

Disclosures in Tax Audit

GST , Recent Changes in Form 3CD, ICDS & Other Critical Issues



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Disclosure of GST in Tax Audit

Disclosure of GST in Tax Audit Report

Tax audit report has a considerable amount of disclosure to be made in relation to GST.

Following disclosures are to be made under tax audit report:

GST registration details under Part A Clause 4.

Actions points: The auditor should ensure proper disclosure of registrations under Part A clause 4 i.e. all registrations taken by an entity across all States including input service distributor registration.

Reconciliation of GST on opening stock, purchases, sales and closing stock as part of section 145A of Income Tax Act under Clause 14.

Actions points: The auditor should have a reconciliation of GST on the various items mentioned as part of inclusive accounting under Income Tax Act.

Particulars of depreciation allowable as per the Income Tax Act, in respect of each asset or block of assets as the case may be under Clause 18.

Actions points: The auditor should verify whether the cost of addition to asset has been properly disclosed in the tax audit report. The cost of the asset disclosed in the tax audit report should be in line with the capitalisation policy followed for tangible and intangible assets, in the books.



Disclosure of GST in Tax Audit Report

Following disclosures are to be made under Tax Audit Report:

- **Liable to be Registered:** Tax auditor has to disclose whether the assessee is liable to pay indirect taxes.
- **Whether Registered or Not:** If it is found that auditee is not registered under any law but is required to be registered, auditor should report the same.
- **If Liable under RCM Only:** If liability to pay GST is only under the reverse charge mechanism, the fact of being liable to GST needs to be answered in the affirmative but with the clarification that such liability is only under the reverse charge mechanism.
- **Composition Dealer:** Where an assessee has opted for the Composition Scheme under the GST Act, the tax is not recovered from the customer and is **debited to the statement of profit & loss as an indirect expense**. Thus, the amount of **GST** paid by an assessee **does not form part of gross turnover**.

Disclosure of GST in Tax Audit Report

Following disclosures are to be made under Tax Audit Report:

- **Reconciliation of GST:** Tax auditor should verify the reconciliation between the balance of CENVAT/Input credit in the accounts and relevant excise and GST records. The tax auditor should report the amount of CENVAT/Input availed and utilized.
 - Assessee should also ensure that details are reconciled with the books of account vis-à-vis details available on the GST portal.
 - The assessee shall maintain a proper reconciliation with respect to the same.
 - Assessee may adopt either the books of account or GST portal to provide the information under this clause, provided the same basis is adopted consistently.
- **Clause 44 of Form 3CD seeks details of the total expenditure incurred during the year.**
 - The break-up should be given for the expenditure in respect of
 - entities registered under GST and
 - relating to entities not registered under GST

