, shall be calculated in the following manner, and the net result of the table shall be reported in the said clause:

FAQ 5. Clause 13(d) requires the details regarding the adjustment required for complying with the provisions of ICDS. Should such adjustments be entered separately for income taxable under the head "PGBP" and Income taxable under the head "Other Sources"?

The tax auditor needs to enter a consolidated amount by which the profit has been increased or decreased. Such increase or decrease is not required to be bifurcated between the different heads of income.

Accounting Standards (AS) – Reconciliation

Particulars	Amount
Profit before tax as per AS financials	***
Add: Income taxable (if not credited to P&L account)	
1.Dividend income	***
2.Amount of revenue not recognised in the current year as the assesse	***
e followed the service completion method for his books of account	***
3.Interest on income-tax refund accrued in the earlier year but receive	***
d in the current year*	
4.Interest on compensation or enhanced compensation taxable in acco	(***)
rdance with Section 145A(1)*	(***)
Less: Income not taxable (if already credited to P&L account)	(***)
1.Excess revenue recognised in the current year as the assessee follo	(***)
wed the service completion method for his books of account	
2.Interest on income-tax refund accrued in the current year but receiv	
ed in the subsequent year*	
3.Interest on compensation or enhanced compensation included in tax	
able income on an accrual basis*	
Net profit/ loss before tax as per ICDS	***

ICDS:I – Accounting Policies

- **Deals with Significant Accounting Policies**
- **Accounting policies are the specific accounting principles and methods of applying those principles in preparation and presentation of financial statements.**
- **Three fundamental accounting principles:**
- **1. Going concern: Assumption of a continuous succession of an entity without the intention or necessity of its liquidation.**
- **2. Consistency: Assumption that accounting policies will be followed consistently from one period to other.**
- **3. Accrual: Assumption that recognition and recording of revenues will be done as soon as they are earned and recognition of cost will be done as soon as they are incurred.**

Disclosure

Significant Accounting Policies

- Any change in an accounting policy which has a material effect shall be disclosed along with the amount, to the extent ascertainable, by which any item is affected by such change shall also be disclosed. Where such amount is not ascertainable, wholly or in part, the fact shall be indicated.
- If a change does not affect current year, but which is expected to have a material effect in subsequent years, shall be appropriately disclosed in the year in which the change is adopted and also in the year in which such change has a material effect.
- Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.
- Whether any fundamental accounting assumptions of Going Concern, Consistency or Accrual is not followed, the fact shall be disclosed.

ICDS II – Valuation of Inventories

- 1. Inventories shall be valued at cost, or net realisable value, whichever is lower.
- 2. Cost of Inventories shall include all purchase costs, service costs, conversion costs and all other costs which is incurred to bring the inventories to their present location and condition.
  - i. Purchase cost shall include purchase price inclusive of duties and taxes, freight inwards and other expenses directly related to purchase. Trade discounts, rebates, etc. will not be included
  - ii. Service cost shall consist of labour and other costs of personnel directly engaged in providing the service.
  - iii. Conversion cost of inventories shall include costs directly related to the units of production.
- 3. Interest and other borrowing costs shall not be included in the costs of inventories unless they meet the criteria for recognition of interest as a component of the cost as specified in the ICDS IX on borrowing cost.

ICDS-II.....contd.

Definitions:

- **Inventories are assets that are:**

a. held for sale in the ordinary course of business;

b. in the process of production for such sale;

c. in the form of materials or supplies to be consumed in the production process or in the rendering of services.

- **Measurement of Inventory:**

"Inventories shall be valued at cost, or net realisable value, whichever is lower".

Taxes, Duties to be included in Cl. Stock values i.e., Inclusive Method.

Example: M/s XYZ Enterprises Associates has purchased 10 items for Rs.10,00,000/-(Exclusive of GST @ 18%) during the year. 8 items are sold for Rs.9,60,000/- (at a margin of 20% on CP).