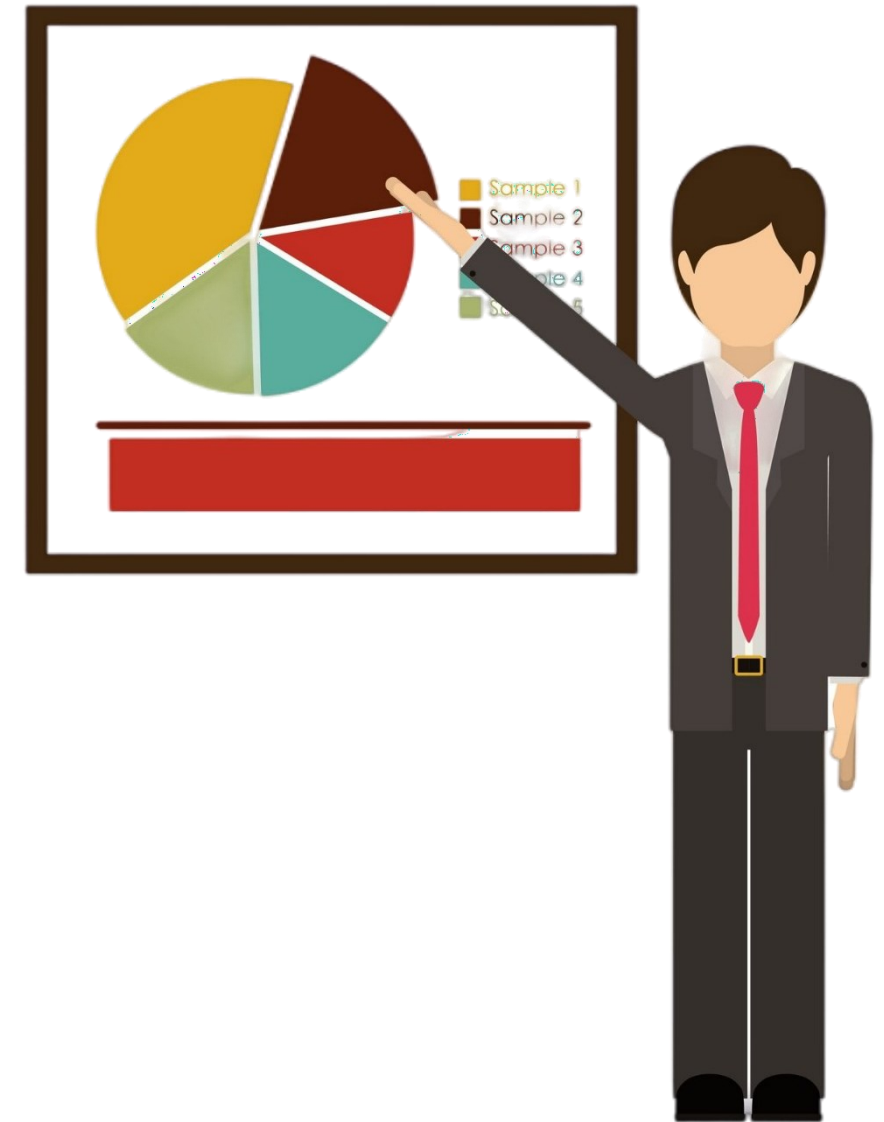
Disclosures of GST in Tax Audit Report (Contd.)

Any expenditure by way of penalty or fine for violation of any law for the time being force under Clause 21(a).

Actions points: Review FORM GST DRC-07, FORM GST PMT-06 and FORM GST DRC-03 forms/ chalans from the GST portal to ascertain if any penalties/ demands had been paid by the entity

Details of GST paid on sales as part of section 43B under Clause 26.

Actions points: The auditor should review the payments made after the year end to ascertain if the liability at the end of the year is discharged completely.



Disclosures of GST in Tax Audit Report (Contd.)

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

This clause requires reporting of the following details irrespective whether the assessee is registered or not under GST.

Total Amount of expenditure incurred during the year (1)	Expenditure in respect of entities registered under the GST (1.1)				Expenditure relating to entities not registered under GST (1.2)
	Relating to the goods or services exempt from GST (1.1a)	Relating to the entities falling under composition scheme (1.1b)	Relating to the other registered entities (1.1c)	Total Payment to Reg-istered entities (1.1d)	

Disclosures of GST in Tax Audit Report (Contd.)

1) Total amount of expenditure incurred during the year:-

This shall include all expenditure incurred during the year including capital expenditure as it does not specify whether only revenue expenditure debited to profit and loss account.

1.1) Expenditure in respect of entities registered under the GST: –

Bifurcation of Total amount expenditure incurred from GST registered entities This shall include further bifurcation of amounts relating to: –

1.1 a) Exempted goods/services from GST:-

Expenditure which are classified as Exempt supply under GST.

As per sec 2(47) of CGST Act Exempt supply means supply of any goods and services or both which attracts: –

Nil rate of tax : Goods or services on which GST rate of 0 % is applicable are called NIL rated goods or services. Such goods or services, on which GST rate of 0% is applicable, **are listed in schedule 1 under GST rate schedule**

- **Wholly exempt under Section 11 of CGST Act or under Section 6 of IGST Act**
- **Non-taxable supply defined under section 2(78) of CGST Act**

Disclosures of GST in Tax Audit Report (Contd.)

Exempt supply cannot include activities included in Schedule III (Specifies activities which are neither supply of goods nor supply of services) of CGST Act except where: –

- Supply under RCM
- Sale of land
- Sale of building (except construction of complex where supply is made before obtaining completion certificate)

Please note exempt supplies shall not include zero rated supplies.

Zero rated supply means any of the following supplies of goods or services or both, namely

- Export of goods or services or both; or
- Supply of goods or services or both to a Special Economic Zone developer or a Special Economic Zone unit.

Disclosures of GST in Tax Audit Report (Contd.)

1.1 b) Entities falling under composition scheme

Amount of expenditure incurred from Vendors registered under Composition scheme.

If you do not know whether the vendor was registered under composition scheme then you may go on GST Portal-Search by GSTIN -Enter the GSTIN -Get the details required

1.1 c) Relating to the other registered entities

Amount of expenditure not incurred from Composition scheme registered vendors and expenditure incurred is not exempted under GST

1.1 d) Total Payment to Registered entities Amount of payment done towards GST registered entities towards amounts mentioned in 1.1 a ,1.1 b and 1.1 c

So, the Closing creditors balance reflecting as on 31.03.24 shall include during the year expenditure payment pending payment pending to GST/Non-GST Registered entities and opening balance payment pending if any.

1.2) Expenditure relating to entities not registered under GST

Expenditure incurred from Non GSTIN Vendors and expenses like Employee benefit expenses.



Recent Amendments in Tax Report

Recent Amendment in Tax Audit Report

The Ministry of Finance, through the Central Board of Direct Taxes (CBDT), has introduced significant amendments to the Income-tax Rules, 1962, specifically targeting Form No. 3CD. This revision, detailed in Notification No. 27/2024-Income Tax, dated 5th March 2024, brings forth crucial alterations that taxpayers and practitioners must be aware of.

Clause 8a: Whether the assessee has opted for special taxation regimes of low tax rates without certain exemptions and deductions.

Finance Act, 2023 introduced a **new section 115BAE to the Income Tax Act, 1961 (ITA)**, that allows **concessional tax rate of 15%** to a newly manufacturing cooperative society under specified conditions.

Pre-amended Clause 8a requires the tax auditor to state “Whether the assessee has opted for taxation under section 115BA/115BAA/115BAB/115BAC/115BAD”.

The Finance Act 2023 introduced an alternative tax scheme for manufacturing co-operative societies under Section 115BAE. Clause 8a adds the reference to Section 115BAE and requires the tax auditor to report **“Whether the assessee has opted for taxation under section 115BA/ 115BAA / 115BAB / 115BAC /115BAD/115BAE”**.

Recent Amendment in Tax Audit Report (Contd.)

Impact of changes on tax auditor's reporting obligation

Where the resident cooperative society opts for Section 115BAE, the reporting under Clause 8a shall be made by the tax auditor as per the following:

- **Obligation of tax auditor is limited to reporting whether assessee opted for tax regime** – Clause 8a does not require the tax auditor to state whether the resident manufacturing co operative society is eligible for the taxation regime under Section 115BAE, which the assessee co-operative society has opted for. The tax auditor is required to verify and report whether the assessee has exercised the option by e-filing Form 10-IFA in accordance with Rule 21AHA.
- **Whether assessee opted for the new regime under Section 115BAE by e-filing Form 10-IFA** – It may be noted that the option for Section 115BAE is to be exercised by e-filing Form 10-IFA on or before the due date specified under Section 139(1) for furnishing the first return of income for any previous year relevant to the assessment year commencing on or after the 1st day of April 2024 (AY 2024-25).
- **Assessee intends to opt for the new regime, but Form 10-IFA is yet to be filed as of the date of signing the tax audit report** – As the audit report may be furnished before the due date to furnish the Form 10-IFA, it may happen that assessee has not e-filed Form 10-IFA as of the date of signing tax audit report though he intends to avail section 115BAE. If the assessee has not opted for Section 115BAE for AY 2024-25 as of the date of signing the tax audit report but intends to do so, the tax auditor should obtain a Management Representation Letter to that effect. The tax auditor should indicate in Clause (3) of Form 3CA that he has relied on the Management Representation Letter of the assessee's intent to avail Section 115BAE in reporting on Clause 8a, though the assessee has not e-filed Form 10-IFA as of the date of signing this report.

Recent Amendment in Tax Audit Report (Contd.)

- **Where the assessee is not opting for the new regime** – If the assessee-cooperative society does not want to exercise the option for the assessment year 2024-25, then the tax auditor may report “No” against Clause 8a. The auditor must also obtain an MRL from the assessee that mentions this fact. The auditor should mention in clause (3) of Form No. 3CA that the status reported is as of the date of signing the tax audit report and also the fact of reliance on MRL.
- **Impact on other Clauses** – If the assessee has opted for Section 115BAE by e-filing Form 10-IFA, then the tax auditor should ensure the following:
 - (a) While reporting admissible depreciation under clause 18(e) of Form No. 3CD, **additional depreciation** under Section 32(1)(iia) is not to be considered, and a note is given to that effect;
 - (b) Report amount admissible under Sections 32AD, 33AB, 33ABA, 35(1)(ii), 35(1)(iia), 35(1)(iii), 35(2AA), 35(2AB), 35AD, 35CCC as **“Nil” against Clause 19 of Form No. 3CD**; and
 - (c) Report amount admissible under Section 10AA or under Chapter-VIA (except under Section 80JJAA) as **“Nil” against Clause 33 of Form No. 3CD**.

Recent Amendment in Tax Audit Report (Contd.)

Clause 12: Reporting whether the P&L account includes profits & gains assessable on a presumptive basis

Pre-amended Clause 12 of Form 3CD requires the tax auditor to report “**Whether the profit and loss account includes any profits and gains assessable on a presumptive basis**, if yes, indicate the amount and the relevant sections (44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, Chapter XII-G, First Schedule or any other relevant section)”.

Amended Clause 12 requires the tax auditor to report “Whether the profit and loss account includes any profits and gains assessable on a presumptive basis, if yes, indicate the amount and the relevant sections (44AD, **44ADA**, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, Chapter XII-G, First Schedule or any other relevant section)”.

There is no mention of **Section 44ADA in pre-amended Clause 12**. Section 44ADA contains special provisions for computing the profits and gains of the profession on a presumptive basis. Though pre-amended Clause 12 does not refer specifically to Section 44ADA, as it refers to “any other relevant section” under which profits are computed on a presumptive basis and as the heading of Section 44ADA mentions the presumptive basis of taxation, the tax **auditor was required to report in pre-amended Clause 12 profits assessable under Section 44ADA if credited to P&L account**. Thus, practically, the amendment to Clause 12 makes no change to the auditor’s reporting obligation under Clause 12.

Recent Amendment in Tax Audit Report (Contd.)

Clause 18: Reporting on admissible amount of depreciation under Section 32

The pre-amended sub-clause (ca) of Clause 18 requires reporting the following: “Adjustment made to the written down value under Section 115BAC/115BAD (for the assessment year 2021-22 only).”