Exclusive Method: (as per AS/Ind AS) P&L a/c for the Financial Year 2022 – 2023:

Particulars	Qty	Rate	Amount	Particulars	Qty	Rate	Amount
To Purchases	10	1,00,000	10,00,000	By Sales	8	1,20,000	9,60,000
				By Closing stock	2	1,00,000	2,00,000
To Profit a/c			1,60,000				
			11,60,000				11,60,000

Inclusive Method: (as per ICDS) P&L a/c for the Financial Year 2022 – 2023:

Particulars	Qty	Rate	Amount	Particulars	Qty	Rate	Amount
To Purchases	10	1,18,000	11,80,000	By Sales	8	1,41,600	11,32,800
To GST on Sales (8*1,20,000*18%)			1,72,800	By Input Tax on COGS (8*1,00,000*18%)			1,44,000
To Profit a/c			1,60,000	By Closing stock	2	1,18,000	2,36,000
			15,12,800				15,12,800

Reconciliation of profit-exclusive vs. inclusive methods

Memorandum of Adjustment Account for Increase/(Decrease) in Profit as per ICDS

S.No:	Particulars	Increase /(Decrease) in Profit-Rs.	
1.	Increase in Cost of Purchases		(1,80,000)
2.	Increase in Sales	1,72,800	
3.	Increase in Inventory	36,000	
4.	GST on Sales		(1,72,800)
5.	Input Tax on COGS	1,44,000	
	TOTAL	3,52,800	(3,52,800)

ICDS III – Construction Contracts

- **Determination of income earned from construction contracts.**
- **Construction contracts are classified under**
  - **Fixed Price Contract – The contractor agrees to receive fixed rate per unit of output or fixed price for the whole contract.**
  - **Cost Plus Contract – The cost with a defined percentage markup on the cost is reimbursed to the contractor.**

ICDS-III...Construction Contracts

- **If the contract consists of the construction of a number of assets, then the construction of each of these assets should be treated as a separate contract.**
- **<u>Contract Revenue:</u>**
- **The recognition of contract revenue will be done when there is a 100% guarantee that the contract revenue will be collected.**
- **Contract revenue shall include initial amount agreed on the contract, retention money, claims, incentive payments and variations, if any.**
- **If the contract revenue amount becomes uncollectible after recognizing it as income in the books of accounts, then such amount will be written off as an expense and not as an adjustment to the contract revenue amount.**

Contract Cost

- **Contract Cost shall include:**
  - **i. Costs that are directly related to the specific contract.**
  - **ii. Costs that are attributable and allocated to the activities involved in the contract.**
  - **iii. Other costs that are specifically charged to the customer as per the terms and conditions of the contract.**
  - **iv. Any interest on loan or other borrowed cost as recognized by ICDS IX on the borrowing cost.**
  - **v. Costs attributable to a contract for the period from the date of securing the contract to the completion of the contract, including cost incurred to secure the contract.**
  - **vi. Contract cost shall not include costs which cannot be attributed to any activity involved in the contract.**

Sl. No.	Particulars	Tax Treatment under Pre-ICDS	Tax Treatment under Post-ICDS	
1	Contract Revenue	• AS-7 does not prescribe inclusion of retention money in contract revenue. • As per AS-7 considers variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue, and they are capable of being reliably measured • It also considers decrease in contract revenues on account of damages or variations • Further, based on various judicial precedents, retention money is taxable on its accrual i.e. on completion of contract or satisfaction of conditions	• ICDS III requires to include retention money as part of contract revenues • Variations in contract work, claims and incentive payments to the extent probable that they will result in revenue, and they are capable of being reliably measured and there is reasonable certainty of its collection • ICDS do not consider decrease in revenues on account of damages or variations • Will ICDS override principle laid down by judicial precedents on Accrual?	
2	Contract Costs	• As per AS-7, contract cost does not include allocated borrowing costs. Such costs are accounted as period costs in the financial statements	• As per ICDS III, contract cost shall comprise of allocated borrowing costs in accordance with the ICDS on Borrowing Costs	

Sl. No.	Particulars	Tax Treatment under Pre-ICDS	Tax Treatment under Post-ICDS
3	Actual Loss	• Allowed in the year in which loss is incurred	• Allowed as part of POCM
4	Revenue recognition	•Stage of completion of contract for recognizing contract revenue and contract cost not prescribed under AS-7.	• Early stage of contract shall not extend beyond 25% of stage of completion
5	Contract cost relating to future activity	As per AS-7, contract costs relating to future activity on the contract is recognized as an asset provided that recovery of the contract costs is probable.	Contract cost relating to future activity are recognized as an asset irrespective of probability of recovery of contract costs.
6	Provision for Future/ anticipated losses	• As per AS-7, the provision for future/ anticipated losses are recognized as expenses immediately • Various judicial precedents have held that the provision for future/ anticipated losses should be allowed on prudent basis	• ICDS III is silent on provision for future/ anticipated losses. However, as per ICDS I, an expected loss is not allowed unless it is specifically allowed by other ICDS. Since ICDS III does not contain any specific provision for recognition of expected loss, it should not be allowed.

ICDS IV – Revenue Recognition

- Deals with
  - recognition of revenue arising in the course of the ordinary activities of a person from
  - the sale of goods;
  - rendering of services;
  - use by others of the person's resources yielding interest, royalties or dividends

Measurement

- 1. In case of sale of goods, the revenue will be recognized when the seller of goods has transferred the property/title in the goods for a price to the buyer, along with the significant risks and rewards attached to the goods, and the seller retains no effective control of the goods transferred. Recognition will be based on the reasonable certainty of the collection of revenue.
- 2. Revenue from service transactions shall be recognized by the percentage completion method. Under this method, revenue from service transactions is matched with the service transaction costs incurred up to the stage of completion, resulting in the determination of revenue, expenses and profit which can be attributed to the proportion of work completed.
  - If the services are being provided on a concurrent basis then the revenue will be recognized on a straight-line basis, like, monthly or quarterly.

- **3. Revenue from service contracts with duration of not more than 90 days may be recognized when the rendering of services under that contract is completed or substantially completed.**
- **4. In case of use of entity's resources:**
  - **i. Interest or any other income arising will be accrued and recognized on the time basis determined by the amount outstanding and the rate applicable.**
  - **ii. Interest on refund of any tax, duty or cess shall be deemed as the income of the previous year in which such interest was received.**
  - **iii. Discount or premium on debt securities held is treated as if it has been accruing over the period till maturity.**

ICDS V – Tangible Fixed Assets

- **Object of this ICDS is an expenditure incurred in connection with a Tangible Fixed Asset is to be capitalised or to be treated as a revenue expenditure.**
- **covers assets like Land, Building, Plant and Machinery and Furniture held with the intention of being used for the purpose of producing or providing goods/services and not held for sale in the normal course of business.**
- **Intangible Assets are not covered under this ICDS, normal provisions of the Act and accounting principles to be applied for treatment of Intangible assets for determining actual cost.**
- **Assets for the purpose of administrative purposes and rental purposes are NOT explicitly covered under this ICDS.**

Assets

"**Qualifying asset**" means:

(i) land, building, machinery, plant or furniture, being tangible assets;

(ii) know-how, patents, copyrights, trade marks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets;

(iii) inventories that require a period of twelve months or more to bring them to a saleable condition.

Recognition

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset.
- The amount of borrowing costs eligible for capitalization shall be determined in accordance with this Income Computation and Disclosure Standard.
- Other borrowing costs shall be recognized in accordance with the provisions of the Act.
- "capitalization" in the context of inventory referred to in item (iii) above means addition of borrowing cost to the cost of inventory.

ICDS VI – Effects of Changes in FE Rates

- This Standard deals with:
  - (a) treatment of transactions in foreign currencies;
  - (b) translating the financial statements of foreign operations;
  - (c) treatment of foreign currency transactions in the nature of forward exchange contracts.
- Initial Recognition To be recorded in reporting currency by applying exchange rate of the foreign currency at the date of the transaction.
- Conversion on last date of previous year.
- Above are subject to provisions of Sec.43A of IT Act (effect of changes in rate of exchange of foreign currency).

ICDS VII – Government Grants

- **1. Government grants should not be recognized until there is a reasonable assurance that the conditions attached to such grant will be complied and the grant shall be received.**
- **2. Recognition of Government grant shall not be postponed beyond the date when it is actually received.**

Treatment of Govt.Grants

- 1. When the grant has been received in relation to depreciable asset then the amount of grant will be reduced from the actual cost of the asset or the written down value of the block of asset.
- 2. When the grant has been received in relation to a non-depreciable asset which requires fulfillment of certain obligations then the amount of the grant will be recognized as income over the period till when the cost of meeting such obligations is charged to income.
- 3. When the grant is not directly relatable to the asset then so much amount of grant shall be reduced, from the actual cost of the asset or written down value of the block of asset, as it bears to the total grant amount in the proportion as such asset bears to all the assets.
- 4. The grant that is received as a compensation for expenses or losses incurred or for the purpose of giving immediate financial support, shall be recognized as income of the period in which it is received.
- 5. The grants which are in the form of non-monetary assets shall be accounted for on the basis of their acquisition cost.