The substituted Clause 18(ca) requires the tax auditor to report as follows:

“(ca) Adjustment made to the written down value—

(i) under the proviso to sub-section (3) of Section 115BAA (for assessment year 2020-21 only);

(ii) under the first proviso to sub-section (3) of section 115BAC or the proviso to sub-section (3) of 115BAD (for assessment year 2021-22 only);

(iii) under the second proviso to sub-section (3) of section 115BAC (for assessment year 2024-25 only).”;

This amendment is consequential to the **amendment of Section 115BAC by the Finance Act, 2023**, with effect from the assessment year 2024-25.

Recent Amendment in Tax Audit Report (Contd.)

Clause 19: Amounts admissible under Sections 32AC, 32AD, etc.

The pre-amended Clause 19 requires tax auditor to report amounts admissible under Sections 32AC, 32AD, 33AB, 33ABA, 35(1)(i), 35(1)(ii), 35(1)(ia), 35(1)(iii), 35(1)(iv), 35(2AA), 35(2AB), 35ABB, 35AC, 35AD, 35CCA, 35CCB, 35CCC, 35CCD, 35D, 35DD, 35DDA and 35E. The amount admissible has to be reported section-wise in Tabular form. The pre-amended Clause 19 in Notified Form 3CD **contains no reference to Section 35ABA**, while the e-filing utility contains a reference to Section 35ABA.

Clause 19 has been amended to include a reference to the following two entries:

- 1.Adding a row with the entry “35ABA” (Telecom Spectrum Payment)**
- 2.Adding a row of “any other relevant section”.**

The words “any other relevant section” casts a very wide duty on tax auditor to examine the deductibility of every item debited to profit and loss account and every item otherwise claimed as a deduction by assessee. Amendment of Clause 19 of Form No. 3CD has increased the responsibilities of tax auditor manifold by requiring certification of deductibility in respect of all deductions claimed in the computation of business income, whether by way of debit to P&L account or otherwise.

Recent Amendment in Tax Audit Report (Contd.)

Clause 21(a): Items of expenditure debited to P&L account of the nature covered by 6th ,7th and 8th items in the Tabular format

Items 6, 7 and 8 of Tabular format in **Pre-amended Clause 21(a)** require the tax auditor to report amounts debited to the P&L account in respect of:

- Expenditure by way of penalty or fine for violation of any law for the time being force (6th item)
- Expenditure by way of any other penalty or fine not covered above(7th item)
- Expenditure incurred for any purpose which is an offence or which is prohibited by law (8th item)

The amended Clause 21(a) **increases the number of items from 8 to 9** as follows:

(a) Entry 6, “Expenditure by way of penalty or fine for violation of any law for the time being force”, has been substituted with “Expenditure for any purpose which is an offence or is prohibited by law or expenditure by way of penalty or fine for violation of any law (enacted in India or outside India)”;

(b) A new entry 8, “Expenditure incurred to compound an offence under any law for the time being in force, in India or outside India”, has been inserted;

Recent Amendment in Tax Audit Report (Contd.)

(c) Entry 9, “Expenditure incurred for any purpose which is an offence or which is prohibited by law”, has been substituted with “Expenditure incurred to provide any benefit or perquisite, in whatever form, to a person, whether or not carrying on a business or exercising a profession, and acceptance of such benefit or perquisite by such person is in violation of any law or rule or regulation or guideline, as the case may be, for the time being in force, governing the conduct of such person”.

The impact of substitutions as above are as follows:

- Pre-amended entries 6 and 8 have been merged into new substituted entry 6, which requires reporting of expenditure for any purpose which is an offence or is prohibited by law or expenditure by way of penalty or fine for violation of any law (**enacted in India or outside India**). Such expenditure debited to P&L requires **reporting irrespective of whether it is for violation of Indian law or foreign law.**
- New entry 8 requires reporting of expenditure incurred to compound an offence under any law for the time being in force, in India or outside India. This expenditure must be reported if it is debited to the profit and loss account. Reporting is required regardless of whether **the amount paid for compounding is under Indian or foreign law.**

Recent Amendment in Tax Audit Report (Contd.)

- The new entry 9 requires reporting of expenditure incurred to provide any benefit or perquisite to a person, whether or not carrying on a business or exercising a profession, and acceptance of such benefit or perquisite by such person is in violation of any law or rule or regulation or guideline, as the case may be, for the time being in force, governing the conduct of such person. Unlike new 6th and 8th entries, there is no reference in Entry 9 to law, rule, regulation or guideline outside India.

The tax auditor has only to report amounts debited to the P&L account with respect to the above and is not required to comment on the allowability or otherwise of these items in Clause 21(a).

Recent Amendment in Tax Audit Report (Contd.)

Correction of clerical error in Clause 21(b)((ii)(b)(IV)

Pre-amended Clause 21(b)(ii)(b)(IV) of Form 3CD required reporting of amounts inadmissible under section 40(a):

(ii) as payment referred to in sub-clause (ia)

(A) *****

(B) Details of payment on which tax has been deducted but has not been paid on or before the due date specified in sub-section (1) of section 139.

(I) date of payment

(II) amount of payment

(III) nature of payment

(IV) name and address of the **payer**

(V) amount of tax deducted

(VI) amount out of (V) deposited, if any

To correct the clerical error in (IV) above, for **the word “payer”**, the word **“payee”** shall be substituted. Practically, this will have no impact on the reporting obligations of the tax auditor.

Recent Amendment in Tax Audit Report (Contd.)

Clause 22: (ii) Reference of clause (h) in Section 43B dealing with delayed payments to MSEs

(ii) any other amount not allowable under clause (h) of section 43B of the Income-tax Act, 1961

The amount finally disallowed to be reported here.

Recent Amendment in Tax Audit Report (Contd.)

Impact on reporting by tax auditor

- **Reporting of delayed payment** – Where payments of the outstanding amount as of 31-03-2024 are made after 31-03-2024 beyond the due date under Section 15 of the MSMED Act, these are to be reported in Clause 22(ii) even if they are made on or before the ITR due date under Section 139(1). The interest payable under Section 16 of MSMEDA with respect to these delayed payments is to be reported in Clause 22 (i).
- **Identification of MSEs** – Verify that the assessee has a system to identify suppliers who are micro/small enterprises. This may include writing to the vendors to confirm their Udyam Registration and identifying them from the Udyam Registration Numbers printed on their bills.
- **Verification of registration** – Verify that the assessee has a system to check the Udyam Registration Number from the Udyam portal and the Udyam Certificate to verify the supplier's status as a Micro or Small enterprise.

Recent Amendment in Tax Audit Report (Contd.)

- **MCA Filing** – In the case of the company assessee, verify whether Form MSME-I was filed with MCA on a half-yearly basis.
- **Payments by cheques** – Where MSE suppliers are paid by cheque and the books show that the cheque is issued on the due date, verify that cheques have been handed over on the due date and acknowledgement has been received to that effect.
- **Check BRS** – Verify the bank reconciliation statement (BRS) regarding cheques issued but not presented for a long time and whether these pertain to MSE suppliers.
- **Interest on delayed payments** – Verify cases where the payment for the purchases during FY 2023-24 from Micro/Small enterprises have been made after the due date under Section 15 of the MSMED Act but on or before 31st March 2024. In such cases, the interest under Section 16 of the MSMED Act for the period of delay should be provided for and/or paid, and it should be reported under Clause 22 (i). Though these cases of delayed payments within the financial year of purchase will not require reporting in Clause 22 (ii), interest liability on delayed payments will require reporting in Clause 22 (i).
- **Payment due date to be reckoned delivery-wise** – Verify that each purchase of goods/services is paid individually within the due date as per Section 15 of the MSMED Act. Payment made on an average due date basis is not in compliance with Section 15 of the MSMED Act.
- **Payment for capital goods** – Verify that the assessee has paid MSE suppliers of capital goods within the time allowed by Section 15 of the MSMED Act. Although these delayed payments will not need to be reported in Clause 22(ii), they will require reporting in Clause 22 (i).