Refund of Government Grants

- **Treatment of Government Grants refunded:**
- **1. The amount refundable in respect of a grant shall be applied against any unamortised deferred credit remaining in respect of the grant, then the balance amount shall be charged to profit and loss statement.**
- **2. amount refundable in respect of a Government grant related to a depreciable fixed asset or assets shall be recorded by increasing the actual cost or the written down value of block of assets by the amount refundable.**
- **Where the actual cost of the asset is increased, depreciation on the revised actual cost or written down value shall be provided prospectively at the prescribed rate.**

ICDS VIII - Securities

- **ICDS VIII deals with securities held as stock-in-trade and securities held by a scheduled bank or public financial institutions.**
- **Recognition of Securities.**
- **1. A security on acquisition shall be recognized at the actual cost, which include its purchase price and acquisition charges such as brokerage, fees, tax, duty or cess.**
- **2. Where a security is acquired in exchange for other securities/assets, the fair value of the security so acquired shall be its actual cost.**
- **3. Where unpaid interest has accrued before the acquisition of an interest-bearing security and is included in the price paid for the security, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion of the interest is deducted from the actual cost.**

Measurement

- 4. Securities held as stock-in-trade shall be valued at actual cost initially recognized or net realizable value at the end of that previous year, whichever is lower. This comparison of actual cost initially recognized and net realizable value shall be done category wise, as, shares, debt securities and convertible securities.
- 5. The value of securities held as stock-in-trade of a business as on the beginning of the previous year shall be:
  - i. in case of new business, the cost of securities available, if any, on the day of the commencement of the business.
  - ii. in any other case, the value of the securities of the business as on the close of the immediately preceding previous year.
- 6. Unlisted shares shall be valued at actual cost initially recognized.

ICDS IX – Borrowing Costs

- This Income Computation and Disclosure Standard deals with treatment of borrowing costs.
- This Standard does not deal with the actual or imputed cost of owners' equity and preference share capital.
- "Borrowing costs" are interest and other costs incurred by a person in connection with the borrowing of funds and include:
- (i) commitment charges on borrowings;
- (ii) amortized amount of discounts or premiums relating to borrowings;
- (iii) amortized amount of ancillary costs incurred in connection with the arrangement of borrowings;
- (iv) finance charges in respect of assets acquired under finance leases or under other similar arrangements.

ICDS X – Contingent Liabilities and Contingent Assets

- ICDS-X deals with provisions, contingent liabilities and contingent assets, except those resulting from financial instruments, executory contracts and others arising in insurance business.
- Recognition
- 1. Provision shall be recognized when:

i. there is one present obligation as a result of a past event.

ii. it is reasonably certain that the obligation will be settled.

iii. a reliable estimate of amount of obligation can be made.

- 2. No provisions for future operational cost will be recognized.
- 3. Contingent assets are assessed continually and when it becomes reasonably certain that the inflow of economic benefit will arise, the asset and related income are recognized in the previous year in which the change occu

ICDS -X - Measurement

- 1. The amount of provision shall be recognized to the extent that its estimate is based on the expenditure required to settle the present obligation. Discounting will not be done on the present value of provision amount.
- 2. The amount of asset and related income shall be recognized to the extent that its estimate is based on the value of economic benefit arising from such asset. Discounting will not be done on present value of amount of asset and related income.
- 3. If any reimbursement is expected to be made by any third party in order to settle the provision, then such reimbursement will be recognized only when it is reasonably certain that the reimbursement amount will be received.
- 4. No provision shall be made for those costs, which the entity is not liable for payment in case the third party fails to pay.

Review

- 1. Provision shall be reviewed at the end of each previous year, if it is reasonably certain that an outflow of economic resources will not be required to settle the provision then such provision should be reversed.
- 2. An asset and related income recognized shall be reviewed at the end of each previous year, if it is reasonably certain that an inflow of economic benefits will not arise then such asset and related income should be reversed.
- **Note:** A provision shall be used only for expenditures for which the provision was originally made.

Disclosure

- **Disclosure shall be made in respect of:**
- **1. a brief description of the nature of the obligation / asset and related income.**
- **2. the carrying amount at the beginning and at the end of the year.**
- **3. additional provision made/ asset and related income recognized during the year.**
- **4. amount used and charged against the provision.**
- **5. amount of provision/ asset and related income reversed during the year.**

XI. General Notes

- ♦ Adjustments under ICDS will mean additions to arrive at total income in beginning and in later years same additions will have to be deducted in computation of Total income.
- ♦ The adjustments thus are in the nature of only timing difference – advancing the revenue collection – But Tax neutral in the long run.
- ♦ Impact of ICDS would be more to those who were Never following Accounting Standards of ICAI / Companies Accounting Standard Rules.

Thank you

Happy Tax Audits