Recent Amendment in Tax Audit Report (Contd.)

Clause 32: Reference to Section 115BAE – For Manufacturing in Cooperative Societies

In clause 32, in sub-clause (a),–

(I) in the table, in column (5), for the figures and letters “115BAD”, the figures and letters “115BAD/115BAE” shall be substituted;

(II) in the table, in column (6), for the figures and letters, “115BAD^”, the figures and letters “115BAD/115BAE^” shall be substituted;

(III) below the table, for the words and figures “To be filled in for assessment year 2021-22 only.”, the words and figures “To be filled in only for assessment year 2021-22 and 2024- 25, as applicable.”, shall be substituted;

The above changes are consequential to the insertion by the Finance Act,2023, of Section 115BAE dealing with Tax on certain new manufacturing co-operative societies) of the Income-Tax Act,1961 (“the Act”) with effect from the assessment year 2024-25.

Income Computation and Disclosure Standards (ICDS) in Tax Report



Clause 13

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

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

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

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

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

Clause 13(f): Disclosure as per ICDS

- ❑ ICDS is applicable to specified persons having income chargeable under
 - ❑ Profits and gains from business or profession or
 - ❑ Income from Other Sources
- ❑ In a general scenario, ICDS are applicable to all types of taxpayers who are liable to tax audit.
- ❑ Audit reports have disclosure requirements of ICDS.
- ❑ ICDS disclosure is to be made in clause 13 of 3CD Audit report.

Key Aspects of ICDS

- 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.
- It will not have any impact on the minimum alternate tax (MAT) for corporate assesseees as it will be based on the book profits to be determined as per the current applicable AS.
- It will only be applicable for computation of income chargeable under the heading “Profits and gains of business or profession” or “Income from other sources”.
- It is applicable only on the computation of the income and not for maintenance of the books. If there is any conflict, then the Income Tax Act will prevail over ICDS.
- Income Tax Authorities have the power to assess the income on the best judgment basis on non-compliance of ICDS.
- Revenue or Expenses on which there is no ICDS will continue to be governed by existing AS.
- ICDS disclosure is to be made in clause 13 of 3CD Audit report.



Critical Issues to be Disclosed in Tax Audit

Some Critical Issues to be Disclosed in Tax Audit

Q1. There is a difference in opinion between the tax auditor and the client with respect to the applicability of a TDS provision on a particular payment. How to report such differences in the tax audit report?

Ans. If the tax auditor and client have a difference of opinion with respect to the applicability of the TDS/TCS provision, such concern shall be reported in clause (3) of Form 3CA or clause (5) of Form 3CB, as the case may be.

Q 2. Clause 4 of Form No. 3CD asks the tax auditor to disclose whether the assessee is liable to pay indirect taxes. How should the tax auditor ascertain the relevant indirect taxes applicable to the assessee?

Ans. Auditor should obtain from the assessee the list of indirect taxes applicable to him. Once the auditor obtains this management representation, he is required to obtain a copy of the registration certificate clearly mentioning the registration number under that relevant law. When the auditor is of the opinion that any indirect tax laws are applicable to the business or profession of the assessee, but he is not registered under the said law, he should report the same appropriately.

Q 3. How to report the conversion of a partnership into a company?

Ans. When a partnership firm converts into a company, it is a case of change in the legal identity. The partners must relinquish the firm's PAN and acquire a new PAN in the company's name. This situation necessitates the submission of two audit reports: one for the partnership firm covering the period up to the conversion date and another for the company from the conversion date to March 31.

Q 4. Is it mandatory to disclose the nature of all the businesses carried on by the assessee and any change therein?

Ans. Clause 10 of Form 3CD mandates disclosure of the nature of every business or profession carried on by an assessee during the previous year. The codes for all main activities (principal line of each of the business or profession) shall be reported.

Any material change in the nature of business should be precisely disclosed. The change will include a change from manufacturer to trader and a change in the principal line of business. Any addition to or permanent discontinuance of a particular line of business may also amount to change requiring reporting. However, temporary suspension of the business may not amount to change and, therefore, need not be reported.

Some Critical Issues to be Disclosed in Tax Audit(Contd.)

Q 5. Which address should be reported in Clause 11 if the books of accounts are maintained in a computerised system?

Ans. Clause 11(b) requires reporting the address at which the books so maintained are kept. As per the “Guidance Note on Tax Audit” issued by the ICAI, when the books of account are maintained and generated through a computer system, the auditor should obtain from the assessee the details of the address of the place where the server is located or the principal place of business/Head office or registered office by whatever name called and mention the same accordingly in clause 11(b). If the books of account are stored on the cloud or online, a unique IP address of the same may be reported. The auditor should also specify which books of account have been maintained in the computer system and which records have been maintained in hard copy form.

The Guidance does not provide any direction on reporting in Clause 11 if the IP Address is not unique but a dynamic IP address. In that situation, the name of the cloud should be mentioned.

Q 6. Mr. A has opted for the presumptive scheme under Section 44AD in respect of one of his businesses. Is the auditor required to mention details of such business in the audit report?

Ans. In case the profit and loss account of the assessee includes any profit declared under the presumptive scheme (Section 44AD, 44ADA, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB), then it is mandatory to mention the amount of such profit and the section under which the same is declared in Clause No. 12 of Form 3CD. The tax auditor is not required to indicate if the amount of presumptive income has been correctly computed under the relevant section relating to presumptive taxation. The reporting requirement is satisfied if the amount as per profit and loss account is reported.

Some Critical Issues to be Disclosed in Tax Audit(Contd.)

Q 7. Should advance received from a person for the sale of goods also be disclosed under Clause 31?

Ans. Loans or deposits are generally squared off by repayment of the sum to the lender. As in the case of advance for the sale of goods, the party's ledger is squared off by the delivery of goods or services. Thus, an advance received against the agreement of sale of goods could not be deemed a loan or deposit. Accordingly, details of advances shall not be reported in Clause 31. Further, the ICAI, in the guidance note, has clarified that the advance received against the agreement of sale of goods is not a loan or deposit.

Q 8. Should the interest-free loan be disclosed in Clause 31?

Ans. A loan can be with interest or without interest because no condition exists in the law of contract that a loan can be with interest only [**Chandrakant H. Shah v. ITO [2009] 28 SOT 315 (Mum. – Trib.)**]. Hence, even if the loans are taken free of interest, the information will be reported in Clause 31

Q 9. Should loans or advances facilitated through transfer entries be disclosed in Clause 31?

Ans. The ICAI guidance note provides that the loans and deposits taken or accepted by transfer entries in the books of account constitute acceptance of deposits or loans otherwise than by account payee cheques. Hence, such entries have to be reported under this clause. The entries that relate to transactions with a supplier and customer on account of the purchase or sale of goods/services will not be treated as loans or deposits accepted.

Some Critical Issues to be Disclosed in Tax Audit(Contd.)

Q 7. Whether reporting under clause 44 is required by the assesses who are not registered under GST?

Ans. Yes. Regardless of whether the assesses is registered under GST or not, reporting under clause 44 of Form 3CD is mandatory.

Q 8Are there any expenditures whose reporting has been exempted under clause 44 of Form 3CD?

Ans. Yes. As per the guidelines issued by ICAI, the following expenditures do not fall under the reporting requirements of clause 44 of Form 3CD:

- Salaries: As there is no GST on salaries and it is neither supply of goods nor supply of services
- Depreciation: It is not specifically an expenditure but an allowance
- Bad Debts: Like depreciation, it is not an expenditure but an allowance
- Short and excess balances
- Rounding off

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